

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA685

Project Name	Montenegro Industrial Waste Management and Cleanup Project (P122139)
Region	EUROPE AND CENTRAL ASIA
Country	Montenegro
Sector(s)	Solid waste management (60%), General industry and trade sector (20%), Energy efficiency in Heat and Power (10%), Other Mining and E xtractive Industries (10%)
Lending Instrument	Specific Investment Loan
Project ID	P122139
Borrower(s)	Republic of Montenegro
Implementing Agency	Environmental Protection Agency
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	27-Mar-2013
Date PID Approved/Disclosed	28-Mar-2013
Estimated Date of Appraisal Completion	29-Mar-2013
Estimated Date of Board Approval	23-May-2013
Decision	

I. Project Context

Country Context

1. Montenegro is a small (population 625,266, per 2011 population census), and relatively young country (formerly part of Yugoslavia; regained its independence in 2006). Given a per capita income of nearly US\$6,879 in 2012, Montenegro is a higher middle-income economy with relatively low levels of poverty. EU member states (together with Russia) account for a significant proportion of foreign direct investment (FDI). Montenegro was granted the status of EU candidate country in November 2010 and the negotiations for EU membership have been initiated in June 2012. Moving closer to EU accession. Montenegro will need to significantly increase its competitiveness and review its policies to reduce costs, strengthen investment climate, and attract FDIs.

2. Montenegro has made significant progress in its transition towards a market economy. Real Gross Domestic Product (GDP) growth averaged 4.2 percent during 2006-2011 with inflation in the low single digits (below 4 percent). These numbers compare well with the countries that joined the European Union (EU) in May 2004 (EU8) as well as with EU15 countries. Montenegro's economy remains highly susceptible to economic developments elsewhere, which contributed to a post-independence episode of a full boom-bust cycle. While GDP growth in 2006-2008 averaged nearly

9 percent per annum, 2009 was marked by a severe recession due to the global economic and financial crisis, which led to a GDP contraction of 5.7 percent, followed by GDP growth of about 2.5% in 2010 and 2011 and a projected 0.5% in 2012. Montenegro's real GDP growth for 2012 is, however, expected to be at zero or lower (recession).

3. The key sectors of Montenegro's open economy—and potential growth engines over the longer term—include tourism, service, and other knowledge-driven industries. Montenegro's energy sector could also become an important source of growth and exports provided that environmental impacts can be adequately contained. The economic relevance of the heavy metal and associated industries and services (mining, railways, and harbor) has declined, owing to deteriorating competitiveness. The share of small and medium enterprises (SMEs) has constantly increased, but these firms remain focused on the domestic market and need to become more regionally competitive.

4. Considering this context, the Government of Montenegro (GoM) needs to carefully balance economic opportunities and fiscal, social, and environmental sustainability risks. Following Montenegro's decision to adopt the Euro as its only legal tender, growth can neither be stimulated by exchange rate or monetary policies nor by credit-financed aggregate-demand stimuli akin to those fueling the post-independence boom. In the future, growth will have to come from within, driven by entrepreneurship, innovation and increasing productivity and competitiveness.

5. The twin objectives of increasing potential economic growth and international competitiveness place the management, sustainable use and protection of natural resources, which are Montenegro's greatest assets and crucial for the tourism industry, high on the political agenda. As a starting point, Montenegro will need to secure substantial capacities and financing to address the current environmental and industrial legacy hot spots. The partnership between the GoM and the World Bank can provide the support needed to bring industrial waste site remediation and sustainable waste management as one of the key underlying principles of future economic growth in the tourism sector of Montenegro. This will also support Montenegro as it moves closer to EU accession, since it will directly help the GoM develop the capacity to meet the EU Acquis standards in a number of areas: health, environmental protection, and competitiveness.

II. Sectoral and Institutional Context

6. Advancing further in the EU integration process in compliance with the EU's Environmental Acquis, Montenegro will need to continue harmonizing policies and practices in waste management with the EU relevant requirements. Progress so far has mostly been made in creating legal and institutional pre-conditions for improving solid waste management, primarily by developing the Strategy and Master Plan for Waste Management (2005) and adopting the Law on Environment (2008) and supporting legislation. For the Project, most relevant in this respect is the adaptation in 2011 of the Law on Integrated Pollution Prevention and Control (IPPC) which is considered a full transposition of the EU IPPC Directive and the adaptation of the Waste Management Law in December 2011 which resulted in a 95% score for transposition of the legislation under the EU Waste Framework Directive and subordinate directives. The Environmental Protection Agency (EPA) has been established in 2008.

7. When it comes to industrial waste management (both hazardous and non-hazardous) and the management of other categories of hazardous waste, environmental regulations and implementation capacities remain weak and disposal and treatment practices are below EU and international

standards. Disposal sites associated with heavy industries have become heavily polluted as no appropriate environmental protection measures have been implemented during decades of operation. In addition to this legacy pollution, some of the involved industries still continue poorly controlled waste disposal operations. It is expected that the scheduled IPPC permits in line with EU requirements to become effective in Montenegro in the period of 2012-2014 for the larger industries will substantially improve treatment and disposal practices for ongoing waste generation in the country. With the introduction of IPPC permits, which started in 2012, industries have to commit themselves to implementing environmental control measures based on EU reference documents for best available techniques (BAT). To underpin this requirement, the industries need to adopt investment schemes which are fully part of the permits to mitigate shortcomings and bring current practices of uncontrolled or poorly controlled waste disposal to an end for these industries.

8. The existing main industrial waste disposal sites in their current state, containing materials such as coal ash, lead, other heavy metals and hazardous waste, pose risks not just to the immediate environment, but also to the public health of surrounding communities, through groundwater contamination and other pathways. These risks are amplified for some of these sites (Aluminum Plant KAP, Shipyard Bijela) since these are in zones of seismic risk. Also, the area around Skadar Lake, where the Aluminum Plant KAP is located, has experienced serious flooding with two record-breaking floods in January and December 2010, and flooding could become more frequent and severe under predicted climatic shifts.

9. Some of the polluted sites are located not far from the country's most valuable natural resources, important from both environmental and economic point of view. Aluminum Plant KAP is in the vicinity of Lake Skadar which is a national park and Ramsar site under the Convention on Wetlands of International Importance, the most important watershed in Montenegro and the largest (and trans-boundary) lake in the Balkans. The Shipyard in Bijela is on the Adriatic Coast, in the Boka Bay and 20-30 kilometers away from tourist centers of Budva, Herceg Novi and Kotor – and in particular the Old City of Kotor which, together with part of Kotor Bay, is a UNESCO protected site.

10. While no nation-wide comprehensive inventory has been undertaken of small and medium sized (hazardous) waste generators, Montenegro has an inventory of industrial and hazardous waste stockpiles and sites where these types of waste have been dumped. With this inventory, the GoM has originally identified five sites to be considered the highest priority for remediation because they are substantially larger than other waste sites in the country and are either in close vicinity of valuable natural resources or associated with heavy industries for which a necessity exists to bring the historic and ongoing waste management in line with Montenegrin legislation and EC Directives. The five first priority sites are: (i) the mine tailings disposal site in Gradac; (ii) the coal ash disposal facility in Pljevlja; (iii) the Bijela shipyard; (iv) the industrial waste disposal area in Niksic; and (v) the solid waste disposal area and red-mud basins on the KAP site. During preparation of this Project, these five sites were closely investigated and most practical and effective approaches were defined for each site with the required investment budgets for remediation. It was during these investigations that the GoM decided not to include the site in Niksic for inclusion in the Project's remediation program because the site is privately owned and the current owner is actively involved in commercial waste processing activities. The remediation investments identified for the other four sites (in Bijela, Pljevlja, Gradac and the KAP site) are included in the scope of the Project.

III. Project Development Objectives

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.

The Project will achieve its objective through: (i) the development and implementation of a remediation investment program for selected legacy industrial waste disposal sites; and (ii) related to these interventions, supporting institutions and the related industries in bringing the management of industrial waste in compliance with Montenegrin legislation.

IV. Project Description

Component Name

Remediation of Selected Legacy Industrial Waste Disposal Sites

Future Industrial Waste Management

Project Management

Refinancing PPA

V. Financing (in USD Million)

For Loans/Credits/Others	Amount
Borrower	11.10
International Bank for Reconstruction and Development	66.00
Total	77.10

VI. Implementation

The Project is expected to be implemented over a period of five years, from July 2013 until June 2018. The Environmental Protection Agency (EPA) under the Ministry of Sustainable Development and Tourism (MSDT) will be the project implementation agency and would have the overall responsibility for project implementation. The EPA is a national agency that is competent in the field of protection of the environment.

VII. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37	x	
Projects on International Waterways OP/BP 7.50	x	
Projects in Disputed Areas OP/BP 7.60		x

VIII. Contact point

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