

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

Report No.: AB636

<b>Project Name</b>	Romania: Mine Closure and Social Mitigation 2
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Sector</b>	Oil and gas (100%)
<b>Project ID</b>	P087807
<b>Borrower(s)</b>	GOVERNMENT OF ROMANIA
<b>Implementing Agency</b>	
<b>Environment Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Safeguard Classification</b>	<input type="checkbox"/> S <sub>1</sub> <input checked="" type="checkbox"/> S <sub>2</sub> <input type="checkbox"/> S <sub>3</sub> <input type="checkbox"/> S <sub>F</sub> <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	January 26, 2004
<b>Estimated Date of Appraisal Authorization</b>	June 15, 2004
<b>Estimated Date of Board Approval</b>	December 21, 2004

1. Key development issues and rationale for Bank involvement

a. The borrowers ultimate objective is for the mining industry to be a profitable sector that contributes to economic growth and improved living standards in Romania. Currently the sector requires major subsidies which are a drain on Government resources. To address this concern the Government has drafted a Mining Strategy to eliminate operating subsidies (which have risen to more than US\$150 million in 2003), expand the role of the private sector, and address the social and environmental consequences of sector restructuring. The proposed operation will directly support this objective through support for social development measures to generate sustainable livelihoods; mine closure and environmental rehabilitation and; sector reform including privatization.

b. The Government of Romania has demonstrated its commitment to reform by implementing the Bank-financed Mine Closure and Social Mitigation Project (Ln 19347-RO) which includes (i) mine closure and reclamation, (ii) social mitigation initiatives for job creation and (iii) institutional strengthening regarding environmental, regulatory and strategy/subsidy issues. The lessons learned from the Project has been used in formulation of the Mining Strategy above. There is considerable evidence of high Borrower ownership, stimulated in part by the experience of the current project, and partly by the exigencies of EU Accession. The EU mining sector directives require that mining sector reform for lignite and metals be completed by 2007; hard coal has until 2010.

c. The proposed operation is fully consistent with the CAS development objectives of (i) revitalization of economy in rural areas and (ii) macroeconomic stabilization. The project will support the broader CAS goals of reducing budget deficits, and supporting new private sector growth and employment creation.

d. The Bank has supported mine sector restructuring in Romania and coal sector reforms in Poland, Russia, Romania and Ukraine. The main lessons learnt from these operations show (i) mine sector restructuring should be addressed through a broad and comprehensive reform program that will lead to privatization; (ii) be supported by a fast acting and targeted income

support with demand driven labor re-deployment programs and enabling conditions at the local level for social and economic regeneration.

e. DFID provided technical assistance in the first Mine Closure and Social Mitigation project. DFID is closing its Romania program in December 2004 and will not be able to co-finance the proposed follow up project. However, the project will benefit from DFID's pilot social development scheme and their ongoing studies on lessons learned.

f. The Bank's lending brings unique and extensive technical capacity (technical, financial, social and environmental), on mine sector reform including mine closure , through to completion of sector privatization. This expertise is not readily available on the part of other lenders. The project would also support (i) the IMF position on reducing mining sector subsidies which is a priority fiscal reform; and (ii) mining sector reform conditionality included in PAL II.

g. There is strong support from the Ministry of Economy who have made several requests for a follow up operation. The Ministry of Finance has recently confirmed overall Government support for the operation by requesting Bank assistance to prepare the project.

## 2. Proposed objective(s)

<i>The borrowers ultimate objective is for the mining industry to be a profitable sector that contributes to economic growth and improved living standards in Romania.</i>		
<i>Employment Pillar</i>	<i>Mine Closure Pillar</i>	<i>Institutional Development Pillar</i>
<i>Higher Level Objective:</i> Re-deploy unemployed workers in the mining communities using socially acceptable measures.	<i>Higher Level Objective:</i> Reduce environmental liabilities and environmental legacy of the mining sector in line with accession requirements for EU	<i>Higher Level Objective:</i> Improve mining sector environmental performance
<i>Project Devt Objective (PDO)</i> a. Unemployed workers from eligible communities: - are re-employed outside the mining sector - voluntarily relocate and find new employment - find new employment at workspace centers (job incubators) - establish new businesses using micro credit funds b. Participating employers hire unemployed workers from eligible communities	<i>Project Devt Objective (PDO)</i> Local communities receive ownership of the reclaimed mining land and use it for beneficial and sustainable new purposes.	<i>Project Devt Objective (PDO)</i> a. Mining companies operate participating mines in compliance with the environmental regulations b. Mining companies clean up priority hazardous sites with support from the state budget
<i>Main Target Groups</i> Unemployed workers and their families in mining	<i>Main Target Groups</i> Local communities and governments	<i>Main Target Groups</i> Mining companies Local community

communities		Local and national government
<p><i>Project Outputs</i></p> <ul style="list-style-type: none"> <li>- unemployed workers from eligible communities have been trained for alternative employment</li> <li>- incentive scheme has been expanded</li> <li>- micro credit scheme has been expanded</li> <li>- workspace centers (job incubators) have been completed</li> <li>- relocation scheme has been established</li> </ul>	<p><i>Project Outputs</i></p> <ul style="list-style-type: none"> <li>- the most difficult mines have been transferred to MEC/CGMC for closure and reclamation</li> <li>- Conversmin has closed underground mine workings in an environmentally satisfactory manner</li> <li>- MEC/CGMC have completed surface closure and environmental reclamation ready for land handover to local communities</li> </ul>	<p><i>Project Outputs</i></p> <ul style="list-style-type: none"> <li>- regulatory framework has been improved in line with findings of SEA</li> <li>- environmental management system in place at major national mining companies</li> <li>- environmental management plans have been prepared and implemented for priority hazardous sites as identified in the SEA</li> </ul>

### 3. Preliminary description

a. The framework for Bank support for the mining sector has four interrelated elements. (i) the forthcoming Programmatic Adjustment Loan (PAL2) conditionality (ii) existing Mine Closure and Social Mitigation Project (MCSMP) (iii) regional development in the Jiu Valley; and (iv) this proposed follow on project to the MCMSP.

The new Mine Closure and Social Mitigation 2 project is expected to focus on: (a) social development and job creation activities to help generate sustainable livelihoods for the unemployed in smaller, mono-industrial mining settlements which are most severely affected by past and expected future (2004) mine closures; (b) implementing key recommendations of the Sectoral Environmental Assessment that was completed under the first project ; and (c) strengthening institutional capacity for sector restructuring and to deal with more complex and environmentally challenging mine closures. Several alternative development interventions are being considered for the social development and job creation including scaling up implementation of current activities in smaller mining settlements where mine closures are causing severe distress; adopting a comprehensive approach to regional development through investments in local infrastructure and social development in the mining regions, rather than being limited to laid off miners; and considering the need for possible relocation assistance to help unemployed workers from remote, unsustainable mono-industrial settlements where mines are closing or have closed.

c. The key element of sector reform is to reduce operating subsidies. The proposed project will support this objective through (i) supporting employment restructuring in a socially acceptable manner; (ii) the identification and closure of uneconomic mines, in an environmentally acceptable manner; (iii) restructuring and privatization of potentially viable mines

d. The main project components would be

- (i) Socio-economic rehabilitation
- (ii) Mine closure and environmental rehabilitation
- (iii) Institutional development and mining reform

A specific investment loan is proposed because it provides direct linkages to disbursement of mine closure expenditures. A SWAP is also worth consideration given the institutional capacity built in the first loan for mine closure planning including environmental impacts and rehabilitation.

e. Based on previous experience the indicative costs of such a project are in the order of \$100m to \$200m depending upon the complexity of mines to be closed. The current project includes coal, lignite and metals mines to be closed. The proposed project would also support the closure and rehabilitation of salt mines.

#### 4. Safeguard policies that might apply

A Sector Environmental Assessment (SEA) was conducted under MCSMP. Environmental Impact Assessments and management Plans will be needed for mines to be closed. [OP 4.01, BP 4.01, GP 4.01]. No other safeguard policies apply.

#### 5. Tentative financing

Source:	(\$m.)
BORROWER	50
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	100
Total	150

#### 6. Contact point

Contact: John E. Strongman

Title: Adviser, Mining

Tel: (202) 473-5530

Fax:

Email: [Jstrongman@worldbank.org](mailto:Jstrongman@worldbank.org)