



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
INDUSTRIAL WASTE MANAGEMENT AND CLEANUP PROJECT
APPROVED ON SEPTEMBER 19, 2014
TO
REPUBLIC OF MONTENEGRO

ENVIRONMENT & NATURAL RESOURCES

EUROPE AND CENTRAL ASIA

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ABBREVIATIONS AND ACRONYMS

CD	Country Director
(non-) CS	Consultancy Services
CW	Civil Works
EA/ESIA	Environmental Assessment / Environmental and Social Impact Assessment
EPA	Environmental Protection Agency
EPCG	Elektroprivreda Crne Gore, Montenegro national power company
EMP/ESMP	Environmental Management Plan / Environmental and Social Management Plan
GO	Goods
GOM	Government of Montenegro
(non-) CS	Consultancy Services
IBRD	International Bank for Reconstruction and Development / World Bank
IOC	Incremental Operating Costs
KAP	Kombinat Alumijuma a.d. Podgorica, aluminum plant
LA	Loan Agreement
MoF	Ministry of Finance
MSDT	Ministry of Sustainable Development and Tourism
PDO	Project Development Objective
PMU	Project Management Unit (under EPA)
POM	Project Operations Manual
PPA/F	Project Preparation Advance/Facility
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
TA	Technical Assistance
TR	Training
TSU	Technical Support Unit (under MoF)



BASIC DATA

Product Information

Project ID P122139	Financing Instrument Investment Project Financing
Original EA Category Full Assessment (A)	Current EA Category Full Assessment (A)
Approval Date 19-Sep-2014	Current Closing Date 30-Jun-2019

Organizations

Borrower Republic of Montenegro	Responsible Agency Environmental Protection Agency
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Project Development Objective (PDO)

Original PDO

The Development Objective of the Project is to reduce contamination of Montenegro’s natural resources and public health risks of exposure to this contamination from selected industrial waste disposal sites.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-84280	19-Sep-2014	10-Oct-2014	17-Nov-2014	30-Jun-2019	68.90	5.43	62.50

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

- 1. Scope of the Project.** Component 1 'Remediation of Selected Legacy Industrial Waste Disposal Sites' of the Montenegro Industrial Solid Waste Project aims to remediate five contaminated sites and halt pollution of the environment and related risks to public health in the four locations where these sites occur. These are: (i) a shipyard in Bijela with contaminated soil and groundwater and stockpiles of solid waste; (ii) a mine-tailings disposal site in Gradac; (iii) a coal ash disposal site in Pljevlja; and (iv) two sites at the KAP alumina smelter location with disposal of hazardous and other waste, as well as large disposal pond for red-mud generation from alumina production. Activities under Component 2 'Future Industrial and Hazardous Waste Management' support Montenegro with the management of ongoing generation of industrial and hazardous waste in the country. Project Management support is managed under Component 3.
- 2. Progress since project effectiveness.** Following Effectiveness in November 2014 and the Project launch workshop in February 2015, the project made significant progress with the rapid preparation of design and bidding documents for the first remediation site, the shipyard in Bijela which has a high priority for redevelopment purposes. Since the summer of 2015, however, delays became a common factor in project implementation with multiple causes. The bankruptcy of the Bijela shipyard in 2015 and in relation to the Government requirement to transfer Loan repayment obligations to the industries that are related to the project sites as the historic source of waste generation, halted the work for this site since then. In January 2016, a government decision was adopted to drop the Loan repayment requirement for the shipyard and implementation activities have started again since then for the remediation in Bijela. However, the Government's wish to transfer repayment obligations to (former) site owners continued blocking preparations for the Gradac site remediation, although it was determined during project preparation that this site is government owned and there are no liability ties with any private entity.
- 3.** Since project preparation, KAP has filed for bankruptcy and assets at the KAP location have been sold under bankruptcy procedures including the project sites. Unfortunately, to date, procedures for full transfer of the assets that include the solid waste disposal site have not been concluded. Also, circumstances changed after project effectiveness for the remediation of the coal ash disposal site in Pljevlja. Full closure of the existing site and opening of a new site for coal ash disposal as envisaged during project preparation became unfeasible and EPCG, the national power generator and owner of the site had to revise the development of the existing site to partial closure and further extension for coal ash disposal for the next 5-6 years. In addition, implementation arrangements were not optimal with a Project Management Unit (PMU) under the Environmental Protection Agency (EPA) facing staffing issues and poor coordination with the Ministry of Sustainable Development, the line ministry responsible for the Project. These range of issues, together with challenges to acquire technical approval (a national legal requirement) for the Bijela remediation design and national elections in October 2016 resulted in little progress during the calendar year 2016.
- 4.** Implementation progress picked up again from January 2017 when the newly installed government confirmed to the Bank the high importance of the Project and concerns about the accumulated delays. In the period February-April 2017, the Government made critical decisions to advance project implementation. It decided that (i) the remediation of the Gradac site would be fully financed from the Loan, dropping the requirement for financing from former owners of the site; (ii) EPCG's proposal was acceptable to extend ash disposal capacity at the existing site rather than developing a new site and that the parts of existing site that could be closed would be remediated with financing from the Loan. This opened the way for the Ministry of Finance to enter into legal arrangements with EPCG for the remediation of the coal ash disposal facility in Pljevlja as required under the Loan Agreement;



and (iii) the Ministry of Sustainable Development and Tourism (MSDT) should start and prepare with the new owner of the red-mud basin, the management company for the aluminum smelter as the solid waste disposal site was still under bankruptcy procedures and other stakeholders a plan for the remediation of these two project sites at the KAP location. The government also decided that MSDT can reorganize and integrate the Environmental Protection Agency (EPA) under MSDT. The latter has brought daily implementation of the Project directly under the control of the Ministry and during 2017 greatly improved internal communications.

5. **Current project status.** In the period October 2017 – March 2018, the government at minister level and the Bank started regular meetings and monthly updates on the action plan agreed in September 2017 to accelerate project implementation. Since January 2018, the PMU is fully staffed and since then and to date and with support from MSDT, MoF and other stakeholders, substantially managed to deliver on the agreed actions. These included getting the Bijela works contractor on site, complete the Pljevlja site design work completed and prepare Project Agreement between EPCG and the Government as required under the Loan Agreement and start preparations of design and bidding documents for the works at the Gradac site. Despite progress made, the KAP bankruptcy issues and ownership issues for the red-mud basins have not been fully settled. As long as these issues have not been resolved, the Government is not in a position to commence with remediation works.
6. **Rationale for Restructuring.** Since late 2017, implementation has progressed efficiently, and the PMU managed to follow agreed actions plans. . The institutional arrangements have significantly improved, and though the implementation agency remains the PMU under the EPA, the EPA changed from an independent entity into an institution that is now fully incorporated in the Ministry of Sustainable Development and Tourism with positive impacts on communications between these institutions. The team’s assessment is that a one-year extension of the Project Closing Date till June 2020 will allow for completion of the agreed actions and achieve the PDO.
7. There are no outstanding project audits and previous audits were acceptable by the IBRD.
8. The Bijela contractor has mobilized on site in June 2018 and works should be substantially completed in the spring of 2020. The same applies for works on the Pljevlja/Maljevac coal ash disposal site for which the design work has been completed in June 2018 with remediation works scheduled for completion in the spring of 2020 and EPCG is ensuring based on strict deadlines that new disposal capacity is developed by August 2019, before the current disposal cells (‘cassettes’) have reached full capacity. At the Gradac site, for which the consultancy firm has started work in May 2018 to prepare the design and works bidding documents, timely completion of works can be ensured by June 2020.
9. Changes in the remediation scope for the Pljevlja site require changes to the Loan Agreement. These relate to a relocation of the future coal ash disposal area and are part of the restructuring.
10. With unresolved issues and subsequently without remediation activities having started to date, there is no perspective that remediation works at the KAP location can be completed by June 2020. The resolution of KAP issues related to private ownership of the site and yet not concluded bankruptcy procedures has been on the agenda since project effectiveness and has not been resolved to date. Even if this would happen in the shortest term, the remaining period including a one-year project extension would be significantly insufficient to accomplish the envisaged remediation. This makes it impossible to commit to remediation targets in the RF (number of hectares of cleaned up area) and thus to the related investments. Given the importance of eventually remediating the KAP waste areas to halt groundwater contamination risks and stability risks with the red-mud basins, it was agreed in a meeting on July 26, 2018 between Montenegro and Bank management (i) to keep remediation



preparation activities under the restructured project for the KAP remediation sites, financing technical assistance and design work from the Loan and (ii) to cancel part of the Loan that is currently reserved for investments (works) at the KAP location. It was further agreed that Montenegro can request the World Bank for additional finance, if current ownership and bankruptcy issues are resolved and all preparations for remediation works at the two KAP sites can be completed before the closing date of the project.

II. DESCRIPTION OF PROPOSED CHANGES

11. **Elements of the restructuring.** A government request for restructuring was received on June 1, 2018. This request did not include a request for partial loan cancellation, but in a special session on October 9, 2018, the Government of Montenegro made a Decision (see Annex for Decision and underlying documents including Brief GOM reIWMCP 08-Oct-2018, or “The Brief”) to confirm the Borrower’s desire to partially cancel the Loan in the amount of Euro 12,925,000 due to the yet still unresolved status with bankruptcy procedures and ownership related to the KAP project sites which to date prevent commencement of remediation works. The Government Decision also confirmed the details of the Project Restructuring that are specified below. Although the Bank formally received these Government documents including the Brief, these do not constitute a formal request from the Borrower as mandated by Section 7.01 of the General Conditions, but considering the high level government decision made on the partial loan cancellation and the intensive dialog between representatives of the Bank and of the Ministry of Finance of Montenegro, the technical Team confirms the explicit desire of the Borrower to partially cancel the Loan. On this basis, the Bank agreed to conduct the restructuring including partial loan cancellation on an extraordinary basis since the Government Decision and the related documents we received were not accompanied by an official request for partial cancellation by the Borrower as mandated by the General Conditions. The cancellation will be effective upon signing of the Letter of Amendment and from the date of the Government Decision, October 9, 2018.
12. The proposed restructuring of the Project entails: (i) revising Component 1 to modify the remediation design for the Pljevlja site, and limit activities for the KAP site to remediation preparations only (taking out financing of remediation works); (ii) cancel funds in the amount of Euro 12,925,000 from Component 1, reflecting savings from cancellation of remediation investments at the KAP site; and (iii) extend the Closing Date by 12 months to June 30, 2020. The Project’s result framework is revised to reflect these changes. The restructuring also entails relocation of funds required to compensate for an overdraft of Euro 31,739.51 in disbursement category 2 (PPA refinancing).
13. With those changes approved, the Project can achieve the PDO within the extended project closing date. There is an agreement between the Bank and the Borrower on actions that will be undertaken by the Borrower to complete the Project. Namely, the Borrower has agreed to a revised action plan comprising clear set of actions that will be closely monitored in the coming months to ensure full, timely and satisfactory implementation of the remaining activities.
14. **Remediation in Pljevlja.** In the original project scope, it was expected that EPCG would develop a new site ‘Sumane’ for coal ash disposal after the existing ‘Maljevac’ site would be fully closed. The Maljevac site after closure was destined for remediation under the project. As the Sumane site development was considered as an associated investment to the remediation works financed from the Loan, World Bank safeguards procedures (OP4.01 for environmental safeguards and OP4.12 for resettlement issues) were required for the Sumane site investments. A substantial change to this approach was requested, reviewed and agreed to close parts of the existing Maljevac site that will be taken out of use for ash disposal and at the same time expend capacity with a



newly constructed disposal cell at the same existing Maljevac site for continued coal ash disposal, cancelling plans for developing the alternative Sumane site for ash disposal purposes. As a result, all works, the closure and remediation of parts of the Maljevac site with financing from the Loan and works to build a new cell for ash disposal to be financed by EPCG will take place at the same location. The works to build to new coal ash disposal cell are carried by the operator EPCG and not financed from the Loan but considered as an associated investment, therefore all the Bank's safeguards requirements also apply to these extension works at the Maljevac site. The design of both the remediation works and the new disposal cell works has been completed and ESIA and RAP are being prepared and will be concluded before the works start in early 2019 at the start of the construction season (March or April 2019).

15. The described change in remediation approach and the cancelling of plans for development of the Sumane site require adjustments in the text of the Loan Agreement. Also, the area for remediation is now less than in the original design requiring adjustments to the Result Framework's related PDO and intermediate result indicators, although the remediation costs are similar and thus the allocation from the Loan at Euro 4.0 million hasn't changed.
16. **Changes for the KAP sites remediation.** With the cancellation of Loan proceeds to finance remediation works for the two KAP sites, the remaining activities to be financed from the Loan will be the preparation of design and bidding documents and technical assistance, so that works can be tendered as soon as bankruptcy procedures and ownership issues have been settled. As a consequence, Loan amounts for investment will be cancelled and the related result indicators have been adjusted to reflect the preparation deliverables rather than the outcomes from remediation works.
17. **Loan cancellation amount.** Part of the savings that result from the cancellation of the Loan proceeds for Works at the KAP sites are needed to compensate for higher than expected costs for the Bijela remediation and extra project management costs for the one year longer implementation period. For details, see Section IV of this Paper.
18. **Some further changes under the restructuring.** The following further changes under the restructuring are noted with explanations.
19. The Resettlement Action Plan (RAP) is now being prepared for the Pljevlja/Maljevac site (instead of for the Sumane site as stipulated on the Loan Agreement) to investigate changes in site and associated investment that will result in land acquisition and resettlement. Actions and the preparation and implementation of the RAP will follow the same policies and Resettlement Policy Framework (RPF) that was prepared for the project.
20. Similarly, the environment assessment for this site was revised to reflect the changes in remediation.
21. Also, the technical design for the Pljevlja/Maljevac with closely revised as it now combines closure and remediation works (financed from the Loan) at the same location as where new disposal cell will be built (financed from EPCG resources). The latter as mentioned is considered an associated investment and implementation under Bank safeguard procedures.
22. Institutional arrangements. The implementation agency remains the PMU under the EPA, but the EPA changed from an independent entity into an institution that is now fully incorporated in the Ministry of Sustainable Development and Tourism. Although this change is significant and relevant for the project, with positive impacts on communications between these institutions, it did not substantially alter the reflection of implementation arrangements in the Loan Agreement.



23. **Risk of red-mud basins failure.** One risk to note is that structural failure of the red-mud basins can have dire consequences with hundreds of thousands of tons of materials that could flush out and risk people living nearby. The physical condition of this privately-owned facility has been inspected this year and is considered adequate. However, maintenance is limited, and the impoundment needs regular inspections and maintenance. This risk has been amply flagged in discussions with the Government and Aide Memoires and will remain a key focus of attention under the project, seeking a sustainable solution. Keeping remediation preparations in the project scope after restructuring will support management of these risks and define a clear course of action, allowing for comprehensive (geotechnical) investigations at the facility, a detailed assessment of long-term risks, an action plan for monitoring, stabilization and remediation, and bidding ready documents to commence remediation works.
24. **Procurement** performance has been rated as Moderately Satisfactory since a few activities has suffered delays in the completion of selection processes. However, due to satisfactory performance of the TSU and the progress achieved during the last year, the project procurement risk is rated as Moderate.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Cancellations Proposed	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Legal Covenants	✓	
Institutional Arrangements	✓	
Technical Analysis	✓	
Social Analysis	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓



EA category		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Remediation of Selected Legacy Industrial Waste Disposal Sites	65.42	Revised	Remediation of Selected Legacy Industrial Waste Disposal Sites	40.25
Future Industrial Waste Management	1.24	No Change	Future Industrial Waste Management	1.24
Project Management	1.24	Revised	Project Management	2.25
Refinancing PPA	1.00	No Change	Refinancing PPA	1.00
TOTAL	68.90			44.74

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-84280	Effective	30-Jun-2019		30-Jun-2020	30-Oct-2020



CANCELLATIONS

Ln/Cr/Tf	Status	Currency	Current Amount	Cancellation Amount	Value Date of Cancellation	New Amount	Reason for Cancellation
IBRD-84280-001	Disbursing	EUR	50,000,000.00	12,925,000.00	09-Oct-2018	37,075,000.00	LOAN RESTRUCTURING, COST SAVINGS

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed
IBRD-84280-001 Currency: EUR				
iLap Category Sequence No: 1	Current Expenditure Category: GO,CW, Non-CS,CS,IOC,TR,Audit			
49,125,000.00	2,738,664.35	36,168,260.49	100.00	100.00
iLap Category Sequence No: 2	Current Expenditure Category: PPF REFINANCING			
750,000.00	781,739.51	781,739.51		
iLap Category Sequence No: 4	Current Expenditure Category: PREMIUM FOR CAPS/COLLARS			
0.00	0.00	0.00		
Total	49,875,000.00	3,520,403.86	36,950,000.00	

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2015	3,000,000.00	0.00
2016	9,000,000.00	1,000,000.00



2017	20,000,000.00	1,000,000.00
2018	24,000,000.00	700,000.00
2019	12,900,000.00	13,000,000.00
2020	0.00	21,250,000.00
2021	0.00	0.00
2022	0.00	0.00

LEGAL COVENANTS

Loan/Credit/TF	Description	Status	Action
IBRD-84280	Finance Agreement :Institutional Arrangements Description :Section I.A.1 LA (summary) Borrower obligations to carry out the Project through the MSDT, EPA with assistance of the TSU, with POM and Safeguards Instruments and not to amend the same; maintain the PMU in form and with functions etc satisfactory to the Bank; maintain adequate staffing with procurement capacity; maintain Project Steering Committee. Frequency :Quarterly	Complied with	No Change
IBRD-84280	Finance Agreement :Project Site Industry Arrangements (Pljevlja site) Description :Section I.B.1 LA (summary) - Prior to signature of remediation works contract for the Pljevlja site, the Borrower has (i) entered into satisfactory legal arrangements with EPCG (incl. terms set forth in LA); (ii) complied with safeguards covenants and (iii) works on the Sumane Site have been completed satisfactorily and the site is ready to receive coal ash. Frequency :Yearly	Not yet due	Revised
Proposed	Finance Agreement :Project Site Industry Arrangements (Pljevlja site) Description :Section I.B.1 LA (summary) - Prior to signature of remediation works contract for the Pljevlja site, the Borrower has (i) entered into satisfactory legal arrangements with EPCG (incl. terms set forth in LA); and (ii) complied with safeguards covenants.	NYD	



IBRD-84280	Finance Agreement :Safeguards - Safety of Dams Description :Section I.D.3 LA (summary) - Compliance with dam safety requirements for activities related to dam and slope safety and stabilization Frequency :Quarterly	Not yet due	No Change
IBRD-84280	Finance Agreement :Project Site Industry Arrangements (KAP sites) Description :Section I.B.2 LA (summary) - Prior to signature of remediation works contract for the KAP Site, the Borrower has (i) entered into legal arrangements with KAP or the successor owner of the sites under terms approved by the Bank (incl those set forth in the LA); and (ii) complied with the safeguards covenants on updating ESIA and EMP. Frequency :Yearly	Not yet due	Marked for Deletion
IBRD-84280	Finance Agreement :Safeguards Description :I.D.1 LA (summary) - Carry Project out in accordance with the Safeguards Instruments and not amend or waive etc. thereof without prior Bank approval. Frequency :Quarterly	Complied with	No Change
IBRD-84280	Finance Agreement :Safeguards - ESIA's, EMP's, RAP Description :I.D.2 LA (summary) - Prior to signature of the civil works contracts for remediation measures on each of the Project Sites update the ESIA's and EMP's for the relevant Project Site & the Sumane disposal site, as applicable, to the design of the works, satisfactory to the Bank; incl. consultations, disclosure and all required national permits etc. and prepare RAP, if required, for the Sumane Site. Frequency :CONTINUOUS	Complied with	Revised
Proposed	Finance Agreement :Safeguards - ESIA's, EMP's, RAP Description :I.D.2 LA (summary) - Prior to signature of the civil works contracts for remediation measures on each of the Project Sites update the ESIA's and EMP's for the relevant Project Site, as applicable, to the design of the works, satisfactory to the Bank; incl. consultations, disclosure and all required national permits etc. and prepare RAP.	Partially complied with	



IBRD-84280	Finance Agreement :Safeguards - Technical Assistance activities Description :Section I.D.4 LA (summary) - For TA under Part 2 of the Project, TORs for any consultancies related to the TA to be satisfactory to the Bank and shall require that the advice conveyed and documentation prepared through such TA be consistent with the requirements of the Bank’s Safeguards Policies. Frequency :Quarterly	Not yet due	No Change
IBRD-84280	Finance Agreement :Aftercare Description :I.B.3 LA (summary)Following remediation,Borrower shall be responsible for aftercare, maintenance & monitoring on the KAP and Gradac sites, incl. adequate budget; & only assign such responsibilities in joint agreement w/the Bank; for Bijela site Borrower to ensure that Bijela maintains alternative satisfactory arrangements for ongoing waste disposal & in compliance w/applicable national legislation Frequency :Yearly	Not yet due	Revised
Proposed	Following remediation,Borrower shall be responsible for aftercare, maintenance & monitoring on Gradac site, incl. adequate budget; & only assign such responsibilities in joint agreement w/the Bank; for Bijela site Borrower to ensure that Bijela maintains alternative satisfactory arrangements for ongoing waste disposal & in compliance w/applicable national legislation Frequency :Yearly	NYD	



Results framework

COUNTRY: Montenegro

Industrial Waste Management and Cleanup Project

Project Development Objectives(s)

The Development Objective of the Project is to reduce contamination of Montenegro’s natural resources and public health risks of exposure to this contamination from selected industrial waste disposal sites.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Remediation (Action: This Objective is New)							
Contaminated land managed or dump sites closed under the project (Hectare(Ha))		0.00	0.00	0.00	0.00	1.00	24.00
Action: This indicator has been Revised							
Reduction of pollution exposures paths by remediation measures (Number)		0.00					9.00
Action: This indicator has been Revised							
Hazardous Waste Management (Action: This Objective is New)							
Number of industries related to the priority industrial waste disposal sites with arrangements for ongoing and future waste disposal in		0.00	0.00	1.00	1.00	1.00	1.00



Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Action: This indicator has been Revised							
Intermediate Result Indicator Four: Design and works bidding documents completed for KAP sites (Text)		No design documents available					Design, safeguards and bidding documents completed
Action: This indicator has been Revised							
Hazardous Waste Management (Action: This Component is New)							
Intermediate Result Indicator Five: Support further development of a national registration system for industrial and hazardous waste management (Text)		No system available					System applied, 80% of estimated total waste flows recorded.



The World Bank

Industrial Waste Management and Cleanup Project (P122139)
