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Report No: 30517-RO

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$120 MILLION EQUIVALENT

TO

ROMANIA

FOR A

MINE CLOSURE, ENVIRONMENTAL AND

SOCIO-ECONOMIC REGENERATION PROJECT

November 18, 2004

Mining Policy and Reform Division
Oil, Gas, Mining and Chemicals Department
South Central Europe Country Unit
Europe and Central Asia Regional Office

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CURRENCY EQUIVALENTS

Exchange Rate Effective September 30, 2004

Currency Unit	=	Leu (plural Lei)
33,418 Lei	=	USD1
1,000,000,000 Lei	=	1 Billion Lei
1 Euro	=	USD 1.23065

FISCAL YEAR

January 1 – December 31

Vice President:	Shigeo Katsu
Country Manager/Director:	Anand K. Seth
Sector Manager:	Peter van der Veen
Task Team Leader:	John Strongman
Co-Task Team Leader:	Anis A. Dani

ABBREVIATIONS AND ACRONYMS

ANOFM	-	National Agency for Employment
AZM	-	National Agency for Development and Implementation of Reconstruction Programs for the Mining Regions (Agentia Zonelor Miniere)
CASPIS	-	Anti-Poverty Commission
CGMC	-	Central Group for Mines Closure
CONSIB	-	Romanian National Dam Safety Commission
DFID	-	Department For International Development (UK)
EMP	-	Environmental Management Plan
ETIS	-	Employment and Training Incentives Scheme
EU	-	European Union
FMS	-	Financial Management Systems
GEF	-	Global Environmental Facility
HRMEP	-	Hazard Risk Mitigation and Emergency Preparedness Project
ICB	-	International Competitive Bidding
LCC	-	Local Consultative Committee
MCESER	-	Mine Closure, Environmental and Socio-economic Regeneration Project
MCSMP	-	Mine Closure and Social Mitigation Project
MEC	-	Ministry of Economy and Commerce
MEWM	-	Ministry of Environment and Water Management Protection
MEI	-	Ministry of European Integration
MFI	-	Micro-Finance Institutions
MIS	-	Management Information System
MMSSF	-	Ministry of Labor, Social Solidarity and Family
MPAI	-	Ministry of Public Administration and Interior
MPF	-	Ministry of Public Finance
MTRIs	-	Mining Technical and Research Institutes
NAMR	-	National Agency for Mineral Resources
NBF	-	Non World Bank Financing
NCB	-	National Competitive Bidding
NGO	-	Non-Government Organization
NMC	-	National Mining Company
PCC	-	Project Coordination Committee
PIC	-	Public Information Center (InfoShop)
PID	-	Public Information Document
PMRS	-	Project Management Reporting System
PMRs	-	Project Management Reports
PMU	-	Project Management Unit
PMU-SER	-	Project Management Unit for Socio-Economic Regeneration
REPA	-	Romanian Environmental Protection Agency
RSDF	-	Romanian Social Development Fund
SA	-	Special Account
SDF	-	Social Development Fund
SDSMC	-	Social Development Scheme for Mining Communities

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ABBREVIATIONS AND ACRONYMS (cont'd)

SEA	-	Sector Environmental Assessment
SER	-	Socio-Economic Regeneration
SGS	-	Small Grants Scheme
SIL	-	Sector Investment Loan
SOE	-	Statement of Expenditures
SSD	-	Social Sector Development project
TMF	-	Tailings Management Facilities
WCMES	-	Workspace Centers Management and Enterprise Support

ROMANIA
Mine Closure, Environmental and Socio-Economic Regeneration Project

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MAP of Romania – Closure Sites

ROMANIA

MINE CLOSURE, ENVIRONMENT AND SOCIO-ECONOMIC REGENERATION PROJECT

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

COCPD

Date: November 17, 2004	
Country Director: Anand K. Seth	Sectors: Mining and other extractive (95%)
Sector Manager/Director: Peter van der Veen	General Agriculture, Fishing, and Forestry sector (5%)
Team Leader: John E. Strongman	
Co-Team Leader : Anis A. Dani	Themes: Pollution management and environmental health (P);Social safety nets (P);Debt management and fiscal substainability (S);State enterprise/bank restructuring and privatization (S);Rural non-farm income generation (S)
Project ID: P087807	Environmental screening category: Partial Assessment B
Lending Instrument: Specific Investment Loan	Safeguard screening category: Limited impact

Project Financing Data

[X] Loan [ ] Credit [ ] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Total Bank financing (US$m.): 120.00
Proposed terms: VSL

Financing Plan (US$m)

Source	Local	Foreign	Total
BORROWER	29.50	0.00	29.50
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	95.70	24.30	120.00
Total:	125.20	24.300	149.50

Borrower:
Ministry of Public Finance
17, Apolodor St. , Bucharest Romania
Tel: (+40-21) 410 34 00; 410 11 89 Fax: (+40-21) 312 16 30

Responsible Agency:
Ministry of Economy and Commerce
152, Calea Victoriei,
Bucharest. Romania

Estimated disbursements (Bank FY/US$m)									
FY			08	09	10	0	0	0	0
Annual	10.00	20.00	30.00	40.00	20.00	0.00	0.00	0.00	0.00
Cumulative	10.00	30.00	60.00	100.00	120.00	0.00	0.00	0.00	0.00

Project implementation period: Start June 1, 2005 End: November 30, 2009
Expected effectiveness date: May 31, 2005
Expected closing date: May 31, 2010
Ref. Technical Annex 11

Does the project depart from the CAS in content or other significant respects? ***Ref. PAD A.3***	[ ]Yes [X] No
Does the project require any exceptions from Bank policies? Have these been approved by Bank management? Is approval for any policy exception sought from the Board? ***Ref. PAD D.7***	 [ ]Yes [X] No [ ]Yes [X] No [ ]Yes [X] No
Does the project include any critical risks rated "substantial" or "high"? ***Ref. PAD C.5***	[ ]Yes [X] No
Does the project meet the Regional criteria for readiness for implementation? ***Ref. PAD D.7***	[X]Yes [ ] No

Project development objective
The development objective of the project is to strengthen the Government's ability to undertake mining sector reform by (i) building MEC capacity for closing uneconomic mining enterprises through support for closing complex mines and ancillary enterprises in an environmentally sustainable manner; and (ii) providing support to the National Agency for Development and Implementation of Reconstruction Programs for the Mining Regions (AZM), local communities and other agencies for community-based planning and socio-economic regeneration of the mining regions.
Ref. PAD B.3, Technical Annex 3

Project description : The project consists of
Component A - Mine Closure and Environment Improvements and
Component B Socio-Economic Regeneration of Mining Communities
Ref. PAD B.4, Technical Annex 4

Which safeguard policies are triggered, if any?
Environmental Assessment; Dam Safety; Involuntary Resettlement
Ref. PAD D.6, Technical Annex 10

Significant, non-standard conditions:

- MEC shall establish a subsidy monitoring system, and shall produce by March 31 each year a report on the level of subsidies provided to the mining companies including transfers to cover operating losses, exploration expenses and investments and other production subsidies, social subsidies (social allowances and severance), as well as hidden subsidies through non-payment of taxes (to central government and local municipalities),
- Appointment no later than June 30, 2005 of AZM executive head and senior management staff under revised organizational structure with terms of reference, qualifications and experience satisfactory to the Bank,

Ref. PAD C.6.5

Board presentation: December 16, 2004
Ref. Technical Annex 11
Loan/credit effectiveness: May 31, 2005
Ref. Technical Annex 11

Covenants applicable to project implementation:

- The Borrower shall, through MEC, carry out the measures required under the Environmental Management Plans, the Environmental Frameworks and the Land Compensation/Resettlement Framework in a timely manner
- The ETIS, Micro-Credit, Municipal Infrastructure and SGS sub components will be implemented by AZM and the SDSMC sub-component by the RSDF in accordance with operating manuals for each sub-component satisfactory to the Bank and the Borrower that have been adopted by AZM and, for the SDSMC sub-component, RSDF

Ref. PAD C.6.5

A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

Country Assistance Strategy (CAS) The Country Assistance Strategy development objectives of (i) revitalization of economy in rural areas and (ii) macroeconomic stabilization are key themes embodied in the Governments approach to addressing the problems of the mining sector. The June 2004 Country Economic Memorandum noted Romania is pursuing a broad reform program which includes institutional governance and economic restructuring reforms that are anchored in its process toward accession to European Union. The mining sector sits squarely in this reform agenda. ***Annex 1*** gives further details of the Romanian economy.

Mining Sector Reform and European Union Accession The Government of Romania recognizes the need to continue the process of downsizing the mining sector, which started in 1997, when 89,000 of the 171,000 workers left the sector on a voluntarily basis.. Most importantly, as part of its accession to the EU, the Government is committed to reducing the high level of subsidies to mining which amounted to over USD150 million in 2003. In April 2004 the Government approved the 2004-2010 Mining Sector Strategy aimed to reform the sector and meet help respond to European Union (EU) accession rules by that require the Government to eliminate all subsidies for metal and mineral mines by 2007 and for coal mines by 2010. By supporting the Government's measures in this regard, the project directly supports Government's EU accession related activities.

World Bank Assistance The World Bank is supporting this reform process through four inter-related elements (i) the USD44.5 million Mine Closure and Social Mitigation Project (MCSMP) which was approved in 2000 and supports the closure of 31 mines and social mitigation measures to assist redundant miners; (ii) Programmatic Adjustment Loan (PAL) II – which includes conditionality related to capacity and workforce reductions; (ii); (iii) this proposed Mine Closure, Environmental and Socio-Economic Regeneration Project (MCESER) which will support more complex mine closures, environmental improvements and socio economic regeneration measures for the mining regions; and (iv) a proposed regional development project later in FY05 for the Jiu Valley hard coal mining region. Further details are given in ***Annex 1, Section A***.

2. Rationale for Bank involvement

World Bank Value Added The proposed new project will scale up mine closure and job creation activities of the current MCSMP and introduce new activities for socio-economic regeneration of the mining regions. The Bank's lending brings unique and extensive technical capacity on mining sector reform both in Romania itself and in other ECA countries such as Poland, Russia and Ukraine, including mine closure, environmental and social issues. This combination of expertise is not readily available among other lenders. The project will 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.

Extractive Industries Review (EIR) The proposed project fits well with the findings of the Extractive Industries Review which examined the Bank's oil, gas and mining-related activities

and, in particular, to major concerns raised by the EIR relating to (i) mitigating the environmental and social impacts of mining (ii) identifying and addressing poverty-related impacts of mining; and (iii) keeping communities well informed about mining activities. The project responds to the environmental and social impact concerns by providing environmental rehabilitation of closed mine sites, helping to start implementation of recommendations of the Sector Environmental Assessment (SEA). The project responds to poverty-related impacts by providing considerable support for job creation and economic recovery in economically depressed mining communities through the various sub-components of the Socio-economic Regeneration (SER) Component (see section B.5). With regard to the concerns regarding community consultations, there have been considerable consultations with mining communities under the MCSM project and in the preparation of the Mining Strategy, and this has continued under this project, as well as the proposed Jiu Valley project. As part of the preparation for the project, a Women in Mining Workshop was held to get the views of women and one of the sub-components, the Small Grants Scheme, is specifically focused on women and youth.

3. Higher level objectives to which the project contributes

CAS Objective The project contributes to the Bank's CAS objective of supporting the Government's program:

> *The Government's program lays the basis for a pragmatic approach to reforming the economy and raising living standards by improving the quality of Government services and creating an attractive business environment. ...Bank Group assistance will support a broad set of structural and sectoral reforms to accelerate growth and pave the way for Romania's eventual accession to the EU.*

Government 2004-2010 Mining Sector Strategy This project will support the Government to achieve the key objectives of the mining sector strategy including, in particular, closing uneconomic mines in a socially and environmentally responsible manner and generating economic recovery in mining communities and regions. In particular, the project will help the Government tackle critical bottlenecks to implementing the Mining Sector Strategy by supporting measures that improve social and economic opportunities for the poor (i.e. those impoverished by sector restructuring) that will enable the Government to move forward on critical and irreversible steps to reduce mining subsidies as part of the actions required for EU accession. This approach was identified as one of the key recommendations of the CDF process. **Annex 1, Section B** gives further details of the Government's 2004-2010 Mining Sector strategy

Broader Structural Reform The project also contributes to the structural agenda by helping to create conditions that will enable the Government to close uneconomic mines and phase out quasi-fiscal deficits that undermine the sustainability of the energy sector. Loss-making mining companies remain a major source of arrears to the utility companies, especially electricity. However, subsidies to mining companies and arrears have continued, ostensibly to protect jobs in the mining regions. By shifting focus from social mitigation to socio-economic regeneration in mining regions, the project creates the basis for accelerating the reform program.

4. Government Commitment to the Project

Discussions with Government have clearly demonstrated that this project is one of its highest priorities. The Government commitment to implementing mining sector reform is reflected, first, by preparation and adoption of the 2004 – 2010 Mining Sector Strategy; second, by the inclusion of funding of the strategy in the Government's 2004 budget; third, by the strong engagement with the trade unions to garner their support for implementing the strategy; and fourth, by the request for this Mine Closure, Environment and Socio-economic Regeneration project which is key to implementing the strategy. The shift from social mitigation to socio-economic regeneration is an indication of the Government's responsiveness to stakeholder consultations during the formulation of the Mining Strategy.

B. PROJECT DESCRIPTION

1. Lending instrument

The MCESER is a Specific Investment Loan (SIL). Loan proceeds will augment Government funds for sector restructuring and used to support physical mine closure and environmental reclamation of closed mine sites, and socio-economic regeneration of mining regions. The borrower is financing from budget resources closure of an estimated 120 additional mines and severance payments for mining sector workers being laid off. Pre-layoff services for redundant mine-workers are being financed from a parallel Bank operation for Social Sector Development.

2. Program objective and Phases

The overall objective of the 2004 – 2010 Government Mining Sector Strategy is to transform the mining industry into a profitable sector and to support economic growth and sustainable livelihoods in the mining regions of Romania, in support of Romanian's economic integration into EU. The Mining Strategy approved by the Government in April 2004 states its objective as elimination of all subsidies to state owned mineral and metal mines by 2007 and coal mines by 2010. This will require downsizing the mining sector from 57,738 in January 2004 to 26,650 workers in 2007, and imposing hard budget constraints on mining companies so that they can meet their full operating costs. Environmentally sound mine closures and socio-economic regeneration to reduce the unemployment rate in the mining regions are a prerequisite for achieving these program objectives.

3. Project development objective and key indicators

Project Development Objective The development objective of the project is to strengthen the Government's ability to undertake mining sector reform by (i) building MEC capacity for closing uneconomic mining enterprises through support for closing complex mines and ancillary enterprises in an environmentally sustainable manner; and (ii) providing support to the National Agency for Development and Implementation of Reconstruction Programs for the Mining Regions (AZM), local communities and other agencies for community-based planning and socio-economic regeneration of the mining regions.

The Mine Closure and Environment component aims to:

(i) Complete the closure and rehabilitation of mine sites where production is terminated and thereby reduce environmental impacts and the environmental legacy of the mining sector in line with accession requirements for EU, and return former mine land to other social and economic purposes.

(ii) Improve the mining sector environmental performance.

The Socio-Economic Regeneration component is designed to:

(i) Scale up the job creation measures implemented under the first loan.

(ii) Support local development activities through community capacity building and financing of economic infrastructure and social services;

(iii) Strengthen the Borrower's capacity to implement the socio-economic regeneration program.

Key performance indicators ***(Annex 3)*** are:

- Subsidy monitoring system shows decline in level of subsidies to meet EU target dates;
- Hard budget constraints on mining companies to prevent accumulation of additional arrears for state and municipal taxes, and electricity tariffs
- Number of mines and mining enterprises closed in an environmentally sound manner
- Area of land rehabilitated and transferred by the mining companies to other parties
- Number of jobs created/supported by the project
- Number of beneficiaries from employment and training incentives scheme (ETIS);
- Number of additional loans, and amount disbursed by micro-credit program
- Repayment rate of micro-credit loans
- Number and value of sub-projects implemented under SDSMC
- Number of beneficiaries from SDSMC sub-projects
- Number of community groups in mining settlements mobilized through Small Grants Scheme (SGS) implementation
- Number of beneficiaries/recipients that are able to access resources from other programs for local development activities.

4. Project components

A. **The Mine Closure and Environmental Component** (total base cost USD72.0 million and loan amount of USD57.7 million, excluding contingencies) of the Project will:

(i) Support the closure and environmental rehabilitation of mines and/or mine processing facilities at 20 identified sites as well as other sites to be identified; and

(ii) Help start implementation of the recommendations of the Sector Environmental Assessment which was conducted in 2002.

(i) Mine Closure Sub-component.

Physical Works. Government has proposed 20 sites from 7 regions for closure based on criteria agreed with the World Bank including size, technical complexity, cost, environmental and social impact. A list of sites is shown in ***Annex 4.*** While production has previously been stopped at

many of these sites, the sites have never been closed and properly remediated. Mine buildings, equipment and environmental liabilities will be addressed in the closure process and the land will be reclaimed to allow use for beneficial new purposes. Nine of the 20 sites are located in the Jiu Valley where land for development is scarce. The sites include coal, lignite, copper, polymetalic (copper, gold, lead), and sulfur mines, as well as mine processing facilities. One site, the Calimani Sulphur mine, will be especially challenging due to its size and environmental issues, and accounts on its own for almost 20% of the mine closure component. The physical works to close the mines and environmental rehabilitation works will take from 2 to 5 years per site. The mine closure activities will also provide a short term boost to the local economy as most workers and supplies are procured locally. AS noted previously, the project will coordinate closely with the proposed World Bank supported Jiu Valley regional development project so hat the timing of the closures under this project assist in the optimum transfer of the land for new uses in the Jiu Valley. Operating subsidies have been high at the Jiu Valley sites and early closure will thus assist in reducing mining sector subsidy needs.

Technical Support. The first Mine Closure and Social Mitigation Project (MCSMP) built a legal and technical base for mine closure in Romania that will be utilized in the new project. In addition to the 20 sites to be closed under the Project the Government is closing an estimated additional 120 sites using its own procedures and sources of funds. The Governments closure procedures have been modified in line with the procedures used in the Bank project and are considered in line with good international practice. Technical assistance, through technical audits to ensure international best practice on physical closure and environmental works, will be continued under the Project. As in the first project, training will be provided to transfer knowledge on closure practices from the Project to the broader Government closure program implemented by the Consolidated Group for Mine Closure (CGMC). The project will also assist in the preparation of technical mine closure manuals for salt and uranium mines. An application for donor trust funds has been made to fund preparation of these manuals.

(ii) Environmental Sub-component.

The environmental sub-component seeks to improve environmental performance in the mining sector. A Sector Environmental Assessment (SEA) was conducted in 2001 and was extended and updated in 2003 under the MCSMP and the new Project will implement some of the SEA's key recommendations. The sub-component will prepare (a) a manual for implementation of an environmental management system in the mining sector; (b) a manual for environmental protection procedures in the mining sector; (c) guidelines for integrated monitoring of environmental impacts generated by mining activities; and (d) and implement an environmental monitoring pilot project in two sites, Calimani and Baia de Aries.

B. The Socio-Economic Regeneration (SER) Component of the Project will scale up the job creation activities piloted by the MCSMP and will add sub-components to foster local conditions for economic growth and social regeneration based on the lessons learned (see PAD Section 5). The total base cost of this component will be USD68.4 million, excluding contingencies, of which USD57.1 million will be from the loan. The main objectives of the SER component are to:

(i) Scale up the job creation measures implemented under the first loan.
(ii) Support local development activities through community capacity building and financing of economic infrastructure and social services;
(iii) Strengthen the Borrower's capacity to implement the SER component.

1. **Support for Job Creation Activities in Mining Regions:** Since the sector restructuring process started in 1997, unemployment indicators in mining regions have tended to lag behind other regions in Romania, justifying targeted support to mining communities. The following three job creation activities are being implemented under the MCSMP and will be scaled up under the proposed project to create an estimated 25,000 jobs.

(a) Employment and Training Incentives Scheme (ETIS): The scheme provides a financial incentive to potential employers to hire unemployed workers, enabling expanding businesses to hire and retrain unskilled workers. The ETIS is expected to create employment for an estimated 10,000 people.

(b) Micro-Credit Scheme: After initial delays to enact a new law and regulations for micro-credit, implementation proceeded rapidly under MCSMP through two Romanian NGOs that manage USD3.6 million in revolving funds for the first loan. The average cost of job creation under the first loan has been USD1,720. The micro-credit scheme will support an estimated 9,000 jobs under the second project.

(c) Workspace Centers: Ten Workspace Centers were created under the MCSMP in former mine buildings. The project will finance management contracts for three years to administer the Centers, incubate new businesses and provide enterprise support training to aspiring entrepreneurs. Subsequently, the Workspace Centers will be handed over to local governments under new management arrangements to be developed during this project. The project will also finance purchase of common equipment to facilitate functioning of enterprises at the Workspace Centers. The Workspace Centers will incubate 200 new enterprises, while an estimated 6,000 jobs will be stimulated through this subcomponent.

2. **Support for Community Capacity Building and Local Development Activities:**

The Government's vision of socio-economic regeneration envisages stakeholder involvement in a community-based development process to broaden stakeholder ownership for mining reforms increase the likelihood of sustainability. The project is supporting achievement of this vision through the following three sub-components which follow a "bottom-up" rather than "top-down" approach.

(a) **Social Development Schemes for the Mining Communities (SDSMC):** The MCSMP was restructured in the first quarter of 2004 and USD5.5 million of savings from the mine closure activities was re-allocated to finance Social Development Schemes among mining communities. This sub-component is implemented by the Romanian Social Development Fund, which has a track record of success in implementing two previous Bank loans, under a collaboration arrangement for implementation of this sub-component. The SDSMC will be scaled up and will continue to be the responsibility of the RSDF, as a sub-component of the socio-economic regeneration program.

(b) **Municipal Infrastructure**: Infrastructure facilities within and to mining communities have been in a state of decline since the mining industry collapsed. The Borrower has requested financing to enable mining municipalities to finance municipal infrastructure schemes to be identified through a process of community consultation and local development planning in mining localities that will be severely affected by sector restructuring. The project will contract local consultants to help prepare proposals and technical feasibility studies, including the environmental assessments for sub-projects to be financed by this component and for possible parallel financing by EU infrastructure programs.

(c) **Small Grants Scheme (SGS):** The project will refine and scale up the micro-projects piloted by DfID under the MCSMP to provide grants of up to USD6,000 for human resource development and improving the welfare of vulnerable groups, especially women, youth, children and the elderly. The social capital benefits of the DFID pilot have encouraged the Borrower to request this sub-component under the loan.

(d) **Community Capacity Building**: The project will contract local consultants to facilitate a process of community mobilization and dialogue among local government, intended beneficiaries and other stakeholders in the local development process. This process will help to identify and select priority infrastructure and social service investments that may be supported by activities 2(a)-2(c) above.

3. Strengthening the institutional capacity of AZM and RSDF to implement the Project:

(a) **Social Impact Monitoring & Evaluation**: AZM will commission a mid-term and end-of-project impact evaluation and additional specialized third party assessments of SER sub-components to inform strategic planning and project review at AZM and MEC, with the support of the Anti-Poverty Commission (CASPIS) with other specialized entities/ individuals.

(b) **Public Information**: Effective communication with local communities in mining regions and transparency will be crucial to successful implementation of the project. A consultant shall be recruited to help AZM develop its public information strategy, while service providers shall be contracted to develop appropriate materials for dissemination.

(c) **Institutional Development & Training**: This sub-component will include capacity building for AZM, PMU-SER and RSDF, and the cost of MIS technical services, and equipment and other goods for this component .

C. Institutional Support

The third component consists of institutional support for: (i) the Project Management Unit (PMU) which will manage the Mine Closure and Environmental component and will also be responsible for consolidating project accounts; and (ii) AZM, RSDF and the Project Management Unit for Socio-Economic Regeneration (PMU-SER), which will coordinate all the sub-components related to Socio-Economic Regeneration (SER).. Total base costs (excluding

contingencies) for institutional support expenses are estimated at USD5.8 million, (loan amount USD3.0 million), consisting of USD 2.3 million in project costs (USD1.3 million loan) for the PMU, and USD3.5 million in project costs (USD1.7 million loan) for the PMU-SER and partner organizations involved in the SER program.

Total Project Costs: Costs and the allocation of loan proceeds are summarized in ***Table 1*** and further details are given in ***Annex 5.*** The proposed loan of USD120.0 million equivalent (about 4,030 billion Lei) consists of USD 57.7 million to fund mine closure and environment activities; USD 57.1 million for socio-economic regeneration activities, USD 3.0 million for institutional support (including operating costs), USD 2.2 million for contingencies. The USD 0.6 million approx front end fee would be financed separately and not from the loan. The USD 120 million loan would provide funding for about 80% of the mine closure and environment component activities and about 83% of the socio-economic regeneration component.

Table 1: Project Costs and Allocation of Loan Proceeds

Component	**Project Costs USD Million**	**% financing**	**Bank Funding (USD million)**	**Bank Funding (Lei billion)**
Mine Closure and Environment	72.0	80%	57.7	1,938
Socio-Economic Regeneration	68.4	83%	57.1	1,905
Institutional Support	5.8	52%	3.0	112
Contingencies	2.7	80%	2.2	75
Front End Fee	0.6	0%	0.0	0.0
Total	149.5	80%	120.0	4,030

Source : MEC (note USD1 = 33,580 lei)

5. Lessons learned and reflected in the project design

Other Projects The Bank has previously supported mine sector restructuring in Romania and coal sector reforms in Poland, Russia, and Ukraine. It has also supported social mitigation and socio-economic regeneration efforts in Romania through the Social Development Fund (SDF) and the Social Sector Development (SSD) projects. The main lessons learnt from these operations show that mine sector restructuring should be addressed through a broad and comprehensive reform program supported by (i) a fast acting and targeted income support with demand driven labor redeployment programs; and (ii) creation of enabling conditions for social and economic regeneration through broad-based support for local communities and the private sector at the local level. Further details are provided in ***Annex 2.*** The project design reflects the experience with form the other coal reform projects in ECA that implementing coal sector reform

is highly dependent on overall macroeconomic conditions and that a high level of commitment by the Government is typically required over a decade or larger to achieve sustained change in an industry such as coal. It also includes the new SER sub-components (Subcomponents (a), (b), (c), and (d) in section B.2) based on the experience of the RSDF projects(s). These other operations show that the selection of capable implementing agencies is crucial which has been given careful attention in this project (see Section C.2).

Quality Enhancement Review (QER) In addition, the QER endorsed the following lessons from the previous MCSMP:

- Creation of jobs cannot be achieved simply through active labor market measures; support to individual job-seekers needs to complemented by support for investments in local development for community mobilization, economic infrastructure and social services.
- Targeted labor redeployment programs limited to former miners are less effective than broad-based programs aimed at all job-seekers in mining communities.
- The local economy benefits short term from the mine closure activities during the closure period through local employment and procurement of goods. MEC estimate that 35% of total salaries and 90% of total supplies are retained locally. However, socio-economic regeneration is a long process that takes 10-15 years of sustained effort.
- Mine closure designs need to need to allow for 2 to 3 planting seasons for re-vegetation of affected areas.

6. Alternatives considered and reasons for rejection

Lending Instrument Alternatives The main lending instrument alternative would have been to replace the project with a SECAL. The SECAL was considered to be unsuitable since the primary assistance is for environmental and socio-economic regeneration, both of which involve long-term processes for which an investment project was felt to be more appropriate. The policy reforms toward subsidy elimination are being addressed by the PAL and the IMF dialogue. Another lending alternative was to consider some type of programmatic lending approach. The programmatic lending approach was considered unnecessary because the mining sector strategy is time bound by EU accession requirements and the key actions are already fully identified.

Project Design Alternatives With regard to project design, one key alternative considered was to transfer the responsibility for socio-economic regeneration to the National Agency for Employment (ANOFM). This alternative was discarded partly because of the Borrower's wish to ensure focused attention on the mining regions which being economically disadvantaged and located some distance away from the capital, would risk not being covered adequate by national programs. Also, the more holistic approach to socio-economic regeneration envisaged under this project would not be feasible under ANOFM. A second project design alternative considered was to include a component to provide severance payments to mine workers being laid off. This proposal was dropped when MPF provided assurances to MEC that state budget funds would be available to fully fund the USD75 million needed for severance payments at mining sites to be closed in accordance with the Mining Strategy.

C. IMPLEMENTATION

1. Partnership arrangements

Possible EU Financing. The project does not expect any immediate co-financing from non-government sources or partnership with external groups. However, the project will finance pre-feasibility studies under the municipal infrastructure sub-component to enable municipalities from mining regions to submit better quality proposals for EU Phare, ISPA, and EU Structural Funds. The Delegation of the European Commission has expressed strong interest in co-financing or parallel financing for these municipal infrastructure schemes. Efforts will be made during the initial phase of the project to follow up on Bank-EU initiatives to harmonize procurement procedures. Depending on whether these procurement differences are resolved, the project will enable mining municipalities to leverage either (i) an equal amount of EU funds (USD15 million) through parallel financing for municipal infrastructure, or (ii) up to USD60 million, through co-financing municipal infrastructure sub-projects.

2. Institutional and implementation arrangements

Implementation Period: As noted in Section A.3 previously, the project is designed to support implementation of the Government Mining Strategy which runs until 2010. The project supports some of the most complex mine closures including the very large Calimani mine which will require four years to complete the environmental rehabilitation of the mine site. In addition, at least four years will be needed for unidentified mine sites to be identified, closed and rehabilitated and for related social mitigation measures to be provided to workers when those mines are closed. As a result, the project implementation period will be about five years.

Executing Agencies: The existing MCSMP functions with four project management/ implementing units. Under the new project, this will be consolidated into two units, both of which were established by the existing MCSMP.

- The Project Management Unit (PMU), which will combine the functions of the existing Mine Closure and Social Mitigation PMU and the Mine Closure Group PIU; will be established within MEC and will implement the mine closure component and its sub-components of the new Project. The PMU will also be responsible for consolidating project accounts. The PMU will be established by February 28, 2005 with initial staffing of about 4 persons from the existing MCSMP PMU and PIU CGMC comprising the PMU director, the financial manager, procurement specialist and technical specialist. Final staffing will be of 10 persons.
- The second unit, called the Project Management Unit for Socio-Economic Regeneration (PMU-SER), is a adaptation of the AZM PIU which was established for the social mitigation component under the existing MCSMP . The PMU-SER will be established by February 28, 2005 with initial staffing of about 4 persons from the existing MCSMP PIU AZM comprising the PMU director, the financial manager and two procurement specialists. Final staffing will be of 10 persons. The PMU-SER will coordinate all the sub-components related to Socio-Economic Regeneration (SER). The PMU-SER will manage the Micro-Credit, WCMES, Municipal Infrastructure, and Community Capacity

Building subcomponents, as well as overseeing the Institutional Development and Monitoring and Evaluation sub-components. AZM will directly implement the ETIS and SGS sub-components. RSDF will implement the SDSMC, on behalf of AZM, coordinated by PMU-SER. The Micro-Credit sub-component will be administered by non-profit micro-finance institutions (MFIs) contracted and supervised by AZM

The project is also being implemented in partnership with the Romania Social Development Fund (RSDF) and in close coordination with the Ministry of Labor, Social Solidarity and Family (MMSSF), the Anti-Poverty Commission (CASPIS), and the National Agency for Employment (ANOFM).

Project Coordination Committee (PCC) A Project Preparation Committee (PPC) chaired by the Secretary of State of the Ministry of Economy and Commerce (MEC) and comprised of high-level representatives from AZM, RSDF, and ANOFM, plus representatives from the Ministry of Public Finance (MFP), Ministry of Labor, Social Solidarity (MMSSF), Ministry of European Integration (MEI) and Ministry of Public Administration and Interior (MPAI) has been established in order to provide guidance for Project design. A Project Coordination Committee (PCC) chaired by the Secretary of State of the Ministry of Economy and Commerce (MEC) and comprised of high-level representatives from AZM, RSDF, and ANOFM, plus representatives from the Ministry of Public Finance (MFP), Ministry of Labor, Social Solidarity (MMSSF), Ministry of European Integration (MEI) and Ministry of Public Administration and Interior (MPAI) is being established to provide oversight and policy guidance for project implementation. The PPC has provided oversight and policy guidance for project design and the PPC will continue this role for project implementation.

AZM Strengthening MEC intends to strengthen AZM through the appointment of the executive head of AZM by the Minister, MEC, with terms and conditions, qualification and experience satisfactory to the Bank, followed by reorganization needed at the head office and regional offices, and strengthening of PMU-SER to administer the new sub-components under the Project. This process is expected to be complete before the Project is launched. MEC is also considering appointing an advisory board for AZM, which would consist of high-level representatives from the MEC, MMSSF, MEI (Department for Regional Development), MPAI, ANOFM, RSDF, MPF, and CASPIS, as well as representatives of the business community and up to three trade union representatives, one each from different trade union confederations. The proposed advisory board would provide guidance to the SER program including helping facilitate cooperation and coordination of AZM's work program with that of other agencies supporting mining regions. It would oversee the possible transition of AZM to a successor organization by the end of the Project.

Financial Management

Strengths and Weaknesses. The significant strengths that will provide a basis of reliance on the project's financial management systems include the considerable experience of the existing project units currently in charge with the implementation of the Mine Closure and Social Mitigation Project (P056337) with a closing date of June 30, 2005. There are no significant weaknesses. The most recent financial management supervision of the Mine Closure and Social

Mitigation Project of July 2004 confirmed that the FM and FP ratings of the project are highly satisfactory.

Implementing Entities and Lending Arrangements As noted in Section 2 above, the Mine Closure and Environment Component (Component A) and part I of Institutional Support Component (Sub-component C I) will be implemented by the Project Management Unit (PMU) and the Socio-economic Regeneration Component (Component B) and part II of Institutional Support Component (Sub-component C II) will be implemented by the Socio-economic Regeneration Project Management Unit (PMU-SER). A Loan Agreement will be signed by the World Bank (IBRD) and Romania represented by the Ministry of Public Finance (MPF). MPF will in turn conclude a subsidiary loan agreement with MEC, AZM and RSDF, to which will be attached a financial plan. Both of the above mentioned units (the PMU and the PMU-SER) will have its own special account and a government contribution account to facilitate implementation of the new project.

Flow of funds and Disbursement Arrangements. For the Mine Closure and Environment Component A and Sub-component C I, funds will flow from the PMU Project Account to contractors and consultants undertaking mine closure work, technical studies, environmental initiatives etc. For the Social and Economic Regeneration (Component B) and Sub-component C II, funds will flow from the PMU-SER Project Account as follows:

Sub Component		Recipient of Funds from PMU-SER Project Account
1.a	ETIS	AZM and then to employers
1.b	Micro-credit Scheme	MFI's and then to beneficiaries
1.c	Workspace Centers	contractors
2.a	SDSMC	RSDF and then to community groups
2.b	Municipal infrastructure	contractors
2.c	Small Grants Scheme	AZM and then to community groups
2.d	Community Capacity Building	consultants
3.	Sub-components 3(a)-(c)	suppliers; consultants

3. Monitoring and evaluation of outcomes/results

The results framework provided in ***Annex 3*** will be the main tool that is used to assess the effectiveness of the project during implementation and subsequently to measure the outcomes after project completion. The main outcomes are that mining sector subsidies and arrears are reduced and that unemployment in the mining regions improves. The outputs that will be measured for the Mine Closure and Environment component (Component A) are the number of mine sites closed and rehabilitated in an environmentally acceptable manner; the area of land rehabilitated, and the area of rehabilitated land handed over for other use. The outputs that will be measured for the Socio-economic Regeneration (SER) component (Component B) will include job creation by the project, the number of ETIS beneficiaries, additional loans and disbursements under the micro-credit programs, re-payments under the micro-credit program, number and value of SDMSC sub-projects, number of mining communities benefiting from SGS.

The PMU will undertake the monitoring for the Mine Closure and Environment component and the PMU-SER for the SER component. The results of the monitoring will be provided to and assessed by AZM, MEC and the PCC as well as the Borrower and World Bank.

4. Sustainability

There are five factors which support the sustainability of both the project and the Government's Mining Sector Strategy – which are closely linked together. First, the Government is committed to implementing mining strategy as part of its EU accession actions. Successful implementation of the mining strategy will help ensure sustainability of both project components. Second, the project will provide important input for the Government to reduce its mining subsidies which is a commitment to the IMF and the World Bank as part of the Government's overall structural reform and improved fiscal management initiative. Third, the implementing agencies have a proven track record of capability which provides confidence that they will be able to complete the mine closures and environmental rehabilitation in a manner that ensures sustainability. Fourth, the sustainability of the increased employment and local economic recovery for the social component will be reinforced by the broader national economic recovery that is taking place with support from the Bank and the IMF through various structural assistance. Finally, Government has had extensive engagement with the mining industry trade union over several years and the unions have come to accept the need for the closure and downsizing to take place. In this context, there is strong support from both mine workers and affected communities for the social initiative included under the project.

5. Critical risks and possible controversial aspects

When the MCSMP was prepared and approved in 1999, the main risks were considered to relate to the Government sustaining its commitment to mining sector reform, establishing the institutional capabilities to implement the agreed reforms; and hiring staff for the PMU and PIUs with the needed skills and strong ownership of the reform. With little track record and considerable uncertainty the MCSMP was rated overall "S" (substantial risk).

Given the progress that has been made on both the project and the sector reforms to date, the proposed project is considered a "moderate" risk operation as shown in ***Table 2*** following. The main risks for this project are considered to be

(a) failure to close and rehabilitate mine sites properly;

(b) failure to successfully implement the SER component in terms of successfully scaling up the job creation measures and/or strengthening the community capabilities so that that there is good take up of the SDSMC, municipal infrastructure and SGS, and successful access to resources from other agencies for local development activities; and

(c) failure to successfully implement the mining sector restructuring plan due to trade union opposition

Table 2 : Project Risk Assessment

Risks to component results

Mines are not closed in satisfactory manner	PCC and MEC will monitor PMU/CGMC to ensure action completed in a timely and satisfactory manner	L
Economic growth in mining localities remains weak	Economic and investment data are monitored quarterly by AZM	M
Competing programs on softer terms reduce demand for job creation opportunities provided by project	AZM already has a strong pipeline of applications and will continue to monitor demand and local economic environment, refining job creation schemes as the context evolves, as under MCSMP.	M
Lack of credit discipline results in poor micro-credit repayment rates	AZM will continue to monitor on monthly basis; should performance decline remedies built into management contracts will be invoked.	L
Lack of responsiveness by mining communities for SDSMC and municipal infrastructure schemes	Community capacity building and local development planning will precede subproject development; RSDF and AZM will monitor results closely.	L

Broader risks that are also reputational risks for the Bank

Trade union opposition may derail reforms	Government has engaged trade unions and communities who accept the need for reform. The SER Component activities, including the public information activities, will support the effort.	M
Overall Risk Rating		M

Ratings: S: Substantial; M: Moderate; L: Low

6. Loan/credit conditions and covenants

The following loan conditionality is aimed at supporting the achievement of the objectives of the loan – namely the successful implementation of mine closure in an environmentally acceptable manner, environmental improvements and socio-economic regeneration of the mining regions.

1. ***The following were provided at or before Negotiations:***

- Government Mining Sector Strategy, April 2004
- List of mines and mine processing facilities for closure, June 2004

- Operating Manual for SDSMC, July 2004
- Environmental Management Plans for each mine site, September 2004
- Environmental Framework for unidentified mine closures, October 2004
- Environmental Framework for unidentified municipal infrastructure, October 2004
- Land Expropriation/Resettlement Policy Framework for municipal infrastructure, October 2004
- Operating Manual for SGS, September 2004
- Procurement packages for first year of procurement, September 2004.
- Revised organizational structure of AZM to strengthen regional offices and improve coordination with partner organizations (September 2004)
- Project Cost Table with Allocation of Loan Funds (October 2004)
- Procurement Plan (initial October 2004; updated November 4, 2004)

2. ***Conditions of Board Presentation:*** None

3. ***Effectiveness conditions:*** None

4. ***Conditions of disbursement:***
   - **For the Municipal Infrastructure sub-component** - adoption of Operational Manual by AZM for municipal infrastructure sub-component satisfactory to the Bank, including chapter on environmental assessment and management, prior to disbursement
   - **For the SGS sub-component** - Adoption of Operational Manual by AZM for SGS satisfactory to the Bank, prior to disbursement
   - **For the Micro-credit. sub-component** - Amendment of Micro-credit Law (Ord. 40/2000) satisfactory to the Bank and revision accordingly by AZM of the Operational Manual for the micro-credit sub-component satisfactory to the Bank, prior to disbursement

5. ***Other Loan Conditions:***

Standard Implementation, Reporting and Auditing Covenants

- MEC will submit to the Bank, by June 30 of each year starting in 2005, a procurement plan including expected loan disbursements for the project during the next fiscal year, and agree with the Bank on these plans by September 30 of each year PMU and PMU-SER will each maintain a financial management system acceptable to the Bank.
- The project's financial statements, withdrawal applications and Special Accounts will be audited by independent auditors acceptable to the Bank and on terms of reference acceptable to the Bank. The PMU will provide to the Bank the annual audited statements and audit report for the project within six months of the end of each fiscal year.
- MEC will by September 30, 2007 undertake with the Bank a mid-term review of the Project;
- MoPF and MEC will by November 30 of each year include counterpart funding for CGMC and AZM in the proposed Budget for the next fiscal year as necessary to implement the project taking into account the agreed procurement plan for the year

Non Standard Project Conditions

Project Implementation

- The Borrower shall, through MEC, carry out the measures required under the Environmental Management Plans, the Environmental Frameworks and the Land Compensation/Resettlement Framework in a timely manner and in compliance with: (a) environmental standards satisfactory to the Bank; and (b) all applicable laws and regulations of the Borrower relating to health, safety and environmental protection
- The Borrower, through MEC, shall undertake actions by March 30, 2005 to improve tailings management at identified mine sites and shall prepare and provide to the Bank by June 30, 2005 a report describing the results of the actions.
- MEC to provide by December 31, 2005 a report on progress made in improving mine closure procedures for mines not under the project by CGMC using improvements identified under the World Bank supported mine closures.
- Appointment no later than June 30, 2005 of AZM executive head and senior management staff under revised organizational structure with terms of reference, qualifications and experience satisfactory to the Bank,
- The ETIS, Micro-Credit, Municipal Infrastructure and SGS sub components will be implemented by AZM and the SDSMC sub-component will be implemented by the RSDF in accordance with operating manuals for each sub-component satisfactory to the Bank that have been adopted by AZM and, for the SDSMC sub-component, RSDF .

Mining Sector Strategy Implementation

- MEC will prepare a report each year on progress in implementing the mining sector strategy and shall discuss the report with the Bank by October 31 each year; and
- MEC shall establish a subsidy monitoring system, and shall produce by October 31 each year a report on the level of subsidies provided to the mining companies including transfers to cover operating losses, exploration expenses and investments and other production subsidies, social subsidies (social allowances and severance), as well as hidden subsidies through non-payment of taxes (to central government and local municipalities), and (to utilities and suppliers).

D. APPRAISAL SUMMARY

1. Economic and financial analyses

This is the second Bank loan supporting mining reforms that started in the late 1990s and continue with the implementation of the 2004 to 2010 Mining Strategy in terms of:

- Phasing out subsidies to State owned metal and mineral mines by 2007 and coal mines by 2010 in line with EU accession arrangements.
- Closure of mine and mine processing facilities in a socially and environmentally acceptable manner

- Mitigating the social impacts of the restructuring process on mine workers and mining communities.

Mine Closure and Environmental Component

No attempt has been made to calculate financial or economic rates of return for the mine capacity closure component because it consists of mine closure and environmental improvement activities. However, it is expected that the project will achieve the planned capacity closures and environmental improvements on a least cost basis (see Section 2 below).

Socio-economic Regeneration Component

It is expected that the support planned under the three job creation sub-components (namely the. Employment and Training Incentives Scheme (ETIS); the Micro-Credit Scheme; and the Workspace Centers sub components) will lead to gradual improvements in the local and regional economies. The internal rate of return has been calculated on an aggregate basis for these three components by taking the earnings in new jobs and the savings in mining company wages and subsidies as benefits and by taking the severance payments and expenditures for the three sub components as costs. The calculation does not attempt to quantify the benefits of the other social sub-components (i.e. sub-components B.2 and B.3) which, if taken into account, would likely increase the rate of return. The results of the financial analysis show that performance will largely depend on the speed of re-employment of unemployed workers as well as the levels of pay relative to previous employment. The social sub-components are expected to increase employment by 25,000 from 2004-2009. The IRR is estimated to be 32% over the life of the project, which increases to 39% by the year 2015. For further details see ***Annex 9***. The layoffs supported by the project can be expected to contribute to reductions in production costs of the mining companies which should then result in improvements in the overall financial position of the mining companies. This in turn will reduce the need for state support and will enable the Government to reduce subsidies to the mining sector in accordance with the Mining Sector strategy.

2. Technical

Mine Closure and Environmental Component

The main technical issues are to ensure that the capacity closures and environmental improvements take place in line with good international practice so that work is done (a) on a least cost basis, and (b) is technically sustainable. The design standards used for the mine closures to be financed under this project are based on FIDIC standards and in line with international practice. Underground working will be secured in a safe manner according to good international practice and surface plant and buildings will be demolished or handed over to new users according to the closure plans. The sites will be rehabilitated so that they can be handed over to local authorities for new uses. This will be a continuation of work already taking place in a fully satisfactory manner under the first project. Competitive bidding process and time bound completion schedules will help ensure that mines are closed in a least cost basis. Technical

reviews of GoR's mine closure activities, which have taken place on a regular basis by the international specialists confirm that CGMC operates according to good international practices.

Socio-economic Regeneration Component

ETIS: The Employment and Training Incentives Scheme was designed as an alternative to a skills development program, to link job-seekers with potential employers by providing a subsidy of USD500 per worker for one year, on the assumption that employers would be inclined to retain workers beyond that period once they have proved their worth. The scheme has been revised, pegging the subsidy to the minimum wage which has increased from USD500 to USD960 per year; and the eligibility criteria were revised twice, first to families of former mine workers, then to all unemployed job seekers from mining localities. Expanding the criteria and the subsidy has led increased demand for ETIS, even though employers are required to pay the social taxes (45%). The initial allocation of USD2.75 million under the first project was doubled through reallocations of USD2.7 million during implementation. Relevant technical issues are that the current retention rate of 70 percent, beyond the 12-month subsidy needs to be monitored closely. Proposals from enterprises who have already benefited from the scheme need to be appraised carefully to ensure that their retention rate is satisfactory and that new workers are additional to those already hired in previous rounds.

Micro-credit: The main technical issue has been to ensure that the micro-credit scheme functions in line with good international practice. Romanian micro-credit legislation was prepared under the first project (MCSMP), which laid the legal basis for non-profit micro-finance institutions (MFIs) to be contracted by government agencies to administer micro-credit programs. The MSCMP provided USD3.6 million for micro-credit in the mining regions through two MFIs – the Community Housing Foundation (CHF), and the Center for Economic Development (CDE). Administration by MFIs protects the micro-credit program from interference by MEC and AZM staff and the mining companies. The MFIs are contracted to manage the funds for eight years, in return for a management fee paid on a declining basis during the two-year inception period, following which they are expected to be financially self-sustainable. The contracts are in the second year of implementation; results so far indicate a rapidly growing clientele, with a loan recovery rate of 99 percent.

SDSMC: The main technical issue is to monitor the use of the eligibility criteria so that the smaller mining settlements that are being affected by mine closure are able to apply for these funds. The criteria may be reviewed after the first round of proposals.

SGS: The main technical issue will be to avoid duplication with the SDSMC. This will be achieved by targeting the SGS to women's and youth groups, and by limiting the size of these grants to a maximum of USD6,000 each.

3. Fiduciary

Financial Management: Executive Summary and Conclusions

Project Financial Management Assessment. The financial management assessment of the new project are acceptable to the Bank. The Borrower is in compliance with its audit covenants in respect of the other Bank – financed projects. The most recent Mine Closure and Social Mitigation Project audited financial statements have been received on May 21, 2004, with a clean audit opinion and no internal control issues. Draft formats of the FMRs and financial reports have been developed and have been attached to the minutes of negotiations. ***Annex 7*** provides further details on the financial management arrangements.

Country Financial Accountability Assessment (CFAA) The first Country Financial Accountability Assessment (CFAA) for Romania was finalized in December 2003 and concluded that the overall fiduciary risk associated with the public financial management and financial accountability arrangements of the Romanian government administration is considered to be moderate, with the systems for accounting, financial reporting and internal control representing the areas with the higher risks and budgeting, cash management and external audit and Parliamentary oversight representing the lower risks.

The implications of the CFAA for the project are addressed by the following actions:

- A detailed review of the systems has been performed for each implementing entity;
- Each implementing entity will have a distinct project-specific accounting ledger;
- Project accounting staff in place for each implementing entity;
- Format of the FMRs and financial reports have been agreed with both implementing entities;
- Project financial statements audited by an independent auditor annually.

Procurement The two implementing units, the Project Management Unit (PMU) and the Project Management Unit for Socio-Economic Regeneration (PMU-SER), will be responsible respectively for management of procurement procedures for the mine closure component and the social component. Both have operated under the first mining project. Appraisal of the two entities has confirmed that they are both staffed by full time procurement and financial managers, each with one full-time procurement specialists and accounts assistants. Both entities already operate financial management systems that are acceptable to the Bank. RSDF will be responsible for procurement activities for sub-components under its implementation. A procurement plan detailing the packaging and estimated schedule of the major procurement actions has been prepared and is presented in ***Annex 8.*** During project implementation, the procurement plan will be updated and sent to the Bank for approval annually at a minimum.

4. Social

Phased Approach to Closures The major constraint is the relative strength of the mining trade unions which have a history of activism that continues to this day. The Government recognizes that mining is a hazardous industry and that mine workers have played a significant role in the

country's economic development but that most of the mines have now become uneconomical. Many mining communities are mono-industrial, and will inevitably face economic decline. The economic imperative to downsize the sector has to be balanced against the likely social impact on mining communities. The Government is addressing this by adjusting the mine closure plans to close the most uneconomical mines, while phasing the closures in accordance with their capacity to implement social protection measures and invest in socio-economic regeneration.

Mitigation Measures for Redundant Workers. Additional mine closures will generate adverse social impacts in the short run. These impacts will be mitigated through provision of severance payments by MEC, as well as unemployment benefits and labor redeployment services by NAE. Mine workers receive the standard 22-24 months severance payments provided to all sectors where downsizing is taking place. Mine workers also receive a one-off severance payment of 150 million lei per worker when made redundant. In addition, the local development and job creation schemes financed by the project will create conditions for socio-economic regeneration.

Public Information Campaign (PIC). There is a risk that inadequate communication or lack of transparency in decision-making can lead to opposition by some stakeholders. This will be addressed through an intensive public information program combined with a program of local capacity building for community-based planning of local development priorities leading to implementation of a demand-driven program.

Social Impact Monitoring. Social impacts will be monitored through the quarterly progress reports that synthesize the data from the different sub-programs, through periodic social impact studies by AZM and through specialized studies undertaken by CASPIS or consultants on behalf of AZM.

5. Environment

(a) Mine Closure Component

Environmental Assessment Category B. The mine closure component should result in overall improvements to the environment, as has been the case in the first mining project. These improvements will be accomplished first through the environmental remediation of closed mine sites and second through the environmental sub-component which will support pilot implementation of recommendations from the Sectoral Environmental Assessment which was undertaken under the first mining project. In addition, the proposed project should help sustain and enhance improvements in environmental management capabilities that were accomplished under the first project. As with the first project, the proposed project has an environmental assessment category "B". Environmental Management Plans have been prepared in accordance with World Bank Environmental Procedures for each of the mines to be closed under the project, were discussed with affected people and have been placed in the Info shop and made available publicly in Romania. The project will support the closure of some mines that are presently unidentified and a satisfactory Environmental Framework for unidentified mines has been received from MEC.

Mine Tailings Management Facilities. The World Bank is supporting a Hazard Risk Mitigation and Emergency Preparedness Project (HRMEP) which includes a component, co-

financed by the Global Environmental facility (GEF), on Risk Reduction of Mining Accidents in the Tisza Basin with a particular focus on rehabilitation of tailings management facilities (TMFs). Four of the proposed mine sites to be closed under this project have a total of 11 tailings management facilities (TMFs) which trigger the Dam Safety Safeguard. The MCESER project will reduce risk of failure at these TMFs and will ensure that adequate post closure monitoring plans are also in place for the TMFs closed under the project. The sites to be closed under the project have been inspected by the Romanian experts who confirm that the TMFs are being maintained and operated in line with Romanian regulatory requirements. An independent dam specialist, who is a key member of the team working on the HRMEP project and is familiar with dam safety issues in Romania, also made site visits and conducted a rapid risk assessment of the TMFs to be included in the project. The specialist considered all of the sites to stable and to be low risk for major failure. However, the specialist identified possible water management issues at four of the sites, which if not addressed could result in harm to the local ecology. The results of the rapid risk assessment, which include recommendations for small works to address the water management issues at these four sites, were provided to Government who confirmed at negotiations that they are taking appropriate actions to address the water management issues identified at the four sites. One of the identified sites, Baia Borsa, is in an area close to a tributary of an international waterway and therefore the Bank safeguard policy of International Waterways (OP 7.50) is considered to apply. The planned activities will improve the environment at the mine sites and reduce the risk of pollution to the rivers. The technical review of the TMF's concluded there is not a significant risk of dam failure at the proposed sites. None of the project activities would adversely change the quality and quantity of river water flows in the riparian countries and all of them fall within the exemption to the notification requirement under paragraph 7a of Op 7.50.

(b) Socio-economic Regeneration Component

Municipal Infrastructure sub-component The only environmental issue of significance in the SER component is the Community Infrastructure sub-component which will finance yet to be identified sub-projects that potentially could have adverse environmental and social impacts. MEC and AZM have given assurances that Community Infrastructure sub-projects are intended to have benign or positive environmental impacts. The type of sub-projects are expected to include road improvements, water supply, sewage and other environmental improvement projects, improving infrastructure for tourism, etc. All sub-projects will be required to prepare an Environmental Management Plan satisfactory to the Bank, prior to contract approval which will be prepared in accordance with a satisfactory Environmental Framework for unidentified municipal infrastructure sub-projects that has been received from AZM.

6. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[X]	[ ]
Natural Habitats (OP/BP 4.04)	[ ]	[X]
Pest Management (OP 4.09)	[ ]	[X]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[ ]	[X]
Involuntary Resettlement (OP/BP 4.12)	[X]	[ ]
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	[ ]	[X]
Forests (OP/BP 4.36)	[ ]	[X]
Safety of Dams (OP/BP 4.37)	[X]	[ ]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[ ]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[X]

(a) What is the safeguard screening category of the project? (S1, S2, S3, SF).

Safeguard Screening Category S2: In concurrence with ECCSD Safeguards Unit, the project has been assigned social safeguard screening category S2, which is based on the significance of adverse impacts caused by downsizing the mining sector labor force by 31,000 during the period 2004-07. While this is not covered by the safeguard policies, they pose a moderate risk to achieving the project development objective. The Borrower has adequate systems in place to compensate redundant mining workers through generous severance payments, unemployment benefits and early retirement packages. In addition, the project is making a significant investment in restoration of livelihoods through the SER sub-component. The project will monitor social impacts and program effectiveness annually.

Land Expropriation/Resettlement Policy Framework: A second potential risk could be triggered by land expropriation for infrastructure works. The Borrower has communicated their intention to exclude any subprojects from the municipal infrastructure sub-component that require acquisition of private property from the loan. Nonetheless, it has been considered prudent to prepare a policy framework that describes the procedures to be followed in the event that during implementation involuntary resettlement is found to be necessary for any subproject. Land acquisition is currently governed by Law 33 (1994), and MEC has a good track record of implementing involuntary resettlement in the past. Preparation of this policy framework serves to ensure that the procedures to be followed for resettlement, should it ever be necessary, will also be consistent with Bank policy on involuntary resettlement, OP/BP 4.12.

(b) What is the environmental screening category of the project? (A, B, C, FI)

***Environmental Screening Category* B** In concurrence with ECCSD Safeguards Unit, the project has been assigned environmental Category B (Partial Assessment). The basis for this rating is that the main environmental issues associated with the project related to the physical closure of the mines and that a satisfactory. As noted previously, the TMFs have been reviewed and no actions are required at this time. In addition, satisfactory Environmental Frameworks

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

have been prepared which will be used for future environmental assessments of presently unidentified additional mine closures and presently unidentified infrastructure sub-projects.

(c) If applicable, what are the key safeguard policy issues raised by the project? Environmental Assessment, Dam Safety and Involuntary Resettlement.

(d) If applicable, what are the main results of any safeguard policy related studies, and how have they been incorporated into the project? The main safeguard related study is the Sector Environmental Assessment (SEA). The results of the SEA have been reflected in the Environmental Management Plans for mines to be closed. In addition, an assessment of the land acquisition law and procedures was prepared and used as input into the Resettlement Policy Framework. In addition, MEC has also provided considerable information regarding the tailings management facilities and a report on the TMFs was prepared by an international expert.

(e) What is the borrower's capacity to implement the safeguard policies recommendations, and, if the capacity is insufficient, how will this capacity be brought to the required level? Based on the MCMSP the Borrower capacity is considered adequate. Closure of mines is expected to be carried out by CGMC which was responsible for mine closure under MCSMP and has a demonstrated, reliable capability in this regard. The Socio-economic regeneration activities are carried out by AZM who have also demonstrated reliable capacity in this regard in implementing the social mitigation activities under the MCSMP. The PMU-SER will be strengthened by recruiting an engineer with an environmental background to supervise SER infrastructure works.

(f) What type of consultations have been conducted related to safeguard issues? How did these consultations influence project design? The main consultation related to safeguards were for the Environmental Management Plans. The Government has already closed and rehabilitation over 100 mines (including 31 under the MCSMP) and is well familiar with the issues that need to be addressed for good practice closure. The consultation confirm their issues are being addressed in a satisfactory manner. The SER component also benefits from consultation and feedback obtained by AZM on social mitigation under the MCSMP and during preparation of the project. In addition, trade unions, civil society organizations and other stakeholders have been consulted regularly during implementation of the MCSMP and preparation of the MCESER project. Trade unions and other agencies implementing programs in the mining regions have also been part of the consultations during formulation of the mining strategy. The local governments, mining communities, NGOs and local businesses will be involved as local stakeholders in local development planning and many of them are expected to play a role in decision-making and/or implementation of different sub-components of the project.

(g) When were the safeguard studies made available at the InfoShop? Both the SEA and the Draft EMPs were made available to the Infoshop September 30, 2004. The draft Land Expropriation/Resettlement Framework was posted on October 4, 2004, and the Environmental Frameworks on October 7, 2004.

(h) When and where were safeguard studies made available in the cooperating country The safeguard studies were made available as follows. The SEA and the Extension of the SEA and a sample Environmental Audit and Action Plan for a complex underground hard coal mine and processing plant were made available through the NAMR website in December 2003 and the

Draft EMPs were made available through the MEC Website on September 28, 2004. The Environmental Framework and Resettlement Policy Framework for unidentified works were made available through the MEC and AZM website on October 7 2004. All of the above documents were also posted on the World Bank website in Romania on October 12, 2004.

7. Policy Exceptions and Readiness

No policy exceptions are proposed. Readiness for implementation is demonstrated by the existence of relevant laws, regulations, operating manuals, environmental management plans, resettlement policy framework, and bidding documents for the first year of implementation and by inclusion of funding for the project in the Government's annual budget.

Annex 1: Country and Sector or Program Background

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

A The Romanian Economy

Romania is a lower middle income country with GNI per capita of USD 2,260 and a population of some 21.7 million. It is the second largest country in Central and Eastern Europe, and is larger than 19 of the 25 current members of the European Union (EU).

The country is in the process of comprehensively reforming and restructuring its economy with a view to joining the EU in 2007. As part of this effort, the Government is seeking to build institutions and design and implement public policies to fundamentally transform Romania's economy and society. Strong political commitment, considerable expertise and resources, as well as popular and external support are required to achieve this objective.

Although economic growth has turned around in the past four years, important challenges remain. Further structural reforms are crucial to build a competitive market economy which is capable of withstanding the pressures of EU integration. Moreover, poverty remains widespread with 25 % of the population living below the poverty line. Some 60 % of Romania's poor live in rural areas despite the country's substantial potential in agriculture, forestry and fisheries.

Romania is a pilot country for the Comprehensive Development Framework (CDF) whereby the country owns and directs its development agenda by articulating its long term strategy for development. Consultations held in 1999 as part of the Framework revealed a clear consensus among Romanians around the country's twin development objectives of poverty reduction and EU accession.

The transition that began in Romania in 1990 was, in many respects, more difficult than in the other countries of Central and Eastern Europe. By the late 1980's Romania's economy was on the verge of collapse after forty years of rigid central planning that had emphasized self reliance, an excessive focus on heavy industry, mining and large, uneconomic infrastructure projects.

In an attempt to minimize the social costs of transition, and often captive to vested interests, the Romanian government initially hesitated to impose tight fiscal constraints and privatize large loss-making enterprises. In the late 1990's, attempts to impose macroeconomic stability without full structural support led to negative economic growth, and poverty increased sharply, doubling from 20 % in 1996 to 41 % in 1999.

Since 2000, the new Government has implemented macroeconomic policies which are supportive of growth. A disciplined fiscal policy, which complemented a tight monetary policy, and was augmented by strong advances on structural reforms, led to improved financial discipline in the enterprise sector, and has placed public finances and the financial system on much firmer footing.

This resulted in robust GDP growth for four consecutive years -- 5.3 in 2001, 4.3 in 2002, 4.9 in 2003 and an estimated over 6% in 2004. In addition, inflation and interest rates declined steadily, the fiscal deficit was brought under control, foreign exchange reserves increased to historic highs, and the external balance was comfortable. Export growth remained vigorous, fuelled by private investment and the competitive depreciation in real terms of the currency against Euro (3.7% in 2003). The competitiveness of the enterprise sector was boosted by productivity gains. Romania is now a visible and attractive destination for international investors as a result of better sovereign ratings and improved access to international capital markets.

B. The Government's Mining Strategy:

The Government of Romania has developed a strategy for recovering its mining sector over the period of 2004–2010. The strategy centers around four main objectives: (i) facilitating commercial approach to the mining industry, (ii) reducing direct involvement of the Government and attracting private capital, both local and foreign, into the mining industry, (iii) estimating and mitigating environmental impacts of the mining sector and promoting responsible environmental management, and (iv) mitigation of social problems due to the closure of non-viable mines and economy revitalization in the affected mining regions; and conditions of strategy implementation. The strategy also aims at meeting the European Union requirements that operating subsidies to "metal" mines are phased out by 2007 and operating subsidies to Coal mines are phased out by 2010.

The Government has also identified a number of short-, medium-, and long-term actions to implement its mining strategy.

- **Short-term.** By end-2004, the Government is committed to develop a set of regulations establishing a framework for implementing the overall strategy that would ease the transition of the mining sector to market economy, promote a transparent and participatory restructuring process, and specify the rights and responsibilities of the mining communities.

- **Medium-term**. During the period 2005-2006, the Government will concentrate in restructuring production facilities that will cease operations, redistributing financial resources to potential profitable mines that could be of interest to the private sector, mitigating the social cost associated with the restructuring process by providing social protection for laid-off mining personnel, and developing and implementing programs to stimulate economic growth in mining localities and absorb redundant employees of the mining industry. The Government will also implement actions and take the necessary measures to ensure proper environmental rehabilitation and protection .

- .**Long-term.** In the long-term (2006-2010), the Government will focus on elimination of production related subsidies for metal sector by 2007 and for coal by 2010, which will be achieved through the closure of uneconomic mines. The government will also accelerate the development of the private sector by developing an attractive business environment and adequate infrastructure, and dealing with past environmental liabilities in the mining industry.

The Ministry of Economy and Commerce is taken the lead of the implementation of the mining industry strategy, in consultation and participation of the other relevant national and local authorities and the mining companies, as well as civil society, represented by local communities, NGOs and disadvantaged groups.

C. World Bank Assistance Related to Mining Sector Reform in Romania.

The World Bank has assisted in developing Romanian mining sector through a number of activities, including: Mine Closure and Social Mitigation Project (MCSMP), Programmatic Structural Adjustment Loan (PSAL) II, and Programmatic Adjustment Loan (PAL) I.

- **Mining Closure and Social Mitigation Project (MSCMP).** This project is supporting Romania's efforts to reduce the burden of mining sector losses on the national budget by permanently closing uneconomic mines in a socially and environmentally sustainable manner and by supporting social mitigation efforts. The project consists of three main components. The Mine Closure Component is helping the Government to develop effective procedures for a technically and environmentally sound approach to closing uneconomic mines. Under this component 31 mines are being closed and the sites environmentally rehabilitated. The Social Mitigation Component has helped identify mitigation initiatives for addressing social hardships resulting from the sector's restructuring, and has helped assist the government in creating diversified employment opportunities for redundant labor. The Institutional Strengthening Component has improved capacity of the agencies involved in restructuring the sector, supported preparation of a Sector Environmental Assessment and contributed at introducing a modern mining licensing system.

- **PSAL II.** As part of the Privatization Support for Enterprises, the PSAL II envisaged provision of technical assistance to reduce losses and privatize national companies, including a 20 percent proportional reduction of the accounting losses of six mining companies, and contracts issued for the technical closure and environmental work at a minimum of 20 mines.

- **PAL I:** The supports actions which would lead to improvements such as: (i) at least a 25 percent proportional reduction in losses at six mining companies from 1998 to 1999; (ii) conclusion of contracts to close and perform needed environmental clean-up at a minimum of 10 mines.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

Lessons learned and reflected in the project design

Overview This project is the second Bank operation supporting the restructuring of the Romanian mining sector. The first project involved support for closure of 32 mines, social mitigation support for redundant mine workers through creation of 10,000 alternate jobs, and institutional development to build Government capacity to manage the mining sector through a new mining law, finalization of a Mine Closure Manual, and specialized studies on subsidy management, Sectoral Environmental Assessment, (SEA) and poverty and social impact analysis. The project will build on the experience of the first loan by focusing attention on more complex mines (sulphur, salt, and other minerals), initiating implementation of SEA recommendations, and supporting measures for local economic and social regeneration in the mining regions. This will involve scaling up measures for diversification of the local economy in mining regions for the additional 31,000 layoffs expected between 2004-07, in addition to residual support for an equal number of job seekers from past layoffs, who still need assistance. Based on the lessons from the first loan, support to individuals and enterprises for creating 25,000 jobs will be complemented by measures to strengthen conditions for local economic development and social regeneration through support for local communities and municipalities.

The project design builds on the lessons learned from the MCSMP in that it places most emphasis on the socio-economic generation aspects to assist mining communities while continuing support for further mine closures. The impact analysis of the first loan has been that the project's inputs were well targeted and the outputs will be achieved by the end of the project. But to achieve meaningful socio-economic regeneration, the investments need to be commensurate with the magnitude of the adverse social impacts created by sector downsizing, and direct support for job creation needs to be supplemented by measures to support mining communities and local municipalities. The project design also reflects the outcome of consultations with mining community representatives, workers, companies and Government officials that has taken place over the life of the MCSMP as well as the preparation of this project.. The IP and DP ratings for MCSMP are both fully satisfactory.

Social-economic Regeneration aspects

Further valuable lessons for actionable programs, and notably the importance of fast acting and targeted support have been derived from other mine closure operations in the ECA Region. These operations show that the selection of capable implementing agencies is crucial. This has been achieved in the project design through close cooperation in implementing the first project between the PMU, PIU's, MEC, AZM and RSDF.

The project builds on the lessons learned from the MCSMP that have encouraged AZM to operate as a learning organization continuously seeking to improve its program and refine procedures to maximize impact. AZM produces Quarterly Progress Reports and has commissioned production of annual Social Impact Monitoring reports by external consultants, in addition to specialized evaluations of individual sub-programs, such as the ETIS. In 2004, AZM

initiated two sets of studies: (a) an Institutional Assessment to make recommendations on how to strengthen their institutional capacity, (b) a Poverty and Social Impact Analysis to better understand the impact of mining sector reforms on people, and (c) a study of "Gender Impacts of Mining Sector Restructuring". The main findings of these studies are summarized below:

(a) Institutional Assessment

The objective of the study was to examine the institutional and organisational structure of AZM in terms of the role and responsibilities assigned to it in its founding documents (Emergency Ordinance 64/1997, Governmental Decision 69/1998 and Emergency Ordinance 68/2000), as well as its obligations and responsibilities under the Mine Closure and Social Mitigation Project financed by the World Bank. The second objective was to assess what would be required, in terms of institutional and organizational adjustment in order to make recommendations that would better position AZM to be able to exploit the opportunities presented to it in the context of the recently adopted "Strategy for the Mining Sector, 2004-2010".

The study points out that although AZM has been able to implement the MCSMP in a satisfactory manner, it has not been able to fulfill the broader mandate of socio-economic regeneration of the mining regions stated in its founding documents. A number of institutional constraints have been identified that will need to be addressed as AZM moves from being an agency exclusively implementing the project to an organization capable of leading the socio-economic regeneration effort needed to support the Mining Sector Strategy on a sustained basis. The main findings include:

- AZM has had insufficient budget allocation for program activities consistent with its broader mandate, and has therefore focused primarily on implementing the MCSMP and a smaller DfID-financed project;
- AZM has been unable to attract high caliber professionals due to unattractive salaries offered by the public service law;
- Subordination of AZM under MEC led to better coordination with the mining sector but weakened AZM's ability to coordinate with, and establish effective partnerships with other agencies engaged in development work in mining regions;
- The structure of regional offices at AZM was more in keeping with the distribution of mining companies than with the broader socio-economic needs of mining regions, and needs to be rationalized through consolidation of regional offices;
- AZM lacks strategic planning capacity and functional autonomy. The existence of a support organization with functional autonomy, perceived independence from the mining companies and capacity for strategic planning have proved to be key elements of success in other countries.

The study recommends:

- Restructuring of AZM to allow it to move from being a public institution subordinated by AZM to become an institution of public interest;
- Formation of a Governing Board for AZM in its new institutional form to provide greater accountability and better coordination with partner organizations;

- Reorganization of the local offices of AZM in keeping with the work load, and to bring them into closer alignment with the structure of Regional Development Agencies in Romania.

The Borrower is developing an action plan to implement the recommendations to strengthen AZM and to prepare the AZM for eventual transition to an autonomous organization. Agreement has been reached with MEC and the Borrower on such a time-bound action plan. During the MCESER project, AZM will be further strengthened by restructuring it to achieve greater autonomy, be strengthening coordination with other partner agencies that have programs in the mining regions, and by building staff capacity through training and exposure to best practices in other countries that have undergone similar transitions.

(b) Poverty and Social Impact Analysis (PSIA) of the mining sector

The PSIA consists of (i) an ex-post quantitative analysis of the impacts of MCSMP through analysis of secondary data from four rounds of SIM survey covering 5,000 households cumulatively; (ii) a study of the six municipalities – three matching pairs of municipalities – selected to compare the impact of mining sector restructuring on mining communities with those in non-mining municipalities, and the ability of municipalities to maintain local infrastructure and provide social services to their constituency; and (iii) comparative budget analysis of mining companies to assess their relative role in the economic crisis of the mining sector.

The main findings of the PSIA, which is still ongoing, are that:

- AZM programs are well targeted in terms of reaching distressed localities.
- AZM is likely to achieve the stated targets of creating 10,000 jobs under MCSMP.
- Data on outcome indicators from program localities do not demonstrate significantly better outcomes than those from non-program localities; these results are, however, affected by problems of endogeneity and scale of intervention.
    - AZM's program localities were more severely affected by mining sector restructuring than non-program localities. Without AZM's social mitigation programs, outcomes in mining localities would probably have been far worse.
    - The first policy response should be to scale up well targeted activities. Even with MCSMP project achieving its target of 10,000 jobs, the cumulative impact on the mining regions will be modest since the total layoffs from the mining sector alone are 120,000, with twice as many suffering from second order impacts. The pilot activities in the MCSMP helped establish procedures, and test instruments and approaches that are being scaled up in the MCESER project to support implementation of the Mining Sector Strategy.
- The ability of municipalities in mining localities to service their constituency has been exacerbated by the accumulation of tax arrears by public sector enterprises such as mining companies, which has squeezed municipal budgets even further. As in other mono-industrial towns, in their heyday, the mining companies had an impact on communities that went far beyond their economic impact. Many of their social functions were devolved to municipalities during the early years of transition. However, municipalities lacked the revenue base to service those needs adequately.

- Creation of jobs cannot be achieved simply through active labor market measures; support to individual job-seekers needs to complemented by investments in local development for community mobilization, economic infrastructure and social services.
    - The second policy response has to emerge from a consideration of what complementary activities could improve the impact of the targeted interventions. Preliminary findings suggest that improvements in municipal infrastructure would strengthen the enabling environment for socio-economic regeneration.

(c) Gender Impacts of Mining Sector Restructuring

The World Bank and AZM co-hosted a Seminar to discuss the gender impacts of mining sector restructuring. The seminar included presentations by women's representatives and working group discussions on the positive and negative impacts of mining on women. The key findings from the presentations and the working group discussions are that women are significantly disadvantaged by mining sector restructuring which causes great instability and uncertainty for them, their families and their communities. Not only are women affected by women losing their mining sector employment but women are also strongly affected by men losing their jobs since that affects family income and family morale. Examples were given of housewives seeking employment for the first time to provide a family income – which results in women taking on the dual roles of taking care of the home and going to work to earn an income. The women's representatives presentations and working group discussions also identified examples of actions that can be taken by different entities that could improve the situation or women. In closing the event, the World Bank Team committed to the participants to support similar follow-up events in the first half of 2005 in four to six mining region locations and asked participants to be ready to support these follow-up events.

A gender study was also presented at the Seminar. The study analyzed available data from AZM's SIM and quarterly progress reports, as well as data from MMSSF, ANOFM, the Jiu Valley study, the regional Coal Sector study and other secondary studies available on the mining regions. The study also found that women employees have been affected by sector restructuring – but as much as male employees. Specifically, 9 percent of the female respondents having lost their jobs, compared to 16 percent of male respondents. However, the study found that young women show as much inclination to emigrate as men (around 70%), and are more willing to accept alternative jobs than men - more women seem to be employed in the private sector (34%) than men (19%), who tend to have more employment in the mining sector or in the informal sector.

Another key finding from the seminar and the studies is the need for greater emphasis on capacity building:

- for local communities, municipalities and other stakeholders, to help engender local level planning and determination of priorities;
- for municipalities to help them develop viable infrastructure schemes;
- for women and youth, by providing seed money for human skills development and training to encourage them to get involved in development activities;

Additional lessons from implementation of MCSMP are that:

- Targeted labor redeployment programs limited to former miners are less effective than broad-based programs aimed at all job-seekers in mining communities; in many instances, spouses and children of former miners were more enthusiastic job seekers; in addition, those suffering from indirect effects of mine restructuring were also keen to be rehabilitated.
- Consulting enterprise owners and potential employees under the ETIS helped to redesign the program in response to evolving conditions in Romania: increase in the minimum wage and demand for female employment and younger workers were accommodated through revisions in the scheme.
- The local economy benefits short term from the mine closure activities during the closure period through local employment and procurement of goods. MEC estimate that 35% of total salaries and 90% of total supplies are retained locally. However, socio-economic regeneration is a long process that takes 10-15 years of sustained effort.

Mine Closure and Environmental Aspects The project design builds on the successful mine closures undertaken under the MCSMP. The same procedures and institutional capabilities will be used, but for more complex mines and facilities than under the MCSMP.

Experience from Other Countries The project design also reflects the experience with the two Polish Hard Coal SECALs as well as the Russia and Ukraine Coal SECAL operations. The Bank's experience with coal SECALs in the ECA Region has been that implementing coal sector reform is highly dependent on overall macroeconomic conditions and that a high level of commitment is required over several years to achieve sustained change in an industry such as coal.

The OED review of the ICRs for the two Poland SECALs concluded the following:

	SECAL 1	**SECAL 2**
Outcome	Satisfactory	Moderately satisfactory
Sustainability	Likely	Likely
Institutional Development	Modest	Modest
Bank Performance	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory

OED also commented (in Volume II Extractive Industries and Sustainable Development) that

"A notable feature of Poland's Hard Coal SECALs I and II was that succeeded in reducing uneconomical production levels and excess employment without much social stress. However, ...attempts at generating alternative employment for laid-off workers in other sectors and through encouraging small industries fell far short of expectations. This implies that the complexity of large rehabilitation/closure projects does not permit adequate attention to the demanding task of generating alternative employment, which should be the focus of projects outside of the extractive industries sectors."

The choice of an investment operation for this project reflects the OED recommendation from the Poland experience. This project also places special attention on the institutional arrangements especially for the Social-economic Regeneration component.

Annex 3: Results Framework and Monitoring

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

Results Framework

Intermediate Results One per Component	Results Indicators for Each Component	Use of Results Monitoring
Component One: Mine closure and environmental improvement	**Component One:** • Number of mines and mining enterprises closed in an environmentally sound manner • Area of rehabilitated land that is transferred by mining companies to other parties	**Component One:** • To ensure that closures are taking place according to schedule • To ensure that land is being rehabilitated and transferred by mining companies to other parties
Component Two: Socio-economic regeneration program	**Component Two :** • Number of jobs created/supported by the project • Number of beneficiaries from ETIS; • Number of additional loans, and amount disbursed by micro-credit program • Micro-credit repayment rate • Number of sub-projects implemented under SDSMC • Number of beneficiaries from SDSMC sub-projects • Number of mining communities mobilized through successful SGS implementation • Number of beneficiaries/ recipients who are able to access resources from EU or other programs for local development activities	**Component Two:** • FY06: Further refine ETIS based on demand during implementation if needed • FY06-07: Refine micro-credit procedures to sustain demand and healthy loan portfolio • FY05-06: Refine SDSMC, based on results if needed • FY05-06 refine SGS as needed, based on results of local level planning in mining communities FY05-07: Review effectiveness. Realign collaboration mechanisms based on initial experience with other partners.

Arrangements for results monitoring (Based on World Bank Fiscal Years)

Outcome Indicators	Baseline	Target Values					Data Collection and Reporting		
		FY06 (yr ending 6-30-06)	FY07 (ending 6-30-07)	FY08 (yr ending 6-30-08)	FY09 (yr ending 6-30-09)	FY10 (ending 6-30-10)	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Subsidies (USD million)	150	135	120	100	80	60	Half yearly	MEC Data Base	MEC
Results Indicators for Each Component									
Component A Mine Closure & Environmental Regeneration									
Mines Closed (cumulative)	0	0	10	18	18	20	Annually	PMU Data Base	PMU
Area of Rehabilitated Land transferred by mining companies to other parties (ha)	0	0	335	441	441	923	Annually	MEC Data Base	PMU
Component B Socio-economic Regeneration									
Jobs Created/Supported (cumulative)	0	2,000	6,000	12,000	18,000	25,000	Annually	AZM Data Base	AZM
ETIS Beneficiaries (cumulative)	0	2,000	5,000	8,000	10,000	10,000	Annually	AZM Data base	AZM
Micro-credit Disbursements (USD million cumulative)	0	2	6	10	11	11	Annually	AZM Data base	AZM
Micro-credit Repayments (minimum percentage)	90	90	90	90	90	90	Quarterly	AZM Data base	AZM
SDSMC approved Sub-Projects (cumulative)	0	75	159	225	250	250	Annually	RSDF and AZM Data base	AZM
Value of approved SDSMC Sub-Projects (USD million) (cumulative)	0	4	8	13.5	15	15	Annually	RSDF and AZM Data base	AZM
Municipal infrastructure USDm (cumulative disbursement)	0	0	2.5	7.5	12.5	15.0	Annually	RSDF and AZM Data base	AZM

Annex 4: Detailed Project Description

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

The Project will support implementation of the Government of Romania's Mining Strategy for the period 2004 to 2010. The development objective of the project is to strengthen the Government's ability to undertake mining sector reform by (i) building MEC capacity for closing uneconomic mining enterprises through support for closing complex mines and ancillary enterprises in an environmentally sustainable manner; and (ii) providing support to the National Agency for Programs Development and Implementation for the Reconstruction of the Mining Regions (AZM), local communities and other agencies for socio-economic regeneration of the mining regions.

The project consists of the following three components:

Mine Closure and Environmental Rehabilitation

Project cost USD71.9 million, excluding contingencies (loan amount USD57.7 million excluding unallocated) . This component of the Project will:

1. Support the closure and environmental rehabilitation of mines and/or mine processing facilities at 20 sites
2. Help continue implementation of the recommendations of the Sector Environmental Assessment which was conducted in 2002.

1. Mine Closure Sub-component base cost USD 71 million (loan USD56.9 million)

Physical Works. MEC has proposed 20 sites from 7 mining regions for closure based on criteria agreed with the World Bank including size, technical complexity, cost, environmental and social impact. While production has previously been stopped at many of these sites, the sites have never been closed and properly remediated. Mine buildings, equipment and environmental liabilities will be addressed in the closure process and the land will be reclaimed to allow use for beneficial new purposes. Nine of the 20 sites are located in the Jiu Valley where land for development and agriculture is scarce and mine subsidies have been high. The project will coordinate closely with the Jiu Valley regional development project on the timing of the closures to assist in the optimum transfer of the land for new uses. The sites include coal, lignite, copper, polymetalic (copper, gold, lead), and sulfur mines, as well as mine processing facilities. One site, the Calimani Sulphur mine, will be especially challenging due to its size and environmental issues, and accounts on its own for almost 20% of the mine closure component. The physical works to close the mines will take from 2 to 5 years per site. The mine closure activities will also provide a short term boost to the local economy as most workers and supplies are procured locally

Details of each package of sites to be closed in shown below.

Package 1 - Aninoasa

Package 1a

Mine #1a – Aninoasa Mine, Hunedoara County

Main activity of Aninoasa Mine was extraction of hard coal by underground methods. It extends on a surface of 34.3 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 2004. Associated with former mining operations there are 2 waste tips, containing 1.643 million cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Aninoasa Town situated at 1000 m from mine, having 5000 inhabitants and local water course is Aninoasa Stream situated at 10 m from mine boundary. The mine water does not reach the surface. The mine site is situated in three separate areas related to three curtilages. All three curtilages are related to Aninoasa Community.

The mine closure and environmental remediation proposals are general site clearance, collection of contaminants and contaminated materials and disposed off to a special constructed landfill removing of scrap metal and demolition of 125 buildings and structures, filling and capping of 4 shafts, filling and sealing of 4 adits, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of 0.05 million cubic meters of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 12 ha, planting of 7 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 800 meters.

Package 1b

Mine #1b – Iscroni (Livezeni Sud) Mine, Hunedoara County

Main activity of Iscroni (Livezeni Sud) Mine was extraction of hard coal by underground methods. It extends on a surface of 18.5 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 2001. Associated with former mining operations there is one waste tips, containing 0.054 million cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Iscroni Town situated at 1500 m from mine, having 1000 inhabitants and local water course is River Jiu (West) situated at 1500 m from mine boundary.

The mine water does not reach the surface. The mine site is situated in one curtilage near Iscroni village having a single curtilage

The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 32 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill filling and capping of 4 shafts, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes. reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 10 ha, and planting of 8 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and

drainage systems in total length of 500 meters.

Package 2 – Valea de Brazi Mine

Mine #2. Valea de Brazi Mine, Hunedoara County

Main activity of Valea de Brazi Mine was extraction of hard coal by underground methods. It extends on a surface of 16 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 2003. Associated with former mining operations there are 2 waste tips, containing 0.037 million cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Valea de Brazi Village situated at 1000 m from mine, having 1000 inhabitants and local water course is Valea de Brazi and Paraul Mare Streamlets situated at 100 m from mine boundary. The mine water does not reach the surface. The mine site is situated into compact curtilage close with Uricani Washing Plant Curtilage. Cleaning of the surface is necessary to encourage development in the area.

The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 62 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, filling and capping of 4 shafts, filling and sealing of 3 adits, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 2 ha, and planting of 14 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 1400 meters.

Package 3 - Calimani Negoiu Open Pit

Mine #3 Calimani Negoiu Open Pit, Suceava County

Main activity of Calimani Negoiu Open Pit was extraction of sulphur by open pit and underground methods. It extends on a surface of 375 hectares including mine curtilages, waste tips, tailing storage facilities and other ancillary activities. The activity ceased in 1997. Associated with former mining operations there are 6 waste tips, containing 3.5 million cubic meters of mine waste. Waste material's pH range between 3 and 5.5 having high content of sulphur, copper and Manganese. Tailing storage facilities have a total volume of 2.34 million cubic meters. The nearest community is Saru Dornei Village situated at 5,000 m from mine, having 721 inhabitants and local water course is Neagra Sarului situated on the mine boundary. Mine water with flow rate of 116 l/sec and a pH of 4.5 flows from mine workings. The site is located into wild mountainous area at elevation of 1,500 to 1,800m. Near the site there is an area containing Pinus Cembrae, a rare and protected specie of pine tree. Inside of open pit there were noticed volcanic caves. During the execution of works these should be protected if discovered.

The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 113 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, closing of raises, boreholes or other minor mine workings connected to the

surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, Construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 10 ha, and planting of 40 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 1300 meters, construction of adequate water treatment facilities to comply with 116 l/sec, having pH of 4.5 Sulphur, Iron Oxides and Heavy metals.

The tailing storage facilities will be rehabilitated by fencing the lagoons, draining off the water still contained in the tailing dam, strengthening the retaining structure, construction of deep perimeter drain, side and toe drains, regrading, capping and revegetation of the dam.

Package 4 – Racos

Mine #4 Racos Put Mine & Briqueting Plant, Covasna County

Main activity of Racos Put Mine & Briqueting Plant was extraction of lignite by underground methods and briqueting of lignite. It extends on a surface of 26.3 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 1999. Associated with former mining operations there is one waste tips, containing 6000 cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Baraolt Town situated at 3,000 m from mine, having 15,000 inhabitants and local water course is River Baraolt situated at 2,000 m from mine boundary. The mine water does not reach the surface. The mine site has three separate areas around the same community.

The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 41 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, filling and capping of 4 shafts, filling and sealing of 2 adits, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, Construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 26 ha, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 1,000 m.

Package 5 - Livezeni Coal Washing Plant

Mine #5 Livezeni Coal Washing Plant, Hunedoara County

Main activity of Livezeni Coal Washing Plant was washing of hard coal. It extends on a surface of 2.4 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 1990. Associated with former mining operations there is one waste tips, containing 0.243 million cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Petrosani Town situated at 200 m from mine, having 50,000 inhabitants and local water course is River Jiu (East) situated at 10 m from mine boundary. The mine water does not reach the surface. The Washing plant is situated into

compact curtilage near Livezeni Mine on East Jiu River left bank inside of Petrosani Town. Cleaning of the surface is necessary to encourage development in the area.
The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 44 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 2 ha, planting of 0.4 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 500 meters.

Package 6 – Lupeni Coal Washing Plant

Mine #6 Lupeni Coal Washing Plant, Hunedoara County
Main activity of Lupeni Coal Washing Plant was washing of hard coal. It extends on a surface of 78 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 2004. Associated with former mining operations there are 3 waste tips, containing 4.7 million cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Lupeni Town situated at 10 m from mine, having 20,000 inhabitants and local water course is River Jiu (West) situated at 10 m from mine boundary. The mine water does not reach the surface. The Washing plant is situated into compact curtilage near Lupeni Mine and Lupeni Town. Cleaning of the surface is necessary to encourage development in the area.
The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 38 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, closing of raises, boreholes or other minor mine workings connected to the surface. excavating and moving of 1 million cubic meters of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 50 ha, planting of 28 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 1,500 m.

Package 7 – Petrila Coal Washing Plant

Mine #7 Petrila Coal Washing Plant, Hunedoara County
Main activity of Petrila Coal Washing Plant was washing of hard coal. It extends on a surface of 113 hectares including mine curtilages, waste tips , tailing storage facilities and other ancillary activities. The activity ceased in 2003. Associated with former mining operations there are 6 waste tips, containing 6 million cubic meters of mine waste. It has one tailing storage facility with a volume of 1,1 million cubic meters. The nearest community is Petrila Town situated at 200 m from mine, having 33,000 inhabitants and local water course is River Jiu (East) situated at 100 m from mine boundary. The mine

water does not reach the surface. The Washing plant is situated into compact curtilage near Petrila Mine and Petrila Town. Cleaning of the surface is necessary to encourage development in the area.
The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 50 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, closing of raises, boreholes or other minor mine workings connected to the surface. Excavating and moving of 0.5 million cubic meters of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 30 ha, and planting of 15 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 1,500 m.
The tailing storage facility will be rehabilitated by fencing the lagoon(s), draining off the water still contained in the tailing dam, strengthening the retaining structure, construction of deep perimeter drain, side and toe drains, regrading, capping and revegetation of the dam.

Package 8 – Uricani Coal Washing Plant

Mine #8a Uricani Coal Washing Plant, Hunedoara County
Main activity of Uricani Coal Washing Plant was washing of hard coal. It extends on a surface of 40 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 1990. Associated with former mining operations there are 2 waste tips, containing 0.055 millions cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Uricani Town situated at 1,000 m from mine, having 11,000 inhabitants and local water course is River Jiu (West) situated at 10 m from mine boundary.
The mine water does not reach the surface. The Washing plant is situated into compact curtilage. Cleaning of the surface is necessary to encourage development in the area.
The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 26 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 35 ha, planting of 5 ha with local species of trees or shrubs. protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 600 m.

Mine #8b Uricani 5 Est, Hunedoara County
Main activity of Uricani 5 Est was extraction of hard coal by underground methods. It extends on a surface of 4.52 hectares including mine curtilages, and other ancillary activities. The activity ceased in 2001. There are no mine waste tips associated with mining activity. There are no tailing storage facilities. The nearest community is Uricani

Town situated at 120 m from mine, having 11,000 inhabitants and local water course is River Jiu (West) situated at 100 m from mine boundary. The mine water does not reach the surface. The mine site is situated into compact curtilage close with Uricani Washing Plant Curtilage. Cleaning of the surface is necessary to encourage other development in the area.

The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 13 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, filling and capping of 2 shafts, filling and sealing of 4 adits, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 4 ha, planting of 0.52 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 300 m.

Mine #8c Balomir Open Pit, Hunedoara County

Main activity of Balomir Open Pit was extraction of hard coal by open pit methods. It extends on a surface of 2.2 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 2001. Associated with former mining operations there is one waste tips. There are no tailing storage facilities. The nearest community is Uricani Town situated at 2,000 m from mine, having 11,000 inhabitants and local water course is River Jiu (West) situated at 1000 m from mine boundary. The mine water does not reach the surface. The Washing plant is situated into compact curtilage. Cleaning of the surface is necessary to encourage development in the area.

The mine closure and environmental remediation proposals are general site clearance, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 1 ha, and planting of 1 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 200 m.

Package 9 - Baia de Aries

Mine #9. Buturoasa Baia de Aries - Mine, Alba County

Main activity of Buturoasa Baia de Aries - Mine was extraction of gold, silver and copper ore by underground methods. It extends on a surface of 5 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 2003. Associated with former mining operations there is one waste tip, containing 0.75 cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Baia de Aries Town situated at 8,000 m from mine, having 11,000 inhabitants and local water course is River Aries situated at 10 m from mine boundary. Mine water with flow rate of 0.2 l/sec, and pH of 7 flows from mine workings.

The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 15 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, decontamination of equipment and buildings of cyanide, filling and sealing of 3 adits, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps construction of erosion fences and gabion walling to ensure long term stability and erosion control. topsoiling, cultivation and grassing of 4 ha, planting of 1 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 100 m, construction of adequate water treatment facilities.

Package 10 – Budoi

Mine #10 Budoi Sat - Open Pit and Bricqueting Plant, Bihor County

Main activity of Budoi Sat - Open Pit and Bricqueting Plant was extraction of lignite by underground methods and briqueting of lignite. It extends on a surface of 22 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 2003. Associated with former mining operations there are 2 waste tips, containing 3 million cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Budoi Village situated at 1,000 m from mine, having 1,000 inhabitants and local water course is Bistra River situated at 1,000 m from mine boundary. The mine water does not reach the surface. The mine has two separate areas, open pit and mining area and main curtilage where briquetting plant and other coal processing facilities are located.

The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 22 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill. closing of raises, boreholes or other minor mine workings connected to the surface. excavating and moving of 0.3 million cubic meters of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 18 ha, planting of 4 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 500 m.

Package 11 – Borsa

Mine #11a Burloaia Central Gura Baii Suprior, Maramures County

Main activity of Burloaia Central Gura Baii Suprior is extraction of copper, lead and zinc ore by underground methods. It extends on a surface of 30 hectares including mine curtilages, waste tips and other ancillary activities. The activity will cease in 2005. Associated with former mining operations there are 2 small waste tips. There are no tailing storage facilities. The nearest community is Baia Borsa Town situated at 50 m from mine, having 12,000 inhabitants and local water course is River Cisla situated at 10 m from mine boundary. Mine water with flow rate of 3 l/sec, and pH of 3.12 flows from

mine workings. The mine site has three separate areas: Mining site, Preparation plant and Tailing Storage Facilities Area.
The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 11 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, filling and capping of 11 shafts, filling and sealing of 9 adits, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, Construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 17 ha, planting of 13 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 900 m, construction of adequate water treatment facilities to comply with 3 l/sec, having pH of 3.12 Fe 5.62 mg/l, Cu 5.14 mg/l, Pb 0.63 mg/l and Zn 7,64 mg/l.

Mine #11b Borsa Preparation Plant, Maramures County,
Main activity of Borsa Preparation Plant is preparation of copper, lead and zinc ore. It extends on a surface of 50 hectares including mine curtilages, waste tips , tailing storage facilities and other ancillary activities. The activity will cease in 2005. Associated with former mining operations there are one waste tips and 2 tailing storage facilities with a volume of 6.8 million cubic meters. The nearest community is Baia Borsa Town situated at 50 m from mine, having 12,000 inhabitants and local water course is River Cisla situated at 10 m from mine boundary. The mine water does not reach the surface. The mine site has three separate areas: Mining site, Preparation plant and Tailing Storage Facilities Area..
The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 5 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 10 ha, and planting of 5 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 5,000 m.
The tailing storage facilities will be rehabilitated by fencing the lagoon(s), draining off the water still contained in the tailing dam, strengthening the retaining structure, construction of deep perimeter drain, side and toe drains, regrading, capping and revegetation of the dam.

Package 12 – Harghita

Mine #12a Fagu Cetatii Mine (Balan), Harghita County
Main activity of Fagu Cetatii Mine (Balan) was extraction of copper ore by underground methods. It extends on a surface of 4 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 1999. Associated with former mining

operations there are 3 waste tips, containing 1.5 million cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Sandominic Village situated at 4,000 m from mine, having 5,000 inhabitants and local water course is Vasaroaia Stream situated at 50 m from mine boundary. Mine water with flow rate of 12 l/sec, and pH of 7 flows from mine workings.

The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 5 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, filling and capping of one shaft, filling and sealing of 3 adits, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 2 ha, planting of 1.48 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 100 m, construction of adequate water treatment facilities to comply with 12 l/sec, having 7 pH 7 contaminated by heavy metals.

Mine #12b. Put 5; Iaz 2; 3; 3A (Balan Central), Harghita County

Main activity of Put 5; Iaz 2; 3; 3A (Balan Central) was extraction of copper ore by underground methods. It extends on a surface of 10 hectares including mine curtilages, waste tips , tailing storage facilities and other ancillary activities. The activity ceased in 2003. Associated with former mining operations there is one waste tip and 3 tailing storage facilities with a volume of 7.5 million cubic meters. The nearest community is Sandominic Town situated at 1,000 m from mine, having 7,000 inhabitants and local water course is River Olt situated at 999 m from mine boundary. The mine water does not reach the surface.

The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 11 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, filling and capping of one shaft, filling and sealing of 3 adits, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 6 ha, planting of 3 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 1,200 m.

The tailing storage facilities will be rehabilitated by fencing the lagoon(s), draining off the water still contained in the tailing dam, strengthening the retaining structure, construction of deep perimeter drain, side and toe drains, regrading, capping and revegetation of the dam.

Mine #12c. Poiana Orizont 110, Harghita County

Main activity of Poiana Orizont 110 was extraction of copper ore by underground methods. It extends on a surface of 5 hectares including mine curtilages, waste tips and other ancillary activities. The activity ceased in 1999. Associated with former mining

operations there are is one waste tip, containing 1 million meters of mine waste. There are no tailing storage facilities. The nearest community is Balan Town situated at 1,000 m from mine, having 35,000 inhabitants and local water course is River Olt situated at 999 m from mine boundary.
Mine water with flow rate of 1 l/sec, and pH of 6 flows from mine workings.
The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 4 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, filling and capping of one shaft, filling and sealing of 2 adits, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, Construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 4 ha, planting of 4 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 1,300 m, construction of adequate water treatment facilities.

Mine #12d Santimbru Open Pit, Harghita County

Main activity of Santimbru Open Pit was extraction of mercury ore by open pit and by underground methods. It extends on a surface of 12 hectares including mine curtilages, waste tips , tailing storage facilities and other ancillary activities. The activity ceased in 1976. Associated with former mining operations there are 3 waste tips, containing 0.1 million cubic meters of mine waste. There are no tailing storage facilities. The nearest community is Sancraieni Village and Santimbri Bai situated at 100 m from mine, having 1,000 inhabitants and local water course is River Olt situated at 100 m from mine boundary. Mine water with flow rate of 3 l/sec, and pH of 3.39 flows from mine workings.
The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 9 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill. filling and capping of one shaft, filling and sealing of 3 adits, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of material from waste tips, curtilages, benches and slopes, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 1 ha, planting of 2 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 300 m, construction of adequate water treatment facilities.

Package 13. – Bodos

Mine #13. Bodos Open Pit, Covasna County

Main activity of Bodos Open Pit was extraction of lignite by open pit methods. It extends on a surface of 107 hectares including mine curtilages, waste tips and other ancillary activities. The activity will cease in 2004. Associated with former mining operations there are 1 waste tips, containing 1.6 million cubic meters of mine waste. There are not

tailing storage facilities. The nearest community is Bodos Village situated at 1,000 m from mine, having 1,000 inhabitants and local water course is River Baraolt situated at 500 m from mine boundary. The mine water does not reach the surface. The mine site has a single area situated near Bodos village and community. The access road is the same with public road throughout Bodos Village.

The mine closure and environmental remediation proposals are general site clearance, removing of scrap metal and demolition of 4 buildings and structures, collection of contaminants and contaminated materials and disposed off to a special constructed landfill, filling and sealing of one adit, closing of raises, boreholes or other minor mine workings connected to the surface, excavating and moving of 3 million cubic meters of material from waste tips, curtilages, benches and slopes, refurbishing of 5 Km of public road and 1 bridge affected by mining operations, reshaping of all mine waste dumps, construction of erosion fences and gabion walling to ensure long term stability and erosion control, topsoiling, cultivation and grassing of 57 ha, planting of 50 ha with local species of trees or shrubs, protection of rehabilitated surfaces and affluent river by guard ditches and drainage systems in total length of 2,500 m.

Technical Assistance. The first Mine Closure and Social Mitigation Project (MCSMP) built a legal and technical base for mine closure in Romania that will be utilized in the new project. In addition to the 20 sites to be closed under the Project the Government is closing an estimated additional 100 sites using its own procedures and sources of funds. The Governments procedures have been modified in line with the procedures used in the Bank project and are considered in line with good international practice. Technical assistance, through technical audits to ensure international best practice on physical closure and environmental works, will be continued under the Project. As in the first project, training will be provided to transfer knowledge on closure practices from the Project to the broader Government closure program implemented by the Central Group for Mine Closure (CGMC). The project will also assist in the preparation of technical mine closure manuals for salt and uranium mines. An application for donor trust funds has been made for these manuals.

2. Environmental Sub-component. base cost USD 0.95 million (loan USD0.8 million)

The environmental sub-component seeks to improve environmental performance in the mining sector. A Sector Environmental Assessment (SEA) was conducted in 2002 under the MCSMP and the new Project will implement some of the SEA's key recommendations. The sub-component will prepare a) a manual for implementation an environmental management system in the mining sector; b) a manual for environmental procedures in the mining sector; c) guidelines for integrated monitoring of environmental impacts generated by mining activities; and d) implement an environmental monitoring pilot project in two sites, Calimani and Baia de Aries.

a) Manual for implementation of environmental management system in the mining sector

Although Romania has a new regulatory framework to address environmental impact issues, Government considers the administration of these regulations is fragmented and environmental agencies lack the capacity to monitor the implementation of environmental remediation measures. In order to deal effectively with the environmental degradation that has occurred in mining areas, the Government's strategy proposes the implementation of an environmental management system.

A first step toward the achievement of this objective would be the preparation of a Manual for Environmental Procedures and Implementation of Environmental Management System in the Mining Sector. The Manual should establish the framework within which the mining companies could promote adequate environmental management measures during the exploration phase in order to minimize the environment-related risks.

The manual should include:

- recommendations regarding interpretation of requirements ISO 14001 for different sub – sectors: metallic, non –metallic and coal mining
- identification of environmental aspects which should be taken into consideration
- recommendations regarding solutions

b) Manual for environmental procedures in mining sector

Based on results from ***Mine Closure And Social Mitigation Project – Environmental Management In The Mining Sector – Codes Of Practices,*** the consultant will provide a manual of environmental procedures for mining activities. The manual will comprise:

- identification of the best practices
- provision of details for mining sub – sector (metallic, non – metallic, coal)
- provision of details for each stage of technological process

c) Guidelines for integrated monitoring of environmental impact generated by mining activities

The consultant will review requirements and needs regarding monitoring of environmental impact generated by mining activities on soil and vegetation, air, surface water and aquatic ecosystems, groundwater.
Following this review, the consultant will provide a guideline of integrated monitoring. The manual will include:

- identification of monitoring requirements

- recommendation related to special procedures for each stage of mining cycle (exploration, exploitation, closure and post closure)

d) Environmental Monitoring Pilot project

The **Environmental Impact Monitoring for Calimani and Baia de Aries** will provide a consultancy team (the Consultant) who will create the framework for monitoring the environmental consequences of mine closure works for two of the most difficult mines from the Project.

This package' rationale is that there has never been a concern for monitoring of the mine closure process for sites with a special environmental impact.

Out of the mines to be closed under the Project, two are of particular importance:

Calimani Negoiu Open Pit, Suceava County
Main activity of Calimani Negoiu Open Pit was extraction of sulphur by open pit and underground methods. It affected a surface of 375 hectares, including mine curtilages, waste tips, tailing storage facilities and other ancillary activities. The activity ceased in 1997. Associated with former mining operations there are 6 waste tips, containing 3.5 million cubic meters of mine waste. Waste material's pH range between 3 and 5.5 having high content of sulphur, copper and Manganese. Near the site there is an area containing Pinus Cembrae, a rare and protected specie of pine tree (the reason for which the area was classified as natural reservation). Mine water have a flow rate of 116 l/sec, pH of 4.5 Sulphur, Iron Oxides and Heavy metals.

Baia de Aries - Mine, Alba County
Main activity of Baia de Aries mine was extraction of gold, silver and copper ore by underground methods. The ore was treated in a preparation plant. The activity ceased in 2003. Associated with former mining operations there are waste tips, tailing dams and water mines. Impact monitoring is necessary for this mine because there has never been an impact monitoring of the remediation works for tailing dams. When the preparation plant was shut down, the cyanide was not neutralized. A downstream work should be necessary to monitor the mine waters.

For both mines, water treatment facilities will be constructed under mine closure contracts.

B. Socio-economic Regeneration – project cost USD68.4 million, excluding contingencies (loan amount USD 57.1 million excluding unallocated).

The SER component will scale up the job creation activities piloted by the MCSMP and will add sub-components to foster local conditions for economic growth and social

regeneration, relying on a bottom-up planning process. Base costs for individual sub-components are provided against the descriptions of those sub-components below.

The pace of sector restructuring has been influenced heavily by the social impact on mining communities. The first wave of layoffs from the mining sector took place in 1997-98, when the economy was shrinking. At that time, an attractive severance package induced 89,000 workers out of a total of 171,000 workers to voluntarily leave the sector. Since then, additional layoffs and some retirements reduced the work force to 57,738 by January 2004, which will shrink further to 26,650 by 2007. Although women formed 16% of the mining sector work force in 1997, they constitute 20% of the laid off workers. Due to the mono-industrial nature of the economy in most mining towns, many of the laid off workers were unable to find alternative jobs. The first mining project (MCSMP) implemented schemes on a pilot basis aimed at creating 10,000 alternate jobs. Those targets are expected to be achieved by the end of the first project. However, despite emigration by 16 percent of the workforce from mining regions, and some economic growth since 2002, there is still some residual impact of the first wave of restructuring. The new project is expected to support the government in addressing the cumulative impact from the earlier, and current wave of layoffs from the mining sector.

This project is the second Bank operation supporting the restructuring of the Romanian mining sector. The second project will build on the experience of the first loan by supporting measures for local economic and social regeneration in the mining regions. This will involve scaling up measures for diversification of the local economy in mining regions for the additional 31,000 layoffs expected between 2004-07, in addition to residual support for an equal number of job seekers from past layoffs, who still need assistance. Based on the lessons from the first loan, support to individuals and enterprises for job creation will be complemented by measures to strengthen conditions for local economic development and social regeneration through support for local communities and municipalities.

The project will scale up the job creation activities piloted by the MCSMP and will add sub-components to foster local conditions for economic growth and social regeneration based on the lessons learned (see PAD Section 5). The SER component has three objectives:

(i) Scale up the job creation measures implemented under the first loan.
(ii) Support local development activities through community capacity building and financing of economic infrastructure and social services;
(i) Strengthen the Borrower's capacity to implement the socio-economic regeneration program.

1. **Support for Job Creation Activities in Mining Regions:** Since the sector restructuring process started in 1997, unemployment indicators in mining regions have tended to lag behind other regions in Romania, justifying an increased level of targeted support to mining communities in accordance with the scale of layoffs planned under the current wave of sector restructuring and the residual effect from previous downsizing.

The following three job creation activities are being implemented under the MCSMP and will be scaled up under the proposed project to create an estimated 25,000 jobs:

(a) Employment and Training Incentives Scheme (ETIS) – project cost USD10 million (loan amount USD8.0 million)

The ETIS has been one of the most successful activities under MCSMP. The scheme provides a financial incentive to potential employers to hire unemployed workers, enabling expanding businesses to retrain unskilled workers. Initially the scheme was targeted at laid-off miners. Based on experience, eligibility was expanded first to include families of former mine workers, resulting in a spurt of employment among women, and then to all unemployed job seekers within mining communities, resulting in job placements for new entrants to the labor force. A total of 4,106 jobs were created with the initial allocation of USD2.75 million. Retention rate has been over 70 percent at the end of the one-year subsidy. Responding to demand from the mining regions, another USD2.7 million were reallocated from savings incurred elsewhere in the loan which will increase the number of beneficiaries by the end of the loan. Based on that success, the new project will allocate USD8.0 million, while another USD2.0 million will be earmarked from counterpart funds for ETIS, which will result in the placement and on-the-job training for over 10,000 unemployed job seekers.

(b) Micro-Credit Scheme – fund and management contracts: base cost USD14.0 million (loan amount USD13.25 million)

The micro-credit program under MCSMP is the first example of utilization of public funds to finance micro-credit activities. For that reason, implementation under the first loan had a slow start beginning with the enactment of a new law for micro-credit (Ordinance 40/2000), the establishment of an inter-ministerial committee, and the approval of the Micro-Credit Scheme under AZM's administration. Once those institutional hurdles were overcome, implementation has proceeded rapidly. Two micro-finance institutions (MFIs) – the Community Housing Foundation (CHF), and Center for Economic Development (CDE) – registered as NGOs in Romania, were contracted to manage USD3.6 million in revolving funds. In less than two years of implementation, USD1.75 million has been disbursed through 1,528 micro-credit loans, and the pace has accelerated rapidly since the inception period. Individual borrowers received 808 loans, while 207 went to existing businesses. Average loan size is USD1,904 and average loan period is slightly more than one year. An estimated 1,900 jobs have been created or made sustainable through these loans. The remaining revolving fund is projected for full disbursement within the project period.

The project will scale up micro-credit lending, adding another USD11 million to the micro-credit fund which is projected to support over 9,000 jobs. An additional USD3 million (USD2.25 million loan) has been budgeted for the management contracts during the initial 18 months until the MFIs reach a scale where they can become self-sustaining. Banks will also be eligible for submitting bids for micro-credit management, provided they have a prior track record of successful micro-credit lending and meet the technical criteria of eligibility. The micro-credit fund will be on lent by the MFIs on a revolving

basis for a period of 8 years, leading to the establishment of a self-sustaining micro-credit industry in the mining regions.

(c) Workspace Centers – base cost USD4.1 million (loan amount USD3.1 million)

Ten Workspace Centers were created under the MCSMP by rehabilitating surplus buildings owned by mining companies. The process of acquiring these buildings, redesigning them to make them suitable for Workspace Centers and completing the repairs continued through the last quarter of FY04, when they were handed over to AZM's consultants. These Centers will be put to full use during the life of the new project. The project will finance management contracts for Workspace Centers Management and Enterprise Support (WCMES) for three years on a declining basis to administer the Centers, incubate new businesses and provide enterprise support training to aspiring entrepreneurs. Subsequently, the Workspace Centers will be handed over to local governments under new management arrangements to be developed during this project. The project has also earmarked USD600,000 for purchase of common equipment to facilitate functioning of enterprises within and around the Workspace Centers. Enterprise support services will facilitate the implementation of the micro-credit and business workspace programs, as well as provide training to other business startups. The Workspace Centers will incubate 200 new enterprises, while an estimated 6,000 jobs will be stimulated through this subcomponent.

2. Support for Community Capacity Building and Local Development Activities: A second series of activities is aimed at supporting local development activities through community capacity building and financing of economic infrastructure and social services.

(a) Social Development Schemes for the Mining Communities (SDSMC) – base cost USD15.9 million (loan amount USD13.3 million)

During the second half of the MCSMP, the Borrower proposed a restructuring of the loan, reallocating USD5.5 million from savings incurred from mine closure to finance Social Development Schemes among mining communities. This sub-component is implemented by RSDF which has a track record of success in implementing two previous Bank loans (RSDF and RSDF II, as well as one component of the RDP), for implementation of this sub-component. The Operational Manual of RSDF was adapted, modifying eligibility criteria to render smaller, disadvantaged mining settlements eligible for the sub-projects to be financed by SDSMC. The project was restructured in the first quarter of 2004 and USD5 million allocated for this sub-component, implementation of which has already begun.

Under this loan SDSCM will continue to provide grants for sub-projects proposed by community groups in mining regions. Sub-projects will be generated through a demand driven and participatory approach and will be awarded based on a set of eligibility criteria. The funds will be channeled directly to the Community Based Organizations, in accordance with the criteria and procedures in the SDSCM Operating Manual, who will

be responsible for the sub-project implementation. Under this sub-component the project will support capacity building at community level mainly through preparation, facilitation, appraisal, supervision of sub-projects, information-communication campaign and provision of training in different stages of the sub-projects life and workshops with local stakeholders. Works, goods and services under sub-projects will be procured according to the Procurement Handbook for Community (annex of the Operational Manual) elaborated according to the provisions for Community Participation in Procurement (par. 3.17 in the Procurement Guidelines), already cleared by the Bank. The new loan will scale up the SDSMC, which is expected to finance some 250 sub-projects among mining communities. Implementation will continue to be the responsibility of the RSDF, as a sub-component of the socio-economic regeneration program.

(b) Municipal Infrastructure – base cost USD17.0 million (loan amount USD13.5 million)

Infrastructure facilities within and to mining communities have been in a state of decline since the mining industry collapsed. Most of the infrastructure investments in the past had been made to support the mining industry and had therefore suffered from neglect over the past decade. Further development, operation and maintenance of local infrastructure is primarily the responsibility of local municipalities. Mining companies continue to add to the financial woes of municipalities by accumulating arrears on taxes, leading to under investment in infrastructure, which further dampens local economic development. Mining municipalities ability to access EU financing under the Phare, SAPARD, and ISPA programs is also constrained by lack of matching funds required to be eligible for those schemes. The Borrower has requested financing to enable mining municipalities to undertake feasibility studies for high priority small infrastructure identified by mining communities, in order to finance a few pilot municipal infrastructure schemes and leverage EU resources for municipal infrastructure in the mining regions, in order to overcome these constraints to local economic development.

The project plans to invest USD 15 million in municipal infrastructure schemes to be identified during the first year of the project. These schemes will be identified through a process of community consultation and local development planning in mining localities that will be severely affected by mining sector restructuring and are therefore budgeted as unidentified schemes at this time.

The project will hire local consultants to help prepare proposals and technical feasibility studies, including the environmental assessments for sub-projects to be financed by this component and for possible parallel financing by EU infrastructure programs. The pre-feasibility studies will enable municipalities from mining regions to submit better quality proposals for EU Phare, ISPA, and EU Structural Funds. The Delegation of the European Commission is interested in co-financing or parallel financing for these schemes. Efforts will be made during the initial phase of the project to coordinate with ongoing Bank-EU initiatives to harmonize procurement procedures. The project is expected to enable mining municipalities to leverage at least an equal amount of EU funds (USD15 million) through parallel financing for municipal infrastructure. This amount may be even higher if the harmonization of procurement rules is achieved.

AZM has prepared an Environmental Framework and a Land Expropriation/Resettlement Policy Framework for this sub-component to address any unforeseen environmental or social impacts. Finalization of an acceptable Operational Manual, which includes these frameworks, will be a condition of disbursement for this sub-component.

(c) Small Grants Scheme (SGS) – base cost USD 3.1 million (loan amount USD 2.6 million)

During implementation of the MCSMP, the Department for International Development (DfID) of the United Kingdom financed was a pilot scheme of GBP 300,000 for local communities to implement micro-projects of high priority to them. The maximum size of each micro-project was GBP 5,000 . The micro-projects generated tremendous enthusiasm among a population that had been despondent and apathetic and demonstrated greatest impact on women and youth. The project will scale up the activities piloted through DfID financing to provide grants of up to USD6,000 (approx. Euro 5,000) for human resource development and improving the welfare of vulnerable groups, especially women, youth, children and the elderly. The social capital benefits of this pilot has encouraged the Borrower to include this as one of the sub-components of the loan. After approval, all grant awards shall be posted on the web and on a public billboard at each location, to ensure transparency. The Operational Manual prepared for the DfID pilot has been revised for the purposes of this project, specifying the conditions of eligibility for these grants.

(d) Community Capacity Building – base cost USD0.85 million (loan amount USD0.64 million)

The success of these investments in local development will depend on the ability of local stakeholders to come together to discuss their development needs and identify priority activities that fall into the three categories of community investments. The project will contract local consultants who will facilitate a process of community mobilization and dialogue among local government, intended beneficiaries and other stakeholders in the local development process, including civil society, the private sector, and local residents. The capacity building effort will help local stakeholders to discuss resource needs, roles and responsibilities as well as to prepare proposals and finance necessary technical feasibility studies. This process will help to identify and select priority infrastructure and social service investments to be financed by the municipal infrastructure or SDSMC sub-components, or by other donor agencies, such as the EU. The process may also help to identify micro-projects that could be implemented directly by local residents financed by the SGS.

3. <u>Strengthening the institutional capacity of AZM, PMU-SER and RSDF to implement the Project:</u> A third series of activities are intended to strengthen the institutional capacity of the Borrower to implement the socio-economic regeneration component.

(a) Social Impact Monitoring & Evaluation – base cost USD 0.6 million (loan amount USD 0.45 million)

AZM will commission a baseline, mid-term and end-of-project impact evaluation of the SER program. These evaluation studies shall be commissioned by AZM, in consultation with Anti-Poverty Commission (CASPIS), and undertaken by consultants on behalf of the project. In addition, consultants shall undertake specialized third party assessments of SER sub-components to be identified during implementation in order to obtain feedback on effectiveness and provide inputs into strategic planning and project review for AZM and MEC.

(b) Public Information – base cost USD 0.7 million (loan amount USD 0.53 million)

Effective communication with local communities in mining regions and transparency will be crucial to successful implementation of the project. A consultant shall be recruited to help AZM develop its public information strategy, while service providers shall be contracted to develop appropriate materials for dissemination.

(c) Institutional Development & Training – base cost USD 2.2 million (loan amount USD1.7 million)

Institutional development and training activities will include the following support for:

1. for AZM (base cost USD1.2 million – loan amount USD0.9 million): The project will finance capacity building (technical assistance and training), technical services and equipment for development of management information system, and vehicles.

2. for PMU-SER (base cost USD0.5 million – loan amount USD0.4 million): The project will finance technical assistance (short term consultants needed for project implementation), staff training, equipment and vehicles.

3. for RSDF (base cost USD0.5 million – loan amount USD0.4 million): (i) support for technical assistance in order to provide support to beneficiaries and monitor implementation of sub-projects; (ii) financing of small studies for the evaluation of the SDSMC impact in order to improve the RSDF response to mining communities needs, MIS extension; (iii) training for RSDF staff and collaborators (facilitators, appraisers, supervisors, etc); and (iv) goods (equipment, vehicles and others).

C. Institutional Support -base cost USD 5.8 million, loan amount USD 3.0 million).

The third component consists of institutional support for the two project management units, namely (i) the Project Management Unit (PMU) which will manage the Mine Closure and Environmental component will also be responsible for consolidating project accounts; and (ii) the Project Management Unit for Socio-Economic Regeneration (PMU-SER) which will coordinate all the sub-components related to Socio-Economic Regeneration (SER). Total base costs (excluding contingencies) for incremental operating expenses are estimated at USD5.3 million, (loan amount USD2.6 million),

consisting of USD1.7 million in project costs ($0.9 million loan) for the PMU, and USD3.6 million in project costs (USD1.8 million loan) for the AZM, PMU-SER and RSDF.

(i) Institutional Support for Mine Closure and Environmental Component – Project Cost USD2.3 million (loan amount USD1.3 million):

The incremental operating costs to be covered for the PMU include PMU salary costs, vehicles, office equipment and expenses for office administration, office supplies, telephone, vehicle operating costs and travel costs. Other institutional support expenses will include PMU goods, audit services, updates to existing information systems (including financial management system), training and technical assistance.

(ii) Institutional Support for Socio-Economic Regeneration Component – base cost USD 3.6 million (loan amount USD 1.8 million):

While staff salaries and routine expenses for AZM are provided in the annual budget, systemic rigidities constrain effective field implementation by placing ceilings on monthly bills for telephone, petrol and other operating expenses. These constraints need to be overcome if the project is to implement its field outreach functions effectively. The project will provide supplementary resources to finance these expenses. These expenses will include incremental staff salaries for PMU-SER, RSDF as well as operating expenses for office administration and supplies, telephone, vehicle operation, travel costs, technical assistance services and expenses to allow AZM, PMU-SER and RSDF to undertake incremental operating activities for the project. Eligible expenses will include costs of seminars/workshops with stakeholders, workshop materials, and travel and per diem for participants.

Annex 5: Project Costs

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

The proposed loan of USD120 million equivalent (about 4,030 billion Lei) consists of USD 57.7 million to fund mine closure and environment activities; USD 57.1 million for socio-economic regeneration activities, USD 3.0 million for institutional support, USD 2.2 million for contingencies. The USD 1.2 million approx front end fee would be financed separately and not from the loan. The Bank would finance about 80% of the eligible costs for the Mine Closure and Environment component and about 83% of the eligible costs for the Socio-economic regeneration component, about 52% of institutional support and a contingency of USD 2.2 million.

Component	**Project Costs Base Costs USD Million**	**Bank Funding Base Costs USD Million**	**Total Counterpart Funding (inc donors) USD million**
Component A: Mine Closure and Environment			
(1) Mine Closure	71.0	56.9	14.1
(2) Environment	0.9	0.8	0.1
Component B: Socio-Economic Regeneration			
(1.a) ETIS	10.0	8.0	2.0
(1.b) Micro Credit	14.0	13.3	0.7
(1.c) Workspace Centers	4.1	3.1	1.0
(2.a) SDSMC	15.9	13.3	2.6
(2.b) Municipal Infrastructure	17.0	13.5	3.5
(2.c) Small Grants Scheme	3.1	2.6	0.5
(2.d) Community Capacity Building	0.9	0.6	0.3
(3.a) Social Impact Monitoring & Evaluation	0.6	0.4	0.2
(3.b) Public Information	0.7	0.5	0.2
(3.c) Institutional Development and Training	2.2	1.7	0.5
Component C: Institutional Support			
(a) Mine Closure and Environment (PMU)	2.3	1.3	1.0
(b) Socio-economic Regeneration PMU-SER	3.6	1.8	1.8
Sub Total BASE COSTS	146.3	117.8	28.5
Contingency	2.7	2.2	0.5
Front end Fee	0.6	0.0	0.6
TOTAL COSTS inc contingency and fee	149.6	120.0	29.6

Project Cost By Component and/or Activity

Component A: Mine Closure and Environment	Local USD million	Foreign USD million	Total USD million
(1) Mine Closure	49.7	21.3	71.0
(2) Environment	0.6	0.3	0.9
Component B: Socio-Economic Regeneration			
(1) ETIS	10.0	0	10.0
(2) Micro Credit	12.0	2.0	14.0
(3) Workspace Centers	3.7	0.5	4.1
(4) SDSMC	15.9	0	15.9
(5) Municipal Infrastructure	17.0	0	17.0
(6) Small Grants Scheme	3.1	0	3.1
(7) Community Capacity Building	0.9	0	0.9
(8) Social Impact Monitoring	0.6	0	0.6
(9) Public Information	0.7	0	0.7
(10) Institutional Development and Staff Training	2.2	0	2.2
Component C: Institutional Support			
(a) Mine Closure and Environment (PMU)	2.3	0	2.3
(b) Socio-economic Regeneration PMU-SER	3.6	0	3.6
Total Base Line Cost	122.3	24.0	146.3
Contingency	2.4	0.3	2.7
Total Project Costs[1]	124.7	24.3	149.0
Front end Fee	0.6	0	0.6
Total Financing Required l	125.3	24.3	149.6

Source MEC

[1]Identifiable taxes and duties are USD m 29.9 and the total project cost, net of taxes, is USD m 119.5 Therefore, the share of project cost net of taxes is about 80%

Annex 6: Implementation Arrangements

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

The Ministry of Economy and Commerce has overall responsibility for implementing the strategy. Under the Mine Closure and Environmental Component, mine closures will be implemented by CGMC who will subcontract supervision of closure activities to the PMU and the Environmental Component will be implemented by MEC's Department of Environment. MEC has delegated responsibility for implementing the Socio-economic Regeneration Component primarily to AZM with the exception of the SDSMC which will be implemented by the RSDF as a sub-component of the SER program. The Project Coordination Committee (PCC) is responsible for overall Project coordination.

Ministry of Economy and Commerce (MEC). MEC is the Ministry responsible for the mining sector. MEC was responsible for preparing the strategy and coordinated inputs from other interested parties (ministries, regional authorities, agencies and NGOs).

MEC Department of Environmental Protection (DEP). The MEC Department of Environmental Protection (DEP) is responsible for ensuring follow up under the project to the Sector Environmental Assessment (SEA). DEP will coordinate their activities under the project with the national and regional Environmental Protection Authorities who will monitor environmental aspects of mining company performance.

MEC Central Group for Mine Closure (CGMC) After production has ceased and a governmental decision approves the closure plan for the mine, the mine is transferred to the MEC Central Group for Mine Closure (CGMC) for physical mine closure and environmental rehabilitation. Based on a contract signed between MEC, CGMC and Conversmin, Conversmin is responsible for overseeing the closure of state owned mines including hiring designers and contractors for the physical closure works and hiring engineers to supervise the contractors undertaking the closure.

The Ministry of Public Finance (MPF) is responsible for providing finance for the strategy and the project and is the Borrower's representative.

AZM is the Agency responsible for the entire SER program. The PMU-SER shall manage the Special Account for the SER program and shall be responsible for the procurement, financial management and technical supervision of all sub-components of the SER program, except for the SDSMC. The PMU-SER will integrate the financial accounts of the SDSMC into the consolidated accounts for the SER program, and shall facilitate collaboration between the RSDF and AZM.

RSDF is the Agency responsible for implementation of the SDSMC, which shall be implemented as a sub-component of, and in close coordination with AZM's program activities and the rest of the SER program.

Annex 7: Financial Management and Disbursement Arrangements

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

1. Summary

Country Issues

The first Country Financial Accountability Assessment (CFAA) for Romania, finalized in December 2003, concluded that the overall fiduciary risk associated with the public financial management and financial accountability arrangements of the Romanian government administration is considered to be moderate. The systems for accounting, financial reporting and internal control represent areas with higher risks while budgeting, cash management and external audit and Parliamentary oversight represent lower risks.

The implications of the CFAA for the project are addressed by the following actions:
- A detailed review of the systems was performed for each implementing entity;
- Each implementing entity will have a distinct project-specific accounting ledger;
- Project accounting staff nominated for each implementing entity;
- The format of the FMRs and financial reports has been agreed with both implementing entities;
- Project financial statements audited by an independent auditor annually.

Strengths and Weaknesses

The significant strengths that will provide a basis of reliance on the project's financial management systems include the considerable experience of the existing project units currently in charge of implementation of the Mine Closure and Social Mitigation Project (P056337) with a closing date of June 30, 2005. There are no significant weaknesses.

The most recent financial management supervision of the Mine Closure and Social Mitigation Project of July 2004 confirmed that the FM and FP ratings of the project are highly satisfactory.

Implementing Entities

The new project would be implemented by the following two units:

One unit would combine the functions of the existing Mine Closure and Social Mitigation PMU and the Mine Closure Group PIU, established within MEC and will implement the mine closure component and its sub-components of the new Project (i.e. the MEC PMU).

The other unit is represented by the existing PIU, established under the AZM which would be further strengthened and will implement the social and economic regeneration component and its sub-components of the new Project (i.e. the SER PMU).

A Loan Agreement will be signed by the World Bank (IBRD) and the Government of Romania represented by the Ministry of Public Finance (MPF). The MPF will in turn conclude a subsidiary loan agreement with the MEC. Each of the above mentioned units would have its own special account and government contribution account to facilitate implementation of the new project.

Funds Flow

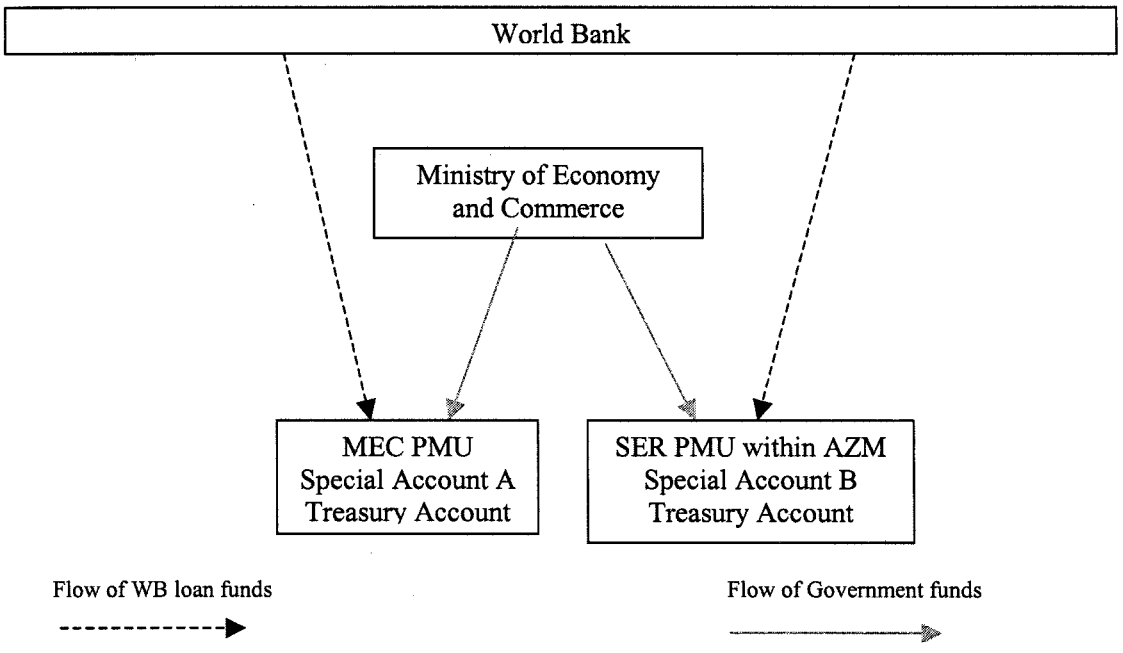
Project funds will flow in respect of each of the sources of project financing as follows:

(i) the Bank loan, by direct payments or via the two Special Accounts, which will be replenished on transactional methods using transactional disbursement procedures; and

(ii) Government counterpart contribution, via dedicated Treasury project accounts.

Two Special Accounts will be opened at commercial banks and on terms and conditions acceptable to the WB. One Special Account (SA A) will be opened for the MEC PMU in respect of its mine closure component and institutional support (part C I) and another Special Account (SA B) will be opened for the SER PMU in respect of its social and economic regeneration component and institutional support (part C II). Foreign currency amounts will be exchanged as needed in local currency (ROL), to cover eligible expenditures payments in local currency to suppliers, from the Special Accounts into local currency transfer accounts that will be opened at commercial banks and on terms and conditions acceptable to the WB.

Government counterpart contribution payments will be made from separate Treasury project accounts, being sub-accounts of the entities' main budgetary accounts, and which will be used specifically for the counterpart contributions to the project. These contributions will be received monthly in accordance with normal budget procedures. A summary flow of funds diagram is presented below:



Staffing

The implementing entities are staffed as follows in terms of project financial management:

- The MEC PMU has among its existing staff a financial controller, the financial manager, the internal auditor and the accountant, all having considerable experience on Bank – financed projects;
- The SER PMU has among its existing staff a financial officer, having worked previously on other Bank – financed projects and will hire later an additional specialist.
- RSDF has appropriate experienced financial staff within its structure (a financial manager and an accountant) and has the possibility to appoint additional financial staff.

Accounting Policies and Procedures.

The project's accounting books and records will be maintained in accordance with Romanian accounting standards and denominated in Romanian Lei (ROL) with the exception of the books and records in respect of the Special Accounts which will be maintained in the currency of the IBRD Loan. The PMUs have in place a detailed set of accounting policies and procedures and internal controls. An updated project accounting procedures manual will be developed jointly by the MEC PMU and SER PMU to respond to the new project specificities.

2. Audit Arrangements

Internal Audit

The Ministry of Economy and Commerce has its own internal audit department. In addition, the MEC PMU and PMU-SER has an internal auditor among its staff. The MEC internal audit department includes in the work program all external financing received by the ministry and its subordinated entities.

External Audit

As of the date of this report, the Borrower is in compliance with its audit covenants of existing Bank-financed projects. The Mine Closure and Social Mitigation audited Project Financial Statements were received on time every year and the auditors issued a clean opinion, with no internal control issues mentioned in the management letters.

The project will be audited annually both by an audit firm and on terms of reference acceptable to the Bank. The terms of reference for the audit have been agreed and will be attached to the minutes of at negotiations. The audit scope will include the project's books and records as maintained by each implementing entity, all withdrawal applications, and the Special Accounts. The audited project financial statements together with the auditor's opinion thereon will be provided to the Bank within six months of the end of the

reporting period, being the fiscal year. The MEC PMU will coordinate the auditing and will sign the audit contract for the entire project.

In addition, the Romanian Court of Accounts (CoA), the country's supreme audit institution, will continue to perform ad hoc external audits of the various implementing agencies, including this project.

3. Disbursement Arrangements

Bank funds will be disbursed either as direct payments, or to one of the two Special Accounts which will be replenished under the transactional disbursement procedures. Withdrawal applications for the replenishments of the SAs will be sent to the Bank directly by each responsible project implementing entity monthly, or when about a third of the initial deposit in the SA has been utilized, whichever comes first. All replenishments for transactions above the prior-review threshold will be fully documented. Supporting documentation for all transactions, including completion reports, goods received noted and acceptance certificates, will be retained by each implementing entity and made available to the Bank during project supervision. There is no plan to move to forecast-based periodic disbursements.

There are three conditions of disbursement relating to the finalization of the operational manuals for the following sub-components of the project: small grants scheme, micro-credits and municipal infrastructure. The financial management arrangements for these sub-components will be confirmed during the review of the final operational manuals. In addition, the agreed audit terms of reference and format of FMRs which include all activities and subcomponents of the project may have to be further refined once these sub-components become effective.

4. Reporting and Monitoring

Project management-oriented Financial Monitoring Reports (FMRs) will be used for project monitoring and supervision. The MEC PMU will produce the project's FMRs every calendar quarter and the reports will be submitted to the Bank within 45 days after the calendar quarter-end. The FMRs will be aggregated from the reports provided to the MEC PMU by the SER PMU, within 30 days after the calendar quarter-end. The formats of the FMRs and financial reports have been developed and have been attached to the minutes of negotiations.

5. Information Systems

The existing information system that it is used for the Mine Closure and Social Mitigation Project will be used for the new project. The software responds in the first place to the Romanian statutory requirements as well as to those of the project and provides accurate and timely inputs for the Financial Monitoring Reports. Possible updates to the existing information system (if required by the FMRs format or other new project requirements) are eligible to be financed under the loan.

6. Supervision Plan

During project implementation, the Bank will supervise the project's financial management arrangements in two main ways: (i) review the project's quarterly financial monitoring reports (FMRs) as well as the project's annual audited financial statements and auditor's management letter; and (ii) during the Bank's supervision missions, review the project's financial management and disbursement arrangements (including a review of a sample of withdrawal applications and movements on the Special Accounts) to ensure compliance with the Bank's financial management requirements.

Annex 8: Procurement Arrangements

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

A. General

Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Loan/Credit, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame have been agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement of Works: Works procured under this project, would include (a) mine closure and environmental remediation contracts, (b) contracts financed by the Bank under the Municipal Infrastructure sub-component, (c) minor works (below USD100,000) procured under the SDSMC sub-component, and (d) very small works (below USD6,000) procured under the Small Grant Scheme (SGS) sub-component. The procurement will be done using the Bank's Standard Bidding Documents (SBD).

For the contracts procured under SDSMC component, the beneficiaries will use the SDSMC Operational Manual, which was earlier reviewed and cleared by the Bank (procurement under this sub-component will be done using same arrangements as under the ongoing RSDF II and Rural Development Projects.)

For the SGS sub-component, procurement will be conducted in accordance with the ECA Region's manual for very small procurement, whose procedures shall be reflected in the SGS Operational Manual.

Procurement of Goods: Goods procured under this project would include procurement of office equipment for the PMU and for the PMU-SER, procurement of vehicles, and procurement of common equipment for Workspace Centers. The procurement will be done using Bank's SBD for all ICB, NCB and Shopping SBD agreed with (or satisfactory to) the Bank. Procurement for SDSMC and SGS sub-components will be conducted in accordance with the SDSMC Operational Manual and SGS Operational Manual respectively.

Selection of Consultants : Consulting services under the project will include various technical assistance contracts and also multiple small contracts under SDSMC and SGS sub-components. Short lists of consultants for services estimated to cost less than USD200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Selection

of consultants under SDSMC and SGS sub-components will be conducted in accordance with the SDSMC Operational Manual and SGS Operational Manual respectively.

Operational Costs, which would be financed by the project, would be procured using the PMU and the PMU-SER administrative procedures for their respective components, which were reviewed and found acceptable to the Bank.

Others: The Project includes a sub-component for financing Employment and Training Incentives Scheme (ETIS). This sub-component does not involve any procurement.

B. Assessment of the agencies' capacity to implement procurement

Procurement activities will be carried out by the PMU for the Mine Closure and Environmental Regeneration component, and by the PMU-SER for the Socio-Economic Regeneration component, with the exception of the SDSMC sub-component, whose procurement shall be managed by the RSDF. The PMU, the PMU-SER and the RSDF are staffed by one dedicated procurement officer each. Procurement for SDSMC is done in a decentralized manner by the RSDF with a number of local supervisors, supervising the process (as prescribed in the Operational Manual).

An assessment of the capacity of the three Implementing Agencies to implement procurement actions for the project has been carried out by Leonid Vanian during the pre-appraisal mission from September 6 to 10, 2004. All implementing agencies, and their staff have strong experience in procurement under Bank-financed projects. In addition, the procurement arrangements are very similar to those employed and tested under the previous projects (MCSMP, RDP and RSDF II).

Most of the issues/ risks concerning the procurement component for implementation of the project have been identified and include lack of staffing for PMU-SER to handle substantially increased volume of procurement. The corrective measures which have been agreed are adding one additional procurement specialist to the staff of PMU-SER. Had the Project run concurrently with existing projects administered by RSDF, procurement capacity would have been an issue, since RSDF current capacity is up to 200 sub-projects a year. However, RSDF II has a closing date of August 2006 and procurement for RSDF II will be completed by mid-2005, prior to the starting date of the Project. Procurement of the estimated 250 sub-projects for the new Project is thus within RSDF's existing capacity.

The overall project risk for procurement is considered average.

C. Procurement Plan

The Borrower, at appraisal, developed a Procurement Plan for project implementation which provides the basis for the procurement methods. This plan was subsequently updated and agreed between the Borrower and the Project Team on November 4, 2004 and again on November 14,2004 and is available at the PMU office in Bucharest. It will also be available in the Project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as

required to reflect the actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended 6-months frequency of supervision missions to visit the field to carry out post review of procurement actions.

Annex 8: Attachment 1: Details of the Procurement Arrangement involving international competition

1. Goods and Works and non consulting services.

(a) List of contract Packages which will be procured following ICB and NCB:

1	2	3	4	5	6	7	8
Package. No.	**Contract (Description)**	**Procurement Method**	**P-Q**	**Domestic Preference (yes/no)**	**Review by Bank (Prior / Post)**	**Expected Bid-Opening Date**	**Comments**
1	Mine Closure and Environmental Mitigation 1a (Aninoasa)	NCB	No	No	Prior	Jun-05	
	Mine Closure and Environmental Mitigation 1b (Livezeni Sud)	NCB	No	No	Prior	Jun-05	
2	Mine Closure and Environmental Mitigation 2 (Valea de Brazi)	NCB	No	No	Prior	Jun-05	
3	Mine Closure and Environmental Mitigation 3 (Calimani)	ICB	No	No	Prior	Jun -05	
4	Mine Closure and Environmental Mitigation 4 (Racos)	ICB	No	No	Prior	Jun -05	
5	Mine Closure and Environmental Mitigation 5 (Livezeni)	ICB	No	No	Prior	Jul -05	
6	Mine Closure and Environmental Mitigation 6 (Lupeni)	ICB	No	No	Prior	Jul-05	
7	Mine Closure and Environmental Mitigation 7 (Petrila)	NCB	No	No	Prior	Jul-05	
8	Mine Closure and Environmental Mitigation 8 (Uricani)	ICB	No	No	Prior	Jul-05	
9	Mine Closure and Environmental Mitigation 9 (Baia	NCB	No	No	Prior	May-06	

	de Aries)						
10	Mine Closure and Environmental Mitigation 10 (Budoi)	NCB	No	No	Prior	May-06	
11	Mine Closure and Environmental Mitigation 11 (Borsa)	ICB	No	No	Prior	May-06	
12	Mine Closure and Environmental Mitigation 12 (Harghita)	NCB	No	No	Prior	May-06	
13	Mine Closure and Environmental Mitigation 13 (Bodos)	ICB	No	No	Prior	Jun-06	
14	Mine Closure and Environmental Mitigation 14 (TBD)	ICB/NCB	No	No	Prior	Jun-06	
23	Workspace Center – equipment	S	No	No	Prior	Jun-05	
27	Municipal infrastructure	NCB	No	No	Prior	May-06	
36	MIS Equipment	ICB/S	No	No	Prior	Feb-06	

(b) All ICB and NCB contracts will be subject to prior review by the Bank.

2. **Consulting Services.**

(a) List of Consulting Assignments with short-list including international firms.

1	2	3	4	5	6
Ref. No.	Description of Assignment	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date	Comments
15	Technical Survey	QCBS	Prior	Apr-05	
16	Salt & Uranium Closure Manuals	QCBS	Prior	Mar-05	
17	Manual for Environmental Procedures and Implementation of Environmental Management System in the Mining Sector	QCBS	Prior	Mar-05	
18	Environmental Impact Monitoring for Calimani and Baia de Aries	QCBS	Prior	Apr-05	

21	**Microcredit - Management**	**QCBS**	**Prior**	**Jun-05**	
22	**WSCs Management and Enterprise Support**	**QCBS**	**Prior**	**Feb-05**	**The current contract are until April 30, 2005**
30	**Community capacity building**	**LCS**	**Prior**	**Aug - 05**	
31	**Monitoring and evaluation**	**QCBS/CQS/LCS/IC**	**Prior**	**Oct-05**	
32	**Public Information**	**QCBS**	**Prior**	**Oct-05**	
34	**AZM Capacity building – TA**	**QCBS**	**Prior**	**Oct-05**	
35	**MIS – Technical Services**	**QCBS**	**Prior**	**Jun-05**	
44	**Audit Services**	**LCS**	**Prior**	**Apr-05**	

Note: above table only identifies packages for ICB, NCB and consulting assignments eligible for international bidding. Shopping and consulting assignments for local firms are not shown in the table.

(b) Consultancy services estimated to cost above USD50,000 per contract with firms, consultancy services estimated to cost above USD25,000 per contract with individuals will be subject to prior review by the Bank.

(c) **Short lists composed entirely of national consultants**: Short lists of consultants for services estimated to cost less than USD200,000 equivalent per contract, may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 9: Economic and Financial Analysis

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

Mine Closure and Environmental Component

Since this component is a capacity closure and environmental improvement component there is no calculation of financial or economic rates of return for the component. However, it is expected that the project will achieve the planned capacity closures and environmental improvements on a least cost basis. Competitive bidding process and time bound completion schedules will help ensure that mines are closed in a least cost basis.

Socio-economic Regeneration component

The annex will briefly outline the assumptions underlying the cost and benefit calculations which are computed by combining the social costs and benefits of mine closure, layoffs and job creation. From the offset it is important to briefly point out three types of factors that will not be addressed in the analysis:

1) Factors not easily quantifiable, such as the loss of productive activities that can no longer be carried out due to formal employment (childcare, community work, taking care of elderly) or unproductive/counterproductive activities that the lack of formal employment could lead to (criminal actions, psychological diseases, substance abuse etc. Also excluded are non-monetary benefits such as the pride, networks and self-esteem that are often related with having a job.
2) Factors relating to dynamic effects. All calculations are based on statistic information; second round dynamic effects are not included. The distortions of interfering in the market should be measured up against the gains of positive second round effects of economic revival through increased purchasing power and through the backward and forward linkages with the rest of the economy. A clear advantage of the social component is that it also leads to a decline in the informal economy.
3) Factors that will only have minor effects. A myriad of minor factors can be quantified but been left out in order to generate clear, transparent and parsimonious calculations. As the final result reveals, the robustness is such that there is little reason to include a range of minor effects with marginal impact of the result.

The cost-benefit calculation consists of two interlinked parts: (i) the mining downsizing part and (ii) socio-economic regeneration schemes.

(i) Mining downsizing:

The mining downsizing is expected reduce the mining workforce by 31,000 in the period 2004-2007. On one hand this will lead to increased expenses for severance and unemployment benefit but on the other it will generate savings from restructuring the unproductive mining industries. The following assumptions have been made on the benefit and cost side:

Benefits:
If the value of inputs used exceeds the value created, downsizing workers in such loss making enterprise leads to savings. Based on detailed budget information of the major mining companies in Romania, a net output/worker-ratio can be produced that can proxy for either foregone income (if it is positive) or the potential savings (if it is negative) of downsizing workers. The net output has been calculated as the output generated through sales after deducting the overall mining expenses. Using the production structure of the mining companies, the output per worker has also been controlled for the contribution of capital to the output. Throughout the period 2004-2006 the net output/worker-ratio (controlled for capital inputs) has been estimated to between USD4,900-4,600/year, which means that for each downsized worker this amount could be saved each year. The savings are in essence cumulative in future years but the analytical period has been cut off in 2007 to reflect the EU accession rules of eliminating government subsidies to mining in that year (hard coal mines in 2010).

Costs:
Severance:
Mining companies have agreed to pay severance equivalent to two years of median wages in the sector as well as a lump sum of 4,545 USD (150 million lei). According to AZM statistics, the average wage in the mining industry is about 3,000 USD a year, which results in an overall expense of 10,545 USD for severance payment.

Unemployment:
The Law 76/2002 stipulates that – with a few exceptions – the unemployment benefit is a tax-free monthly fixed amount of 75% of the minimum gross wage (Art. 39) and is paid for a period of up to 12 months (Art. 39). The economy-wide minimum wage is about 960 USD, which is equivalent to an employment benefit of 720 USD a year per unemployed.

(ii) Socio-economic regeneration schemes:
The social component consists of several sub-components for economic revitalization and job-generation in the mining regions. Some sub-component do lend themselves well to a cost-benefit analysis based on monitorable job-generation (SDSMC, SGS, Municipal Infrastructure and Community Capacity) but the following three components has been included in the analysis with combined expenditure of 29.1 million in the loan period and an expected generation of 25,000 jobs:

1) ETIS with an overall budget of 10 million and an estimated job generation of 10,000 jobs.
2) Micro-credit scheme with a budget of 14 million and an estimated job generation of 9,000 jobs.
3) Enterprise support with an overall budget of 4.1 million and an estimated job generation of 6,000 jobs.

The costs will thus consist of the scheme expenses while the benefits will consist of the jobs generated and the incremental value increase (from negative unemployment expenses to the wages obtained).

Benefit:

Jobs generated
The number of jobs generated is taken from the outcome indicators in Annex 3.

However, experience with the first loan has shown that not all the jobs created are sustained in the long run. According to AZM statistics, around half of the jobs of the ETIS scheme seem to be sustainable in the longer term while 70 % of the jobs generated from the micro-credit scheme are sustainable. Due to the limited experience with the ES-scheme an estimate of 50 % sustainability has been made.

In addition, reports often implicitly describe the impact in relation to an ex ante benchmark situation. Although most convenient from a practical perspective, in theory one would need to compare interventions with a business as usual scenario. In a previous impact assessment of the Romanian labor schemes, the 2002 'Impact of Active Labor Market Programs', the relationship between the extra jobs reported by the contractors/implementing agencies (applying a before and after perspective) and the extra jobs estimated by the study (applying a business as usual perspective) were deduced. The estimation of extra jobs was based on an extensive survey – covering more than 4,000 respondents – as well as econometric techniques (propensity scoring) to generate a robust analytical counterfactual. The study revealed that the number of jobs reported according to a benchmark situation was 3.4 higher than a business as usual scenario. The reason for this substantial difference is not just the fact that jobs are also created in the absence of schemes but also due to a factor of self-selection: people who are most likely to be aware of the schemes and to take advantage of them are also often those who are active, better informed, more confident, enjoy domestic support, and better educated. A recent study, 'Evaluation of Social Programs in Mining Regions in Romania: Findings from SIM survey 2001-2004', analyzed the predictors of awareness of the AZM employment schemes and found that people with more education and money than average had significantly greater awareness of the schemes. The problem, from an impact assessment perspective, is that these would probably find jobs anyway. AZM estimates that up to 50 % of the reported jobs might have been created in the absence of the schemes.

With regards to the micro-credit schemes, these have been based on the principle of revolving funds and the high repayment rates in the first loan coupled with a frontloading of the management fees in the first two years make it reasonable to expect that the direct – not the second round – employment generation effects can be sustained on a declining basis some time after the initial round of loans. It is estimated that around a third of the jobs generated during the loan period can be created after the expiration of the loan.

In summary, the jobs generated are first adjusted for sustainability and then adjusted for potential bias of overestimation to achieve a realistic, yet conservative estimate of the jobs generated. The micro-credit scheme is adjusted for the effect of multiple rounds of lending from the revolving funds, which will continue beyond the Project period. A conservative assumption of 30% additional jobs beyond the Project period have been used.

The value per job

The value of the jobs generated also needs to be determined and has been proxyed by wages. Although the wage rate is an imperfect proxy of the productive surplus value, it is the only information available. According to AZM, the average wage of the jobs generated is close to the national net minimum wage of 960 USD a year (2004), which is equivalent to a gross wage of 1600 USD a year. Hence, with the ETIS scheme where the beneficiaries are clearly wageworkers a wage of 1600 USD has been applied while the conservative net minimum wage has been applied in the two other schemes were self-employment is widespread. In general, due to the EU accession demands, this minimum wage could increase substantially – more than double – during the period and consequently reduce the job creation effect of this sub-component.

Costs:

The cost side combines the costs of the three schemes as they are reflected in Annex 4 with the severance payments to be incurred during the period 2004-07.

Results

Both the reform of the mining sector as a whole and the social mitigation component are justified from an economic point of view with an economic rate of return of 39 %.

Cost-Benefit Analysis Summary

Amounts in USD million	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Benefits:												
Jobs generated		1,450	3,400	4,000	3,750	1,450	490	420	350	280	210	140
Income generated		1.9	4.9	5.6	5.1	2.0	0.5	0.4	0.3	0.3	0.2	0.1
Unemployment savings		1.8	4.3	5.0	4.7	1.8	0.5	0.4	0.4	0.3	0.2	0.1
Value from employment		1.8	5.5	8.7	11.1	10.6	10.2	9.6	8.0	8.0	8.0	7.9
Mining Cost Savings	39.9	75.4	111.4	147.5								
Total Benefits	**39.9**	**77.3**	**117.0**	**156.1**	**11.1**	**10.6**	**10.2**	**9.6**	**8.0**	**8.0**	**8.0**	**7.9**
Cost												
Project costs		2.1	8.2	8.2	6.6	3.0						
Severance Payments	60.4	81.8	80.8	80.8	23.0							
Unemployment cost	5.8	5.5	5.5	5.5								
Total Costs	**66.1**	**89.5**	**94.6**	**94.6**	**29.6**	**3.0**						
Net Benefits	**(26.3)**	**(12.2)**	**22.4**	**61.6**	**(18.5)**	**7.6**	**10.2**	**9.6**	**8.0**	**8.0**	**8.0**	**7.9**
NPV (discount 7%)	36											
IRR	39%											

Sensitivity analysis

	Sensitivity Analysis	
	2005-15	2005-09
NPV/NPVcosts (3%)	20%	6%
NPV/NPVcosts (5%)	16%	7%
NPV/NPVcosts (7%)	14%	8%
IRR	39%	32%

The sensitivity analysis displays the changes in rates of return by switching discount values and changing the duration for which benefits and costs have been computed.

Conclusion: The analysis shows that employment downsizing of the loss-making mining industry combined with re-employment of workers in productive private sector activities would make a significant contribution to the mining regions and the country's overall economy. The contribution is due to the overall productivity increase which would be caused by sector's workers taking up jobs outside the industry as well as by the reduced burden on the state budget by adjusting the mining labor force to the sector's requirement. The sensitivity analysis shows that even at the lowest discount rate, the returns are justified, pointing to the urgency of making these investments to accelerate the reform program.

Annex 10: Safeguard Policy Issues

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

In concurrence with ECCSD Safeguards Unit, the project has been assigned environmental Category B (Partial Assessment). The basis for this rating is that the main environmental issues associated with the project relate to the physical closure of the mines where actions will result in environmental improvements The project has been assigned a social safeguard rating of S2 because of the moderate risk associated with mass layoffs through sector downsizing, and the possibility, albeit low likelihood, of land expropriation for the municipal infrastructure under the socio-economic regeneration component. The physical mine closures involve tailings storage facilities; a review of these facilities concluded that they do not trigger the Dam Safety policy. A Resettlement Policy Framework has been prepared by the Borrower for the Municipal Infrastructure sub-component and will be used to appraise all sub-projects proposed for financing under that sub-component along with the preparation of Environmental Management Plans for those sub-projects. To be eligible for financing from the loan, the technical studies for the sub-projects must either demonstrate that there are no adverse social or environmental impacts, or that satisfactory management plans are in place to address those impacts.

Mine Closure Component

Environmental Issues: In concurrence with ECCSD Safeguards Unit, the project has been assigned environmental Category B (Partial Assessment). The basis for this rating is that the main environmental issues associated with the project relate to the physical closure of the mines. They include: (i) possible failure to decommission the mines or parts of mines in an environmentally acceptable manner; (ii) possible failure to deal with subsidence issues in a satisfactory and timely manner, and (iii) demolition and removal of old structures and equipment. Impacts associated with these issues are modest, and of short duration. Mitigating measures to address these impacts are well known and routinely practiced in the sector. Decommissioning and rehabilitation of mines in the project area are expected to lead to improvements in the natural environment. Future land use is expected to include new business and light industrial development and any land use planning activity would require due attention to environmental aspects. The Government of Romania is fully cognizant of these aspects.

The sites contain a number of old tailings management facilities (TMFs) which trigger the Dam Safety Safeguard. The goal of the project is to close the TMFs in an environmentally responsible manner, reducing the risk of possible future dam failure. The World Bank is also supporting a Hazard Risk Mitigation and Emergency Preparedness Project (HRMEP) which includes a component, co-financed by the Global Environmental facility (GEF), on Risk Reduction of Mining Accidents in the Tisza Basin with a particular focus on rehabilitation of TMFs. Work under this component of the HRMEP project has confirmed that Romania has a legal framework in place to ensure the safety of these facilities which is comparable to legal frameworks in other EU countries.

A Romanian National Dam Safety Commission (CONSIB) was established in year 2000 under the MEWM. CONSIB includes experts from different ministries and research institutes as well as independent experts. Some members of CONSIB are also members of a Tailings Dam Committee established under MEC. The tailing management facilities will be rehabilitated by fencing lagoons, draining off the water still contained in the tailing dam, strengthening the retaining structure, construction of deep perimeter drain, side and toe drains, regrading, capping and revegetation of the dam

At the request of the Bank an independent dam specialist, who also works on the Romania Hazard Risk Mitigation project and is familiar with dam safety issues in Romania, also made site visits and conducted a rapid risk assessment of the TMFs to be included in the project. The specialist considered all of the sites to stable and to be low risk for major failure. However, the specialist identified possible water management issues at 4 of the sites, which if not addressed could result in harm to the local ecology. The results of the rapid risk assessment, which include recommendations for small works to address the water management issues at these 4 sites, were provided to Government who confirmed at at negotiations that they are taking appropriate actions to address the identified issues..

The project will close mines including some tailing management facilities. One of the identified sites, Baia Borsa, is in an area close to a tributary of an international waterway and therefore the Bank safeguard policy of International Waterways (OP 7.50) is considered to apply. The planned activities will improve the environment at the mine sites and reduce the risk of pollution to the rivers. The technical review of the TMF's concluded there is not a significant risk of dam failure at the proposed sites. None of the project activities would adversely change the quality and quantity of river water flows in the riparian countries and all of them fall within the exemption to the notification requirement under paragraph 7a of Op 7.50. A separate Hazard Risk Mitigation and Emergency Preparedness (HRMEP) Project plans to rehabilitate the major tailing management facility in the Baia Borsa region (which was considered high risk) and has already notified the possible affected riparian countries which responded positively with regard to the proposed activities. Under the Hazard Risk Mitigation project a Regional Task Force, which includes representatives all riparian countries, was established to ensure communication and basin wide cooperation among the riparian countries and the same arrangements will be utilized under the Mine Closure project. Since the riparian countries have been informed and have responded positively that the Bank will be supporting TMF improvements at the Borsa site, consistent with OP 7.50, no further action is considered to be required at this time.

One additional site was reviewed by the dam specialist who recommended urgent action to address stability at the site which was identified as high risk. The timing of the new project will not be sufficient to address the issues at the high risk site and the Government [agreed at negotiations] to take urgent steps to reduce the risk of failure independently of the project. The Bank has informed the Government that it is willing for savings from the current MCSMP to be used to address this issue.

In accordance with procedures for an environmental B category project, specific Category B environmental management plans (EMPs) were prepared and reviewed by the Bank for each of the sites identified for closure at the time of project appraisal. These EMPs were prepared in a

manner that is fully consistent with EA policies and procedures of both the World Bank and the Government of Romania. All the EMPs documents were displayed publicly in Romania (in Romanian) and delivered to the World Bank (in English) prior to appraisal. EMPs for additional sites to be identified during implementation and for presently unidentified sub-projects under the Municipal Infrastructure sub-component will be prepared according to Environmental Frameworks that has been agreed with the Bank. Such EMPs will be disclosed in a timely manner.

The Borrower has addressed safeguard issues and taken actions to minimize and mitigate potentially adverse impacts, not only of the project, but is also starting to take actions to improve environmental performance the overall industry through pilot environmental management programs developed as a result of the SEA which are being implemented under the MCSMP and will continue to be implemented under this project.

Social Issues. Of the 171,000 workers employed in the mining industry in 1997, around 113,000 had left the industry in earlier phases of restructuring prior to the approval of the Mining Sector Strategy in early 2004. During the period 2004-07, the work force will be reduced by another 31,000, most of these through redundancies, while a few through retirement eligibility. While this is not covered by the Bank's safeguard policies, these layoffs pose a moderate risk to achieving the project's development objective. The Borrower has adequate systems in place to compensate redundant mining workers through generous severance payments and unemployment benefits. The project will monitor the delivery of these entitlements during implementation. In addition, the project is making a significant investment in restoration of livelihoods through the SER Component, the impacts of which will be assessed annually.

Socio-economic Regeneration Component.

The project area does not include any indigenous people but the project includes a sub-component for municipal infrastructure that potentially could involve involuntary resettlement. The SDSMC also finances community-based sub-projects, including infrastructure. However, as with the remaining Bank projects executed by the RSDF, the SDSMC may not finance any sub-projects that involve land expropriation.

The Borrower has also communicated their intention to exclude any subprojects from the municipal infrastructure sub-component that require acquisition of private property from the loan. Nonetheless, it has been considered prudent to prepare a policy framework that describes the procedures to be followed in the event that during implementation land expropriation or involuntary resettlement is found to be necessary for any subproject. Land acquisition is currently governed by Law 33 (1994) on Land Expropriation, and MEC has a good track record of implementing involuntary resettlement in the past. The resettlement framework prepared for the Romania Transport Restructuring Project has been adapted for this project. Preparation of this policy framework serves to ensure that the procedures to be followed for land expropriation/resettlement, should it ever be necessary, will also be consistent with Bank policy on involuntary resettlement, OP/BP 4.12. The social safeguard screening category is S2.

Environmental Issues

The municipal infrastructure schemes could also involve environmental impacts. An environmental framework has been prepared that describes the process to be followed for environmental assessment and management. All schemes proposed by mining municipalities will undergo technical feasibility studies that will include assessment of their environmental impacts. Any sub-projects with environmental impacts will prepare an Environmental Management Plan satisfactory to the Bank before the procurement is completed.

Social Issues

The technical feasibility studies for the municipal infrastructure schemes will also review and confirm that these schemes do not involve land expropriation (i.e. acquisition of land for public purpose). Should any sub-projects involve land expropriation, they shall follow the procedures laid out in the Resettlement Policy Framework to complete the assessment of impacts and implementation of measures found necessary by that assessment for compensation of land acquired and other losses incurred due to prejudice (i.e. effects on livelihoods) caused by the land acquisition, before initiating construction works.

Annex 11: Project Preparation and Supervision

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

	Planned	Actual
PCN review		February 12, 2004
Initial PID to PIC		July 9, 2004
Initial ISDS to PIC		July 9, 2004
Appraisal		October 8, 2004
Negotiations		November 1, 2004
Board/RVP approval	December 16, 2004	
Planned date of effectiveness	May 31, 2005	
Planned date of mid-term review	September 30, 2007	
Planned Completion Date	November 30, 2009	
Planned closing date	May 31, 2010	

Key institutions responsible for preparation of the project:

Ministry of Economy and Commerce
AZM

Bank staff and consultants who worked on the project included:

Name	Title	Unit
John Strongman	Mining Adviser	COCPD
Anis A. Dani	Lead Social Scientist	SDV
Christopher Sheldon	Mining Specialist	COCPD
Adriana Eftimie	Mining Specialist	COCPD
Barnard Baratz	Environmental Specialist	Consultant
Leonid Vanian	Procurement Specialist	ECSPS
Nicholay Chistyakov	Senior Disbursement Officer	LOA
Bogdan Constantinescu	Financial Management Spec.	ECSPS
Benedicta Oliveros	Procurement Assistant	ECSPS
Marc-Olivier Rubin	Junior Professional Officer	SDV
Carmen Elena Arhip	Operations Officer	ECSIE
Ana Otilia Nutu	Consultant	ECSPE
Doina Visa	Operations Officer	ECSIE

Bank funds expended to date on project preparation:

1. Bank resources (ECA) USD 247,000
2. Bank resources (PSIA): USD 24,000
3. Trust funds: USD 4,000
4. Total: USD 275,000

Estimated Approval and Supervision costs:

1. Remaining costs to approval: USD 40,000
2. Estimated annual supervision cost: USD 100,000

Annex 12: Documents in the Project File

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

- Mission Aide Memoire and Letters to Government
- Government 2004-2010 Mining Sector Strategy

Mine Closure Component

- Mine Closure EMPs
- Procurement Plan
- Sector Environmental Assessment
- Sector Environmental Assessment – Extension Report
- Tailings Management Facilities Site Reviews
- Romania Procedures for Tailings Management

Socio-Economic Regeneration Component

- Institutional Assessment of AZM
- Annual Social Impact Monitoring Reports 2001, 2002, 2003, 2004
- AZM Quarterly Progress Reports
- Gender in Mining Communities
- Poverty and Social Impact Analysis of the mining sector (ongoing)
- Impact of mining sector restructuring on municipalities – comparative case studies (draft report)
- Gender Impacts of Mining Sector Restructuring
- Resettlement Policy Framework
- Environmental Framework

Annex 13: Statement of Loans and Credits

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project (November 1, 2004)

			Original Amount in US$ Millions						Difference between expected and actual disbursements	
Project ID	FY	Purpose	IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P008791	2005	PAL	150.00	0.00	0.00	0.00	0.00	152.06	0.00	0.00
P075163	2004	HAZ MITIG	150.00	0.00	0.00	0.00	0.00	150.00	0.00	0.00
P043881	2004	IRRIG REHAB	80.00	0.00	0.00	0.00	0.00	79.85	1.65	0.00
P067367	2003	FOREST DEVT	25.00	0.00	0.00	0.00	0.00	24.96	2.86	0.00
P068062	2003	ENERGY EFF (GEF)	0.00	0.00	0.00	10.00	0.00	8.53	7.15	0.00
P069679	2003	PPIBL	18.60	0.00	0.00	0.00	0.00	17.80	-0.80	0.00
P073967	2003	RURAL EDUC	60.00	0.00	0.00	0.00	0.00	58.06	4.27	0.00
P081406	2003	ELEC MARKET	82.00	0.00	0.00	0.00	0.00	87.68	-1.96	0.00
P066065	2002	AG POLLUTION CONTROL (GEF)	0.00	0.00	0.00	5.15	0.00	2.65	0.70	0.00
P068808	2002	SDF 2 (APL #2)	20.00	0.00	0.00	0.00	0.00	11.33	-8.67	0.58
P057960	2002	RURAL DEV (APL #1)	40.00	0.00	0.00	0.00	0.00	35.72	8.22	0.00
P008783	2001	SOC SECT DEV (SSD)	50.00	0.00	0.00	0.00	0.00	44.42	34.66	0.00
P056891	2001	RURAL FIN (APL #1)	80.00	0.00	0.00	0.00	0.00	69.43	39.53	-3.57
P043882	2000	AGR SUPPORT SERVS	11.00	0.00	0.00	0.00	0.00	4.36	4.36	-0.10
P056337	2000	MINE CLOSURE	44.50	0.00	0.00	0.00	0.00	22.92	22.92	6.42
P044176	1999	BIODIV CONSV MGMT (GEF)	0.00	0.00	0.00	5.50	0.00	1.75	1.75	0.64
P058284	1999	CULTURAL HERITAGE	5.00	0.00	0.00	0.00	0.00	1.57	1.57	1.57
P039251	1999	PIBL	25.00	0.00	0.00	0.00	1.10	3.99	5.09	0.00
P034213	1998	GEN'L CADASTRE	25.50	0.00	0.00	0.00	0.00	14.50	14.50	3.23
P039250	1997	ROADS 2	150.00	0.00	0.00	0.00	0.00	14.99	14.99	0.00
		Total:	1,016.60	0.00	0.00	20.65	1.10	806.57	152.79	8.77

ROMANIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

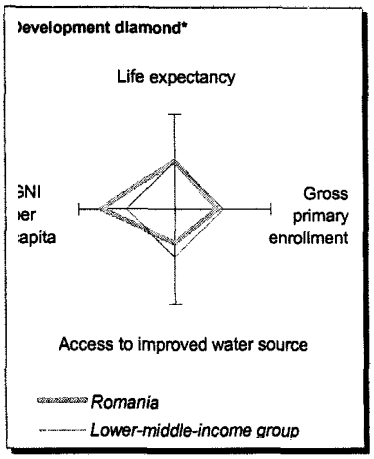
		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1999	Ambro	2.90	0.00	0.00	0.00	2.90	0.00	0.00	0.00
2003	Arctic	12.10	0.00	0.00	0.00	12.10	0.00	0.00	0.00
2002	Banc Post	0.00	0.00	10.00	0.00	0.00	0.00	10.00	0.00
2003/04	Banca Comerciala	0.00	111.00	0.00	0.00	0.00	111.00	0.00	0.00
2001	Banca Romaneasca	3.95	0.00	0.00	0.00	3.95	0.00	0.00	0.00
1998	Bilstein Compa	0.31	0.00	0.00	0.31	0.31	0.00	0.00	0.31
2001	ICME	11.09	0.00	0.00	0.00	11.09	0.00	0.00	0.00
1998	Krupp Compa	1.43	0.00	0.00	0.61	1.43	0.00	0.00	0.61
2002/03/04	MFI MFB Romania	10.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00
2004	RZB Romania	40.00	0.00	0.00	0.00	40.00	0.00	0.00	0.00
1997	Rambox	0.43	0.00	0.00	0.00	0.43	0.00	0.00	0.00
2003	Ro-Fin	5.00	0.00	0.00	0.00	0.37	0.00	0.00	0.00
2004	Romanian-Amer...	3.00	0.00	0.00	0.00	2.00	0.00	0.00	0.00
1994/01	Romlease	2.22	0.00	0.00	0.00	2.22	0.00	0.00	0.00
2004	Transilvaniabank	24.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total portfolio:	116.63	111.00	10.00	0.92	81.80	111.00	10.00	0.92

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
2005	Banvit Romania	0.02	0.00	0.00	0.00
2004	Mindbank	0.01	0.00	0.00	0.00
2003	Ro-Fin Mortgage	0.00	0.00	0.00	0.00
2004	Schwarz Group	0.05	0.00	0.00	0.00
	Total pending commitment:	0.08	0.00	0.00	0.00

Annex 14: Country at a Glance

ROMANIA: Mine Closure Environmental and Socio-economic Regeneration Project

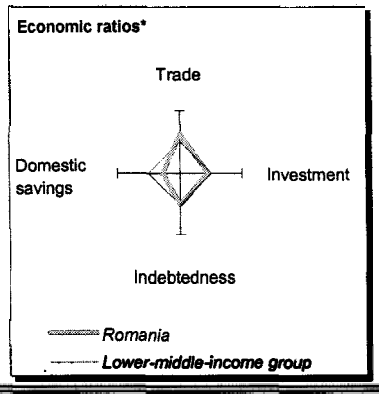
POVERTY and SOCIAL	Romania	Europe & Central Asia	Lower-middle-income
2003			
Population, mid-year *(millions)*	21.7	473	2,655
GNI per capita *(Atlas method, US$)*	2,260	2,570	1,480
GNI *(Atlas method, US$ billions)*	49.2	1,217	3,934
Average annual growth, 1997-03			
Population *(%)*	-0.6	0.0	0.9
Labor force *(%)*	0.1	0.2	1.2
Most recent estimate (latest year available, 1997-03)			
Poverty *(% of population below national poverty line)*	25		
Urban population *(% of total population)*	56	63	50
Life expectancy at birth *(years)*	70	69	69
Infant mortality *(per 1,000 live births)*	20	31	32
Child malnutrition *(% of children under 5)*			11
Access to an improved water source *(% of population)*	58	91	81
Illiteracy *(% of population age 15+)*	2	3	10
Gross primary enrollment *(% of school-age population)*	99	103	112
Male	100	104	113
Female	98	102	111



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

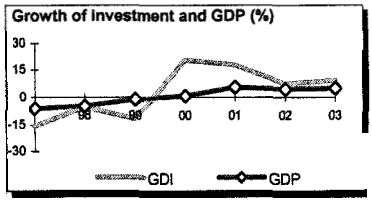
	1983	1993	2002	2003
GDP *(US$ billions)*	..	26.4	45.7	57.0
Gross domestic investment/GDP	..	28.9	23.1	24.6
Exports of goods and services/GDP	..	23.0	35.4	36.3
Gross domestic savings/GDP	..	24.0	17.3	16.8
Gross national savings/GDP	..	24.2	19.7	18.2
Current account balance/GDP		-4.5	-3.3	-5.8
Interest payments/GDP		0.5	1.2	1.4
Total debt/GDP		16.2	34.3	39.8
Total debt service/exports	15.2	6.3	19.0	17.5
Present value of debt/GDP			33.2	
Present value of debt/exports			91.3	

	1983-93	1993-03	2002	2003	2003-07
(average annual growth)					
GDP	**-3.1**	**0.7**	**4.3**	**4.9**	**5.0**
GDP per capita	**-3.3**	**1.2**	**7.2**	**5.2**	**5.0**

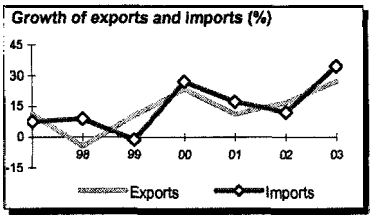


STRUCTURE of the ECONOMY

	1983	1993	2002	2003
(% of GDP)				
Agriculture	..	22.6	13.1	13.0
Industry	..	42.1	38.1	37.9
Manufacturing	..	28.7	..	31.5
Services	..	35.3	48.8	49.1
Private consumption	..	63.7	76.0	70.8
General government consumption	..	12.3	6.6	12.4
Imports of goods and services				

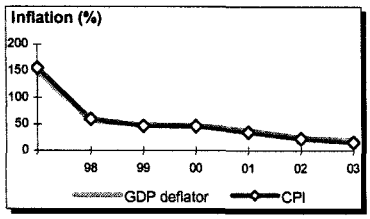


	1983-93	1993-03	2002	2003
(average annual growth)				
Agriculture	1.4	-1.5	-3.9	3.0
Industry	-4.3	0.9	7.2	4.6
Manufacturing	..	..	..	..
Services	..	1.5	5.6	5.2
Private consumption	..	3.2	3.0	7.3
General government consumption	..	-0.3	2.1	4.6
Gross domestic investment	..	0.3	7.3	9.2



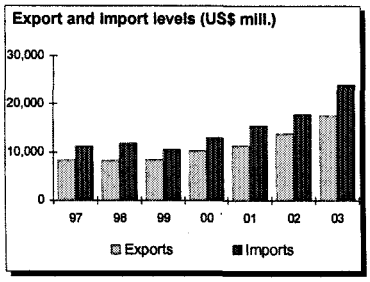
PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
Domestic prices				
(% change)				
Consumer prices	..	256.1	22.5	15.3
Implicit GDP deflator	-0.4	227.4	24.2	19.2
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	33.2	29.6	29.9
Current budget balance	..	4.3	0.6	1.3
Overall surplus/deficit	..	-0.4	-2.6	-2.2



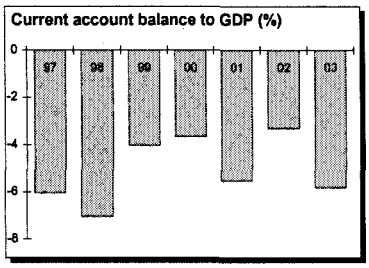
TRADE

	1983	1993	2002	2003
(US$ millions)				
Total exports (fob)	..	4,892	13,876	17,618
Textiles	..	959	1,782	2,282
Metals	..	574	1,181	1,482
Manufactures	..	2,856	9,851	12,534
Total imports (cif)	..	6,522	17,862	23,983
Food	..	964	1,174	1,737
Fuel and energy	..	1,872	2,272	2,615
Capital goods	..	1,432	5,111	7,017
Export price index *(1995=100)*	..	..	79	79
Import price index *(1995=100)*	..	..	70	71
Terms of trade *(1995=100)*	..	..	114	111



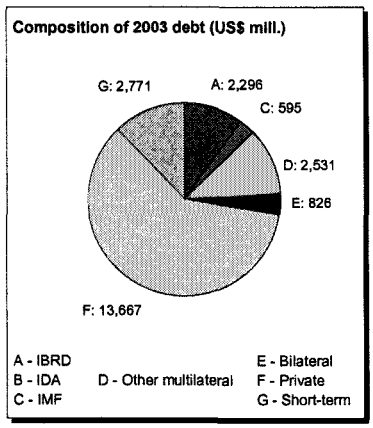
BALANCE of PAYMENTS

	1983	1993	2002	2003
(US$ millions)				
Exports of goods and services	12,239	5,691	16,223	20,646
Imports of goods and services	10,369	6,934	18,825	25,113
Resource balance	1,870	-1,243	-2,602	-4,467
Net income	-710	-145	-459	-705
Net current transfers	0	214	1,536	1,861
Current account balance	1,160	-1,174	-1,525	-3,311
Financing items (net)	-1,538	1,120	3,327	4,445
Changes in net reserves	378	54	-1,802	-1,134
Memo:				
Reserves including gold *(US$ millions)*	..	956	7,306	9,364
Conversion rate *(DEC, local/US$)*	..	760.0	33,055.5	33,200.1



EXTERNAL DEBT and RESOURCE FLOWS

	1983	1993	2002	2003
(US$ millions)				
Total debt outstanding and disbursed	9,129	4,282	15,680	22,686
IBRD	1,742	403	2,173	2,296
IDA	0	0	0	0
Total debt service	1,875	363	3,163	3,673
IBRD	220	19	196	214
IDA	0	0	0	0
Composition of net resource flows				
Official grants	0	99	259	0
Official creditors	317	743	143	16
Private creditors	-123	167	2,060	1,967
Foreign direct investment	0	94	1,144	0
Portfolio equity	0	0	21	0
World Bank program				
Commitments	0	120	340	222
Disbursements	362	189	335	131
Principal repayments	102	0	120	145
Net flows	259	189	214	-14
Interest payments	118	19	76	69
Net transfers	141	169	139	-82



MAP SECTION