

**REQUEST FOR EXPRESSIONS OF INTEREST
(CONSULTING SERVICES – FIRMS SELECTION)**

COUNTRY: CROATIA

NAME OF PROJECT: SUSTAINABLE CROATIAN RAILWAYS IN EUROPE
PROJECT

Loan No.: 8500-HR

Assignment Title: Croatian Railways – Asset Management

Reference No.: SUCRE-HZI-CS-FBS-01-2017

HŽ INFRASTRUKTURA d.o.o. has applied for financing from the World Bank toward the cost of the Sustainable Croatian Railways in Europe Project and intends to apply part of the proceeds for consulting services.

The consulting services (“the Services”) include the following consulting services to be provide to HŽ Infrastruktura d.o.o. (HŽI), HŽ Putnički prijevoz d.o.o. (HŽP), and HŽ Cargo d.o.o. (HŽC), and under the supervision of the Ministry of the Sea, Transport and Infrastructure (MSTI).

As a part of the overall business restructuring, each company has started to work on its asset management systems to make it more efficient. The government, however, is still required to ensure that the overall system is managed efficiently. It is also in charge of the definition of the public domain and needs to have the last word in decisions resulting from the initial separation between the companies. The government requires external services to reach the following goals:

(i) revision of the Croatian Railways Division Plan 2006/2007 with special attention on identification and valuation of assets in the public domain; (ii) ensuring completion of the asset repartition between companies and resolution of disputes; (iii) ensuring a neutral valuation of assets (especially non-core assets) in order to maximize the self-financing of the sector's restructuring and investment program; (iv) ensuring that the companies adopt a strategy that optimizes asset management; (v) ensuring that the companies would be able to register all real estate assets in the land registry and cadastre.

The detailed Terms of Reference for the above referenced consulting services are posted on the website of HŽ INFRASTRUKTURA d.o.o. at www.hzinfra.hr.

HŽ INFRASTRUKTURA d.o.o. now invites eligible consulting firms ("Consultants") to indicate their interest in providing the Services. Interested Consultants should provide information demonstrating that they have the required qualifications and relevant experience to perform the Services. The shortlist criteria are:

1. Company profile, organization and staffing
2. Details of experience or similar assignments undertaken in the previous five years, including a reference list providing information on name of assignment, cost, duration, location, client, and contact details for enquiring references as relevant.
3. Confirmation of availability of the Key Experts with the required qualifications as indicated in detail in the Terms of Reference:

1. **Project director**
2. **Senior legal expert/advisor specializing in real estate**
3. **Legal expert/advisor**
4. **Real estate specialist/ business valuator**
5. **Senior financial specialist**
6. **Senior railway specialist**
7. **Accounting specialist**
8. **Financial specialist**

9. **Others** - non key experts: as necessary include specialists such as authorised valuers, court appointed experts, authorised geodetic engineers, etc.

The implementation period of this assignment is 12 months from the Contract start date.

The fixed budget for this assignment is EUR 1,200,000.00 (not including VAT).

The Expression of Interest must be accompanied by complete Contact details. One original and two copies and CD of the Expression of Interest in English shall be submitted to the Client in an envelope marked Expression of Interest for HŽ INFRASTRUKTURA d.o.o. for:

Croatian Railways – Asset Management.

The attention of interested Consultants is drawn to paragraph 1.9 of the World Bank's "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014). ("Consultant Guidelines"), setting forth the World Bank's policy on conflict of interest. In addition, please refer to the following specific information on conflict of interest related to this assignment as per paragraph 1.9 of Consultant Guidelines.

Consultants may associate with other firms in the form of a joint venture or a sub consultancy to enhance their qualifications. The "association" may take the form of a Joint Venture or a sub consultancy. In case of a Joint Venture (JV), all members of the JV will be evaluated jointly for the purpose of short listing and shall be jointly and severally liable for the assignment and shall sign the contract in case of award is made to that JV group. Interested consultants should clearly indicate the structure of their "association" and the duties of the partners and sub consultants in their application. Unclear expression of interests in terms of "in association with" and/or "in affiliation with" and etc. may not be considered for short listing. Keeping one expression of interest per firm as principle, a consultant firm may decide whether it wishes to participate as a sub consultant or as an individual consultant or as a partner in a joint venture. Please note that a firm shall submit only one expression of interests in the same selection process either individually as a consultant or as a partner in a joint venture. No firm can be a sub consultant while submitting an expression of interests individually or as a partner of a joint venture in the same selection process. A firm, if acting in the capacity of sub consultant in any consultant or JV, may participate in more than one consultant, but only in the capacity of a sub consultant.

A Consultant will be selected in accordance with the Selection under a Fixed Budget (FBS) method set out in the Consultant Guidelines.

Further information may be obtained at the address below during office hours 8 a.m. to 3 p.m. local time.

Expressions of Interest must be delivered in written form to the address below (in person, or by mail, or by fax, or by e-mail) by noon, 25th August, 2017, local time.

HŽ INFRASTRUKTURA d.o.o. room 180, 3rd floor

Department for Internationally Funded Procurement/Odjel za nabavu iz međunarodnih izvora financiranja

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HŽ INFRASTRUKTURA d.o.o.

TERMS OF REFERENCE

Croatian Railways - Asset Management

I. BACKGROUND

The Croatian Railway Sector is undergoing a substantial reform needed to recapture traffic to meet the country's mobility objectives at an affordable level of price. This is undertaken in a context of large backlog in investment, difficult financial situation of the companies and recent separation of the railway holding into three companies in charge of infrastructure management, passenger transport and freight transport (HZ Infrastructure, HZ Passenger Transport and HZ Cargo). HZI and HZP are also facing the largest investment program ever to be implemented for the sector with high co-financing needs, and a fiscal context in which the long-term sustainability of the subsidies allocated to passenger services and infrastructure is not guaranteed.

II. OBJECTIVES OF THE CONSULTANCY SERVICES

As a part of the overall business restructuring, each company has started to work on its asset management systems to make it more efficient. The government, however, is still required to ensure that the overall system is managed efficiently. It is also in charge of the definition of the public domain and needs to have the last word in decisions resulting from the initial separation between the companies. The government requires external services to reach the following goals: (i) revision of the Croatian Railways Division Plan 2006/2007 with special attention on identification and valuation of assets in the public domain; (ii) ensuring completion of the asset repartition between companies and resolution of disputes; (iii) ensuring a neutral valuation of assets (especially non-core assets) in order to maximize the self-financing of the sector's restructuring and investment program; (iv) ensuring that the companies adopt a strategy that optimizes asset management; (v) ensuring that the companies would be able to register all real estate assets in the land registry and cadastre.

III. SCOPE OF THE ASSIGNMENT

The following consulting services are to be provided to HZ Infrastructure, HZ Passenger Transport and HZ Cargo, and under the supervision of the Ministry of the Sea, Transport and Infrastructure (MSTI). The status of the Croatian Railways Division, asset management and inventory in the various companies is listed in Annex I.

For the purpose of this task, *assets* include: long term tangible assets (e.g., land and buildings, facilities, rolling stock and equipment), i.e., all properties regardless of the form of ownership (public domain or co-ownership).

The scope of the work is envisioned to be divided into three primary activities:

Phase 1. Due diligence report: Inception, initial review and recommendations

During the inception phase, the consultancy firm will carry out an overall due diligence.

1.1. Process of separation of assets and status of disputed assets

- (i) Review the asset division processes in the Croatian railway system since 2000, its outcomes and shortfalls. Particular focus should be given to 2006-2007 during the then made Croatian Railways Division Plan; Special attention should be given to the identification and valuation of the assets exempted as State property at the time of the Division.
- (ii) Identify and classify disputable assets of the Croatian Railway Companies with regard to ownership and legal titles, in Croatia or in countries in the region;
- (iii) Review existing data, information, reports and systems available at the state level and in the companies, and assess remaining information and data gaps;

1.2. Review of Asset Management in the Croatian Railways Companies

- (iv) Review the existing asset management organization and practices in HZ Infrastructure, HZ Passenger Transport and HZ Cargo and their selected subsidiaries; including asset policies, strategies, operational plans and systems (formal and applied in practice), ongoing activities, and plans for implementing a new asset management policy and related plans and systems;
- (v) Review the existing fixed asset cycles and internal control procedures; including investment planning, procurement and purchase, maintenance and repairs, physical safeguarding, monitoring (technical, safety, cost, revenue, and efficiency), liquidation or sale, and decision-making processes. Review whether legal agreements related to the sale, rent or leasing of major fixed assets secure the financial and legal interests of the companies. Provide recommendations on identified risks, deficiencies, areas for improvement of processes, efficiencies, decision-making, accountability, coordination, and reporting lines;

Processes specific to the real estate assets:

- (vi) Revise the borders of the infrastructure belt (i.e., public domain area in vicinity of the railway line) for real estate which does not represent railway infrastructure or which is not in the function of railway infrastructure.
- (vii) List all real estate on cadastral plots in accordance with internal evidence of cadastral plots of individual companies. Compare the obtained list with the data in business books of companies and the actual state in the field and prepare a coherent list of real estate assets (to comprise the major part of the final inventory of assets).
- (viii) In agreement with all stakeholders, for selected assets prepare geo-elaborates/geodetic surveys (by permanent court experts/appraisers) and supporting documentation needed to complete the inventory of assets for each HZ company.

1.3 Proposed assets classification and valuation methodology and proposed coordination mechanisms for dispute resolution

- (ix) Prepare coherent (to the extent possible) asset definition and classification for the Croatian railway sector, which would divide the assets into “core assets” (operational and needed for mandatory functions and services, administrative support for core operations, idle, obsolete or assets for sale) and “non-core assets” (non-operational, social/discretionary, surplus);
- (x) Define methodology for classifying and valuating assets together with all HZ Companies according to the current law for the purpose of: a) *financial reporting* in line with IFRS endorsed by the EU (review of adequacy of the depreciation method and rates linked to the business model of the entities, taking into account new IFRS 13 Fair Value Measurement and impact on accounting policy); b) *business analysis/decision making*; -c) *operational asset management standards* in railway sector (e.g., PAS 55). The proposed classification should be adequate to track the cost, revenue, and physical indicators of asset items/groups, feasible to gather and maintain, taking into account current and planned IT systems;
- (xi) Formulate recommendations for coordination, and resolution of disputes for certain assets, with the Ministry of State Assets (MSA), the Ministry of Finance (MoF), the Ministry of

Construction and Physical Planning (MCPP), and selected municipalities, in a realistic timeframe to be discussed by the different parties.

1.4. Road map for the implementation of asset management

- (xii) Review the roles and responsibilities of different stakeholders with regard to asset management in the Croatian railway sector, and the relationship between them; propose actions for enhancing coordination, management and governance in line with international best practices and the existing legal framework;
- (xiii) Provide a detailed SWOT analysis for asset management in the sector, with strategic and operational recommendations for asset management; this SWOT will inter alia list weaknesses identified in the applicable legislation (e.g., accounting, classification, public domain, servitude);
- (xiv) Outline a time bound roadmap for the implementation of a global efficient asset management, covering the aspects of inventory, valuation, and proposals for implementation of tools and systems, reporting mechanisms, performance measurement between the various stakeholders and the owner, and legal and regulatory improvements for the weaknesses mentioned above.

Throughout Phase 1, all Croatian Railways Companies shall assign staff to provide the Consultant with the necessary information for its work. However, the Consultant shall not rely on Croatian Railway companies for any kind of administrative support, but shall need to ensure that an adequate team is mobilized, combining the necessary skills for the assignment.

Phase 2. Implementation of asset management improvements

The Consultants will actively support the implementation of the conclusions of the first phase through several tasks, centred around: (i) confirming and finalizing inventories and asset management classification for all companies; (ii) solving outstanding issues related to the separation of disputed assets; (iii) valuating assets (with a focus on non-core assets) to maximize opportunities to self-finance the restructuring plans; and (iv) supporting improved efficiency of asset management in the companies. These activities will be carried out in parallel, with appropriate linkage among them.

2.1. Confirmation and finalization of inventories and accounting valuation

- (i) Classify assets in line with the methodology developed during the inception phase. The classification should use existing synergies to the extent possible, and provide for better integration of various needs, departments, and registers, and to avoid duplication of efforts;
- (ii) Review and complete as necessary the inventory of assets for each HZ company, keeping a list of disputed or unclear status assets and incorporating them once the situation is solved and including the data listed in Annex 2 to these ToRs. Inventory of assets is deemed complete once the asset is listed in the company's books and respective state registries (cadastre, land registry, and other government registries).;
- (iii) Review or carry out the valuation of the assets for accounting purposes in accordance with IFRS as endorsed by the EU to provide sufficient information to resolve financial audit issues related to valuation. The valuation should be based on fair value.

2.2. Outstanding issues related to the separation of disputed assets and assets with unclear legal status

The objective of this activity is to resolve the assets with an unclear status (legal or geodetic), and those that are currently disputed between companies, taking into account accounting, operational and business decision-making dimensions. The priority will be given to assets being disputed, but the consultancy will also support the review and resolution of the outstanding legal status of assets which are not disputed in order to allow all companies and the state to have full clarity on the status of their assets by the end of the consultancy. This will include:

- (iv) Propose division of disputable assets among the Croatian Railway Companies and a solution to resolve disputes or solve unclear cases to the owner as necessary (for disputable assets in the country and in the region, including assets disputed as part of the partition of former Yugoslavia);
- (v) Procedural/legal assistance to companies in carrying out the transfer of disputable assets between the companies (as well as of assets of the legal predecessors of current HZ companies that are not registered in their business books), including transfer of legal titles and accounting transfer; including valuation and support to the modification of land titles. For assets which would be sold or its legal title transferred to the state, as part of the dispute or separation process, carry out a valuation based on market value as part of activity 2.3;
- (vi) For disputable assets that Companies have already started resolving themselves, the consultant should, in consultation with them and the line ministry, propose how to carry out the assignment in this regard¹;

2.3. Valuation of assets to be commercialized or transferred

For this activity, the consultancy firm will distinguish between valuation for accounting purposes, which in most cases is total and at historic cost (depreciated for buildings), and valuation for management (decision making and transactions) which is selective and at market value. Valuation activities will be carried out in the following sequence:

- (vii) Integrate the conclusions of phase 1 to define or review the strategy to monetize unused non-core assets, i.e., maximize the performance and value of non-core activities to the core railway business by selling, leasing or franchising them to businesses with the greatest competencies in the activities, thereby generating the highest net revenues in the long term (horizon of 20 years). The activity would review, and revise as necessary, a plan for managing real estate and land of Croatian Railways Companies, taking into account “highest and best use” approach (e.g., including moving from expensive prime locations to more modest settings to maximize the revenue and/or minimize cost of assets);
- (viii) Prepare procedures for market-based valuation for non-core assets, ideally pricing for sales and rent should be done through competitive allocations (auctions);
- (ix) Prepare a valuation report for the assets planned for divestiture under the control of the relevant authorities for asset transactions, reporting on available documentation, inventory data, valuation data, procedures for transactions (what, to whom, at what price) and balance sheet and accounting information;
- (x) Formulate recommendations on how the companies should set up teams and/or units to manage these activities – these institutional recommendations should take in account the EU and Croatian legal framework, and take in account coordination with MSTI and MoF. Consultant should identify training needs in the companies and the Government to implement the mentioned procedures and tools.

2.4. Support to increase efficiency in asset management in the companies

- (xiii) Provide inputs for revision of the restructuring plans of Croatian Railways Companies with regard to changes in the status of certain assets;
- (xiv) Assist Croatian Railways Companies in preparation/revision of their asset management plans based on the overall findings and in line with their medium-term business plans; including performance measurement for assets and their benchmarks to the EU averages (including accounting, financial, physical, operational indicators);

¹ For convenience, Companies may decide to proceed with work on separation of some of the disputable assets and finalize it themselves. In this case, the consultant should incorporate outcomes of the Companies’ work in all his other deliverables, as needed. Moreover, this should not in any way prevent the consultant to start the assignment.

- (xv) Provide support to companies in identifying revenues stemming activities that utilize railway assets. These include telecommunications companies that use railway rights-of-way, train stations retail or offices, advertising hoardings, and commercial car parks, among others;
- (xv) Support changes to the IT systems for Asset Management in line with findings of phase 1 and proposals for integration of Financial Management and Asset Management Systems;
- (xvi) Prepare a close out report; including general project information and objectives, summary of all deliverables completed, performance measurement, transition plan, lessons learned, outstanding issues, request for project closure approval;
- (xvii) Review the implementation of the plans within 12 months and prepare a report.

IV. DELIVERABLES

Following will be delivered by the consultancy firm:

- Due diligence report in two sequences:
 - o Interim due diligence report providing current status of asset management in Croatian Railways Companies (activity 1.1, 1.2 and 1.3)
 - o Full due diligence report²
- Submit geodetic surveys for real estate assets (carried out by an authorised geodetic engineer) (activity 1.2)
- Implementation roadmap for asset management for Croatian Railways Companies and MSTI (activity 1.4)
- Review, modifications, and gathering missing information to complete asset inventory for the Croatian Railways Companies and accounting valuation (activity 2.1. and 2.2)
- Listing of assets with unresolved legal titles together with proposed resolution and support in transfers (activity 2.2)
- Provide valuation procedures and reports (authorised/certified valuator, court appointed experts), valuation report, asset strategy, and plan with recommended actions for managing assets to be sold or transferred, including institutional recommendations and training needs (activity 2.3)
- Preparation of transactions documentation (request for proposal, draft contracts, bidding documents) for assets to be divested (activity 2.2 and 2.3). Inputs into key strategic and business documents and reports of Croatian Railways Companies and MSTI (activity 2.4)
- Close out report including the implementation plan for 12 months (activity 2.4)

Language of the report is Croatian with English translation arranged by the Consultant.

V. TIMETABLE AND DURATION OF THE CONTRACT

The duration of the contract is estimated to be 12 months for phase 1 and items 2.1 and 2.4. Activities under 2.2 and 2.3 may require a longer period of implementation. Support to individual transactions will therefore need to be estimated and will need to be adjusted to the needs after phase 1. Quick mobilization and timely delivery is required under this assignment as per the timetable below. Each report will require client review and the final scope of phase 2 (for component 2.2 and 2.3) will be determined after the review of phase 1.

For assets that are identified by Croatian Railways Companies as a priority for the consultant's assignment, the consultant shall propose a shortened timetable of deliverables that would be implemented in parallel with the rest of the assignment.

The timetable for deliverables is as follows:

² Report should contain, inter alia, Croatian Railways Division Plan and clearly outline issues with regard to assets division.

DELIVERABLE	DEADLINE (in business days)
Interim due diligence report	30
Final diligence report	60
Implementation roadmap	60
Asset inventory	80
Geodetic surveys	150
Valuation report	150
Listing of assets with unresolved legal titles	80-180
Inputs into strategic and business reports	60-150
Transaction documentation	180
Close out report	360

VI. QUALIFICATION OF CONSULTANT

Only firms will be eligible for being awarded this consultancy assignment. Firms should have a proven track record and successfully completed similar assignments. The consultant will include qualified personnel in the field of accounting and audit; real estate management; railway policy and legal issues. The consulting firms shall have sufficient qualified personnel and resources to provide all necessary professional, technical, expert services, and administrative support as required for accomplishing all the required services within the prescribed time. The languages of this assignment are Croatian and English.

The consulting firm shall appoint a project director who has the authority to perform that role and the appropriate competence and capabilities. The responsibilities of the project director should be clearly defined by the consultancy firm and agreed with the client. The agreed responsibilities should be understood by the project director, other members of the project team and those responsible for the management of the consultancy firm.

Description of Key Staff:

1. **Project director (national, team leader):** The project director will have the overall responsibility for work and all reports prepared. He/she will work closely with both national and international specialists to ensure quality of the work produced. He/she will have specific inputs to the asset management assessment, inventory and valuation processes. He/she will act as the chief liaison for the consultancy team with the client. The project director should have at least 15 years of professional experience and possess relevant qualifications including professional accounting/ auditing, financial, professional valuation, asset management, real estate certificates.

He/she should have demonstrated successful track record in designing and developing asset management systems (preferably in railways); possess experience in carry out (asset) management and financial audits; applications/provision of auditing or advisory services including financial reporting in accordance with IFRS and fair valuation of property, plant and equipment; preparation of policies, strategies and operational plans in transport (preferably railways) and large SOEs. The identity and role of the project director should be included in proposal. The client will advise on the appointment of the project director. The project director may also be interviewed by members of the client team. The project director shall not be changed without good reason and without the approval by the client.

2. **Senior legal expert/advisor specializing in real estate (national):** The legal expert with at least 15 years of experience, lawyer qualification and specialization in property legislation, and provision of legal services related to transactions. The specialist will review the legal status of assets and propose corrective actions. The specialist will provide inputs to the government in dealing with the disputed assets.
3. **Legal expert/advisor (national):** The legal expert with at least 5 years of experience, lawyer qualification and experience in property legislation, and provision of legal services related to transactions. The legal expert will support the Senior legal expert in carrying out his/her respective tasks.
4. **Real estate specialist/ business valuator (national):** The real estate specialist/ business valuator holding professional qualification will provide input to the valuation report, methodologies for market based valuation, options to maximize the revenues from sale, disposal, rent of idle or non-core assets, recommendation to the asset management policy, strategy and implementation plan. The specialist will scope out the terms of reference for possible asset tendering/ outsourcing to the private sector.
5. **Senior financial specialist (international):** The senior specialist should have proven experience in asset management and SOE restructuring, and in designing asset management systems, as part of the implementation of financial management database systems. He/she will provide direct technical support to the team leader with regard to asset management systems and aspects of the project. The specialist will be responsible for carrying out the review of the existing inventory assessment, develop methodology, associated tools and related training for valuing and preparing inventory and valuation, as well as establishing monitoring systems. The specialist will formulate PPP options for private sector participation. The specialist will develop procedures for disposal of assets, prepare the bid documentation and implementation plan for the transition to the new asset management systems.
6. **Senior railway specialist (international):** The international specialist will provide guidance on rail related aspects to other team members. Preferably the specialist should have at least 15 years working in large railway organizations under restructuring. The specialist should be familiar with EU legislation, railway asset management standards, and preferably knowledge or railway legislation in the Eastern Europe. The specialist will review the asset management and inventory/disputed assets from a railway operational perspective. The specialist will formulate recommendations and formulate various asset management options into the policy, strategy and implementation plans.
7. **Accounting specialist (national):** The national specialist should be a graduate in accounting and/or auditing, with at least 5 years of experience in application of IFRS, especially valuation of assets using fair value. He/she should be proficient in specifying the requirements of accounting and financial management software systems. The specialist will assist in reviewing the existing accounting and asset management systems in place for Croatian Railways Companies. He or she will provide inputs to the proposed tools, data analysis, reports and institutional support.
8. **Financial specialist (national):** The financial specialist will support the due diligence, inventory and valuation activities by collecting and processing data.
9. Others – non key experts: as necessary include specialists such as authorised valuers, court appointed experts, authorised geodetic engineers, etc.

ANNEX 1: Data to be included for real estate assets

Type of real estate
Mat. No. of Cadastral Office
Name of Cadastral Office
No. of land registry file
No. of land registry plot
No. of sub-file
Total surface area of land registry plot
(m2)
What lies on the land registry plot
Type of ownership
Share in ownership
Burden on property
Court dispute
No. of title deed
Mat. No. of Cadastral Office – title deed
Name of cadastral office – title deed
No. of cadastral plot – title deed
Total surface area of cadastral plot – title deed
(m2)
Bearer of rights
Share in bearer of rights
No. of cadastral plan
Address
Postal code
Regional plan use
PIN of real estate user/Name of real estate user
Legal basis
Share
Value of real estate (HRK)
Name of value appraiser
No. of title deed
Manner of use of real estate
Surface area in title deed
Property owner
Actual surface area of the real estate in the field
The comment which refers to the comparison of the state of the real estate in the title deed and its actual state
Name of real estate in the bookkeeper's card
Proposal of the name of the real estate (for bookkeeping)
Comment (for bookkeeping)
Actual state of the real estate
Address
The intended use of the real estate
Actual users of the real estate
Data on the number of flats
The number of floors
Km mark of the real estate
Photograph;