



The World Bank

Industrial Waste Management and Cleanup Project (P122139)

REPORT NO.: RES52093

DOCUMENT OF THE WORLD BANK

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

ENVIRONMENT, NATURAL RESOURCES & THE BLUE ECONOMY
EUROPE AND CENTRAL ASIA

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|---------------------------|------------------------------|
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I. BASIC DATA

Product Information

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| 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-2022 |

Organizations

| | |
|------------------------|---|
| Borrower 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 (US\$, Millions)

| Ln/Cr/Tf | Approval | Signing | Effectiveness | Closing | Net Commitment | Disbursed | Undisbursed |
|------------|-------------|-------------|---------------|-------------|----------------|-----------|-------------|
| IBRD-84280 | 19-Sep-2014 | 10-Oct-2014 | 17-Nov-2014 | 30-Jun-2022 | 61.60 | 36.03 | 18.31 |

Policy Waiver(s)

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

No

II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES



This restructuring seeks an extension of the project closing date by nine months, from June 30, 2022, to March 31, 2023, to allow for completion of critical works needed to achieve the Project Development Objectives and deliver the project outcome. This will be the fourth and final extension following the earlier three extensions of one year each, granted in 2019, 2020 and 2021. This would result in a cumulative extension of 45 months from the original closing date of June 30, 2019. Project age at completion would be 8.5 years in March 2023. There are no other elements under this 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 three contaminated sites and halt pollution of the environment and related risks to public health where these sites occur. The sites 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) and a coal ash disposal site in Pljevlja/Majevac. Under this component, the project also supports preparation of technical documentation for remediation works for two industrial waste disposal sites at KAP, the Aluminum Plant in Podgorica. 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 is supported under Component 3.
2. The Project is implemented by the National Environmental Protection Agency (NEPA) and the Ministry of Ecology, Spatial Planning and Urbanism (MESPU, formerly Ministry of Sustainable Development and Tourism, MSDT). NEPA has established a Project Management Unit (PMU) and is supported by the Technical Services Unit (TSU under Ministry of Finance) for Procurement and Financial Management tasks.
3. **Status of Project Performance and Implementation to Date.** Following Effectiveness in November 2014 and the Project launch workshop in February 2015, the first two years of implementation, calendar years 2015-2016, were characterized by slow progress due to multiple causes. Delaying factors were the bankruptcy of the state-owned Bijela shipyard in 2015; unresolved bankruptcy procedures for KAP and changing circumstances in Maljevac that required a re-design of the remediation approach for the project site in this location. In addition, implementation arrangements were not optimal with an under-staffed PMU and lacking project coordination among key institutions.
4. Implementation progress picked up 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, particularly administrative decisions for preparing remediation works for the project sites, strengthening of the PMU and improved coordination between key institutions, particularly between NEPA and the implementing Ministry (MSDT, at that time).
5. Although implementation performance improved since late 2017 resulting in first works contracted and started for the Bijela shipyard since late 2018, challenges remained with the bankruptcy procedures with the KAP assets and thus the project sites at the KAP location. Also, the re-design of remediation works in Maljevac required an amendment of the Loan Agreement and it became clear that works could not be completed by the original project closing date of June 30, 2019. Therefore, a comprehensive project restructuring was completed in June 2019 to (i) continue with remediation preparations for the KAP project sites, but exclude financing of remediation works from the project scope; (ii) cancel part of the Loan related to the reduced scope of activities for the KAP project sites; (iii) amend the Loan agreement to align with re-design of remediation works at the Maljevac site; and (iv) extend the closing date for one year to June 30, 2020 to allow for completion of the remediation works under Component 1 and the Component 2 activities.



6. Since the first project restructuring, for two sites (Maljevac and Gradac), works had been procured with contracts signed and works started in July 2019 and September 2019 respectively, originally scheduled for completion by June 2020. Works at the Bijela shipyard had started in late 2018 and were scheduled for completion by March 2020. However due to unexpected COVID-19 measures since March 2020 that hampered adequate staffing for site works; bad weather conditions in the fall of 2019 and the spring of 2020 preventing on-site works in Maljevac and Gradac from progressing as planned; and the fact that after August 2019, critical waste exports from the Bijela remediation site to Spain had to be discontinued as renewal of the earlier permit was not granted by Spanish authorities, the second project restructuring was requested by the Government of Montenegro and processed in June 2020 with a revised closing date of June 30, 2021.
7. The third extension was requested for the current closing date of June 30, 2022, because of delays in project implementation and additional delays from COVID-19 measures. With works well underway at the remediation sites in Maljevac and Gradac and, after lengthy procedures for the Bijela site remediation, licenses finally secured in April 2021 for 30,000 tons for waste grit (sufficient for all the grit waste) and in May 2021 for 40,000 tons of contaminated soil (approximately 75% of the total estimated required quantity), the assessment was made that this third extension would allow for full completion of all project activities by the current closing date of June 30, 2022.
8. The following paragraphs present current implementation status in more detail for the remediation sites under Component 1 and for Component 2 activities.
9. Gradac mine tailings and Pljevlja coal ash disposal sites. Remediation works at these two sites have been completed successfully, in June 2021 for the Pljevlja site and in October 2021 for the Gradac site. Since the start of the COVID-19 pandemic in 2020, a Bank mission in April 2022 could visit the two sites and view the quality of remediation works. The technical compliance and acceptance inspections for both locations have been completed and reported in June 2022. For the Maljevac site, some project affected people have appealed for higher compensation for loss of property. The settlement of these cases in court is progressing slowly but satisfactorily.
10. Shipyard Bijela Remediation Site. On-site key cleanup activities, particularly in the period 2020 and the first half of 2021, were hindered by the challenges with securing waste export permits for the largest waste volumes, waste grit and contaminated soil. In May 2021 after re-obtaining all necessary export permits, shipments of these materials could be resumed. Three ships were dispatched with waste to Spain between May and July 2021 before the contractor stopped exports when at the time 55,000 tons of contaminated soil and 12,000 tons of contaminated grit were still present on site. This halting of waste exports was due to significant increases in transport costs in the global shipping market, and the contractor requested a contract amendment that included an increase in unit prices for transport. After nearly six months of negotiations, the client accepted an increase in unit prices for the shipments with the contract amendment signed on February 1, 2022. Waste exports to Spain were resumed immediately with three shipments that removed all remaining grit waste (12,000 tons in two shiploads) from the site and one shipload of 7,500 tons of contaminated soil. Unfortunately, this accelerated progress in waste export was abruptly halted on February 15, 2022, when Spanish authorities suspended the export permits for all waste from Bijela due to observed violations of EC regulations for the contaminated soil shipment. The shipment's quantity exceeded the quantity authorized (7,500 tons instead of 7,000 tons); and the vessel used did not match with the vessel registered for this shipment. Parties agreed likelihood of resuming waste exports to Spain has become unlikely, also due to public opposition in communities near the location where the waste materials were sent.



11. The situation at present (June 2022) is that while significant progress in actual cleanup and backfilling works at the site will allow for full completion of on-site cleanup works by June 30, 2022, and that all the grit waste has been exported, to date more than 50,000 tons of contaminated soil have not yet been shipped off and remain stored at the site. Also, some other waste categories (e.g., oily sludge and big bags), though with 163 tons much smaller in quantities, still need to be exported.

12. Alternatives for exporting contaminated soil are limited, with treatment in Belgium appearing to be the most viable option. To date, the contractor made progress in securing the required export permits; however, permits have not yet been established and additional challenges came up due to high market prices of up to three times the budgeted costs for shipping the waste materials to Belgium, too high for the project funding. Transport alternatives (barging, railway) were considered but don't look promising. It has been concluded that with all uncertainties the best-case scenario is that soil exports would be resumed around in July 2022 but that at least 3 more months would be needed to complete the works. It was further concluded that with the challenges described, the export scenario is becoming less and less feasible and that therefore a works completion action plan needs to be adopted for the Bijela remediation works to make sure that works can be completed within a limited number of months, and that this plan must include a solid backup approach for adequately managing the remaining waste materials within Montenegro if only part or even none of the remaining waste materials can be exported and will have to stay in Montenegro.

13. Bijela Shipyard Remediation Action Plan. Together with the Ministry of Finance's requests of June 9 and June 22, 2022, for an extension of the Project Closing Date, the Bank received the Bijela Shipyard Remediation Action Plan ("Action Plan"). This Action Plan confirms that the best-case scenario is that all remaining waste materials are exported, but also that if in July 2022, viable export arrangements (export permit plus transport and treatment contracts) have not been secured, the waste materials will have to stay and be safely managed in Montenegro. The latter will require safe storage at the Bijela site, which will be arranged under the project within the six months extension period, together with the design for further treatment and disposal. It is notable that contamination levels of the soil tend to reduce over time due to evaporation and natural breakdown. This phenomenon has already been observed over the years since excavations of these materials started and as a result part of the materials may become (or already have become) suitable for non-hazardous waste applications such as backfilling. At present, an intensive testing has started that should inform treatment options in Montenegro. With this it is expected that the final solution –if waste cannot be exported—will be a mix of (i) application in backfilling of non-hazardous fractions; (ii) treatment of waste materials to reduce contamination levels and make materials suitable as backfilling material; and (iii) disposal of the remaining fraction in a waste disposal facility.

14. Final treatment and disposal in Montenegro will take time to develop and may take up to three years, and possibly even longer. Any option for contaminated soil management in Montenegro will require careful design, planning, agreements with involved parties, regulatory authorizations (EIAs that will also require the Bank's no-objection, consultations, environmental and construction permits, possibly spatial plan adjustments). These preparations will be made during the period of the requested project extension. The schedule for these preparations in the Action Plan foresees: (i) before the end of July 2022 arrangements in place for waste exports (export permit issued; sub-contract for transport secured by the Bijela remediation works contractor; and amendment of the Bijela remediation works contract approved to include this export arrangement); if this is not possible, the remaining waste will be managed in Montenegro; (ii) by end of July 2022, Government decision on final destination of waste within Montenegro, backup option is that the waste will have to remain on the Bijela site; (iii) during July-September 2022, preparations for the management of waste materials including transport, if at another site than Bijela; and (iv) during October-December 2022, transport and safe storage arrangements for all waste materials. Awaiting final treatment and/or disposal solutions, temporary storage of the waste materials at the Bijela site or another site in Montenegro



must meet quality and environmental requirements for safe disposal, if needed for multiple years, and with the presented schedule can be secured around the end of 2022.

15. Overall assessment of remediation works implementation timeline. The export of remaining waste materials from the Bijela site remains the single activity to be completed. A nine-months extension has been requested to conclude this work, either by resuming exports in July 2022 after all permits have been obtained and arrangements for transport have been secured, or by managing the waste in Montenegro. The requested extension should be sufficient to either complete exports if they can start in July, or, arrange for safe temporary storage on site and initiate solutions for treatment, application and disposal within Montenegro; and would allow for limited slippages such as from severe winter conditions.

16. Component 2 activities. Component 2 covers technical assistance for managing hazardous and industrial waste that is currently generated in Montenegro. Activities include improvements in waste registration and monitoring systems and preparations for the development of a national waste management facility. These activities have all been satisfactorily concluded by June 2022.

17. Project rating. The project has been rated as moderately satisfactory (MS) for both meeting the PDO and project implementation. The project has largely met all project objectives and there is a realistic plan for the safe management of remaining waste materials in Montenegro if they cannot be exported.

18. Rationale for Restructuring. In their letters to the Bank of June 9 and June 22, 2022, the Government of Montenegro requested a project extension of nine months beyond the current closing date of June 30, 2022. In addition, The PIU prepared an Action Plan for completion of activities at the Bijela site, including backup plan to store waste on site and develop domestic solutions during the extension period if waste cannot be exported. A nine-months extension of the Project Closing Date to March 31, 2023 will allow for acceptable completion of these works in line with the PDO, as the completion of the final remaining works with the Action Plan does not depend on third-party decisions (e.g., for export permits). Both scenarios, export or preparing for domestic solutions, would be difficult to organize without the support of the project and Loan proceeds. The period until March 31, 2023, will remain to be important to monitor the quality of the works and the effectiveness of after-care arrangements for the remediation sites. Other than the nine-months extension, there are no additional elements under the proposed restructuring.

19. Performance of the Borrower and of the implementing agencies is satisfactory. There are no outstanding project audits and previous audits were acceptable to the IBRD.

20. From the Loan amount of Euro 44.7 million, cumulative disbursements stand at 66.3% (June 15, 2022). There are no significant procurement actions remaining to be processed. Final disbursements will depend on whether all waste materials can be exported from the Bijela site during the project extension. If exports are not possible and waste materials will be managed within Montenegro and in line with the Action Plan, cost savings of up to Euro 6.0 million can be expected.

21. Risk of red-mud basins failure. One risk to note is that structural failure of the red-mud basins at the KAP location 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 as part of the design work financed from the project 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 and the design work that is carried out,



seeking a sustainable solution. Design work for the remediation of the red-mud basins, have been fully completed during project implementation. This design work included comprehensive (geo-technical) investigations at the facility, a detailed assessment of long-term risks, an action plan for monitoring, stabilization and remediation, and bidding documents ready to contract the remediation works. During the project extension, the stability of the red-mud basins will continue to be monitored and included in the project’s reporting on safeguards performance.

III. DETAILED CHANGES

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-Jun-2021, 30-Jun-2022 | 31-Mar-2023 | 31-Jul-2023 |