Country Name: ROMANIA
Project Name: MINING SECTOR RESTRUCTURING PROJECT
Region: ECA
Sector: ENERGY
Project ID: RO-PE-56337
Borrower: ROMANIA
Implementing Agency: Ministry of Industry and Commerce (MOIC)
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Environment Category: B
Date This PID Prepared: 9-22-98
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Country and Sector Background

1. **Objectives**: To establish a financially viable and environmentally sustainable mining sector with strong private sector involvement.

2. **Description**: Project components would include:
   - Elimination of financial losses and rationalization of mining operations through the closure of uneconomic mines
   - Implementation of social mitigating measures
   - Institutional reforms and capacity building; restructuring and privatization of the state-owned enterprises; and implementation of a sector environmental assessment study; and
   - Reduction in the role of the state in all mining activities and promotion of private sector investment
3. Financing: Estimated project cost is about US$ 180 million of which proposed Bank Loan is about US$ 100 million. The Government would be expected to contribute the balance of the financing requirements. Opportunity for co-financing social mitigation will be sought.

4. Implementation: Project would be implemented in phases using the Adaptable Program Loan (APL) instrument. First phase of the project would cost about US$70 million of which about US$ 40 million would be Bank loan. This phase would involve assistance in: (i) the closure of a few complex mines; (ii), implementing of environmental rehabilitation program; (iii) implementing social mitigation in the mining region; (iv) implementing a Sector Environmental Assessment study; and (v) institutional reforms and capacity building of the public mining institutions. Future phases of the project would address further institutional strengthening of the public mining institutions and the closure of the remaining uneconomic mines.

5. Sustainability: For the mining sector to be economically viable, the Government would have to implement major reforms that would limit its role from owner-operator to administrator –regulator. It should withdraw its involvement in exploration and development and encourage private sector involvement. Sustainability would be enhanced through the project’s strong emphasis on reduction of financial losses through the closure of uneconomic mines, implementation of institutional reforms including institutional capacity building, training, human capital development and social mitigation and increase in environmental awareness in the mining regions. Under this project, foreign consultants will be expected to work closely with local public counterparts to transfer knowledge, technical skills and know-how. If proper regulations and required enforcement mechanisms as well as a competitive environment are put in place, mineral exploration and development of mines will be come self sustaining rather than remaining as a financial drain to the economy.

6. Lessons learned from past operations in the country/sector

Experience in the country indicates that lack of Government willingness to implement the required policy reforms and to enforce the necessary controls have resulted in the failure of keeping projects on track. However, experience in countries other than those of former Soviet union (FSU) and Eastern Europe indicates that improvement in the enabling environment and implementation of the appropriate institutional reforms increases the ability of the country to attract private investment.

7. Poverty Category: Not Applicable

8. Environmental Aspects: A category B rating has been sought. This is because the project is expected to have a positive impact on the environment through the rehabilitation of the areas in which the mines would be closed and also by building capacity in the country for environmental management and within the mining areas. Furthermore, a comprehensive sector environmental assessment study will be undertaken that would: (i) review the status of the existing environmental legal, regulatory and
institutional frameworks and recommend action for improvement; and (ii) undertake an analysis of the impacts of sector activities on the environment and the communities.

9. Program Objective Categories: These would include (i) enactment of legal and regulatory framework that is conducive to private investments; (ii) discontinuation of the involvement of the state-owned subsidized exploration and engineering companies; (iii) closure of uneconomic mines; (iv) implementation of social mitigation measures to address unemployment and promotion of job opportunities in the mining areas; and (v) implementation of a sector environmental assessment study.

10. Contact Point:

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Note: This is information on an evolving project. Certain components may not necessarily be included in the final project.