1. **Country and Sector Background**

The strategic objective of the Croatian government is to join the European Union (EU) as a dynamic and competitive economy able to rapidly achieve convergence to EU living standards. The process gained momentum following the October 2005 decision of the European Union to officially start membership negotiations with a targeted conclusion of negotiations by November 2009. Croatia also aims to position itself as a leader in Southeast Europe for sustainable economic development, regional cooperation and ethnic reconciliation.

The development of Pan-European transport corridors plays a central role in this convergence strategy. The Corridors X, Vb and Vc cross Croatia and carry the majority of trade, transit and tourist traffic between the EU and the Southeast European region, and within the region. These corridors are central to the program of transport infrastructure modernization of the Croatian Government, with major on-going investments in Croatian railways, in its two international ports (Rijeka/Ploce), and in roads and motorways. Croatia also signed a regional Memorandum of Understanding on the development of the South East Europe Core Regional Transport Network in June 2004, fostering regional cooperation to improve corridor transport infrastructure, services and procedures.

Rijeka is strategically located as the gateway for Corridor Vb, both as a port and as a destination for business and tourism. The Port of Rijeka is the largest international seaport in Croatia with
5.6 million tons of dry cargo handled in 2007 and its only container terminal. It offers the shortest land transport distance to reach Belgrade in Serbia and Budapest in Hungary. The Greater City of Rijeka with its 235,000 inhabitants (third largest Croatian city) is located less than 25 kilometers away from the EU border, in an area generating about 28 percent of tourism nights in Croatia. The port and city development are historically closely related.

As most port-cities, Rijeka faces the complex challenge of balancing the demand for additional space for both port and city activities. Free space in Rijeka is scarce, as the city is bordered by a mountain range and the sea. The present layout of the port provides insufficient and inadequate space for modern cargo operation. High urban density and very limited sea access still confer an industrial image on Rijeka. This reduces its attractiveness as a tourist and business destination.

The port reestablished its relevance and experienced major growth in container activities over the past five years. Container traffic grew from 15 kTEU\(^1\) in 2002 to 145 kTEU in 2007, including a 54 percent growth in 2007. Based on the port development Masterplan update, the container throughput through Rijeka is expected to reach 355 kTEU in 2015 and 637 kTEU by 2020, in a medium traffic scenario, compared to a current installed capacity of 150k TEU. Therefore, the port of Rijeka needs to align its capacity with market demand to maintain this positive momentum. The old industrial layout of the port limits its ability to respond to modern port handling requirements.

2. Objectives

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.

3. Rationale for Bank Involvement

The Bank is sought both as an advisor and a financier building on the solid cooperation established to date, in the port and corridor development sector under the Rijeka Gateway Project, the Rijeka Gateway Additional Financing, the Trade and Transport Integration project, and the Trade and Transport Facilitation project; and in the urban sector under the Coastal Cities Pollution Control projects. The combined Rijeka Gateway program draws on a combination of disciplines for which the Bank brings a global expertise drawing on its sustainable development network including public private partnerships in ports, port development, corridor development, participatory process and urban competitiveness. The project is also closely integrated with ongoing projects and provides continuity in the overall government approach to the development of its international seaports.

4. Description

**Project Cost and Components.** The project total cost is estimated at $88 million, with $84 million from a World Bank loan, and $4 million from the Government. Project costs include interests during construction and front end fee ($8 million). The Project includes three

\(^1\) Thousand twenty-foot-equivalent container units.
components: (i) Port Terminal Development; (ii) Port Service Enhancements; and (iii) Project Implementation. The components are shown below. In parallel the Government has plans to finance upgrades to the railway infrastructure connection to Rijeka and development of road D403 connecting the future Zagreb terminal to the city bypass.

Component 1: (total cost with contingencies - €67.8 million). The Port Terminal Development component includes the following subcomponents: (i) extension of the existing Brajdica Container Terminal by about 330 meters, increasing its capacity by 200 kTEU, with a water depth of 14.5 meters, to be constructed from 2009 to end 2011; (ii) Construction of infrastructure for a 400 meter long \(^2\) Zagreb Container terminal able to accommodate post-panamax container vessels, with a capacity of about 225 kTEU to be constructed from 2010 to 2014. This component will enable the conversion of the Delta and port of Baross areas, by making alternative port space available. The concessionaire for each terminal will finance and provide superstructure and equipment.

Component 2: (total cost with contingencies - €6.4 million). The Port Service Enhancement component includes the following subcomponents: (i) support in concessioning selected terminals; (ii) equipment and technical services for information flow integration and secured port access; (iii) enhanced environmental response with the development of a comprehensive port environment protection plan and purchase of waste collection vessel to address traffic increase in line with Croatian and Marpol requirements; (iv) technical studies to prepare for the Masterplan implementation.

Component 3: (total cost with contingencies - €5.8 million). The Project Implementation component includes the following subcomponents: (i) supervision of civil works activities; (ii) audit services for the project; and (iii) support in procurement and project management.

5. Financing
Source: ($ EURO m.)

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of Croatia</td>
<td>4.0</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>84.0</td>
</tr>
<tr>
<td>Total</td>
<td>88.0</td>
</tr>
</tbody>
</table>

6. Implementation

The Project will be implemented by the existing project management structure, within PRA, strengthened to match the scaled up activities, with additional expertise in large civil works implementation. PRA has the overall responsibility for project implementation through an integrated Project Implementation Unit (PIU), gathering relevant experts from its various departments and responding to a Project Director and her Deputy.

\(^2\) The Rijeka Gateway II provides financing for an additional 100 meters compared to what is covered under the existing Rijeka Gateway and Rijeka Gateway Additional Financing.
7. Sustainability

The project, within the broader program of development of Croatia, rests on four strategic pillars for a sustainable development of the port. From a commercial and financial angle, it builds on sustained growth in traffic and solid long-term prospects. From an efficiency perspective, it seeks to bring in expertise from international terminal operators. From a corridor integration perspective, it fits into ongoing infrastructure development programs. From a port-city interface perspective, it provides the space needed to relocate part of port activities and enable the conversion of port land into urban space.

8. Lessons Learned from Past Operations in the Country/Sector

Marine Works Risks. Marine works in deep water are inherently complex and can be a significant source of risks that need to be managed. Under the Rijeka Gateway project, PRA encountered weaker soil condition than originally anticipated at the time of design for the construction of Zagreb Terminal. Growth in container traffic and type of vessels also called for new requirements in terms of terminal characteristics. After seeking a negotiated approach with the contractor in place, PRA, as advised by its international technical team, concluded that contract termination and retender on the basis of a design build approach was a better option.

The project design integrated those elements in different ways. For the Brajdica Terminal extension, the program of soil investigation was reviewed by international and national reviewers and received a positive opinion. The design also received a positive opinion. The proposed construction technology has been applied in the first phase of construction, reducing construction risk. For the Zagreb Terminal, comprehensive soil analysis were carried out based on a program defined by an experienced international expert, and PRA contracted an experienced international consultant to prepare a bidding package for the construction of this terminal under a design-build approach. The proposed design will be subject to due review. PRA currently employs qualified consultants to support its supervision activities as required on technical matters.

The project is expected to last a little less than six years, primarily to enable the implementation of the design build approach selected for the construction of the Zagreb Container Terminal. The use of a design build approach has become an international practice in the port development industry, as it brings the best potential design options and transfer overall design and construction risk to a single consortium. This outweighs construction time.

Implementation Capacity. The Port Authority, while with good capacity to manage mid-size contracts, has more limited experience in handling large civil works contracts. With new terminals construction added to the present workload, the Project Implementation Unit (PIU) capacity needed strengthening. The PIU is staffed with PRA employees, paid by PRA, working part time or full time on the project. The PIU has been strengthened accordingly, both internally by appointing a project Deputy Director, and by identifying areas for which experienced consultants would be required to support the PIU on management of large civil works contracts.
**Corridor Development.** The port development needs to coincide with the development of the connecting corridors. The Government will finance the development of its rail and road corridors through other sources of funds. Rail and road corridor upgrades are progressing on schedule to meet the new port requirements. Close focus will be required on the intermodal connections and management of the rail marshalling yard. In terms of capacity increase not yet underway, the only significant component is the construction of road D403, connecting the Zagreb Terminal with the Rijeka bypass.

**Broad based dialogue.** The investments proposed under the Rijeka program will have a significant positive impact on the population of Rijeka and as such a number of consultation events were organized. In particular, the conversion of part of the port area into an urban area can play a major role in giving Rijeka a more dynamic identity. As part of a Governance Learning Grant, the Port, the City and the Bank organized a workshop on governance and public consultation in port city development in June 2008 and launched a first round of public consultation about the proposed conversion of port space in an urban area. The project will continue to draw on such international expertise and active dialogue.

**Port-City Interface.** The proposed redevelopment of part of the port area into an urban area is overseen by a Steering Group, including representatives of PRA and of the City of Rijeka. The potential role of the Delta is identified in the recently approved General Urbanistic Plan for Rijeka and in the detailed design guidelines prepared for PRA by international consultants. Surveys confirmed public support for this conversion and the public interest for additional public space. While a number of issues have already been addressed over the past three years, a formal approach to the redevelopment balancing the interests of major stakeholders is still being formulated from a legal, financial and institutional perspective. Intensified supervision and consultation will facilitate the emergence of such an approach.

**9. Safeguard Policies (including public consultation)**

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environmental Assessment (OP/BP 4.01)</strong></td>
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<td>Natural Habitats (OP/BP 4.04)</td>
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<td>Physical Cultural Resources (OP/BP 4.11)</td>
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<td>Projects in Disputed Areas (OP/BP 7.60)*</td>
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</tr>
<tr>
<td>Projects on International Waterways (OP/BP 7.50)</td>
<td>[X]</td>
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</tr>
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The project has been classified as an environmental category A and its proposed investments trigger the World Bank Policies OP/BP 4.01 on *Environmental Assessment (EA)*, the OP/BP 4.11 on *Physical Cultural Resources*, the OP/BP 7.50 on *Projects on International Waterways*, and the OP 17.50 on *Disclosure Policy*.

*By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*
Environmental Assessment. Detailed environmental impact studies (EIS) and environmental management plans (EMP) were prepared for the project and its main components. Those documents were prepared by PRA in accordance with the Croatian EIA law and revised to be consistent with OP 4.01. Available documents include: (i) an Overarching Executive Summary for the project prepared in 2008; (ii) an EIS covering the construction of the Zagreb container terminal prepared in 2002 and the related EIA and EMP prepared in 2003 for the Rijeka Gateway Project; (iii) an EIS for the Brajdica terminal prepared in 2005 and its EMP revised in 2008. These reports highlighted possible long-term environmental impacts that may arise during the construction and operation phase and recommended the implementation of proper environmental mitigation and monitoring programs including analysis of air, seawater, sediments and noise quality around the terminals.

Public consultation and disclosure. The Overarching Executive Summary of the RGII project, the updated Executive Summary for Brajdica Terminal and a related EMP were disclosed in Croatian on the PRA website on May 7, 2008 and discussed during a public meeting held on May 19, 2008. Participants raised questions related to the oversight and handling of ship ballast waters in the port of Rijeka, noise generated by ships, relocation of containers activities, the quality of reclamation materials to be used, future plans for development of the bulk cargo terminal in the Bakar port, and the environmental assessment process for the Zagreb Terminal extension from the initial 250 m to the planned 700 m. As requested by OP/BP 4.01, the documents were also disclosed in English at the Bank’s Infoshop in Washington DC on May 8, 2008.

Disclosure of the ES and EMP for both terminals had taken place earlier. The ES and EMP for Brajdica was publicly disclosed in Croatian on September 14, 2005 with minutes of meeting published. The 2005 ES for Brajdica was disclosed in Infoshop on May 8, 2008. The consultation for Brajdica did not follow OP 4.01 for one aspect. The terms of reference for the ES were not disclosed to the public for consultation. Two consultations took place nonetheless, one in September 2005 when the ES was first disclosed according to Croatian procedures, and on May 19, 2008, when the EIA for the present project was publicly disclosed by PRA. The EIA for the overall extension of the Zagreb pier was disclosed and discussed in 2002 in accordance with the Croatian legislation. An overall public consultation for the whole project Rijeka Gateway project took place on January 15, 2003, and the project EA, EA-Summary, and the EMP were made available to the public for comments, including in Infoshop.

10. List of Factual Technical Documents

Port Development

- Port of Rijeka Masterplan, Rotterdam Maritime Group, 2003
- Port of Rijeka Masterplan Update, Rotterdam Maritime Group, 2008

Environmental

• Overarching Executive Summary for Rijeka Gateway Project, Port of Rijeka Authority, 2008.
• EMP for Extension and Rehabilitation of Brajdica Container Terminal, Port of Rijeka Authority, 2008.

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