

Terms of Reference

FINANCIAL STRATEGY RENEWAL TECHNICAL ASSISTANCE

Project MARS: "Modernization and Restructuring of the Road Sector" IBRD Loan No. 8749-HR

1. Background

The *Modernization and Restructuring of the Road Sector* World Bank project (MARS) aims to support the Croatian Government commitment in enhancing institutional effectiveness, operational efficiency and improving financial sustainability of the road sector. The project contains an investment loan portion to be used for the restructuring of road management companies Hrvatske ceste (Croatian Roads - HC), Hrvatske autoceste (HAC) and Autocesta Rijeka-Zagreb (ARZ). The Project supports the implementation of measures contained in the Letter of Sector Policy; a document formally passed by the Government of Croatia in March 2017. Current Project progress has already achieved significant debt burden release of the State-Owned Enterprises- HC, HAC and ARZ (further in text: SOE) all in the line with Project component of debt service capacity optimization. At the end of 2017 overall road sector debt was around 5,2 billion euro while at the end September 2020 around 4,2 billion euro. Objective of debt optimization Project component was to extend and reprofile substantial part of SOE debt in order to increase the independent sustainability of road sector debt.

With the assistance of commissioned financial Consultant on MARS Project, SOE's debt optimization exercise has been carried out in three phases. Objective of first phase was completed when MoF issued 1.2-billion-euro bond during 2017 which proceeds were transferred to SOE for a purpose of early repayments of selected loans. Second phase was completed during 2018 through rescheduling of the 1.8 billion euro through so-called Jumbo loans (with extended maturities and more favorable terms) for all three SOE. Last phase of debt optimization ended during 2019 when HAC refinanced part of the overall debt in the amount of 400 mil. eur.

2. Objective of the assignment

Support is sought to hire a financial advisory firm (Consultant) to help prepare a financial strategy that will guide (SOEs') capital investment plan for period 2020-3030. Updated strategy is needed since various SOEs operational and financial aspects have changed in the past two years (staff reduction at HAC, organizational optimization at HC/HAC, merger of ARZ to HAC, SOE revenue deterioration due to Covid-19 pandemic and related recession, recent debt repayment moratoriums and refinancing, unachievable MARS project financial and operational ratios (KPI's). More specifically the objective of the Consultant services will be to:

- (i) perform a thorough analysis and assessment of SOE current and projected financial position through 2020-2030;
- (ii) perform analysis of MARS project's operational and financial ratios (KPI's) and provide analysis what SOEs need to do to meet and exceed set targets;
- (iii) produce detailed financial projections for the period comprising between 2020-2030;

- (iv) identify financing needs on the basis of different capital investment plans, revenues, and expenses scenarios, including indebtedness, cost of debt and any other relevant variables and/or assumptions;
- (v) advise on revenue adequacy and sustainability mechanisms in view of current Covid-19 development;
- (vi) prepare the financing strategy for SOEs that will support the various scenarios of investments, including the identification of financing options available to support those investments (including possible new round of debt-reprofiling, enhanced usage of EU funds), the associated expenses, and time line for implementation of option;
- (vii) provide SOEs' detailed future debt repayment models

3. Scope of consultant services

The consultant's services will include following tasks:

- I. **a) Perform a thorough report on analysis and assessment of SOEs' historical, current and projected financial situation through 2030, which can help SOEs in improving business performance. Consultant will need to analyze financial impact of the staff cuts (at HAC) and changes in achieved operational activities - e.g. improved maintenance efficiency (HAC and HC), tolling (HAC) etc.**

- b) Prepare KPI analysis;**

This task aims at consultant's preparation of comprehensive analysis of operational and financial ratios that are applicable for the project (MARS Results Framework) with task to indicate what SOE's need to do to meet and exceed KPIs. It is expected from the Consultant to develop financial models (short and long term) that will meet the set KPIs. It will also consider the possibility of modified KPI values and/or new KPI definitions/introductions for consideration by MSTI in the MARS project restructuring.

- c) Prepare financial projections**

Consultant will need to provide detailed and comprehensive SOE financial projections and models covering period 2020-2030 (at least three scenarios), including variants of investments, revenues, expenses, sources of funding, debt repayment, operational enhancements and other relevant assumptions. Model will follow good practice of financial modelling and shall be flexible and allow for any future updates and modifications. Subsequently Consultant is required to conduct respective modelling training to SOEs.

- II. **a) Identifying financing needs 2020-2030**

Based on provided data Consultant's task is to prepare comprehensive financing need analysis for SOEs by identifying financing needs/gaps for planned capital investments, revenues and expenses, including indebtedness, cost of debt and any other relevant variables and/or assumptions.

- b) Prepare sustainable financial analysis**

Consultant needs to prepare SOEs' sustainable financial analysis that will encompass and support various scenarios of capital investments plans/projects, revenues and expenses, including loan repayments (including possibility of a new debt reprofiling). Analysis needs to provide guidance on investment plans, revenue adequacy, liquidity and overall sustainability of the investment plans. Analysis will also incorporate

commission of new e-tolling system and its effects on staff reduction and expenses, operational enhancements etc.

The report must include: i) a comprehensive presentation of the assumptions and results of the financial projections; ii) recommendations on investment plan review, revenue adequacy plan, sustainability report, capital structure, financing plan and options; and sensitivity analysis report covering, at least, three alternative scenarios, identifying the highlights in each one of them.

III. Consultant will need to provide draft of the Service Level Agreement ought to be signed between MSTI and SOEs.

Based on the analysis and projections of KPIs (including those defined in the MARS project but not limited to them), Consultant will need to provide a draft of Service Level Agreement through which MSTI will monitor performance of SOEs.

4. Deliverables

Deliverables must be summarized and packaged into a word/excel documents, power point presentations or other formats as requested by SOEs/MSTI.

The implementation schedule of this tasks is as follows:

Activity	Deadline
Data gathering, analysis outline, review on current SOEs financial position/Inception report	end of week 3
Draft report (covering tasks I and II)	end of week 6
Comments on Draft report	end of week 9
Financial model training	end of week 10
Draft of Service Level Agreement	end of week 12
Comments on draft of Service Level Agr.	end of week 14
Final Report	end of week 16

In addition, Consultant will need to provide brief monthly reporting on the level of achieved milestones and deliverables.

5. Remuneration

Key Milestones Payment Deliverables:

Deliverables	Payment amount (%) of total
Draft report	25%
Draft SLA	25%
Final report	50%
Total	100%

This Assignment will be remunerated through a lump sum with the tasks to be performed during the period of the assignment. Payment will be made based on the meeting of key milestones and deliverables.

6. Required qualifications

The Consultant will be required to mobilize a team of experts with diversified competences, including but not limited to finance expert, finance analyst, legal and other corresponding experts.

The Consultant's team must include at least:

- Senior Finance Expert
- Senior Financial Analyst
- Legal expert

6.1. Details on required company's capabilities requirements:

Firms (or joint ventures of firms) should be experienced in providing consulting services to road sector, with at least one [1] project or more in the last ten [10] years in European union member countries, related to all of the following:

- business organization / operational restructuring including optimization of technical and administrative processes and functions, including development of operational efficiency and cost rationalization measures, modelling capabilities
- key performance indicators implementation and experience with drafting public service contracts/service level agreements
- experience in analyzing cash flows and financial statements of SOE's
- development of management capacity / change management, including provision of training

The reference value of each project must be at least 50 000 EUR, while at least one value of the project shall amount to 150 000 EUR. (The experience specified in those projects should cover all skills as requested in ToR. The presented experience could be interpreted as experience in similar assignment(s).

(Preferential advantage: experience with projects in more countries, experience with state owned infrastructure companies, more project in business organization and/or operational restructuring, change management experience, provision of training)

6.2. Details on required personal capabilities requirements:

The Team Leader must have at least 15 years of experience in providing advisory services for clients in public and private sector. Team leader has to have professional experience of managing large corporate restructuring and infrastructure projects and specialized in financial restructuring, processes improvement and in planning and modeling.

- Senior Finance Expert with minimum of a master's degree in finance, business administration, with at least 10 years' experience in business consulting including experience in operational restructuring projects, preferably with experience in road sector, experience in project management (at least 10 projects) on projects about improvement of business organization or operational restructuring of state-owned companies with at least 3 projects in transport and/or infrastructure segment.
- Senior Financial Expert and Senior Financial Analyst with at least 7 years of experience, preferably with experience in road sector, at least 5 years in consulting of public sector companies, participated in at least 3 projects about analysis on business organization or corporate and financial restructuring, participated in at least 10 projects related to business planning and financial consulting related to construction/maintenance of infrastructure, of which 1 project in transport/infrastructure sector in Republic of Croatia or neighboring countries.
- Legal expert with university degree and at least 10 years' experience in public sector companies' law, service level agreements and corresponding affairs.

Experience in state owned infrastructure companies, knowledge of spoken and written Croatian and experience in Croatia would be considered an advantage for all positions.

The Consultant shall ensure that experts are adequately supported and equipped. It shall ensure that there is sufficient administrative, secretarial and interpreting provision to enable experts to concentrate on their primary responsibilities.

7. Duration

Expected overall duration of the assignment is 4 months.

8. Language

All deliverables shall be provided in English and Croatian language.