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RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF
WATER QUALITY PROTECTION (GEF) PROJECT (P085112)

GRANT TRUST FUND NO. TF055265
EC IPA TRUST FUND GRANT NO. 011422
SIDA TRUST FUND GRANT NO. TF099534

BOARD APPROVAL DATE: JUNE 7, 2005

TO

BOSNIA AND HERZEGOVINA

JULY 18, 2013

**Sustainable Development Department
Southeast Europe Country Unit
Europe and Central Asia Region**

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ABBREVIATIONS AND ACRONYMS

BH	Bosnia and Herzegovina
EC	European Commission
EU	European Union
IPA	Instrument for Pre-accession Assistance
GEF	Global Environment Facility
PAD	Project Appraisal Document
PDO	Project Development Objective
SIDA	Swedish International Development Cooperation Agency
TF	Trust Fund
WWTP	Waste Water Treatment Plant
RS	Republike Srpske

Acting Regional Vice President:	Laura Tuck
Country Director:	Ellen Goldstein
Sector Manager:	Sumila Gulyani
Task Team Leader:	Sana Agha Al Nimer

BOSNIA AND HERZEGOVINA
WATER QUALITY PROTECTION GEF PROJECT
Restructuring Paper

1. This paper recommends that the closing date for the *Bosnia and Herzegovina, Water Quality Protection GEF Project, Grant No. TF055265* be extended from August 31, 2013 to August 31, 2015. The closing dates for the associated trust funds would be extended and associated trust funds Grant No. TF11422 from August 31, 2013 to December 31, 2014 and *Grant No. TF99534* from June 30, 2013 to February 28, 2015 (the closing date for Grant No. TF99534 is a retroactive extension of the closing date). The 24-month extension for the Global Environmental Facility (GEF) Project was requested by the Minister of Finance on May 28, 2013 to achieve the Project Development Objective.
2. This third Closing Date extension for the GEF Project will cumulatively extend the project's duration by more than four years from the project's original closing date. The original GEF Project of US\$8.9 million was approved by the World Bank on June 7, 2005 and was signed on July 12, 2005. The Project Appraisal Document (PAD) for the GEF financing envisioned supplemental funding from other donors.
3. The GEF Project was first extended on December 30, 2010 for 18 months (to August 28, 2012) to allow for the completion of the activities that were to be funded by the donors. The Bank signed two Administration Agreements in March and July 2011. The first additional trust fund (TF099534) was signed with the Swedish International Development Cooperation Agency (SIDA) on July 19, 2011, to administer investments for US\$3.45 million for Mostar. The second trust fund (TF011422) was signed with the European Commission (EC) on March 30, 2011 to administer the "Instrument for Pre-Accession Assistance (IPA) 2010" for US\$1.8 million to be invested in Zivinice. On March 14, 2012, the Closing Date for the GEF Project was extended for the second time to August 28, 2013 to allow for the completion of activities.
4. The newly proposed third extension is needed because in December 2012, the Bank signed an Administration Agreement with the European Commission for another additional financing of US\$6.5 million from the "EU IPA 2010" allocation to Bosnia Herzegovina. An amendment was also signed to the SIDA Administration Agreement for an additional (supplemental) contribution of US\$2.5 million. The total increase in supplemental funding of US\$8.0 million represents a significant financial contribution to the Project that will allow for the completion of the Mostar and the Zivinice wastewater treatment plants (WWTP). This financing is fully consistent with the PDO and the provisions of the original PAD.
5. No changes are proposed to the PDO. Overall implementation progress has been satisfactory. Rehabilitation of the WWTPs in Tsvorno and Odzak has been already completed and the plants are fully operational. Of the remaining works, the first phase of rehabilitation of the Zivinice WWTP is currently at the bidding stage; this plant is expected to be constructed over an 18 month period. The contract for the construction of the first phase of the Mostar WWTP was awarded and works are expected to start shortly. Three major feasibility studies have already been completed.

6. There have been no fiduciary or safeguards issues to date. All trust funds are fully committed. The pace of implementation of the works is accelerating. As of May 15, 2013, the amount disbursed of the GEF grant proceeds and associated trust funds are shown in table below. With all the current allocations, the disbursed amount to 40% of the total allocations.

	Trust Fund Amount	Disbursed Amount	Undisbursed Amount	Trust Fund Closing Date
TF 55265	8,900,000.00	6,861,543.32	2,038,456.68	August 31,2013
TF 11422 - EC IPA 2010 Part I	1,835,557.95	1,049,150.73	759,592.41	August 28, 2013
TF 99534 -SIDA	3,455,747.00	1,056,807.03	2,398,939.97	June 30, 2013
SIDA supplemental contribution*	2,327,891.24	0	2,327,891.24	
EC IPA 2010 Part II*	6,500,000.00	0	6,500,000.00	December 31, 2014
	23,019,196.19		14,024,880.30	

*Administration Agreement signed in December 2012, Full amount of the SIDA supplemental contribution was transferred to TF 099534. The advance payment of Euro 2.5 million was transferred.

7. There are no outstanding audits under the project, and the previous audit reports have been found satisfactory.

REVISED PROJECT RESULTS FRAMEWORK

Project Development Objective (PDO):												
The project development objective is to further strengthen the capacity of local utilities and reduce pollution from municipal sources into the Neretva and Bosna Rivers. The global objective is to reduce municipal pollution and nutrients in the Adriatic Sea and the Danube Basin. The sub-objectives are: (i) develop the Wastewater Improvement Plan; (ii) further strengthen the Joint BH/Croatian Working group, with coordination from Serbia and Montenegro to implement the Wastewater Improvement Plan; (iii) develop and implement high-priority, low-cost water capital investments; and (iv) disseminate information in BH and the region for replication of project activities at other priority sites in the Balkans												
PDO Level Results Indicators ¹	Core	UOM ²	Baseline Original Project Start (2005)	Progress To Date (2012) ³	Cumulative Target Values ⁴				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2013	2014	2015	2016				
1. Improved /Clarified institutional framework for wastewater management, financing and monitoring (Component A)	<input type="checkbox"/>	Text/units	No data collection and collaborative planning.	A Water Information System (WIS) has been developed and installed. COMPLETED	100	100	100	100	At end of project	Reports.	Project Management Team (PMT)	The WIS was developed for all of BH. Benefits include unified, country-wide approach, facilitating, water quality protection, reporting, harmonization of BH legislation with the EU. Manual for biological monitoring completed.
2. Nutrient pollution reduction for Mostar: Nitrogen Annual reduction nutrients discharges (P & N kg/yr); avg. oper. cost nutrient reduc. process (\$/kg/nutrients); anl. reduc. BOD discharges (tons/yr); avg op. cost BOD (Component B	<input type="checkbox"/>	Tons/y	0	0	0	0	0	100	Semi-annually	Biological data analysis/reports.	PMT	Measured values are available now for the completed Trnovo and Odzak WWTPs. The same measurements will be carried out when Zivinice and Mostar plants are sub-sequentially operational
3. Nutrient pollution reduction for Mostar: Phosphorous?		Tons/y	0	0	0	0	0	36				

¹ Please indicate whether the indicator is a Core Sector Indicator (for additional guidance – please see <http://coreindicators>).

² UOM = Unit of Measurement.

³ For new indicators introduced as part of the additional financing, the progress to date column is used to reflect the baseline value.

⁴ Target values should be entered for the years data will be available, not necessarily annually. Target values should normally be cumulative. If targets refer to annual values, please indicate this in the indicator name and in the “Comments” column.

4. Nutrient pollution reduction for Mostar: Nitrogen		Tons/y	0	0	0	0	0	226				
5. Nutrient pollution reduction for Zevinice – Phosphorous		Tons/y			0	0	0	6				
6. Nutrient pollution reduction for Trnova <i>Volume (mass) of BOD pollution loads removed by the treatment plant supported under the project.</i>	<input checked="" type="checkbox"/>		n/a	15mg/l	Completed and operational targets achieved							Influent: DWF: 200-250 m3/d BOD - 35 mg/l
7. Nutrient pollution reduction for Odzak <i>Volume (mass) of BOD pollution loads removed by the treatment plant supported under the project</i>	<input checked="" type="checkbox"/>		n/a	75mg/l	Completed and operational targets achieved							BOD: Biochemical Oxygen demand Influent: DWF: 80-100 m3/d BOD - 75 mg/l COD - 230 mg/l SS – 25 mg/l
8. Nutrient pollution reduction for Odzak -- COD				3-7 mg/l	Completed and operational targets achieved							COD: Chemical Oxygen Demand
9. Nutrient pollution reduction for Odzak -- SS				2-10mg/l	Completed and operational targets achieved							SS: Suspended solids
10. Percentage of the effluent discharged according to the national standard	<input type="checkbox"/>	%	40% of total BiH population is connected to public sewage. 5.5% of municipal waste water is treated and discharged according to existing standards.	8% of municipal waste water is now treated and discharged	8%	15%	25%	40%	Annual		PMT	Rehabilitation of Trnova and Odzak WWTP completed, plants fully operational. Regular monitoring of effluent discharged established. Rehabilitation of the Zivinice WWTP is underway, 70% of works completed. Mostar WWTP construction planned to start early 2013
11. Feasibility of natural low cost/low energy wastewater treatment solution for small towns and settlement demonstrated (Component C)	<input type="checkbox"/>	Text	No data available	Feasibility study has been completed.	100%	100%	100%	100%	Annual	Study/Report	PMT	Natural WW treatment feasibility study on low cost treatment of WW on conditions relevant to Bosnia & Herzegovina prepared. Preliminary design for at least 3 Pilot Plants nominated by FS prepared.

12. Improved coop. of BiH with institutions in Croatia, Serbia & Montenegro leading to agreement on most aspects of Waste Water Improvement Plan requiring cross-border cooperation. (Components A&E)	<input type="checkbox"/>	Text	Joint BiH/Croatian Working Group is holding meetings.	Agreement on cooperation with Serbia and Montenegro has been prepared.	100 %	100%	100 %	100 %	Annual	Reports	PMT	Joint BiH/Croatian Group working in coordination with Serbia and Montenegro which facilitates agreement on majority of aspect requiring cross-border cooperation
13. Increased quality of the financial management at the utility level (Component E)		Unit	No staff trained	The Utility staff participated in trainings. All Utilities prepared and provided Business plans for 2012, including tariff increase for waste water treatment fee.	100 %	100%	100 %	100 %	Annual	FM and Procurement assessments.	PMT	Utilities received financial management training; each Utility drafts annual Business Plan. Participating utilities have improved service delivery performance and increased efficiency, while managerial and institutional capacity has been strengthened.
14. Feasibility study to rehabilitate, construct and maintain wetland area		Unit	Not available	Feasibility study has been completed and three pilot projects identified and Preliminary design prepared. COMPLETED	100 %	100%	100 %	100 %	Annual	Report	PMT	Study completion
Beneficiaries⁵												
Project beneficiaries,	<input checked="" type="checkbox"/>	Number	0	Population benefitting from improved WWT	0	0	100,000		Annual	Census/ HH connections	PMT	
Of which female (beneficiaries)	<input checked="" type="checkbox"/>	Number	0	Population benefitting from improved WWT	0	0	55,000		Annual	Census, HH connections	PMT	
Intermediate Results and Indicators												

⁵ All projects are encouraged to identify and measure the number of project beneficiaries. The adoption and reporting on this indicator is required for investment projects which have an approval date of July 1, 2009 or later (for additional guidance – please see <http://coreindicators>).

Intermediate Results Indicators	Core	Unit of Measurement	Baseline Original Project Start (2005)	Progress To Date (2012)	Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2013	2014	2015	2016				
Intermediate Result 1: Click here to enter the Revised Intermediate Results Statement 1												
1. Full compliance with the provisions of the Water Law regulating water sector and issues of environmental pollution reduction	<input type="checkbox"/>	Text	Inter-ministry Steering Group is working to coordinate water sector development and environmental issues.	Inter-ministerial coordination improved significantly.	Improved inter-ministerial coordination leading to compliance with the main provisions of the Water Law				Annual	Ministry of Environment	PMT	Water Laws in BH Federation and RS were approved and harmonized with EU Water Framework Directive in 2006. Inter-ministerial coordination improved significantly.
2. Country adoption of the affordable water/ environment standards for municipally based pollution	<input type="checkbox"/>	Text	Standards not harmonized with EU Directives.	Sub laws on regulation of effluent quality adopted and in use				Annual	Legislation passed	PMT		Country adoption of the affordable water/ environment standards for municipally-based pollution.
Intermediate Result 2: Click here to enter the Revised Intermediate Results Statement 2												
3. Increased stakeholder awareness and documented stakeholder involvement	<input type="checkbox"/>	Text	Insufficient cooperation between various stakeholders	Increased cooperation; Water Information System (WIS) developed for the entire territory of BiH				Annual	Reports	PMT		Increased stakeholder awareness with completion of publications disseminated. Access to completed modules of Water Information System.

Annex 2: Operational Risk Assessment Framework (ORAF)
BOSNIA AND HERZEGOVINA GEF - WATER QUALITY PROTECTION

1. Project Stakeholder Risks	Rating Moderate			
Description : Utilities are experiencing financial difficulties due to tariffs that are insufficient to cover their operating costs. This raises questions about how the WWTPs, once online, will be operated and maintained over time.	Risk Management: The WWTPs works contract will provision for an adequate operational period by the contractor and include preparation of an operations manual and training of technical staff in the operation of the facility. This provision will ensure that staff are operationally qualified to accept handover of the facility following the contractors' testing and operations period. In addition, assistance is being provided to utilities in overhauling their financial management and billing system under the project to improve revenue collection.			
	Resp: Client	Stage: Implementation	Due Date :	Status:
2. Operating Environment Risks				
2.1. Country (description and rating are not disclosed)	Rating: Moderate			
Description : Different constitutional arrangements in the two entities (more centralized in the RS, and highly decentralized in the FBH), as well as lack of consensus about the role of the State level institutions, may delay the authorities decision making during project preparation, and may make project coordination across the various administrative and territorial levels hard to achieve. Lack of attention to critical reform agendas beyond the prevailing debate about constitutional issues, could further undermine Government resolve to address structural issues and delay investments in sectors where structural reforms are pursued. Although there is no political violence, the issues and ethnic tensions that led to the conflict have yet to be fully overcome and the potential for prolonged political stalemate cannot be ignored. Domestic co-financing may be compromised in the tight fiscal environment.	Risk Management: The project does not involve any major structural reforms in the country level that could create controversy. The portfolio management team in the CO will continue with the practice of closely monitoring counterpart funding and promptly communicating with both Entities.			
	Resp: Client	Stage: Implementation	Due Date :	Status:
2.2. Sector/multi-sector (description and rating are not disclosed)	Rating: Moderate			
Description : (this description and rating are not disclosed)	Risk Management :			
	Resp:	Stage:	Due Date :	Status:
3. Implementing Agency Risks (including fiduciary)				
3.1. Capacity	Rating: Moderate			
Description: The Project Management Team (PMT) may lack technical capacity for supervision of large scale infrastructure rehabilitation. PMT staff has experience with implementing Bank financed projects and will be responsible for ensuring compliance with Bank procurement provisions. PMT at the state level may lack experience to handle procurement under Bank projects, in particular with regard to bigger scale infrastructure activities	Risk Management: Financial management controls and procedures will clearly described in the financial manual; and application in practice verified by Bank's supervision. Staff will receive continued procurement training			
	Resp: PMT	Stage: Implementation	Due Date : end-2013	Status:
3.2. Governance	Rating:			

Description :	Risk Management :			
	Resp:	Stage:	Due Date :	Status:
Fraud & Corruption (sub-category of Governance risk)	Rating: Low			
Description: Procurement issues, rigged site selection, and other fraudulent behavior would delay project implementation, pose a reputational risk, and could potentially halt specific project activities.	Potential corruption risk will be mitigated by instituting additional procedures and strengthening system of internal controls. Quarterly Interim Financial Reports (IFR) will be submitted to the Bank, and a Bank Financial Management Specialist will perform on-site supervision. Risk imposed by low capacity of SAI will be mitigated by using private auditors acceptable to the Bank for the project audit.			
	Resp: Bank	Stage: implementation	Due Date :	Status:
4. Project Risks				
4.1. Design				
Description: High priority infrastructure works may not be suitable to embark on broader reform agenda for improving service delivery performance. Actual damages to specific components of the WWTPs may turn out to be more extensive than initially thought and result in higher than anticipated costs.	Risk Management: Low quality of services in BH is closely coupled with damaged or ill-maintained infrastructure in dire need for investments. Implementation of institutional reforms needs to be accompanied by investments that are suited to measurably improve service quality.			
	Project implementation in successive phases will allow for adjustments, including postponement of non-critical project elements. Additional donor co-financing of has been committed (SIDA, EU).			
	Resp: Bank	Stage: Implementation	Due Date :	Status:
4.2. Social & Environmental				
Rating: Low				
Description: Potential negative environmental impacts associated with rehabilitation of existing sewerage infrastructure is linked to the generation of waste water sludge, its management and final disposal. OP/BPO 7.50 international Waterways is triggered since the WWTPs discharge effluents into the international waterways.	Risk Management: An Environmental Management Plan (EMP) has been prepared that outlines the approaches to be followed to manage and dispose of the sludge. In addition, the EMP includes a set of specific environmental mitigation measures. The project qualifies for an exemption from the notification to riparians since the project will neither attempt to modify the course of the waterway nor increase the volume of discharge			
	Resp: Client	Stage: Implementation	Due Date :	Status:
4.3. Program & Donor				
Rating: Low				
Description: Additional WWTPs works cannot proceed due to lack of initially envisaged EU co-financing. Risk that SIDA and EU co-financing are not approved by the EU.	Risk Management: EU-IPA financing has been approved and confirmed for phase rehabilitation works.			
	Resp: Bank	Stage: Implementation	Due Date :	Status:
4.4. Delivery Monitoring & Sustainability				
Rating:				
Description :	Risk Management :			
	Resp:	Stage:	Due Date :	Status:
4.5. Other				
Rating:				
Description :	Risk Management :			
	Resp:	Stage:	Due Date :	Status:
Comments:				
5. Overall Risk Following Review				
5.1. Preparation Risk Rating Moderate			7.2 Implementation Risk Rating: Moderate	
Comments:			Comments	

