1. Country and Sector Background

Country Background: Montenegro is a relatively small country in South Eastern Europe, with a population of about 600,000 people. At the time the Montenegro Environmentally Sensitive Tourist Areas Project (MESTAP) was approved on September 11, 2003, Montenegro was part of the former State union of Serbia and Montenegro. It became a member of the World Bank Group on January 18, 2007 after gaining independence in June 2006. Montenegro’s beautiful coastal area is one of the major tourist attractions in the region. At the time the project was appraised, pollution caused by poor solid waste management in many parts of Montenegro including the coastal municipalities had reached alarming proportions and was one of the major threats to the tourism industry.

Main sector issues: Delivery of solid waste management services remains a challenge in many parts of Montenegro. The main reasons for this include limited capital investment in required waste collection and disposal infrastructure, inadequate maintenance of existing infrastructure, and until recently, the lack of a coherent strategy for the sector with clear distribution of responsibilities and sustainable institutions to improve the efficiency and sustainability of solid waste collection and disposal services and enforce necessary regulations. Consequently, many municipalities including those at the coast such as Bar and Ulcinj have continued to face serious challenges due to environmental degradation and other problems associated with unsanitary waste disposal.
**Government Strategy:** After the post-conflict period and the initial focus by the donor community on addressing the most critical needs and environmental problems, a comprehensive sector strategy was developed with the support of the World Bank and other development agencies, particularly the European Agency for Reconstruction (EAR). The main elements of the GoM’s strategy for the sector are: (i) support for a regional approach to solid waste disposal; (ii) enforcement of environmentally sound collection and disposal practices, (iii) financial sustainability of the sector, and (iv) introduction of clear responsibilities among authorities on local and central level regarding the enforcement of regulations to prohibit illegal dumping activities. To address the main sector issues, the GoM strategy is focusing on the following priorities:

- **Consolidation of existing municipal landfills into fewer regional facilities** that will serve those municipalities within distances that allow economic transportation of the waste (normally around 20-30 km). The consolidation of disposal sites will facilitate better operation and maintenance and increase and secure the financing capacity required to guarantee the sustainability of these services and the closing of current unsanitary disposal sites. Under the MESTAP one regional sanitary landfill was constructed in Kotor to serve Kotor, Budva and Tivat municipalities. A second landfill, which will serve the municipalities of Bar and Ulcinj will be financed through the existing project and the proposed additional financing.

- **Developing a basic institutional and policy framework** to clarify asset ownership, regulate the overall functioning of the sector, transition towards economic pricing, and establish a policy approach which improves governance, transparency, and accountability. Such institutional arrangements will establish the foundation for the process of medium- and long-term reforms aimed at sustainable service provision and the further involvement of the private sector. The GoM also aims to control the existence or reappearance of unsanitary disposal sites and wild uncontrolled dumps by (i) creating Multi-municipal Joint Solid Waste Companies (MJC) to manage these services from a regional perspective; (ii) providing adequate disposal facilities; (iii) enacting regulations for the development of the policy framework, particularly regarding to the control of unsanitary disposal sites and enforcement responsibilities; and (iv) developing a Master Plan for solid waste management, with the involvement of municipal authorities and the support of the European Agency for Reconstruction (EAR). The Government has now put in place legislation, which became effective in January 2008 prohibiting disposal of solid wastes in unsanitary landfills or dumpsites. Joint multi-municipal solid waste management companies have also been established for Kotor and Budva and more recently for Bar and Ulcinj to manage the landfills for the respective municipalities.

**Rationale for Bank Involvement:** The original MESTAP responded to the priorities given by the Government of Montenegro for improvement of the solid waste collection and disposal services at the coast. The activities to be financed through the proposed additional financing are also consistent with Montenegro’s current Country Assistance Strategy (CAS) for FY07-10, which identifies European Union (EU) accession as a key priority for the country. Montenegro initiated a Stabilization and Association Agreement with the EU in March 2007 and is making progress towards European integration. The Bank was uniquely positioned to add value in supporting this
project as it has broad international experience with solid waste management projects elsewhere; policy development expertise and experience in the design of institutional regimes for municipal services; and extensive experience in development of sustainable mechanisms for disposal management. The Bank has already financed another project in the solid waste sector in Montenegro, the Montenegro Environmental Infrastructure Project.

2. Objectives
The main objective of the Project is to create ecological and commercially sustainable solid waste collection and disposal services in Montenegro coastal municipalities, needed to maintain a clean, environmentally attractive coastal area.

3. Description
The MESTAP project has three components (although activities to be financed through the proposed AF are mainly focused on one main sub-component under Component I, regarding development of a regional sanitary landfill for Bar and Ulcinj).

Component I. Environmental Infrastructure: This component was to finance improvement of environmental infrastructure in the coastal municipalities by rehabilitating two of the existing municipal landfills that operated without sanitary conditions, and developing in the same areas properly designed Regional Landfills. The Project was to finance landfills in Kotor, to serve Kotor and Budva, and in Bar, to serve Bar and Ulcinj, including the equipment needed for operation. The component was also to finance equipment for collection and transport of solid wastes to the landfills. The first phase of the sanitary landfill in Kotor was constructed and operated successfully, but the first phase of the landfill was completed, and the license for the second phase was not renewed by the Municipality. The European Investment Bank (EIB) is has committed to finance a new landfill at the coast to serve that Kotor, Budva and Tivat areas through a more recently approved Solid Waste Program for Montenegro. The landfill in Bar to serve the municipalities of Bar and Ulcinj has not yet been constructed, and is to be partly financed through the existing IDA Credit and the proposed additional loan from the Bank. Waste collection equipment was also purchased through the original Credit.

Component II. Environmental Rehabilitation: The first sub-component under this component entails closing of Uncontrolled Disposal Sites. The Project was to finance equipment and civil works needed to permanently close five current municipal unsanitary disposal sites in an environmentally sound manner, and institute long-term environmental monitoring. The second sub-component under this component was the Pilot Recycling Campaign. The Project was to finance works for the rehabilitation of solid waste management facilities, recycling equipment and technical assistance to support a pilot program of recycling that includes: (i) the execution of a public dissemination campaign, with particular attention to local schools; (ii) the introduction of separation of wastes at the source in selected locations; (iii) a study on recycling options, demand, and markets; and (iv) the improvement of current informal recycling practices in Kotor’s landfill. Two uncontrolled waste disposal sites have been closed through the project, and two more are to be closed through separate financing from the EIB. A pilot recycling plant was also established in Kotor at the Lovanja landfill site.
Component III. Technical Assistance: The component was to finance equipment and consultant services for Project management, including auditing and follow-up social monitoring, and for the supervision of the proposed regional landfills. Additionally it was to finance Sector Institutional Development including consultant services and training to support the GoM to strengthen the newly created MJCs and further develop the regulatory framework for the sector. The MJCs for both the Kotor, Budva and Tivat and for the Bar and Ulcinj municipalities have been established to manage the respective landfills.

4. Financing

The financing table below reflects the additional financing to be provided for the proposed activities. The actual activity for design and construction of the regional sanitary landfill will be financed through the remaining funds under the existing IDA Credit, in addition to the additional financing below.

<table>
<thead>
<tr>
<th>Source</th>
<th>Euro (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>0.2</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>4.5</td>
</tr>
<tr>
<td>Total Additional Financing</td>
<td>4.7</td>
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</tbody>
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5. Implementation

Implementing Agency: The Regional Water Company (Crnogorsko Promorje or PEW), will maintain its role as the project implementing agency, on behalf of the Government of Montenegro. It will be responsible for overall project management, including fiduciary aspects, i.e. procurement and financial management functions under the additional financing.

Management of Landfill Operations: The Municipalities of Bar and Ulcinj have established the Mozura Joint Solid Waste Company (MJC2) d.o.o as a multi-municipal joint company to take ownership of the assets and manage the operations of the proposed regional sanitary landfill. The municipalities own 100% of the company’s shares (Bar 65%, Ulcinj 35%) and its Board of Directors is fully formed from representatives of both municipalities. Mozura d.o.o. will also represent the municipalities during the design and construction phase.

Implementation Schedule: The additional financing, if approved will be implemented over a period of about eighteen months, and the new closing date will be March 31, 2012. The current closing date for the MESTAP, should the additional financing not be approved is September 30, 2010.

6. Sustainability

The project is expected to be operationally and financially sustainable since adequate tariffs to guarantee proper operation and maintenance of the infrastructure to be financed will be secured as part of the business plans for the Multi-municipal Joint Solid Waste Company. The sustainability of the project will largely depend on: (a) successfully operating the multi-municipal landfill sites on an autonomous and commercial basis, with full support from all levels
of Government; (b) achieving financial viability by gradually increasing revenues to cover adequate operating and maintenance expenditures, the debt service, and a portion of investments; and (c) the long-term impact of the technical assistance component on the efficiency and operations of the sector. Hence it is critical for the project to educate consumers on the importance of paying for services received and to target funding to least-cost investments only.

The operating cost of the Bar communal enterprise is partially covered through the cleaning fee and the rest through the municipal budget. The Mozura regional sanitary landfill company will operate as a commercial entity and the landfill disposal fee shall be set on cost recovery principles. Preliminary estimates indicate that the fee that the Mozura landfill company will charge Bar and Ulcinj municipalities will cost these municipalities about half of the current cost of disposal in the Podgorica landfill (including transport costs). The current cleaning fee represents about 1.5 percent of the average household monthly budget in Bar, and around the same in Ulcinj.

7. Lessons Learned from Past Operations in the Country/Sector

Project design reflects the Bank’s experience in the preparation and implementation of solid waste management and sanitation projects. Some of the critical lessons learned and applied in this Project’s preparation include the following: (i) a rapid technical and operational assessment is needed with a well-defined priority strategy and objectives; (ii) simplicity in design and implementation arrangements; (iii) simplicity in the procurement and disbursement procedures for efficient and rapid component implementation; (iv) need for strong supervision and financial controls; (v) institutional autonomy and freedom from political interference to allow implementation of components quickly and transparently; and (vi) need to address early in project preparation the difficult political decision on the selection of the sites for the regional landfills and on the creation of joint companies to manage them. The project also addresses the following aspects that have been identified in the Bank’s experience as critical for the success of this type of operation:

- Creating client ownership by all levels of the GoM by preparing the project in close collaboration and implementation with the local stakeholders. Total commitment from the PEW and municipal governments has been assured to ensure that preparation and implementation proceeds smoothly;
- Addressing early on in project preparation the concerns that might be raised in the local population and stakeholders regarding the sitting and design of the rehabilitated landfills that will operate as regional sanitary landfills, the precautions that will be incorporated to mitigate any potential environmental impact of these landfills and the involvement of public opinion in the environmental impact assessment process (see details below in chapter E.).
- Establishing a strong institutional framework to ensure that the project is sustainable. Experience shows that multi-municipal joint companies are the best instrument to manage these regional landfills and respond to the demand and requirements of the local stakeholders. During project preparation Draft Statutes have been prepared for these joint companies that set out a clear definition of sector responsibilities and establish the mechanism for proper functioning and financing of these services. Signed agreements
were reached with all the municipal authorities involved for the creation of these joint companies, with clear understanding that access to project funds would be conditioned to the creation of the companies (financial support for the consultant services required for the registration of these companies is provided as part of project preparation). Experience elsewhere in Europe (particularly in Spain and France) confirms the viability of the multi-municipal disposal district model proposed in this project, and demonstrates the importance of the political will to cooperate, establishing an environment conducive to self-financing and commercial behavior, and bringing in the private sector for specialized operations;

- Strengthening cost recovery and financial management as necessary steps toward eventual self-financing at the local and regional level. The project sets realistic and prudent financial improvement targets in the short-term and includes a business planning process for the medium-term achievement of self-financing;

- Creating greater opportunity for private sector participation through the creation of larger, more economically viable, service providers. The project will help develop the regulatory framework for the sector that establishes clear functional distinctions between regulatory, client, and operator roles; and

- Improving environmental management through the introduction of affordable, cost-effective disposal technologies and adequate monitoring procedures, as a first step toward maintaining the most demanding international standards in the long-term.

8. Safeguard Policies (including public consultation)

The main safeguards issues associated with the project relate to Environmental Assessment (World Bank OP/BP 4.01). Environmental issues under this project fall under two main categories: (i) impacts during construction of the landfill; and (ii) impacts during its operation. Environmental impacts during closing of the landfill after it closes operation need to be considered. The EA indicates that implementation of the project will have long-term positive environmental impacts in terms of generation of environmental, economic, and social benefits, and will enable the Government to prepare and enforce necessary environmental regulations and standards to ensure sound management of Montenegro's coastal environment. There are however some potential negative impacts typically associated with landfill construction and operation, which will be mitigated through measures identified in the EIA and in the Environmental Management Plan (EMP). Since the landfill will be developed through a design and Build contract with a suitable contractor, as part of the detailed design phase the contractor will be required to prepare a detailed EMP for the construction and operation of the landfill. Public consultations with regard to EA were held with local stakeholders in Montenegro in accordance with Bank Guidelines for EA and EU directives. The Environmental Impact Assessment (EIA) was made available for review by the concerned public in the premises of the Environmental Protection Agency, the Secretariat for Spatial Planning, Housing and Communal Activities and the Environment, the Municipality of Bar, and the Secretariat for Spatial Planning and Organization of the Municipality of Ulcinj. January 11, 2009 was set as the deadline for the public review and the submission of comments and opinions in writing to the address of the Ministry of Tourism and Environmental Protection. On January 16, 2009 a public consultation meeting was held at the Municipality of Bar office premises. The EIA was revised further as part
of preparation for the proposed additional financing. The revised EIA is expected to be finalized and disclosed both in Montenegro and at the World Bank’s Infoshop by the end of April 2010.

9. List of Factual Technical Documents

- Pre-appraisal Mission Aide memoire
- Environmental Impact Assessment for Mozura Landfill

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