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REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED HARD COAL SECTOR ADJUSTMENT LOAN

IN THE AMOUNT OF EUR 280.13 MILLION (US$ 300 MILLION EQUIVALENT)

TO

THE REPUBLIC OF POLAND

May 18, 1999

Energy Sector Unit
Europe and Central Asia

Currency Equivalents

(Exchange Rate Effective May 14, 1999)

Currency Unit	=	Zloty (PLN)
3.93 PLN	=	US$ 1
US$1	=	0.2545 PLN

Weights and Measures

Metric System
1 ton = 1000 kg
1 kg =2.205 lbs

Poland Fiscal Year

January 1 – December 31

Vice President:	Johannes F. Linn
Country Director:	Basil G. Kavalsky
Sector Director:	Hossein Razavi
Energy Sector Leader:	Henk Busz
Team Leader:	John Strongman

Abbreviations and Acronyms

ARA	-	Amsterdam/Rotterdam/Antwerp
BPZ	-	Vocational Assistance Office
CAS	-	Country Assistance Strategy
DFID	-	Department for International Development
ECA	-	Europe and Central Asia
EBRD	-	European Bank for Reconstruction and Development
EU	-	European Union
GAP	-	Mining Labor Agency
GDP	-	Gross Domestic Product
GJ	-	Giga Joule
IFC	-	International Finance Corporation
IMCSC	-	Inter Ministerial Coal Steering Committee
LIBOR	-	London Inter-Bank Offered Rate
LSP	-	Letter of Sector Policy
MoE	-	Ministry of Economy
MoEP	-	Ministry of Environmental Protection
MoF	-	Ministry of Finance
MoLSP	-	Ministry of Labor and Social Policy
MoST	-	Ministry of State Treasury
MSPs	-	Miners Social Packages
NGO	-	Non Government Organization
NSW	-	Nadwislanska Coal Mining Company
PARG	-	State Hard Coal Mining Restructuring Company
PHRD	-	Policy and Human Resources Development Fund
PIC	-	Public Information Campaign
PLN	-	Polish Zloty
PRP	-	Privatization and Restructuring Project
SEA	-	Sector Environmental Assessment
SECAL	-	Sector Adjustment Loan
SIM	-	Social Impact Monitoring
SOE	-	State-Owned Enterprise
SPA	-	Sector Privatization Assessment
TPY	-	Tons Per Year
VAT	-	Value Added Tax
ZUS	-	Social Insurance Fund of Poland

POLAND

HARD COAL SECTOR ADJUSTMENT LOAN

LOAN SUMMARY

Borrower:	Republic of Poland
Amount:	EUR 280.13 million (US$ 300 million equivalent)
Terms:	Standard interest rate for LIBOR-based EUR single currency loans
Commitment Fee:	0.75% on undisbursed loan balances, beginning 60 days after signing
Front-End Fee:	EUR 2.8013 million (US$ 3 million equivalent)
Objectives and Description:	The objective of the SECAL is to support the Government's Hard Coal Sector Restructuring Program, and notably the successful implementation of socially acceptable and effective employment restructuring (which includes addressing the needs of miners leaving the industry, ensuring adequate funding of social support activities, safeguarding a transparent flow of funds, and helping unemployed workers find jobs).
Benefits:	The Government's Program, and by implication the SECAL, would have important benefits for Poland, for the region, for the mining companies and the miners: (a) successful implementation will help stem the losses of the coal companies and eventually turn a money losing state controlled sector into a competitive and profitable private industry; (b) from the point of view of society, the immediate beneficiaries of the Program, and the SECAL, would be the miners and their immediate dependents; (c) the population of the mining regions would benefit from continued social peace and employment opportunities, while increasingly enjoying a cleaner environment; (d) the Polish people would indirectly benefit through improved economic performance and an assurance that their hard earned tax payment are being applied to constructive needs rather than to propping up a loss-making industry.
Risks:	Coal sector restructuring is an inherently difficult task and in this context the operation must be considered a high risk operation. There are four major risks: (a) implementation may slow down due to continued unwillingness of mine management to close

capacity because of the inherent social and other difficulties; (b) a lack of sufficient funds to meet the demand for social packages in 1999 would compound the first risk; (c) the companies may fail to become profitable because future sales volumes and prices are below projected levels; and (d) companies may be slow to implement high priority environmental improvements. These risks have been recognized by the Government and are addressed in the design and implementation of the Program. The mine closure implementation risk is mitigated by the commitments in the company business plans and managers employment contracts, and by the requirements of the enabling law. The risk of under funding of social packages in 1999 is mitigated by a commitment both, on the side of the Government and the mine management to mobilize additional resources needed to fund the Program. The financial performance risk will be mitigated by the implementation arrangements and in particular the incentives in the managers employment contracts. The environmental performance risk will be mitigated by incentives to company managers to implement environmental improvements and by strong monitoring and supervision.

Schedule of Disbursements:	First Tranche at effectiveness; Second Tranche after meeting certain conditions (estimated about eight months after release of first tranche).
Poverty Category:	Poverty-focused.
Rate of Return:	Not applicable.
Project ID Number:	PL-PE-57957
Maps	IBRD 30178 and IBRD 30179

ACKNOWLEDGMENTS

Project preparation included ten missions in 1998 and five in 1999. The following staff and consultants have participated in missions to prepare the project:
Core Team: John Strongman, Bernard Baratz, Christian Duvigneau, David Fretwell, Pawel Kaminski, Zoe Kolovou, Malgorzata Michnowska, Melinda Roth Alexandrowicz.
Other Bank Staff: Marcelo Selowsky, Manouchehr Ashouripour, Carlos Cavalcanti, Ardo Hanssen, Jan Pakulski, George Park, Jan Rutkowski, Christopher Wardell, Jacek Wojciechowicz.
Consultants: Marian Radetzki (SNS, Sweden); Peter Moore, Steven O'Donoghue, Colin Hewer, John Longden, Michael Strickland, Graham Morris (IMC, UK); Bodo Goerlich, Christian Pinnow, Martin Wedig, Wolfgang Treuwerth (Montan Consult, Germany); Ewa Kakiet Springer (CDC, USA); Slawek Skurzynski (Poland); and Jolanta Hess (Canada).

The Bank Team wishes to express its gratitude and appreciation to its Polish counterparts, in particular the members of the Inter Ministerial Coal Steering Committee, as well as other officials in the central government, local administration, hard coal industry, and numerous institutions, including in academia, private sector and NGOs, for the excellent cooperation and support provided to the Bank team and its consultants during the preparation of the Loan.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED HARD COAL SECTOR ADJUSTMENT LOAN TO THE REPUBLIC OF POLAND

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2. *Republic of Poland Hard Coal Sector Restructuring Program Enabling Law* (Warsaw, December 29, 1998).

3. *Business Plans, 1999 to 2002, of seven Hard Coal Mining Companies* (Warsaw September 1998 to February 1999).

4. *Operational Plans, 1999, of seven Hard Coal Mining Companies* (Warsaw November 1998 to February 1999).

5. Aide Memoires and Back-to-Office Reports.

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PART I. INTRODUCTION

1. I submit for your approval the following report and recommendations on a proposed Hard Coal Sector Adjustment Loan (the Coal SECAL) to the Republic of Poland for US$300 million equivalent to support implementation of the Government's coal restructuring program. The loan would be at the Bank's standard LIBOR-based interest rate for Euro single currency loans, with a maturity of fifteen years, including five years of grace.

2. Poland's hard coal sector has suffered very large and increasing losses in recent years and has become a severe drain on the government budget because it has failed to adjust to shrinking domestic demand and sharply declining export sales and prices. The sector is also a major polluter that fails to pay its environmental fees and fines. To stop these losses and prepare the sector to compete within the European Union, the Government has made reform of the sector one of its highest priorities and put in place a comprehensive Hard Coal Sector Restructuring Program (the Program).

3. The Government's Program, which is already under implementation, provides for closure of about 19% of coal mining production capacity and a reduction of about 43% of the workforce over the period 1999-2002. To facilitate and encourage the work force reduction needed, the Program provides a significant package of social support measures which was introduced in June 1998. These have already proved to be very effective, with over 10% of the miners taking packages and leaving the industry voluntarily in the second half of 1998.

4. Cash costs of the Program are estimated at about US$2 billion over the period 1998 -2002. The Coal SECAL would help finance about half of the costs of the Program in 1999 and early 2000. The Government has indicated that it expects to request further support from the Bank to help finance up to 50% of the costs over the remainder of the Program in subsequent operations.

PART II. MACROECONOMIC CONTEXT

A. Current Macroeconomic Situation in Poland

5. The Polish economy is in its eighth year of economic expansion, combining strong economic growth (the fastest in central Europe over the past five years) and significant declines in inflation. Real GDP growth has averaged 5% per year between 1992 and 1998, while inflation has declined from 70% in end 1991 to 8.6% in end 1998. Sustained economic expansion has attracted high levels of foreign direct investment, having recorded net inflows equivalent to4.3% of GDP in 1998. Sustained economic growth, however, has also been accompanied by a shift in the balance of payments current account. Between 1995 and 1997 the current account slipped from a 3.3% of GDP surplus to a 3.3% deficit, widening further to 4.2% of GDP in 1998. While this is small by regional standards, there is concern about the rate at which the current account deficit is growing over the past years.

6. The Polish authorities have responded to these developments with prudent economic policy. Initially tightening monetary policy, limiting credit expansion and allowing real interest rates to rise above 10% p.a.. More recently tightening fiscal policy, leading to a decline in the consolidated public sector deficit to 2.7% of GDP in 1998, down from 3.1% of GDP in 1997. The 1999 budget framework calls for a further reduction in the fiscal deficit to 2.5% of GDP, based on an assumed real GDP growth rate of 5.1% and a further fall in inflation to 8.1%. Although actual outcomes could be slightly lower for both, putting downward pressure on state revenues and testing the Government's ability to implement the budget.

7. The change in policy mix was warranted for several reasons. A tighter fiscal policy stance was essential to allow monetary easing, reducing pressures on interest rates. The tighter fiscal stance also helped focus the attention of policy makers on measures to ensure medium term fiscal sustainability. This is important both for short term macroeconomic management, and for financing structural reforms and new expenditures required for EU accession, such as needed investments in transport and environment-related infrastructure. Finally, the combination of sound fiscal policy and low external exposure (short-term debt accounts for 20% of foreign reserves and less than 10% of total external debt) has been important in maintaining Poland's favorable access to international capital markets (Poland currently commands low spreads - around 10 basis points - in its eurobonds), and in limiting the impact of external shocks.

8. The authorities have attempted to ensure medium term sustainability of public finances by continuing fiscal consolidation, reducing the share of the state in the economy. This in turn is closely connected with restructuring and privatization of state-owned enterprises (SOEs). These enterprises still account for about 40% of GDP, and their output is strongly subsidized, either directly through the budget, or indirectly through the build up of tax arrears and debts that ultimately have to be honored by the State. Also, privatization revenues are expected to play a key role in financing structural reforms in public finances, such as the pension reform. The Hard Coal Sector Project, assuming it is fully implemented, is therefore an important step in efforts of the

Polish authorities to achieve medium term sustainability in public finances. The operation reduces a major drain on the budget, and makes an important contribution toward improving fiscal performance.

9. Recent developments have reinforced the rationale behind the authorities proposed policy strategy. The impact of the Russian crisis (mainly on trade flows to the East), and slower growth in key EU markets, have placed additional near-term pressure on Poland's current account deficit and real GDP growth rate. The planned fiscal tightening (to control aggregate demand) should contribute toward limiting growth of the current account deficit. Indeed, in case the planned fiscal tightening is achieved, the good prospects for continued inflows of foreign direct investments, the generally positive international assessment of the Polish economy, and official reserves equivalent to seven months of imports, should make it likely that the current account deficit will continue to be financed without serious disruption.

10. There is no IMF Program for Poland. The last financial arrangement between Poland and the IMF was a Stand-By Operation which expired on March 4 1996. The last Article IV consultation was concluded on March 16, 1998 (EBM/98/28). In concluding the 1997 Article IV Consultation, Executive Directors commended Poland for its continued record of impressive economic performance, which had made it a leader among transition countries. At the same time, Directors expressed concern about the persistence of relatively high inflation and a deterioration in the current account position. As a result, Directors called for an acceleration of fiscal consolidation, accompanied by strong wage restraint, and a strengthening of the pace of privatization and social security and health care reforms. Directors also agreed that maintaining the existing tight monetary stance was appropriate until a slower pace of credit expansion was confirmed and the fiscal stance gave confidence that policies were in place to control the pace of domestic demand growth. Directors welcomed the decision of the National Bank of Poland to lower the rate of crawl of the zloty and to widen the band around the currency's central rate, as the greater flexibility of the rate would help discourage short-term capital flows and assist in the disinflation effort.

B. The Hard Coal SECAL and its Relation to the Country Assistance Strategy

11. The proposed Bank lending to support coal sector restructuring is fully in line with the main program objectives of the Country Assistance Strategy endorsed by the Board on May 1, 1997. Key themes of the CAS include: (a) promotion of structural reform and private sector development; (b) rationalization of the role of the state; and (c) reduction of poverty and development of human capital.

12. The proposed SECAL directly supports all three themes. It will: (i) promote structural reform and help start the process of privatization in a major state-owned sector; (ii) rationalize the role of the state and improve corporate governance arrangements in the sector; and (iii) help

mitigate the effects of the industry reform on local communities, and provide support for retraining and improving the employment prospects of workers leaving the industry.

PART III. THE HARD COAL SECTOR AND THE GOVERNMENT'S RESTRUCTURING PROGRAM

A. Hard Coal Sector Overview

13. Hard coal represents the backbone of the Polish energy sector providing over 60 % of total primary energy consumption in Poland and about two thirds of power sector fuel supplies, and accounts for almost 4% of GDP. The sector comprises seven mining companies, established as joint stock companies (each company operates between 5 and 11 mines, for a total of 53 mines). In addition, ten other mines have been set up as individual joint stock companies. Two of these companies are being privatized. Altogether, six mines are being closed down. Thus, there are presently 63 mines of which 57 are in production and six are in the process of liquidation.

14. The seven mining companies exhibit significant differences in terms of coal deposits owned, age and type of mines, capacities, costs and profitability. While all of the companies produce steam coal, three companies are significant producers of coking coal which obtains better prices than steam coal. Table 1 provides details on employment, production, sales and financial performance in 1998 for each of the seven companies.

15. Total coal sales have declined from about 200 million tons per year (TPY) in the early 1980s to 110 million TPY in 1998. Over the past two decades domestic demand for hard coal declined sharply from about 160 million (TPY) to about 100 million TPY, essentially due to contraction of the economy and the restructuring away from heavy industries to lighter industries and services. A very sharp contraction occurred in the domestic market in 1998 when sales declined by about 18% (from 102 million TPY in 1997 to 84 million TPY in 1998) due to ongoing changes in energy efficiency and energy substitution (e.g. gas for coal) as well as a very mild winter.

16. Coal exports peaked at over 40 million TPY in the early 1980s and have fallen since as the advantage of exports for Polish mines declined under the new foreign exchange regime in the 1990s. Like many other global commodities, the world coal market is presently severely depressed making exports unprofitable and coal exports were only 27 million tons in 1998. As a result of the decline in sales, production has fallen sharply from levels averaging over 190 million TPY during the 1980s to an average of 135 million in the mid 1990s and further falling to 113 million TPY in 1998. By comparison, present total production capacity is about 137 million TPY (as of mid-1998). When the Program was prepared in early 1998, it was estimated that sales in 1998 would be 116

million TPY. Thus, the mining companies face an even more difficult market situation than anticipated when the Program was prepared.

TABLE 1: KEY DATA OF MINING COMPANIES 1998

Name of Company	Average Annual Employment (Thousands)	Output (Million tons)	Net Loss (PLN Millions)
Bytomska	26.0	11.4	(52)
Rudzka	24.2	12.3	(331)
Gliwicka	30.1	15.8	(650)
Katowicki	39.7	21.0	(553)
Nadwislanska	39.5	18.2	(841)
Rybnicka	26.8	14.6	(365)
Jastrzebska	30.1	15.4	(264)
Other Mines	8.0	4.5	(159)
Total	**224.4**	**113.2**	**(3215)**

Note: Values for "Other Mines" are based on estimates.
Net losses are after allowing for redundancy packages and mine liquidation subsidies of about PLN 990 million.

17. Aggregate losses of the sector reached PLN 3.19 billion (equivalent to about US$0.9 billion) in 1998, almost the same as 1997 (3.23 billion). The decline in labor costs in 1998 due to employment downsizing was largely offset by the decline in sales revenues due to market contraction. None of the mining companies was profitable in the last three years. In some mining companies, equity has been fully eroded by accrued losses. The unsatisfactory cash flow has led to tight liquidity for some companies, which at times face difficulties in meeting their payrolls.

18. Because of increasing losses, the mining companies have paid little if any of their obligations to the Government (taxes, social security, environmental fees and fines) in recent years. Total accumulated liabilities have reached a level of over 15 billion PLN (about US$ 4.3 billion equivalent), of which less than 15% are long term liabilities and over 85% are short term liabilities with over two thirds of those due to Government institutions.

19. The operating cost curve of the sector for steam coal shows an average cost of about US$ 35 per ton. A more meaningful measure is the cost per calorific unit, which averages about US$ 1.6 per giga joule (GJ). This cost compares with internationally traded coal prices at the Amsterdam/Rotterdam/Antwerp (ARA) ports of US$ 1.3 to 1.6 per GJ. In Poland, there are several very competitive mines with costs below US$ 1.20 per GJ, and also a number of very high cost mines in excess of US$ 2.0 per GJ. The latter include some very old mines (which typically need to be closed because of exhaustion of deposits) and some much younger and more modern mines (which should never have been developed from an economic standpoint), which companies are generally reluctant to close.

20. Employment has been reduced from a peak in 1987 of about 430,000 miners to about 208,000 at year end 1998. Labor costs represent about 50% of total production costs with relatively little variation among mining companies. In spite of the substantial labor force reduction during the 1990s, due essentially to attrition and to privatization of ancillary services, the sector has been unable to become profitable, as old and obsolete capacity is kept in service at substantial costs, and as productivity gains are eroded by real wage increases. Closure of this excess capacity is required, along with further labor reductions beyond the level that can be achieved by natural attrition and privatization.

21. All of the mining companies had sizeable assets unrelated to coal production, including social assets. During the past eight years, substantial progress has been made by the industry to divest itself of social assets: (a) hospitals and clinics have been merged into the general health care system, and under the Government's new national health care insurance system that was introduced on January 1, 1999, workers are able to select the services they need from different health care providers; (b) schools and kindergartens have been turned over to Gminas, schools have been rationalized where there is duplication, and a mix of Gmina funding and user fees has been developed for kindergartens; (c) sports and cultural facilities have been turned over to Gminas or leased to clubs; and (d) there are multiple approaches being used to divest housing, including transferring housing to tenants coops. All companies also have non-coal commercial subsidiaries which typically are used as vehicles to provide alternative employment for miners when mines are closed.

22. Mining operations in Poland have been a significant source of water pollution, land degradation, and to a lesser extent air pollution problems. The two most critical issues are: (1) salt water discharges into surface waters, and (2) disposal of mining and coal preparation wastes. Poland has a well conceived environmental regulatory and institutional framework in place to manage these issues based on user fees for environmental discharges. However, fees and fines have not been adequately enforced, with the result that a massive liability (over US$1 billion) has accumulated to different environmental funds in terms of unpaid pollution fees, penalties and associated interest.

B. Program Objectives

23. The Government's Hard Coal Sector Restructuring Program aims at restoring profitability of the sector in a socially and environmentally acceptable manner. Specifically, the Program focuses on four key element: (i) restructuring and rationalization of the sector's labor force; (ii) reducing production capacity; (iii) financial restructuring; and (iv) improving management and corporate governance. It also puts strong emphasis on improving environmental protection, increasing competition, and introducing privatization, consistent with requirements as defined by the European Union.

24. More specifically, the Restructuring Program which the Government approved in June 1998, establishes the following goals:

- Coal companies should obtain a positive result from operations, at the latest, at the end of year 2000;
- Production capacity of the coal mining sector will be reduced by approximately 25.5 million tons of annual production by the year 2002 (from about 137 million TPY capacity in mid 1998);
- Employment in the coal mining sector will be reduced to the level of about 138,000 employees by the end of 2002 (from about 243,000 employees in end 1997);
- Environmental management practices are to be improved to ensure that the sector becomes environmentally sustainable; and
- Once restructured, the coal companies should be privatized.

25. To achieve these objectives, the Government is committed to fund the Program, to provide strong support for affected workers and communities, and to maintain effective monitoring and auditing arrangements. It is also committed to maintain a hard budget constraint on the industry whereby there will be no non-Program subsidies or guarantees and/or repayments by Government of commercial debts of mining companies. In addition, the Government will ensure that environmental improvements are implemented, and will take steps to encourage rapid privatization of coal mines and coal companies where feasible. The Government also intends to establish suitable regulatory and administrative arrangements for a privatized industry.

26. These aims are presented in the Letter of Sector Policy (LSP) which is attached as Annex 1. The LSP lays out the path that the Government intends to follow as it implements the Program over the next four years and highlights key implementation arrangements and responsibilities.

C. Main Features of the Restructuring Program

1. Employment Restructuring and Social Packages

27. The core of the Program consists of employment restructuring in the coal mines, which is based on voluntary departures. The Government wishes to ensure that there is an adequate safety net in place to support all persons who may become unemployed as a result of the restructuring of the coal sector and has put in place a comprehensive set of financial support measures, active labor market services and measures to assist all unemployed workers in the mining regions and to encourage the development of new employment activities outside the mining industry.

28. Within the mining industry, employment restructuring is based on a Miners Social Package (MSP) which comprises a range of options designed to encourage workers to leave the mines, including: (a) temporary income support/severance for those below retirement age, and bridging income support for those nearing retirement age; and (b) active labor programs to assist those who need and want assistance to re-enter the labor market after leaving employment in the mines.

29. **Miners Social Package (MSP)**: The MSP includes three main financial packages designed to encourage voluntary labor reductions especially for underground workers. Workers may choose one of the following options and get paid directly:

- **Miners Leave Package**: A social allowance consisting of a financial bridge lasting up to five years to encourage voluntary early retirement of eligible underground miners. The program costs about 30,000 PLN per miner per year (in 1998 terms). Presently, the average package is about three years but is expected to increase to four years over the life of the program as additional workers become eligible for a full five year package.

- **Social Allowance Package:** A type of re-employment incentive consisting of a two year allowance paid to workers that are interested in re-employment outside of the mining sector. During the two years that workers are entitled to this re-employment allowance, they are also eligible to receive a single free training or retraining course, and will be assisted through the provision of job offers to find alternate employment. So far this package is not popular: less then 2% of the miners have taken it.

- **Unconditional Lump Sum Package:** A single lump sum departure incentive consisting of a one time payment of PLN 44,400 (in 1998 terms), given to workers who are willing to leave their employment in the mine. This incentive will be reduced gradually over time. Thus far, this has been the most popular option.

30. The Program projects that about 117,000 workers will leave the sector during the period of 1998-2002. About 62,000 are expected to use one of the options provided under the MSP and an

additional 55,000 are expected to leave through natural attrition. According to the Program, new hires (obligatory,[1] mining school graduates and special experts) will be about 12,000. The cost of the Social Package PLN4.5 billion ($1.5 billion, in 1998 prices) over the period of 1998-2002 will be financed from the state budget.

31. The MSP is largely targeted at underground workers with limited eligibility for surface workers. However, clerical workers and other surface employees who do not qualify for the MSP are eligible for standard severance payments under the labor code. In addition, all unemployed workers from affected companies have access to: (a) immediate on-site assistance from the Mining Labor Agency (GAP), which maintains a network of Vocational Assistance Offices (BPZs) in individual mines; (b) additional employment and job counseling services from Ministry of Labor and Social Policy (MOLSP) regional and local labor offices; (c) once registered as unemployed, mine workers also have access to additional active labor services (e.g. retraining, small business assistance) from labor offices, as well as the right to unemployment benefits the same as any other unemployed worker; and (d) miners' families who meet means-tested minimums are eligible for social assistance services and related payments through local social assistance offices. An initial follow-up of miners who have taken the MSP lump sum option indicates that, after about six months, half had already found jobs, another half had invested their payments in bank deposits, and 85% had a positive assessment of the MSP.

2. Capacity Restructuring

32. Under the Program, reduction of production to match demand will involve liquidation of an additional 25 million tons of capacity (about 19% of total capacity). This will include complete closure of 17 mines (8 mines in the mining companies, 3 in the single mine companies, in addition to 6 mines where production has previously stopped and closure is presently taking place). Thus, by year 2002, 46 mines will remain active. In addition, unprofitable parts of mines are being shut down in 20 mines of the mining companies. The Program envisages these closures to take place between 1999-2002 at an estimated cost of about PLN1.5 billion ($0.4 billion, in 1998 prices).

33. Costs of closure of mines (averaging US$16 per capacity ton or about US$17 million per mine to be closed) include: (a) closing of underground roadways; (b) stowage of underground roadways, if required to avoid subsidence; (c) closing and capping of shafts; (d) installation of water pumping equipment to prevent flooding of the mine, if this could endanger neighboring mines; (e) costs of recovering equipment, if any; and (f) limited above-ground mine site reclamation work. Costs for closure of entire mines will be financed from the state budget, but the companies must finance partial mine closure from their own resources.

[1] Mines must often rehire young miners who return from military service.

3. Financial Restructuring

34. The Program provides for rescheduling or forgiveness of liabilities to Government and government institutions including environmental funds – but not commercial liabilities. This covers about 64% of the total accumulated liabilities of the sector (about PLN 8.5 billion liabilities out of PLN 13.3 billion (US$3.8 billion) total liabilities as of March 31, 1998) as shown in Table 2.

Table 2: Liabilities to be Rescheduled or Forgiven

Liabilities Eligible for Rescheduling:

PLN 0.6 billion	due to Central Government (VAT, income tax on employees and loans guaranteed by the Ministry of Finance)
PLN 0.4 billion	due to the environmental funds
PLN 0.2 billion	due to municipalities
PLN 1.2 billion total	

Liabilities Eligible for Forgiveness:

PLN 3.7 billion	due to environmental funds
PLN 2.7 billion	due to social funds
PLN 0.9 billion	other debt due to the Central Government
PLN 7.3 billion total	

35. In addition, the enabling law provides that liabilities to Government or Government institutions resulting from losses projected to occur during the transition period until December 31, 2000 (and estimated to amount to about PLN 2.5 billion) would be eligible for either rescheduling or forgiveness.

36. Restructuring of financial liabilities resulting from unpaid environmental fees and fines will require official confirmation of the Ministry of Environmental Protection, Natural Resources and Forestry. The Ministry will be requested to approve the proposed environmental remediation program (including measures and compliance schedule) of the mines requesting restructuring. Before such an approval, the Ministry would assure itself that the program is satisfactory.

37. For the mining companies to be eligible for this debt restructuring, the following main conditions must be met. First, during the period of 1999-2002, the increase of the average monthly wage may not exceed the mean annual increase of the CPI established for each year in the

Program. Third, the debtor must meet current liabilities due to the Social Insurance Fund (ZUS), the Labor Fund and the Fund for Guaranteed Workers Benefits in a timely manner.

38. With respect to liabilities arising after March 31, 1998 and until December 31, 2000, the mining companies can seek to reach agreements with individual creditors as to the extent and method of repayment. The draft law provides that (i) liabilities to the Government, including interest (excluding the VAT), and liabilities to municipalities can be waived fully and (ii) rescheduling would not apply to liabilities incurred after December 31, 2000, and (iii) repayment periods would not exceed 5 years.

4. Management Strengthening

39. The mining companies will operate as autonomous, independent companies supervised by independent and competent Supervisory Boards (Board of Directors) appointed by the shareholder. Management Boards (i.e. Presidents and Vice Presidents) have been appointed with four year employment contracts for the period 1999-2002. These management contracts contain incentives based on financial performance, cost reduction and environmental performance. In case of highly unsatisfactory performance or failure to implement their business plan, members of the Management Board can be dismissed. The supervisory boards will be strengthened through appointment of highly qualified and motivated individuals including one full time supervisory board member.

40. As part of the Program, the mining companies prepared four-year business plans (for 1999-2002) covering planned production, production costs, sales, capacity closures, employment and employment reduction plans, investments, productivity, projected environmental improvements, etc. and providing pro forma income statements, balance sheets and cash flow statements for the period (in real terms). The business plans also served as an important input for the Government's assessment of the strength of Company management and for deciding on management appointments. In addition, annual operating plans are to be prepared each year in (nominal terms) which provide the basis for implementing the business plans. The business plans will be updated after two years to the extent required. The four year business plans provide the basis for annual operating plans which are prepared by the mining companies each year.

5. Environmental Improvements

41. Environmental protection has been largely ignored by the coal mining industry in the past and environmental improvements are essential for the sector to improve public acceptability and meet EU accession conditions. The range of environmental problems are significant but technical solutions exist. The most significant problem is saline water discharges. Other significant issues include land use damage from surface disposal of mine wastes, land subsidence, and releases of coal bed methane. There are also issues of radium in waste-water effluents, radon gas releases, and

persistent fires at mine waste disposal sites, but these are of lesser importance. To address the above issues, actions are targeted at three levels.

42. First, the mining companies have each prepared business plans which include environmental management issues and identify: (a) the priority environmental mitigation measures, (b) the associated cost and sources(s) of financing, (c) the reduction in environmental fees to be expected from implementing the measure and (d) the schedule for its implementation. In order to improve implementation of these plans, environmental actions will be considered in evaluating mining company management performance and in determining management bonuses.

43. Second, the Ministry of Environmental Protection (MoEP) will conduct a Sectoral Environmental Assessment (SEA) using technical assistance funds from the on-going Privatization and Restructuring Project (Loan 3342-POL) to help it in: (a) establishing environmental priorities, (b) identifying appropriate mitigation measures, (c) providing costs and (d) establishing an implementation schedule. The findings of the SEA will be introduced into the mining company operating plans for the Year 2000.

44. Third, the MoEP, with the concurrence of the Voivod Environmental Departments, and the State and Voivod Ecological Funds, will review the environmental management plans and action programs, and would provide approval, once satisfied about the feasibility and effectiveness of the Companies' action programs. It is only after this approval is secured, that various environmental liabilities of the mining company would be waived and/or restructured.

6. Privatization

45. The Program states that privatization will be one of the basic tools to achieve the Program's longer term objectives and the Government has emphasized its commitment to prompt privatization of the industry in the Letter of Sector Development Policy (LSP). Privatization is well advanced for one independent mine (Bogdanka) and is starting for another independent mine (Budryk) with technical assistance under the Privatization and Restructuring Project (PRP) (Loan 3342 POL). The Ministry of State Treasury (MoST) will be responsible for privatization of complete companies. The mining company managements will prepare and implement privatization of individual mines with approval from MoST as per legal and regulatory requirements.

46. MoST will conduct a Sector Privatization Assessment (SPA), also using PRP technical assistance funds. The SPA includes a detailed financial assessment of each of the seven mining companies including their readiness for privatization and identification of any valuable assets (such as real estate) which could be used to raise cash and, thus, pay down creditors and help facilitate early privatization. It also examines licensing arrangements in the light of the needs of a privatized industry. The results of the SPA will include both a privatization strategy for the sector and a privatization action plan for each company.

7. Regional Development and Social Monitoring

47. Most hard coal mining is based in the Upper Silesian region (around Katowice). In spite of the past predominance of obsolescent heavy industry, this region has achieved high growth rates, has low unemployment and has increasingly diversified into light industries and services. These factors have helped to ease the social impact of the Program so far and are expected to continue to do so.

48. The Government has addressed the social impacts of industrial restructuring and employment downsizing and the Program emphasizes the need for a coordinated approach towards restructuring of the hard coal sector in the context of regional development of Upper Silesia. To ensure strong coordination with regional authorities, representatives of the Katowice Voivodship and the local parliament are members of the Inter-Ministerial Coal Steering Committee for coal restructuring.

49. The Program also fosters cooperation between the mining company and the local administration (Gmina) in respect to dealing with past liabilities to the gmina as well as opportunities arising from the closure of mines and the reclamation of abandoned mine sites. The government is taking steps to ensure that the Program implementation is coordinated with the new powiats (county governments) which were established effective January 1, 1999, as part of the regional administrative reform. The Government is using multiple approaches to monitor the social impact of restructuring including:

- using existing labor office administrative data to monitor unemployment, and the degree to which displaced miners are entering the ranks of the unemployed;
- using existing social assistance office administrative data to monitor the number and types of families, including miners families, which qualify for means tested services and payments;
- undertaking special follow-up surveys of workers taking social packages (see Section C (1) for description); and
- planning regional labor surveys to more generally monitor movements and trends in the labor market.

50. In addition, the Government has mounted a Public Information and Communications (PIC) campaign, including public opinion surveys, to facilitate program implementation and gauge general public awareness and understanding of the Program.

D. Expected Results

51. The mining companies have prepared Business Plans for 1999 – 2002, the results of which are summarized in Table 3. The Business Plans project that production will decline from 113 million tons in 1998 to 104 million tons in 2002 and that sales will decline from 110 million tons in 1998 to 103 million tons in 2002. In addition to the sales to customers, coal is also used in mining company-owned heating and power plants. Stocks of coal held by the mining companies are expected to decline from about 3.5 million tons at the end of 1998 to about 2.5 million tons in 2002.

52. The number of operating mines will be progressively reduced to 45 mines and the industry will generate a net profit in 2001 after subsidies for miners social packages and mine liquidation costs. Table 3 shows the critical assumptions from 1998 – 2002 in terms of average coal price (4% increase), total annual average employment (40 % decrease), and unit operating costs (18 % decrease). All data are in 1998 real terms.

53. Taking these projections and extending them for a ten year period (1999-2009), results in an improvement in aggregate industry cash flow of about PLN 14 billion compared with a scenario of no program . The projections of improved financial performance depend in part on expected prices and sales volumes. As noted previously, the domestic coal market contracted rapidly from 102 million tons domestic market sales in 1997 to 84 million tons in 1998. Coal sales and prices (in real terms) in the first quarter of 1999 show little improvement over 1998 levels – thus the industry could be facing a revenue shortfall of 8-12% compared to the Business Plans.

54. The market situation means that there is an even more compelling need than previously realized to keep up the process of labor force down-sizing to facilitate both reduced operating costs and faster capacity closures, thereby reducing oversupply and counteracting falling demand. In addition, it is all the more imperative that companies aggressively pursue increased efficiency and cost savings in non-labor costs such as materials, energy, external services and maintenance. The employment contracts for the mining company managers provide strong incentives to encourage the mangers to find ways of reducing costs and improving financial performance.

E. Program Costs

55. The cash costs of the Program during 1998 – 2002 are estimated at about PLN 7 billion in 1998 terms (US$2 billion) as shown in Table 4 of which about 75% is for employment restructuring (including reimbursement of supplementary pensions paid by Social Security funds) and about 25% for coal mine liquidation and environmental rehabilitation. In addition, depending on the timing and mix of packages used, there will be about another 2 billion PLN for the carryover costs of miners leave packages from 2003-2006.

Table 3: Business Plan Results 1997 to 2002 (1998 terms)

Item	Units	1997	1998	1999	2000	2001	2002
Production	Mio t	137	113	112	110	105	104
Average Manpower	000	244	224	189	167	148	136
Sales Volume	Mio t	133	110	111	108	104	103
Average Unit Price	PLN/t	122	124	127	127	128	129
Sales Income	Mio. PLN	16,203	13,563	14,128	13,773	13,333	13,257
Other Income	Mio. PLN	1,216	1,363	1,023	862	513	469
Total Income	**Mio. PLN**	**17,419**	**14,926**	**15,151**	**14,635**	**13,847**	**13,726**
Costs of Operations:							
Labor Costs	Mio. PLN	8,590	8,706	7,252	6,476	5,886	5,528
Depreciation	Mio. PLN	877	1,066	956	845	786	809
Other Opg. Costs	Mio. PLN	9,286	7,716	8,068	7,130	6,823	6,451
Total Opg. Costs	**Mio. PLN**	18,753	17,488	16,276	14,451	13,495	12,788
Average Unit Cost		142	163	159	147	141	134
Operating Profit/(Loss)	**Mio. PLN**	-1,334	-2,561	-1,125	185	351	937
Interest Payable/(Receivable)	Mio. PLN	1,922	996	151	306	112	94
Profit/(Loss) after Subsidies and Interest	**Mio. PLN**	**-3,256**	**-3,557**	**-1,276**	**-121**	**240**	**843**
Extraordinary Profits/Losses	Mio. PLN	21	369	242	0	0	0
Pretax Financial Result	**Mio. PLN**	**-3,234**	**-3,188**	**-1,034**	**-121**	**240**	**843**
Income Tax	Mio. PLN	26	27	119	47	164	254
Profit/(Loss) after Tax	**Mio. PLN**	**-3,260**	**-3,215**	**-1,153**	**-168**	**76**	**589**
Social/closure costs	Mio. PLN	658	989	1,626	1,696	1.342	1,199
Social/closure subsidies 1/	Mio. PLN	658	989	1,626	1,696	1.342	1,199
Number of Mines as of December 31 each year:							
Mines in Production	(#)	**57**	**57**	**55**	**49**	**47**	**46**
Mines under Closure	(#)	6	6	4	6	1	0
Mines Closed	(#)	**0**	**0**	**4**	**8**	**15**	**17**
Total Mines	(#)	63	63	63	63	63	63

1/ Subsidies as paid against cost of miners social packages and physical mine liquidation

F. Implementation, Management and Monitoring of the Program

56. Based on the Program document, the Government prepared an enabling law (Adjustment of the Hard Coal Mining Sector to Operations in a Market Economy), which sets out the rules for key features of the program. The law became effective on January 13, 1999. The Government has also issued the critical implementing regulations. Under the Program and enabling law, the ownership functions of the Government for the mining companies have been transferred from MoST (previously the owner) to the Ministry of Economy (MoE). Therefore, MoE has produced the Program and coordinated inputs from other interested parties (ministries, regional authorities, agencies and NGOs). However, as noted previously MoST retains the responsibility for privatization.

57. The Ministry of Finance (MoF) is responsible for providing funding for the Program. In 1998 the MoF mobilized additional funding to help finance extra MSP to meet demand which was well in excess of Program estimates. For 1999, the MoF has adhered strictly to the Program budget providing about PLN 1.8 billion in budgetary funds for the Program. However, this allocation does not provide sufficient funds to meet the likely demand for MSP. There are many demands for budgetary funding and MoF has set a high priority on not exceeding its budget deficit target and MoF is, therefore, reluctant to allocate more budgetary funds to the Program in 1999. Thus, MoF is presently considering to see if there are any other options for financing additional MSP in 1999 including companies using some of their own funds.

58. The Ministry of Economy, in coordination with the Ministry of Labor and Social Policy (MoLSP), is taking the lead in respect to the management and implementation of the Miners Social Package. MoE has overall responsibility for the Program, but MoLSP will be heavily involved in ensuring that there are adequate employment services available to support miners leaving the industry. In addition, MoLSP will be responsible for overseeing the Public Information Campaign, and assisting with implementation of previously described social monitoring activities.

59. The Ministry of Environmental Protection (MoEP) will be responsible for managing preparation of the Sector Environmental Assessment (SEA). The National Fund for Environmental Protection and Water Management (National Fund) and Voivodeship Environmental Departments will provide advice to the MoEP, as well as the Mining Companies on environmental matters. Furthermore, MoEP, in conjunction with the Voivodeship Environmental Department, will monitor implementation of the environmental aspects of mining company business plans.

TABLE 4: Estimated Costs of the Restructuring Program 1998-2002 (PLN million – 1998 terms).

	1998	1999	2000	2001	2002	Total	%
Employment Restructuring	505	1,044	1,017	812	947	**4,325**	60
Reimbursement of Supplement. to Pensions paid by Social Security Fund	0	250	250	250	250	1,000	14
Closure of Coal Mines	211	413	462	225	176	**1,487**	21
Liquidation of Mining Damages	28	35	35	35	35	**168**	2
Job Creation/Gmina Support	0	50	50	50	50	**200**	3
Total Program Cash Cost	**744**	**1,792**	**1,814**	**1,372**	**1,458**	**7,180**	**100**
Memo Item:							
Debt Restructuring/Forgiveness:						8,500	

Source: Hard Coal Restructuring Program, June 30, 1998.

60. An Inter Ministerial Coal Steering Committee (IMCSC) appointed by the Prime Minister and reporting to the Council of Ministers will oversee Program implementation. The IMCSC consists of Deputy Ministers from five ministries (namely Ministries of Finance, Economy, Labor, Environment, and State Treasury) as well as the Voivod of Katowice Province and the Chairman of the Local Parliament of Katowice, and will help MoE to monitor progress in carrying out the Program. De facto, the Committee has already operated since mid 1998 as the Program was being prepared and implementation arrangements worked out. The IMCSC will be supported by a full time Secretariat with three professionals, one on employment and social matters, one on the environment and one on financial/restructuring issues.

61. The State Hard Coal Restructuring Agency (PARG) will monitor industry performance under the Program. This monitoring will cover both company performance, as well as the aggregate sector performance and, will be based on the performance targets included as part of company business plans and associated employment contracts.

62. The MoLSP will take the leadership for social monitoring and provision of employment services for miners. Initial analysis carried out in 1998 indicated that unemployment in Upper Silesia remains below the national average and that over 50% of the miners taking lump sum packages or social allowances have found new jobs.

63. Audits of both the employment restructuring funds and the mine liquidation funds are carried out by the mining companies auditors, PARG, and the Supreme Audit Office (NIK). While some administrative problems were identified in the first few months that the MSP was available, these have been resolved in a satisfactory manner and all the funds have been fully accounted for and have been used for their intended purpose. In addition, a special audit unit has been established by the Ministry of Finance in Katowice to provide additional spot checks and audits that the funds are not being misused. Audits carried out in 1998 confirmed that funds have been used properly.

G. Restructuring Program Progress to Date

64. Since the first draft of the Government's Program was issued, substantial progress has been made in completing the detailed Restructuring Program, in drafting and approving needed legislation, and perhaps most important in building a strong political consensus in favor of the reform, especially with the mining unions, miners and mine management. Good progress has also been made by the mining companies in putting together business plans that spell out their restructuring plans, marketing and production goals, and in starting to implement the actions to be taken to return the companies to profitability.

65. The miners, with the support of their families have responded with strong interest in the packages with 25,885 miners signing up for packages (consisting of 15,599 miners leaves packages, 10,140 lump sum packages, and 146 social allowance packages) by the end of December 1998 compared to the 12,000 workers originally estimated in the Program. As a consequence the PLN 505 million included in the 1998 budget was used up and an additional PLN 250 million was added, coming from the Labor Re-deployment Fund in the MoLSP.

H. Restructuring Program Benefits

66. The Program should provide substantial benefits to the economy and to various social groups. In particular, as a result of Program implementation:

- Redundant miners will benefit from generous temporary income support packages and assistance in finding alternate employment, retraining, and small business assistance during a transition period;

- The remaining miners will work in a more stable industry with safer mining conditions[2] and which would be able to provide secure incomes and reasonable growth rates;
- The regional economy will benefit from improved labor mobility and re-deployment of a significant number of persons in new jobs, thereby contributing to a growing GDP, rather than being a drain on it;
- The region will benefit from reduced pollution and from clean-up of abandoned mines and related industrial facilities; and
- The country's energy sector will benefit from stable coal supplies at internationally competitive prices and increasing coal quality as more selective mining will concentrate on easier accessible and higher quality deposits. This will contribute to the growing competitiveness of the Polish economy, an important feature in the context of EU accession.

I. Restructuring Program Risks

67. The complexity of the Program involves necessarily a number of potential implementation risks. The four major risks are that (i) mines are not closed or are not closed quickly enough in line with falling demand and the decline in the workforce; (ii) implementation may slow down in 1999 due to lack of sufficient funds to meet the demand for miners' packages which is exceeding original Program estimates; (iii) mining companies may not become profitable and be privatized, and (iv) mining companies may be slow to improve environmental performance. Other risks, such as contagion to other sectors (demand from other sectors for similar write-offs of liabilities, financial restructuring support, and in particular similarly generous social packages) and possible social-political turmoil cannot be ignored, but Government efforts so far have successfully mitigated these concerns on the argument that the mining sector entails particular health risks and hardships.

68. The first major risk is that because of opposition from the workers, mining company managers may fail to close mines – or close them quickly enough given falling demand. In practice, mining companies are unable to close a mine unless its labor-force is either leaving the sector or can be re-deployed in other mines. The MSP is designed to help to rationalize the labor force quickly across the companies. The mine management must then re-deploy remaining miners from the mine to be closed. If mine closures are insufficient or take place too slowly, excess labor could be hidden in the companies, costs would be higher and the re-balancing of supply and demand would be slowed down, further putting pressure on the domestic sales prices.

69. This risk is addressed in three ways. First, the selection of mines for closure has been made by the managers of the mining companies (not imposed on them by Government) and the timetable for closure is specified in the business plans. Second, once the closure decision is formally taken by the mining company, the enabling law specifies a maximum time by which each step must be completed for consultation to take place, production to be terminated, environmental remediation completed and the assets of the mine liquidated. Third, the mine managers are committed to implement the business plans as part of their employment contracts.

[2] Most mines which will be closed are older and more prone to accidents and less safe operations.

70. The second risk – which is linked to the first, is that implementation may slow down in 1999 due to lack of sufficient funds to meet the demand for miners' packages which is exceeding original Program estimates. The Government was unable to fund fully the demand for packages in 1998. Furthermore, the large proportion of miners leaves (relative to lump sum payments) has resulted in large carryover costs of about PLN 640 million in 1999. Thus, the 1999 budget of PLN 953 million for social packages will only be sufficient for about 8,000 packages (depending on the mix of packages) whereas over 16,000 miners are expected to leave the industry according to the business plans.

71. This risk is mitigated by the Government, reaffirming in the LSP its commitment to maintaining the momentum of the Program and to finding additional resources to fund the Program in 1999 if needed (as it did in 1998). This could involve mobilizing budgetary savings to provide additional funds for the packages or alternatively finding ways for the mining companies to mobilize such funds – for example through better use of internally generated funds, cost savings, deferring low priority expenditures, reducing inventories and selling real estate or other assets. Mining company managers have indicated their willingness to identify and mobilize funds to help finance packages.

72. The third major risk is that the companies may fail to become profitable, even though program implementation would proceed according to schedule. Prices (and sales) may fall well below projected levels. The industry already has an aggressive program of employment downsizing and mine closure. Further reductions would then be required. In addition there is scope for improving efficiency also in other cost categories, i.e. reducing non-labor costs. Incentives in the management contracts may help, but experience indicates it may take years to complete the change from a production-based culture to a highly cost conscious culture.

73. If some of the companies do not improve their financial performance sufficiently, privatization may become more difficult and the Government may be faced with bankruptcy of the weakest companies. In this context, it will be essential that Government maintain the commitment included in the Letter of Sector Development Policy (LSP) to a hard budget constraint for the companies and resist pressures to provide subsidies to cover operating losses. Given budget constraints and EU accession hopes, the Government is much more likely to resist providing state support.

74. Fourth, mining companies may be slow to implement high priority environmental improvements. If the industry is in financial difficulty, this risk increases since managers may be tempted to cut back on environmental expenditures as part of cost cutting efforts to reduce losses. However, the mining company business plans contain sound environmental protection plans. Environmental improvement is one of the key performance criteria for the mining company managers. The performance of the mining companies will be also monitored by their Supervisory Boards, by the IMCSC and by the Bank. Finally, the approval of the financial restructuring of environmental fees and fines for each company is dependant on improved environmental performance.

75. The Government is continuing its efforts to ensure a strong social consensus for coal reform to avoid experiencing the same type of struggles that have taken place in other countries. This risk is political, and should diminish as Program implementation continues.

PART IV. BANK SUPPORT FOR THE RESTRUCTURING PROGRAM AND THE PROPOSED SECAL LOAN

A. Rationale for Bank Involvement and Objectives of the Proposed Loan

76. The Bank has been involved in an on-going dialogue with the present and previous Governments regarding coal sector restructuring and has taken an active role in reviewing and advising at all stages as the Government has prepared, designed and started to implement the Program. The Government has requested financing from the Bank to help meet the budgetary cost of its Program and the Bank has agreed to consider lending of up to US$1.0 billion over the next three years to help finance up to half of the costs of the Program, on the basis that this level of financial support is required and that there is satisfactory progress in Program implementation. To provide this level of support, a series of three SECALs over the next four years is envisaged, possibly supplemented by a sector investment operation for the mines themselves to help finance capacity rationalization and meet environmental and other specific investment requirements.

77. The Government has requested initial Bank financing for the Program in the form of the proposed US$300 million equivalent two tranche SECAL. The SECAL would help cover approximately half of the requirements of the 1999 and early 2000 budgets of the Program. The primary objective of the SECAL is to support the successful implementation of socially acceptable and effective employment restructuring (which includes addressing the needs of miners leaving the industry, ensuring adequate funding of social support activities, safeguarding a transparent flow of funds, and avoiding undue stress on the local labor market and helping workers find jobs).

78. In addition, the loan will help lay the basis for moving the sector towards competitiveness and profitability and will also support the start of privatization for the sector. Deepening the reforms and achieving sustained profitability, improved environmental performance and privatization would be the subject of subsequent operations.

B. Loan Arrangements and Tranching

1. Financial Arrangements

79. The proposed Coal SECAL of US$ 300 million equivalent will be quick-disbursing and will provide balance of payments and budget support, linked to the conditionality specified for the

tranche releases. The loan will be released in two tranches: the first tranche of US$ 70 million equivalent (plus US$ 3 million for the payment of the front end fee) equivalent on loan effectiveness (expected in July 1999), and the second tranche of US$ 227 million equivalent on fulfillment of specific tranche release conditions linked to satisfactory implementation progress and sound macroeconomic management (expected in first quarter 2000). The much smaller amount for support of the 1999 budget (through the first tranche) is a consequence of the ceilings on external borrowing which are included in the budget. Therefore, the tranche release conditions are back-loaded.

80. The proposed loan, in the form of a single currency Euro loan, will be made to the Republic of Poland, represented by the Ministry of Finance. The loan will have the standard amortization term, grace period and LIBOR-based interest rate for such loans. Disbursements will be made into a Deposit Account of MOF established in the Central Bank of Poland for this purpose.

81. In accordance with the Operational Directive on the Simplification of Disbursement Rules under Structural Adjustment and Sectoral Adjustment Loans (February 8, 1996), disbursements of the loan will not be linked to any specific purchases, and hence, there will be no procurement requirements. Disbursements of the loan will be subject to the standard negative list of ineligible goods and countries of origin. The Government has indicated that the counterpart funds generated will be used to provide support for the coal sector reform program. Upon notification by the Bank of tranche release for each tranche, proceeds of the loan will be deposited by the Bank into the MOF Deposit Account following receipt of the Borrower's withdrawal application.

82. If after deposit in this account, the proceeds are used for ineligible purposes (i.e., to finance items imported from non-member countries, or goods or services in the standard negative list), the Bank will require the Government to either (i) return that amount to the account for use for eligible purposes, or (ii) refund the amount directly to the Bank, in which case the Bank will cancel an equivalent undisbursed amount of the loan. Although routine audits of the Deposit Account will not be required, the Bank reserves the right to require audits at any time. The expected closing date of the proposed loan will be September 30 , 2000.

2. Tranche Release Conditions

83. **First Tranche:** Disbursement of the first tranche of US $70 million equivalent, which focuses largely on the design of the program and the requirements for successful implementation, will occur on the basis of conditions fulfilled before presentation of the loan to the World Bank Board and implementation of critical actions before effectiveness of the proposed loan. First tranche conditions include actions satisfactory to the Bank relating to implementation and monitoring arrangements, socially acceptable employment restructuring, improved financial performance for the mining companies and improved coal industry environmental performance. Conditions of effectiveness include the following: (a) production has been terminated at two mines under the Program and a resolution has been adopted for liquidation of one mine under the Program; (b) the Borrower has prepared an updated plan for the MSPs, satisfactory to the Bank, for

the calendar year 1999, reflecting the termination of production at the mines referred to in (a) above; and (c) the Borrower has issued 14,000 lump-sum MSPs to miners under the Program.

84. **Second Tranche:** Disbursement of the second tranche of US$ 227 million equivalent (expected about 8 months after the first tranche) will be contingent on (i) a review satisfactory to the Bank of the country's macroeconomic performance; (ii) satisfactory progress in implementation of the coal reform program as set out in the Letter of Sector Policy; and (iii) fulfillment of tranche release conditions relating to specific implementation targets which demonstrate progress in carrying out the program, especially in regard to socially acceptable employment restructuring, profitability for the mining companies, improvements in mining industry environmental performance.

85. In evaluating Poland's macroeconomic performance for the second tranche, the Bank will form an overall assessment of the short and long term sustainability of economic growth in a setting of low inflation and external balance. In doing so, the Bank would draw upon regular analyses by the Bank and the IMF, with a particular focus on the following:

- Progress in meeting the announced target of 2.5% of GDP for the consolidated general government budget deficit for 1999;
- Progress in achieving the targets for privatization revenues assumed in the 1999 state budget; and
- Progress in limiting state subsidies and indirect support to state owned enterprises, including deferral of tax payments, debt guarantees and debt forgiveness.

86. With regard to employment restructuring, the objective is to ensure that the miners are getting their financial packages and labor redeployment services, that sufficient workers are leaving the industry, and that the Program is not causing unmanageable social stress or having an adverse impact on the most vulnerable. It is also important from a social equity standpoint and from the standpoint of facilitating mine closure that new MSP are offered first to miners at mines being prepared for or in the process of closure so that miners losing their workplaces get the right of first refusal on new MSP. This will require that the employment restructuring program is adequately funded, that MSP are directed as first priority to mines that are being closed, that funds are not being diverted, and that a range of social monitoring procedures are put in-place with adequate funding to ensure that social and labor services are available to the most needy. Specific conditionality include:

- acceptance by not less than 18,000 miners of lump-sum MSPs since the start of the Program;
- offering of new MSPs to miners in mines being closed so that they have the right of first refusal for new MSPs
- timely payments to miners of amounts due under approved MSPs;
- completion of satisfactory audit of budgetary payments under the Program to the mining companies for MSPs;

- preparation of a satisfactory plan for MSPs for the year 2000; and
- satisfactory implementation of social safety net measures required under the Program.

87. With regard to industry financial performance, the objective is to see a significant start in implementing the steps needed to reduce losses. This involves the managements of the mining companies implementing their business plans and, in particular, making good progress in closing excess capacity and reducing costs, which will require that the both the employment restructuring and physical closure programs are adequately funded, and that funds are properly used. Specific conditionality includes:

- liquidation, during 1999, of assets of at least five mines;
- termination of production during 1999 at not less than four mines;
- completion of satisfactory audit of budgetary payments under the Program to the mining companies for mine liquidations;
- adoption be each Mining Company of resolution for liquidation of mines in the calendar year 2000;
- appointment of privatization specialists to prepare the privatization of at least two Mining Companies;
- preparation of the offering of the Budryk and Bogdanka mines to private investors;
- reconstitution of the Supervisory Board of each Mining Company and appointment of a full time Supervisory Board member;
- approval of year 2000 Operating Plans for the Mining Companies, satisfactory to the Bank, taking into account the findings of the SEA and SPA and the capacity restructuring, employment and financial targets as set forth in the Program and the Mining Companies' Business Plans; and
- submission of a draft financial restructuring plan for each Mining Company to the IMCSC for its review prior to the submission of the plan to the MOE.

88. With regard to environmental performance, the objective is to see the companies starting to implement the environmental improvements proposed in their business plans. This will also require the necessary funding to be available and the mining companies to be implementing their business plans. Specific conditionality includes: satisfactory implementation of environmental improvement actions outlined in the Business Plans to address the salinity and other pollution caused by mining operations so that the total saline content of water discharges in the hard coal sector and the quantity of solid waste generated during the period from January 1, 1999 till September 30, 1999, are lower by not less than 10% compared to those of the same period in calendar year 1997; and the aggregate amount of fees and fines assessed on the Mining Companies for solid waste surface discharges for the period from January 1, 1999 till September 30, 1999, are lower by not less than 5% compared to those for the same period in the calendar year 1998.

C. Other Loan Features

1. Monitoring Arrangements

89. The Government is committed to a continuing program of social monitoring to track the social impact of the coal restructuring program. Social monitoring reports which measure overall

compliance with the social impact indicators will be submitted to the Bank as follows: monthly for unemployment data, quarterly for social assistance data, and every six months on the social survey of MSP recipients. Submission of such reports and compliance with agreed indicators would be required as part of the second tranche release review.

2. Poverty Category

90. The proposed Coal SECAL supports Government policies that aim to make coal sector restructuring socially sustainable. This will be accomplished in part by ensuring that the existing social safety net meets the needs of those most affected by restructuring: redundant coal sector workers and their families and communities. The Miners Social Package, in combination with the existing social protection system, should ensure the establishment and financing of a minimum safety net for the unemployed and for pensioners of mines being closed. The design and implementation of the delivery mechanisms ensures that individual beneficiaries receive the safety net support to which they are legally entitled and that local and municipal governments have the capacity to operate essential social assets divested by the coal industry to such administrations. In this context, the SECAL falls in the category of a "poverty-focused" operation

3. Environmental Category

91. The Bank's insistence on environmental improvements, both as part of the Program and in connection with mining company operations and the direct involvement of Government environmental institutions, has been an important Bank contribution and remains an important area for further work. As a Sector Adjustment Operation (SECAL), the proposed Project, itself, will not result in any adverse environmental impact. If anything, net environmental benefits are expected as a direct consequence of requiring environmental remediation programs as an integral element of the business plans. These plans have been reviewed and approved by an Inter-Ministerial Steering Committee which will also help ensure their proper implementation. The Project is classified as a Category B Project.

4. Participatory Elements

92. The process of preparing the Program was a comprehensive one, involving central Government institutions, regional and local administrative bodies, the mining industry and Union representatives. Moreover, the Bank also had an intensive dialogue with representatives of local Government, Voivodship administration, labor unions and a number of NGOs. These included groups, concerned with environmental matters, as well as NGOs with a focus on social acceptability. Among the latter were also groups dealing with the issue of women in the coal mining sector, and the impact of restructuring on families, and notably women and children. Their suggestions have been taken into account to a large degree. Moreover, the social assessments which are being executed and will be repeated during and at the end of Program implementation, will allow to improve detailed features of the Program as its execution moves along.

5. Other Donors and Potential for Co-financing

93. The technical assistance provided by Bank staff and consultants in helping to shape the Government's Program has been financially supported by a number of bilateral agencies including those of Belgium (Flanders), Canada, Sweden, the UK, and the US. Previous studies were supported by Israel, Sweden and the EU. A request for further support for project preparation has been agreed under the Japanese PHRD program. Presently the U.S. Department of Labor is on-site, and the UK Department for International Development (DFID) is defining a strategy to assist gminas with local economic development and job creation. The Bank has maintained regular contact with representatives from the EU and bilateral institutions to keep them informed about progress in Program preparation.

94. It is not envisaged that the SECAL would be co-financed, except potentially with some grant funding for social support preparation and/or specific, small activities in the region related to sector restructuring. IFC has financed several private sector projects in southern Poland and has invested in venture capital funds which help create new jobs by supporting smaller businesses. In the future, subject to progress of privatization, IFC will consider supporting investments in modernization of heavy industry in Upper Silesia and in financial intermediaries which should help new business development. EU is supporting the coal and steel sector restructuring with specific targeted operations of their own. In 1998 an operation in support of social and environmental aspects in coal and steel sector restructuring, with an amount of ECU 30 million was processed by the EU. For 1999 another operation will support coal sector restructuring; and for the period until EU membership, further EU support of the sector as well as for regional development in Upper Silesia is envisaged. In addition, IFC and EBRD have expressed an interest in considering financing or equity contributions as mines and/or mining companies are privatized

D. Lessons Learned From Other Operations

1. Employment Services Operations

95. The social component of the proposed SECAL builds on the Employment Promotion and Services Project (Loan 3338-POL) which helped to create a country-wide labor services system, including labor re-deployment, retraining, and small business assistance, with a special focus on Upper Silesia, and introduced modern labor re-deployment programs throughout Poland. The Ministry of Labor and Social Policy has expressed its satisfaction with the important infrastructure built under that loan and with the major lessons learned with regard to social support measures and labor re-deployment.

96. Further valuable lessons for actionable programs, and notably the importance of fast acting and targeted income support with demand driven labor re-deployment programs have been derived from other labor redeployment operations in the ECA region. These include operations with direct

linkages to privatization in Macedonia, Romania and Turkey. These operations show that the selection of capable implementing agencies is crucial. This has been achieved in Poland through close cooperation between Human Resource Departments at mines, the Mine Labor Agency (GAP), and the MoSLP local labor offices of the Katowice Region.

2. Coal Restructuring Operations

97. The employment and capacity restructuring aspects of the project have been considered in the light of experience with the Russia and Ukraine Coal SECAL operations as well the Romanian Government's recent experience with mining industry severance payments. 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.

98. However there are major differences between the social, political and economic environment in Poland and the conditions in Russia and Ukraine. Such conditions are much more positive in Poland and provide a much stronger basis of support for the proposed operation in Poland, although as discussed earlier there are still critical risks especially regarding industry financial performance. The differences between the Poland operation and the operations in Russia and the Ukraine are highlighted below:

- Poland is a fast growing, robust economy with a sound economic policy which has demonstrated its inherent strength during the onset of the Asian and Russian Crises. The Polish coal industry does not suffer from the severe wage arrears problems that affects the Russian coal industry or the huge inter-enterprise debts and barter system that impacts the Ukraine coal industry.
- Due to rapid growth, there is declining unemployment (particularly low in Upper Silesia) which will facilitate the absorption of miners into other industries or services. Poland does not have the same type of "one company " coal towns that characterize much of the Russian and the Ukrainian industry.
- Local governments are strong enough that the transfer of social assets such as schools and hospitals has taken place in an orderly manner in Poland unlike Ukraine and Russia where it is a major concern needing special initiatives (such as municipal lines of credit in the case of Ukraine).
- Poland has already started negotiations to join the EU as part of the first group of Central European Countries invited to join. EU accession provides a significant impetus for state enterprise restructuring, notably in coal and steel, as both industries will have to be able to operate competitively in the EU market environment.
- Poland can afford to compensate miners which are a strong political force, well organized and potentially could derail a Program if it is not underpinned with adequate social support; Poland's fiscal situation provides further assurances that the social support program can be maintained in future program years.
- The Polish coal industry is technically sound and has a good safety record. There is a strong core of mines which could become profitable relatively quickly, once the Government provides for a rapid exit policy for excess capacity and supports the rationalization of the labor force.

- The structure of the Polish hard coal industry is different than in the two other countries. The industry is corporatized and divided into seven competing mining companies which are able to redeploy miners and managers from mine to mine (unlike in the Ukraine and much of Russia, where closure of a mine affects all personnel of that particular mine).
- Social support mechanisms are well established and have been functioning satisfactorily, including programs developed with the support of the Bank's Employment Promotion and Social Services Project.
- There is a window of opportunity, since the Government has a strong trade union support base, given the direct link with Solidarity, which recognizes the need for restructuring the sector.

99. All these factors suggest that a much more favorable environment for successful implementation of the Program is prevailing in Poland.

PART V. PROJECT BENEFITS AND RISKS

100. **Benefits:** The Program and by implication the SECAL would have a number of important benefits for Poland, for the region, for the mining companies and the miners. First and foremost, successful implementation will help stem the losses of the coal companies and eventually turn a money losing state controlled sector into a competitive and profitable private industry. This will not only reduce the drain on the budget but also help strengthen Poland's capacity to compete within the EU. Even if profitability takes longer to achieve than forecast, losses will be much lower with the Program than without the Program. In addition, it could well become a model for the reform of other sectors.

101. From the point of view of society, the immediate beneficiaries of the Program, and the SECAL, would be the miners and their immediate dependents. In addition, the population of the mining regions would benefit from continued social peace and employment opportunities, while increasingly enjoying a cleaner environment. The Polish people would indirectly benefit through improved economic performance and an assurance that their hard earned tax payment are being applied to constructive needs rather than to propping up a loss-making industry.

102. **Risks:** Experience around the world demonstrates that coal sector restructuring is an inherently difficult task and in this context the operation must be considered a high risk operation. Despite several attempts in the past decade, hard coal sector restructuring has not been accomplished so far in Poland because of the lack of an adequate social program and a resulting inability or unwillingness on the side of mine management to close capacity.

103. As discussed in the risks section for the Program (Section III.I), there are four major risks. First, implementation may slow down due to continued unwillingness of mine management to close capacity because of the inherent social and other difficulties This risk is compounded by a second risk of lack of sufficient funds to meet the demand for social packages in 1999. Thirdly, the

companies may fail to become profitable because future sales volumes and prices are below projected levels. Fourthly, companies may be slow to implement high priority environmental improvements. Thus, this operation is considered a high risk operation.

104. The Government's Hard Coal Sector Restructuring Program has been designed with the lessons of the past in mind. The Program is well prepared and is being implemented in a strong macro economic situation. The risks noted above have been recognized by the Government and are addressed in the design and implementation of the Program. The mine closure implementation risk is mitigated by the process by which the mines were selected, by the commitments in the company business plans and managers employment contracts, and by the requirements of the enabling law. The risk of under funding of social packages in 1999 is mitigated by a commitment both, on the side of the Government and the mine management to mobilize additional resources, as needed, to fund the Program. The financial performance risk will be mitigated by the implementation arrangements and in particular the incentives in the mangers employment contracts. The environmental performance risk will be mitigated by incentives to company managers to implement environmental improvements and by strong monitoring and supervision.

PART VI. RECOMMENDATION

105. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and I recommend that the Executive Directors approve it.

James D. Wolfensohn
President

Washington, D.C.
May 18, 1999

By Sven Sandstrom

Attachments

Schedule A

ScheduleA

Specific Annexes

Annex 1	Letter of Sector Development Policy
Annex 2	Policy Matrix
Annex 3	Main Economic Indicators
	Table 1: Key Economic Indicators
	Table 2: Key Exposure Indicators
	Table 3: Social Indicators

POLAND

HARD COAL SECTOR RESTRUCTURING
LETTER OF SECTOR DEVELOPMENT POLICY

I. Introduction

The Government of Poland is implementing a comprehensive Hard Coal Sector Restructuring Program. This Program was approved by the Council of Ministers on June 30, 1998. Implementation of the Program is supported by the Enabling Law on adjusting hard coal mining sector to functioning under conditions of market economy and on specific privileges and tasks of mining communes, that was ratified by the Parliament and signed by the President on December 26, 1998. The Program is designed to reduce the capacity, employment, cost and environmental problems of the sector. Expected results include profitability for the sector, improved corporate governance of the mining companies, competition and privatization in the sector and sustainable environmental improvements.

II. Objectives for Coal Sector Reform

Specific objectives of the program include the following:

- **Profitability**: Coal companies should generate profits from operations as of the year 2000; this is to be achieved through:

  - Improved Corporate Governance: to support restructuring efforts and increase accountability in mining companies employment contracts for Management Boards were introduced. One of their basic elements is periodic assessment of management's performance based on companies results. ;
  - Capacity Rationalization: Mining companies will reduce the production capacity of the coal mining sector by approximately 25.5 million tons of annual production by the year 2002 ;
  - Labor Force Rationalization: The level of employment in the coal mining sector will be reduced by about 105,000 and will be about 138,000 employees by the end of 2002 ;
  - Financial Restructuring: Mining companies will have the opportunity to write off in whole or in part and reschedule a significant portion of their current liabilities according provisions of the Enabling Law;
  - Cost Reduction: Mining companies have introduced cost reduction measures in the key cost categories.

- **Environmental Improvements**: Mining companies will improve their environmental management practices to lead the sector to environmentally sustainable performance; and

- **Privatization**: privatization will be considered especially for individual mines that will good potential for future activities in coal market. The privatization process has started with the preparation of the Budryk and Bogdanka mines for privatization. It is expected that there will be possibilities for privatization of entire mining companies which will depend on the pace of restructuring of the individual mining companies , achieving profitability as well as on results of Sector Privatization Assessment..

III. Policy Framework and Reform Program

(a) Free Trade and Prices

The Government is committed to maintaining free prices and free trade for coal.

(b) Mine Capacity Restructuring

According to the Program, the mining companies will close about 25.5 million tons of annual production capacity . Such closure will have an estimated cost of about PLN1.3 billion Mining Companies management will be responsible to close entire mines as well as unprofitable parts of mines. So far 25.8 million tons of annual production capacity has been identified by the mining companies in their business plans. Further details are given in the attached tables 1 and 2. In case of the domestic coal market has declined more than anticipated, the mining companies' business and operating plans may be adjusted accordingly.

An agreement concluded between the Minister of Economy and the mining company will become a basis for financing the cost of mine closure from the state budget. In 2000, mining companies will establish a mine liquidation fund, in which they will deposit funds for coverage of future mine closure costs; the liquidation funds will be created from a part of depreciation fund of mining companies.

As of January 1, 1999, eleven mines were not producing. These are Pstrowski, Paryz, Siemianowice, Morcinek, Porabka-Klimontów, Saturn, Grodziec, Sosnowiec, Zory, ZWP Antracytu and Walbrzyskie KWK. By December 31, 1999, the mining companies will have completed liquidation of six mines namely, Paryz, Pstrowski, Siemanowice, Zory, ZPW Antracytu, and Walbrzyskei KWK. Production will have stopped at another four mines, namely, Rozalia, Gliwice, Niwka-Morzejow and Siersza. By December 31, 2000, production will be terminated additionally at mines, , Nowa Ruda, Czeczott, ZG Wojkowice, ZG Jadwiga and Debiensko. Production will also be terminated at mining areas under partial closure: at five by December 1999 and another four by December 31, 2000. Further details are given in the attached

tables 1 and 2. 338 million PLN has been committed in the 1999 budget to be spent on physical mine liquidation.

(c) Employment Restructuring

The Government is committed to socially responsible employment restructuring in the coal mines based on voluntary redundancies. Miners who leave are eligible for temporary income support, through a specially designed Miners Social Package (MSP) which provides miner leaves, for those eligible for retirement within 5 years; social allowances or lump sum cash severance payments, for those not eligible for retirement within 5 years. In addition, miners ineligible for the Miners Social Packages are entitled to a lump sum payment of unemployment benefits under the Employment Law. Packages will be offered as first priority with right of first refusal to miners at mines being closed or where production is being terminated and to mines which will provide workplaces for miners at mines being closed.

The Program originally estimated that about 117,000 workers would leave the sector between 1998-2002, out of which about 62,000 would use the MSP, and another 55,000 would leave though normal attrition. Current trends and business plans indicate the use of the MSP will be slightly increased and attrition slightly decreased. In view of this, the Ministry of Economy has instructed mining companies to make sure that retirement rules are properly implemented. The use of the MSP in 1998 was more than double the expected rate. This trend produced a shortfall in the 1998 budget and additional funds were made available through the Ministry of Labor and Social Protection.

In 1998, 38,400 employees left the sector; out of which 26,100 through the instruments of MSP. 15,100 workers used miners leave package. The total budget allocation for employment restructuring in 1998 was 751,8 million PLN out of which 249,8 was provided from the Labor Fund.

The Government is committed to ensuring that the Program objectives for employment restructuring are achieved. In addition, initiatives will be taken in order to find additional sources of financing including funds from mining companies so that the employment restructuring plans included in the mining companies' business plans can be achieved.

(d) Social Support to Communities

Mining companies are obliged by the law to co-operate with the mining communes to transfer (either giving or selling) remaining social assets to local authorities. This will allow company management to concentrate on coal production. The Government is committed to assisting affected gminas in the creation of jobs, improvement of infrastructure, as well as restructuring the transferred social facilities.

(e) Financial Restructuring of Mining Companies

Mining companies presently receive cash subsidies for employment restructuring; mine liquidation; and certain environmental investments. In addition, companies are eligible for financial restructuring of liabilities to the state and to environmental funds according to conditions that are specified in the law on transforming hard coal sector to function in market economy and on specific privileges and tasks for mining municipalities.

In order to be eligible for this financial restructuring, the mining companies must continue to fulfill certain basic conditions, namely, not exceeding accepted growth in monthly wage, no gifts/guarantees, restructuring measures under the business plan being implemented and the company must be current in ZUS and Labor Fund payments. Companies, at their initiative, can apply before June 30, 1999, to participate in the financial restructuring.

According to the law, liabilities incurred before April 1, 1998, to the Government (excluding VAT), Labor Fund, ZUS, Fund for Guaranteed Employee Benefits, the State Fund for Rehabilitation of the Disabled and the National Fund for Environmental Protection (only fines for the discharge of saline water) will be written off completely, including interest. Repayment of other liabilities incurred before April 1, 1998 (VAT, other liabilities to the National Fund for Environmental Protection, regional/local environmental funds and gminas) are postponed between two and seven years and occur over a five year maximum period, according to the specifics in the Law. If the mining companies fail to meet any of the conditions for financial restructuring, then the debt reduction procedure shall be cancelled by the Ministry of Economy (subject to agreement from the Ministries of Environment, Finance and State Treasury).

The Law also provides for restructuring of liabilities incurred after March 31, 1998 and before December 31, 2000 (by this date, companies are supposed to become financially viable) according to the following rules:

- Liabilities occurring after March 31, 1998 may be cancelled, rescheduled or postponed except for liabilities for VAT or to gminas which can be postponed but only for a period of up to 5 years following negotiation concerning deadlines and terms; and
- if the company does not fulfill the negotiated payment terms for 3 consecutive months, the creditor can request that the entire debt reduction procedure is cancelled.

Companies will be able to negotiate with creditors according to the rules specified in the law and their ability to repay. No further global write off of liabilities will be approved by the Government. Furthermore, the Government is committed to enforcing a hard budget constraint on the mining companies and will neither guarantee any new commercial liabilities for the companies (with the possible exception of certain social and environmental investments) nor service any company liabilities which have not previously been guaranteed.
After December 31, 2002 (i.e. after the adjustment period), there will be no further subsidies for the mining companies except carryover payments for miners leave and environmental investments according to generally applicable rules.

(f) Improving Environmental Performance

The Government is committed to ensuring that the mining companies improve the environmental performance of the sector. In their 1999 business plans, the mining companies included a section on improved environmental management. Each individual company set out its environmental priorities and mitigation measures and the costs and schedule for implementation, as well as the targeted reduction of fees for environmental discharges.

A Sector Environmental Assessment (SEA) will be carried out, which will help to establish environmental priorities in the sector, identify appropriate mitigation measures, provide an estimate of the costs needed to implement such measures and establish a timetable for implementation. The Government ensures that the results of the Assessment will be included in the updated business and operational plans of the mining companies. It is expected that the mining companies will spend at least PLN 100 million annually on environmental protection. The findings of the SEA regarding saline water will be the basis for improvements and investments at NSW.

According to rules that apply to environmental investments across all sectors, part of the financing for needed environmental investments may be available from the National Fund, the BOS Bank and other financial institutions to carry out the environmental protection measures envisaged to be undertaken in the business plans. The Government will require that any mining company applying for such funding will be able to demonstrate improvements in financial performance as well as a sound environmental management program. Finally, the Government is committed to vigorous enforcement of the environmental fees and fines starting from 2001.

(g) Timely Privatization

According to the Program the Govt. will undertake activities related to privatization of the mining sector. Two mines are currently being prepared for privatization (Bogdanka and Budryk) and it is expected that they will be offered for privatization in the first quarter 2000. With regard to the mining companies, a Sector Privatization Assessment (SPA) will be prepared. The outcome of the SPA will be (a) a general analysis of the sector (b) a detailed analysis of all seven mining companies including economic, financial, resources, legal, and perspective for future operation analysis; (c) a strategy for sector privatization , (d) sector privatization plan including schedule and estimated costs, (e) optimal regulation and administrative framework for the sector. The findings of the SPA will help to determine which mining companies could be most easily privatized given current conditions.

IV. Implementation Arrangements

(a) Enabling Law and Regulations

The enabling law underpinning the program was signed by the President on December 29, 1998 and became effective on January 14, 1999. It is expected that four regulations regarding Defining the Eligibility of Companies for Subsidies; Subsidies for Mine Liquidation; Setting up; Subsidies for Employment Restructuring; Loans to Mining Municipalities will be issued by the Government in April 1999. The other two regulations regarding Mine Liquidation Fund and Refund of Coal Allowance Equivalent will be issued by the Government by the end of June 1999.

(b) Improvement of Corporate Governance of the Mining Companies

The Government is committed to providing the framework for the mining companies to operate in an independent, autonomous and increasingly competitive manner. Each mining company has started to implement its business plan. Most of these business plans show improved 1999 financial performance, and profitability from operation in year 2000, timely and cost efficient mine closures, adequate labor restructuring, priority environmental remediation, financial restructuring proposals and timely privatization arrangements for individual mines. The Minister of Economy (the shareholder) approved the plans in the beginning of March 1999 after having them approved by the Steering Committee.

Employment contracts have been signed on March 8, 1999 with the company Management Boards. Management will be motivated through incentives and will be held responsible to implement their approved business plans and to achieve targets included in the plans. Remuneration of the management are linked to certain parameters including financial performance of the company, cost reduction and improved environmental performance. If management fails to implement their company's business plan or achieve the targets, such management would be subject to termination. Highly qualified Supervisory Boards for each mining company are being searched actively and will be selected through a competitive process.

(c) Administration, Oversight, Coordination and Monitoring

The Government is committed to oversee actively implementation of the Program. An Inter-Ministerial Coal Steering Committee (IMCSC) was established on January 29, 1999. According to need by the IMCSC, advisory working groups may be established.

The Government is committed to keeping communities well informed and to monitor closely the impacts of the Program. A public information and communications program was started in 1998 and a follow-up second phase is being developed.

The Government is committed to monitoring vigorously the performance of the mining companies in implementing their business plans. The Ministry of Economy will monitor mining

company performance on a quarterly basis, and will report annually to the Council of Ministers on progress of the Program's implementation.

V. Amount, Structure and Mechanisms of State Support

The Program is estimated to cost about PLN 14,1 billion, out of which 7,2 billion in a form of cash subsidy and PLN6,9 billion in debt restructuring.

The Government is committed to a high degree of discipline and transparency in the use of budget funds. The Ministry of Economy's budget will include a separate line items for the MSP payments as well as for closure payments. Mining companies will keep (a) employment restructuring funds and (b) mine liquidation funds in accounts separate from other mining company funds.

The Government will conduct an independent, external audit of the 1998 social payments and of the 1999 social payments.

Signed by
Minister Janusz Steinhoff,
Ministry of Economy
Warsaw on May 17, 1998

	Mine	Production Capacity		Month and year of production termination
		(1997) t/d	(1997) mln t/year	
Whole liquidation:				
1	Grodziec	2778	0.7	XII/1998
2	Gliwice	4365	1.1	X/1999
3	Niwka Modrzejow	6349	1.6	VII/1999
4	Morcinek	5555	1.4	X/1998
5	ZG Rozalia	4762	1.2	XII/1999
6	Porabka – Klimontow	3175	0.8	XII/1998
7	Nowa Ruda	1587	0.4	XII/2000
8	Debiensko	6746	1.7	XII/2000
9	Siersza	4365	1.1	VI/1999
10	Czeczott	13,605	3.4	XII/2000
11	Jan Kanty	3968	1.0	XII/2001
12	Powstancow Slaskich (Bytom 1)	5952	1.5	XII/2001
13	ZG Wojkowice	3571	0.9	XII/2000
14	ZG Jadwiga	1984	0.5	VII/2000
15	Andaluzja (ZG Brzeziny)	6349	1.6	XII/2002
	Total whole liquidation	75,111	18.9	
Partial liquidation:				
1	Centrum-Szombierki (Szombierki part)	1587	0.4	IV/1999
2	Bobrek-Miechowice (Miechowice part)	1587	0.4	VII/1999
3	Katowice-Kleofas (Katowice part)	5159	1.3	VII/1999
4	Jas-Mos (Moszczenica part)	794	0.2	XII/2000
5	Polska – Wirek (Polska part)	1587	0.4	III/2000
6	Bielszowice (Poreba part)	3175	0.8	IX/1998
7	Pokoj (Wawek part)	2381	0.6	XII/2000
8	Marcel (1 Maja part)	6349	1.6	VI/2000
9	Chwalowice (Rymer part)	4762	1.2	VI/1999
	Total partial liquidation	**27,381**	**6.9**	
	Total liquidation of capacity	**102,492**	**25.8**	

Note: capacity to be liquidated is determined based on 1997 production level.

	Mine	Years				
		1998	**1999**	**2000**	**2001**	**2002**
Whole liquidation:						
01	Grodziec	0.7				
02	Gliwice		1.1			
03	Niwka Modrzejow		1.6			
04	Morcinek	1.4				
05	ZG Rozalia		1.2			
06	Porabka – Klimontow	0.8				
07	Nowa Ruda			0.4		
08	Debiensko			1.7		
09	Siersza		1.1			
10	Czeczott			3.4		
11	Jan Kanty				1.0	
12	Powstancow Slaskich (Bytom 1)				1.5	
13	ZG Wojkowice			0.9		
14	ZG Jadwiga			0.5		
15	Andaluzja (ZG Brzeziny)					1.6
Total whole liquidation		**2.9**	**5.0**	**6.9**	**2.5**	**1.6**
Partial liquidation:						
01	Centrum – Szombierki (Szombierki part)		0.4			
02	Bobrek – Miechowice (Miechowice part)		0.4			
03	Katowice – Kleofas (Katowice part)		1.3			
04	Jas – Mos (Moszczenica part)			0.2		
05	Polska – Wirek (Polska part)			0.4		
06	Bielszowice (Poreba part)	0.8				
07	Pokoj (Wawel part)			0.6		
08	Marcel (1 Maja part)			1.6		
09	Chwalowice (Rymer part)		1.2			
Total partial liqudation		**0.8**	**3.3**	**2.8**	**0.0**	**0.0**
Total capacity reduction (million tons per year capacity)	**Total 25.8**	**3.7**	**8.3**	**9.7**	**2.5**	**1.6**
Planned capacity reduction Under the Program (million tons per year capacity)	**Total 25.5**	**1.0**	**8.5**	**9.0**	**3.5**	**3.5**

(million tons per year capacity)

draft 5/18/99

Poland: Hard Coal Sector Restructuring Program: Policy Matrix of the SECAL–Page 1

Policy	Actions Taken Prior to Board Presentation	Actions to be Taken Prior to Loan Effectiveness	Key Actions to be Taken for 2nd Tranche Release
1.(a) Miners Social Packages (MSP) Funding	New MSPs are offered first to miners in mines being closed so that they have the right of first refusal for new MSP.	14,000 miners have accepted lump sum packages. The calendar year 1999 plan for MSPs has been updated.	18,000 miners have accepted lump sum packages. preparation of a satisfactory MSP plan for the year 2000 linked to mine closures. Verification that MSP is first being offered to miners at mines being closed.
1.(b) MSP Record Keeping and Audits	Funds kept in separate accounts Audits of 1998 MSP confirm no arrears and budgetary funds used for intended purposes. Procedures agreed regarding scope of 1999 audits and selection criteria for auditors.		No arrears at time of tranche review. Audit to be conducted by independent auditor that confirms budgetary funds have been used for intended purposes.
1.(c) Social Impact Monitoring	Adequate SIM arrangements and funding for 1999. Agreements to broaden the Phase I Communication Strategy to cover social surveys with needed staff and budget.		Implementation of Phase Two communications strategy. Implementation of monitoring systems for social aspects of the Program by: (i) social survey of labor market in Silesia and (ii) survey of miners taking MSP. On-going provision of social services to vulnerable groups and adequate funds available from the Labor Fund to finance active labor programs as needed in regions of Program implementation.

Poland: Hard Coal Sector Restructuring Program: Policy Matrix of the SECAL – Page 2			
Policy	**Actions Taken Prior to Board Presentation**	**Actions Taken Prior to Loan Effectiveness**	**Key Actions to be Taken prior to 2nd Tranche Release**
2. (a) Budgetary Funding for Mine Closure ***2. (b) Production Termination and Mine Closure***	1999 procedures agreed regarding scope of audits and selection criteria for auditors.	Production has terminated at two mines and a resolution for liquidation of a third mine has been adopted.	Audit to be conducted by independent auditor that confirms budgetary funds were used for intended purposes. Adoption by each mining company of resolutions for liquidation of mines in the years 2000. Production terminated at four whole mines and three partial mines. Closure completed at five mines.
3. Hard Budget Constraint	Enactment of the Law on Hard Coal Mining Sector Restructuring with financial restructuring provisions. Government commitment to Hard Budget constraint (including not providing any additional or hidden subsidies; any additional forgiveness of liabilities to Government; or guarantees or repayment of companies commercial liabilities).		Government has not provided any additional or hidden subsidies; any additional forgiveness of liabilities to Government; or guarantees or repayment of companies commercial liabilities. IMCSC provides opinions on mining companies financial restructuring proposals.

Poland: Hard Coal Sector Restructuring Program: Policy Matrix of the SECAL–Page 3			
Policy	**Actions Taken Prior to Board Presentation**	**Actions to be Taken Prior to Loan Effectiveness**	**Key Actions to be Taken prior to 2nd Tranche Release**
4.(a) Company Management Boards ***4.(b) Supervisory Boards*** ***4.(c) Mining Company Operating Plans and Business Plans***	Appointed with management contracts with satisfactory incentive and termination provisions. Search process initiated by IMCSC to find candidates with strong commercial experience and/or restructuring and/or financial expertise. Business Plans for 1999-2002 and Operating Plans for 1999 approved by Shareholder.		Management performance reviewed on a quarterly basis. New Supervisory Boards appointed by shareholder with one full time member. Shareholder approval of mining companies' annual operating plans for Year 2000 satisfactory to the Bank that take into account capacity restructuring, employment and financial targets as set forth in the Program and the mining companies' Business Plans. Costs per ton reduced by **1.5%** in nominal terms from first nine months of 1998 to first nine months of 1999.
5. Privatization and Sector Privatization Assessment (SPA)	Business Plans contain privatization initiatives TAPU approval of SPA bidding documents.		Satisfactory implementation of privatization measures in business plans. SPA completed and results introduced into Year 2000 approved company operating plans. Privatization advisors appointed for at least two mining companies. Bogdanka mine and Budryk mine prepared for privatization.

Poland: Hard Coal Sector Restructuring Program: Policy Matrix of the SECAL–Page 4			
Policy	**Actions Taken Prior to Board Presentation**	**Actions to be Taken Prior to Loan Effectiveness**	**Key Actions to be Taken Prior to 2nd Tranche release**
6.(a) Sector Environmental Analysis (SEA)	Bid evaluation completed.		SEA completed and results introduced into mining company operating plans for year 2000
6.(b) NSW Desalination Investment	No further investment/ commitments by NSW until results of SEA are known		Govt. as shareholder to ensure that NSW actions are consistent with findings of SEA
6.(c) Business Plans and Oversight	Business Plans include environmental actions		Endorsement of IMCSC Environmental Working Group required before acceptance of company financial restructuring proposals
6.(d) Environmental Performance and Verification	Satisfactory environmental verification procedures in place		Satisfactory implementation of substantial environmental improvement actions as per the Business Plans; and IMCSC Environmental Working Group established and chaired by MoEP Verification of environmental performance results for first three quarters in 1999: - 5% reduction in amount of fees and fines assessed on Mining Companies for solid waste surface discharges since comparable period in 1998; - 10% reduction in quantity of saline content of water and solid waste generated since comparable period in 1997.

POLAND - KEY ECONOMIC INDICATORS

Indicator	Actuals 1994	1995	1996	Estimate 1997	1998	Projected 1999	2000
National accounts (as % GDP at current market prices)							
Gross domestic product	100	100	100	100	100	100	100
Gross domestic product at factor costs	85.4	86.2	86	87.6	86.5	86.5	85.9
Agriculture	6.3	6.4	5.9	4.4	4.3	4.1	4.0
Industry	28.3	29.2	27.1	26.6	26.3	26.1	25.6
Services	50.8	50.6	52.9	56.6	55.9	56.3	56.4
Consumption	83.1	80.6	82.6	81.2	81.0	80.2	79.8
Gross domestic investment	15.9	18.0	20.2	22.4	23.0	24.7	25.9
Government investment	..	3.0	3.4	3.4	2.8	3.1	3.3
Private investment	13.1	13.8	15.5	19.0	20.2	21.6	22.6
Exports	24.0	25.9	24.8	27.3	24.5	24.2	24.1
Imports	23.0	24.6	27.6	30.9	28.5	29.0	29.9
Gross domestic savings	17.3	18.3	17.8	18.8	19.0	19.8	20.2
Gross national savings	15.9	18.0	20.2	19.2	17.9	18.2	17.9
Gross domestic product (LCU billion at current prices)	210.4	288.7	362.8	445.1	521.0	584.1	655.0
Gross national product per capita ($US, Atlas method)	2430	2810	3340	3800	3900	..	..
Real annual growth rates							
Gross domestic product at market prices	5.2	7.0	6.0	6.8	4.8	4.0	4.8
Gross domestic income (different name for GNP)	..	..	7.7	6.7	4.4	..	..
Real annual per capita growth rates							
Gross domestic product at market prices	5.0	6.9	6.0	6.8	4.7	3.9	4.6
Total consumption	3.3	1.4	9.8	5.8	6.1	2.3	3.1
Private consumption	3.8	3.6	8.7	6.7	7.1	2.1	3.0
Balance of payments (US$m)							
Exports (GNFS)	25,054	35,716	37,390	39,717	37,004	38,553	42,047
Merchandise FOB	18,355	25,041	27,557	30,731			
Imports (GNFS)	22,789	33,825	41,273	46,367	42,512	46,281	51,802
Merchandise FOB	18,930	26,687	34,844	40,553			
Resourse balance	2,265	1,891	-3,883	-6,650	-5,508	-7,650	-9,700
Net current transfers	1,252	958	1,694	2,035	..	..	..
Current account balance	954	854	-3,264	-5,744	..	..	..
Net private FDI	1,846	3,617	4,445	4,863	..	..	..
Long-term loans (net)	-8,345	472	-5,441	1,326	..	..	..
Other capital (net, including errors and omissions)	8,012	4,343	4,637	-2,598	..	..	..
Change in net reserves	-1,513	-8,432	-3,641	-3,591	-5,698	..	..
Resource balance (% of GDP at current market prices)	2.3	1.5	-2.7	-4.6	-4.0	-4.9	-5.7
Real annual growth rates							
Merchandise exports	118.3	116.7	109.7	113.7	105.1	106.5	112.8
Merchandise imports	113.4	120.5	128.0	122.0	118.9	107.5	107.3

Annex 3
Table 1
Page 2 of 2

Indicator	Actuals 1994	1995	1996	1997	Estimate 1998	Projected 1999	2000
Public finance as % of GDP at current market prices							
Current revenues	44.7	43.8	43.3	42.6	44.2	43.3	41.3
Current expenditure	47.4	46.4	46.4	45.5	44.9	44.8	43.3
Current accout surplus or deficit	-2.8	-2.6	-3.1	-2.9	-0.6	-1.6	-2.0
Capital expenditure of the central budget	23.2	23.4	26.8	31.3	33.3	..	..
Foreign financing of the central budget deficit	-0.6	0.3	-0.2	-0.5	-0.6		
Monetary indicators							
M2/GDP (at current market prices)	34.5	34.0	37.7	39.6	42.4	42.2	42
Growth of M2 (%)	38.2	34.9	29.4	29.1	25.2	11.7	11.4
Private sector credit growth / total credit growth (%)	4.8	0.3	0.9	-2.2	..	..	..
Price indices (1997=100)							
Merchandise export price index	114.1	107.4	95.7	100.0	..	..	..
Merchandise import price index	112.0	104.9	97.8	100.0	..	..	..
Terms of trade index	108.9	129.9	129.9	100.0	112.0	110.0	107.0
Real exchange rate (US$/LCU)	119.3	100.1	93.0	100.0	97.2	93.2	89.4
Real interest rate (%)	-0.9	1.7	4.3	10.5	7.3	4.0	3.8
CPI (% growth rate)	32.2	27.1	19.8	13.1	9.6	7.4	6.3
GDP deflator (% growth rate)	28.4	28.2	18.5	14.8	11.7	7.8	7.0
Key Exposure Indicators							
Total debt outstanding and disbursed (TDO) (US$m)	42,553	42,291	40,895	39,890	30,914	24,855	17,551
Net disburstments (US$m)	672	210	464	239	..	..	..
Total debt service (TDS) (US$m)	3,099	4,069	2,551	2,979	3,043	2,488	2,652
Debt and debt service indicators (%)							
TDO/XGS	169.8	118.4	109.4	100.4	83.5	64.5	41.7
TDO/GDP	46.0	35.5	30.4	29.4	20.8	15.6	10.1
TDS/XGS	16.3	12.0	7.3	8.0	7.0	5.4	5.3
Concesioal/TDO	..	..	..	..	..	..	..
IBRD exposure indicators (%)							
IBRD DS/publicDS	3.1	4.1	16.0	17.7	..	..	..
Prefered creditor DS/public DS	18.1	47.0	16.0	17.7	..	..	..
IBRD DS/XGS	0.3	0.5	1.0	0.8	..	..	..
Share of IBRD portfolio	..	..	..	..	..	..	..
IFC (US$m)							
Loans	..	..	49.3	20.8	15.0	..	..
Equity and quasi-equity	..	..	10.8	17.8	15.6	..	..
MIGA							
MIGA guarantees (US$m)	..	..	95.8	44.8	21.8	..	..

Poland - Key Exposure Indicators

Indicator	Actual 1994	1995	1996	1997
Total debt outstanding and disbursed (TDO) (US$m)[a]	42553	44263	43473	39889
Net disbursements (US$m)[a]	97	335	982	1944
Total debt service (TDS) (US$m)[a]	3102	4147	2680	2562
Debt and debt service indicators (%)				
TDO/XGS[b]	164.6	134.8	125.6	107.3
TDO/GDP	43.2	35.0	30.4	27.9
TDS/XGS	12.0	12.6	7.7	6.9
Concessional/TDO	25.4	25.1	23.3	19.3
IBRD exposure indicators (%)				
IBRD DS/public DS	3.1	4.1	16.0	17.7
Preferred creditor DS/public DS (%)[c]	18.1	47.0	16.0	17.7
IBRD DS/XGS	0.3	0.5	1.0	0.8
IBRD TDO (US$m)[d]	1818	2067	2175	2078
Of which present value of guarantees (US$m)				
Share of IBRD portfolio (%)	..	..	..	..
IDA TDO (US$m)[d]	0	0	0	0
IFC (US$m)				
Loans				
Equity and quasi-equity /c				
MIGA				
MIGA guarantees (US$m)				

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
b. "XGS" denotes exports of goods and services, including workers' remittances.
c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
d. Includes present value of guarantees.
e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex 3
Table 3

Poland: Social Indicators

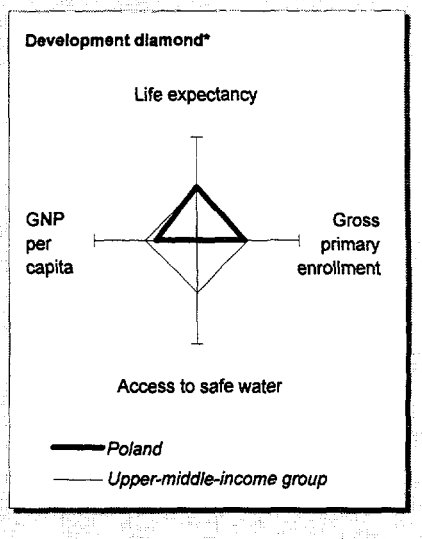
	Latest single year			Same region/income group	
	1970-75	1980-85	1990-96	Europe & Central Asia	Upper-middle-income
POPULATION					
Total population, mid-year (millions)	34.0	37.2	38.6	477.9	473.2
Growth rate (% annual average)	0.9	0.9	0.2	0.3	1.5
Urban population (% of population)	55.4	60.0	64.1	66.4	73.0
Total fertility rate (births per woman)	2.2	2.3	1.6	1.8	2.6
POVERTY					
(% of population)					
National headcount index	..	..	23.8	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNP per capita (US$)	..	2,020	3,230	2,200	4,600
Consumer price index (1987=100)	12	68	25,574	..	506
Food price index (1987=100)	..	70	21,547	..	..
INCOME/CONSUMPTION DISTRIBUTION					
(% of income or consumption)					
Lowest quintile	10.4	..	9.3	..	..
Highest quintile	33.3	..	36.6	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	4.8	4.4	3.4
Education (% of GNP)	..	4.9	5.5	5.6	5.0
Social security and welfare (% of GDP)	..	..	..	..	..
Net primary school enrollment rate					
(% of age group)					
Total	96	99	97	96	91
Male	..	100	97	97	..
Female	..	99	96	96	..
Access to safe water					
(% of population)					
Total	..	89	..	..	76
Urban	..	94	..	..	87
Rural	..	82	..	..	42
Immunization rate					
(% under 12 months)					
Measles	..	92	96	87	84
DPT	..	94	95	81	88
Child malnutrition (% under 5 years)	..	..	..	..	..
Life expectancy at birth					
(years)					
Total	70	70	72	68	70
Male	67	66	68	64	66
Female	74	73	77	73	73
Mortality					
Infant (per thousand live births)	25	18	12	24	30
Under 5 (per thousand live births)	..	..	15	30	36
Adult (15-59)					
Male (per 1,000 population)	204	253	179	303	181
Female (per 1,000 population)	104	105	92	128	107
Maternal (per 100,000 live births)	..	12	10	..	..

World Development Indicators 1998 CD-ROM, World Bank

Poland at a glance

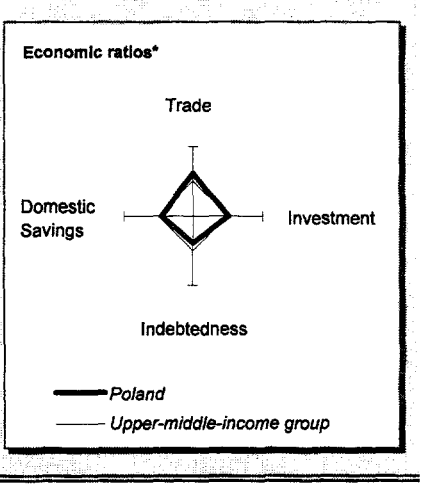
5/17/99

POVERTY and SOCIAL	Poland	Europe & Central Asia	Upper-middle-income
1997			
Population, mid-year *(millions)*	38.7	476	571
GNP per capita *(Atlas method, US$)*	3,590	2,320	4,520
GNP *(Atlas method, US$ billions)*	138.8	1,106	2,584
Average annual growth, 1991-97			
Population *(%)*	0.2	0.2	1.5
Labor force *(%)*	0.5	0.5	1.9
Most recent estimate (latest year available, 1991-97)			
Poverty *(% of population below national poverty line)*	24	..	..
Urban population *(% of total population)*	64	67	73
Life expectancy at birth *(years)*	72	69	70
Infant mortality *(per 1,000 live births)*	12	25	30
Child malnutrition *(% of children under 5)*	..	..	..
Access to safe water *(% of population)*	..	..	79
Illiteracy *(% of population age 15+)*	..	..	15
Gross primary enrollment *(% of school-age population)*	99	92	107
Male	..	..	..
Female	..	..	..

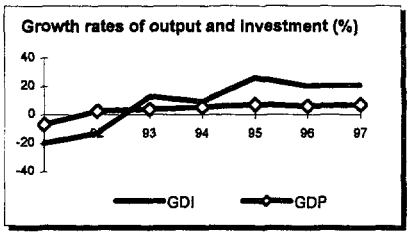


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1976	1986	1996	1997
GDP *(US$ billions)*	..	74.0	134.6	135.7
Gross domestic investment/GDP	..	28.9	20.2	22.1
Exports of goods and services/GDP	..	17.2	24.8	26.3
Gross domestic savings/GDP	..	34.6	17.8	18.8
Gross national savings/GDP	..	28.9	20.2	22.1
Current account balance/GDP	..	-1.2	-1.0	-3.1
Interest payments/GDP	..	1.4	1.1	1.3
Total debt/GDP	..	49.5	32.3	29.4
Total debt service/exports	2.8	13.1	7.4	..
Present value of debt/GDP	..	..	26.1	..
Present value of debt/exports	..	..	96.5	..

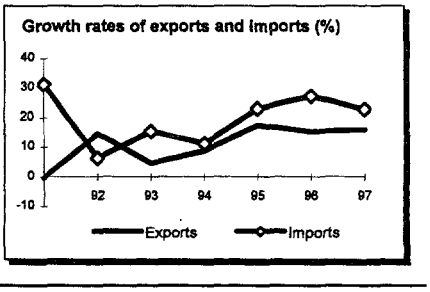
	1976-86	1987-97	1996	1997	1998-02
(average annual growth)					
GDP	1.7	1.0	6.1	6.9	5.5
GNP per capita	0.9	1.1	6.4	6.0	5.4
Exports of goods and services	3.6	9.8	15.3	15.9	4.7



STRUCTURE of the ECONOMY	1976	1986	1996	1997
(% of GDP)				
Agriculture	..	..	6.9	5.1
Industry	..	..	31.5	30.7
Manufacturing	..	..	23.4	20.2
Services	..	..	61.6	64.2
Private consumption	..	62.1	64.2	64.5
General government consumption	..	8.5	18.4	18.5
Imports of goods and services	..	16.8	27.6	31.4



	1976-86	1987-97	1996	1997
(average annual growth)				
Agriculture	..	-1.3	2.4	1.5
Industry	..	-0.1	7.1	9.8
Manufacturing	..	-0.2	8.1	14.1
Services	..	6.5	5.9	5.6
Private consumption	0.6	1.6	8.7	7.1
General government consumption	2.4	5.8	7.7	7.7
Gross domestic investment	-0.2	0.6	20.3	20.8
Imports of goods and services	-1.4	13.1	27.2	22.7
Gross national product	1.8	1.4	6.5	6.1



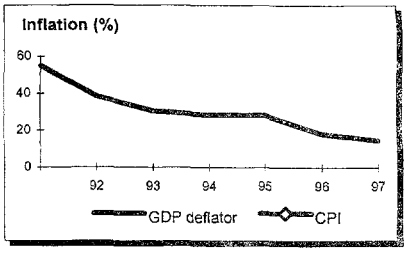
Note: 1997 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Poland

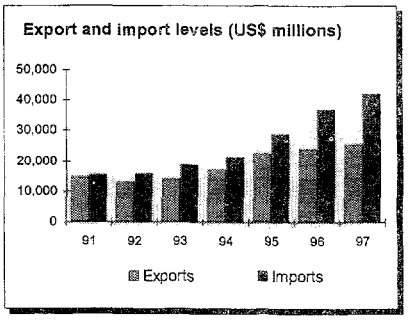
PRICES and GOVERNMENT FINANCE

	1976	1986	1996	1997
Domestic prices				
(% change)				
Consumer prices	..	15.8	..	..
Implicit GDP deflator	..	19.0	18.5	14.8
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	..	..	..
Current budget balance	..	..	..	..
Overall surplus/deficit	..	..	..	..



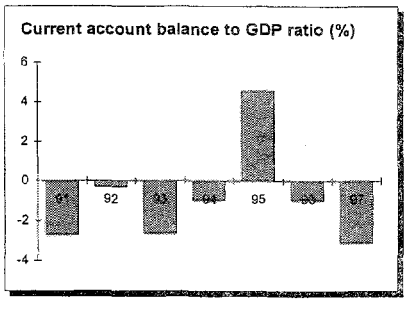
TRADE

	1976	1986	1996	1997
(US$ millions)				
Total exports (fob)	..	..	24,440	25,751
Other metal	..	..	1,510	..
Other metal	..	..	381	..
Manufactures	..	..	18,147	18,811
Total imports (cif)	..	..	37,137	42,308
Food	..	..	3,761	3,363
Fuel and energy	..	..	3,389	3,710
Capital goods	..	..	12,272	15,228
Export price index *(1995=100)*	..	..	97	90
Import price index *(1995=100)*	..	..	100	93
Terms of trade *(1995=100)*	..	..	97	97



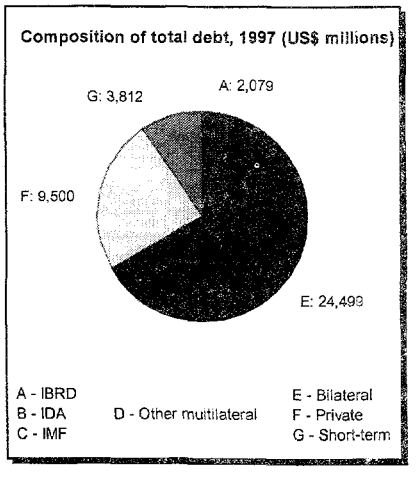
BALANCE of PAYMENTS

	1976	1986	1996	1997
(US$ millions)				
Exports of goods and services	10,686	13,673	34,956	37,013
Imports of goods and services	13,407	12,814	36,166	41,917
Resource balance	-2,721	859	-1,210	-4,904
Net income	-651	-2,662	-366	-465
Net current transfers	..	..	224	1,100
Current account balance	-2,973	-854	-1,352	-4,269
Financing items (net)	3,158	681	5,338	..
Changes in net reserves	-185	173	-3,986	..
Memo:				
Reserves including gold *(US$ millions)*	..	..	..	..
Conversion rate *(DEC, local/US$)*	4.00E-4	1.75E-2	2.7	3.3



EXTERNAL DEBT and RESOURCE FLOWS

	1976	1986	1996	1997
(US$ millions)				
Total debt outstanding and disbursed	1,487	36,642	43,482	39,890
IBRD	0	0	2,175	2,079
IDA	0	0	0	0
Total debt service	305	1,816	2,680	2,562
IBRD	0	0	344	297
IDA	0	0	0	0
Composition of net resource flows				
Official grants	0	0	665	600
Official creditors	-6	650	248	-140
Private creditors	863	17	113	934
Foreign direct investment	6	16	4,498	4,500
Portfolio equity	0	0	722	0
World Bank program				
Commitments	0	0	249	522
Disbursements	0	0	464	239
Principal repayments	0	0	197	155
Net flows	0	0	266	84
Interest payments	0	0	147	142
Net transfers	0	0	119	-58



Poland

Hard Coal Sector Adjustment Loan

Time Table of Key Processing Events

Time taken to prepare:	15 months
Project prepared by:	Government with IBRD Assistance
First IBRD Mission:	February 1998
Departure of Appraisal Mission:	February 1999
Negotiations:	April 1999
Planned Date of Effectiveness:	July 1999
List of Relevant PCRs and PPARs:	Not applicable

Status of Bank Group Operations in Poland
Operations Portfolio
As of 17-May-99

Project ID	Fiscal Year	Borrower	Purpose	Original Amount in US$ Millions				Difference Between expected and actual disbursements a/	
				IBRD	IDA	Cancellations	Undisbursed	Orig	Frm Rev'd
Number of Closed Projects: 13									
Active Projects									
PL-PE-55988	1999	GOVERNMENT OF POLAND	WHOLESALE MKT. II	11.12	0.00	0.00	10.90	1.34	0.00
PL-PE-8616	1999	POMORSKIE HURTOWE CENTRUM	WHLSLE MARKETS PRJ I	15.90	0.00	0.00	10.90	3.49	0.00
PL-PE-35082	1998	BISE AND PBK	MUNICIPAL FINANCE	22.00	0.00	0.00	20.22	8.77	0.00
PL-PE-53796	1998	GOVT. OF POLAND	FLOOD EMERGENCY	200.00	0.00	0.00	171.58	97.72	0.00
PL-PE-8593	1998	MINISTRY OF TRANSPORT	ROADS II	300.00	0.00	0.00	292.59	18.56	0.00
PL-PE-36061	1997	GOVERNMENT OF POLAND	PORT ACCESS & MGMT.	67.00	0.00	0.00	51.70	5.43	0.00
PL-PE-8595	1996	BIELSKO-BIALA AQUA S.A.	BIELSKO-BIALA WATER	21.50	0.00	0.00	12.83	9.66	0.00
PL-PE-8604	1996	POLISH POWER GRID CO	POWER TRANSMISSION	160.00	0.00	0.00	103.74	45.42	0.00
PL-PE-8614	1995	KATOWICE DISTRICT HEATING	KATOWICE HEAT SUPPLY	45.00	0.00	0.00	26.28	24.77	0.00
PL-PE-8610	1994	GOVT. OF POLAND	FORESTRY DEVELOPMENT	146.00	0.00	42.00	2.46	17.19	2.45
PL-PE-8599	1993	REPUBLIC OF POLAND	ROADS	150.00	0.00	0.00	2.00	.67	0.00
PL-PE-8587	1992	REPUBLIC OF POLAND	HEALTH	130.00	0.00	30.00	41.27	69.97	41.29
PL-PE-8590	1992	REPUBLIC OF POLAND	HOUSING	200.00	0.00	180.00	9.12	189.11	9.12
PL-PE-8571	1991	REPUBLIC OF POLAND	PRIVATIZN & RESTRUCT	280.00	0.00	47.28	63.75	111.04	63.76
PL-PE-8576	1991	DISTRICT HEATING ENTITY	HEAT SUPPLY RESTRUCT	340.00	0.00	137.50	17.06	154.49	15.66
PL-PE-8582	1991	REPUBLIC OF POLAND	EMPLOYMENT PROMOTION	100.00	0.00	20.00	6.38	26.38	6.38
Total				2,188.52	0.00	456.78	842.78	784.01	138.66

	Active Projects	Closed Projects	Total
Total Disbursed (IBRD and IDA):	867.62	1,968.14	2,835.76
of which has been repaid:	139.60	475.07	614.67
Total now held by IBRD and IDA:	1,592.14	1,496.93	3,089.07
Amount sold :	0.00	0.00	0.00
Of which repaid :	0.00	0.00	0.00
Total Undisbursed :	842.78	3.86	846.64

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Note:
Disbursement data is updated at the end of the first week of the month and is currently as of 30-Apr-99.

Poland
STATEMENT OF IFC's
Committed and Disbursed Portfolio
As of 31-Mar-99
(In US Dollar Millions)

		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1990	EDB-Piotr Ostrow	.05	0.00	0.00	0.00	.05	0.00	0.00	0.00
1991	CHEMAGEV	.45	0.00	0.00	0.00	.45	0.00	0.00	0.00
1992	Philips Poland	3.75	0.00	0.00	0.00	3.75	0.00	0.00	0.00
1993	BONA	1.30	0.00	0.00	0.00	1.30	0.00	0.00	0.00
1993	Huta Warszawa	29.66	0.00	4.50	0.00	13.59	0.00	3.75	0.00
1993	PEF-Poland	0.00	2.17	0.00	0.00	0.00	1.67	0.00	0.00
1993	Sandoglass	16.06	0.00	8.27	6.77	16.06	0.00	8.27	6.77
1994	Peters	5.58	0.00	1.00	0.00	5.58	0.00	.88	0.00
1995	Globi Retailing	0.00	10.00	0.00	0.00	0.00	10.00	0.00	0.00
1995	Nesky	0.00	.50	1.87	0.00	0.00	.50	1.87	0.00
1995/97/98	Intercell	0.00	11.51	0.00	0.00	0.00	11.51	0.00	0.00
1996	Baltic Malt	5.12	1.94	0.00	0.00	5.12	1.87	0.00	0.00
1996	Pam Bank	15.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00
1996/97	Gaspol	0.00	5.98	0.00	0.00	0.00	5.98	0.00	0.00
1997	CPF	0.00	1.60	0.00	0.00	0.00	.58	0.00	0.00
1997	Norgips	10.68	0.00	0.00	20.10	10.68	0.00	0.00	20.10
1998	Global Hotels	0.00	3.60	0.00	0.00	0.00	2.67	0.00	0.00
1998	Izopol	0.00	1.93	0.00	0.00	0.00	1.93	0.00	0.00
Total Portfolio:		87.65	39.23	15.64	26.87	61.58	36.71	14.77	26.87

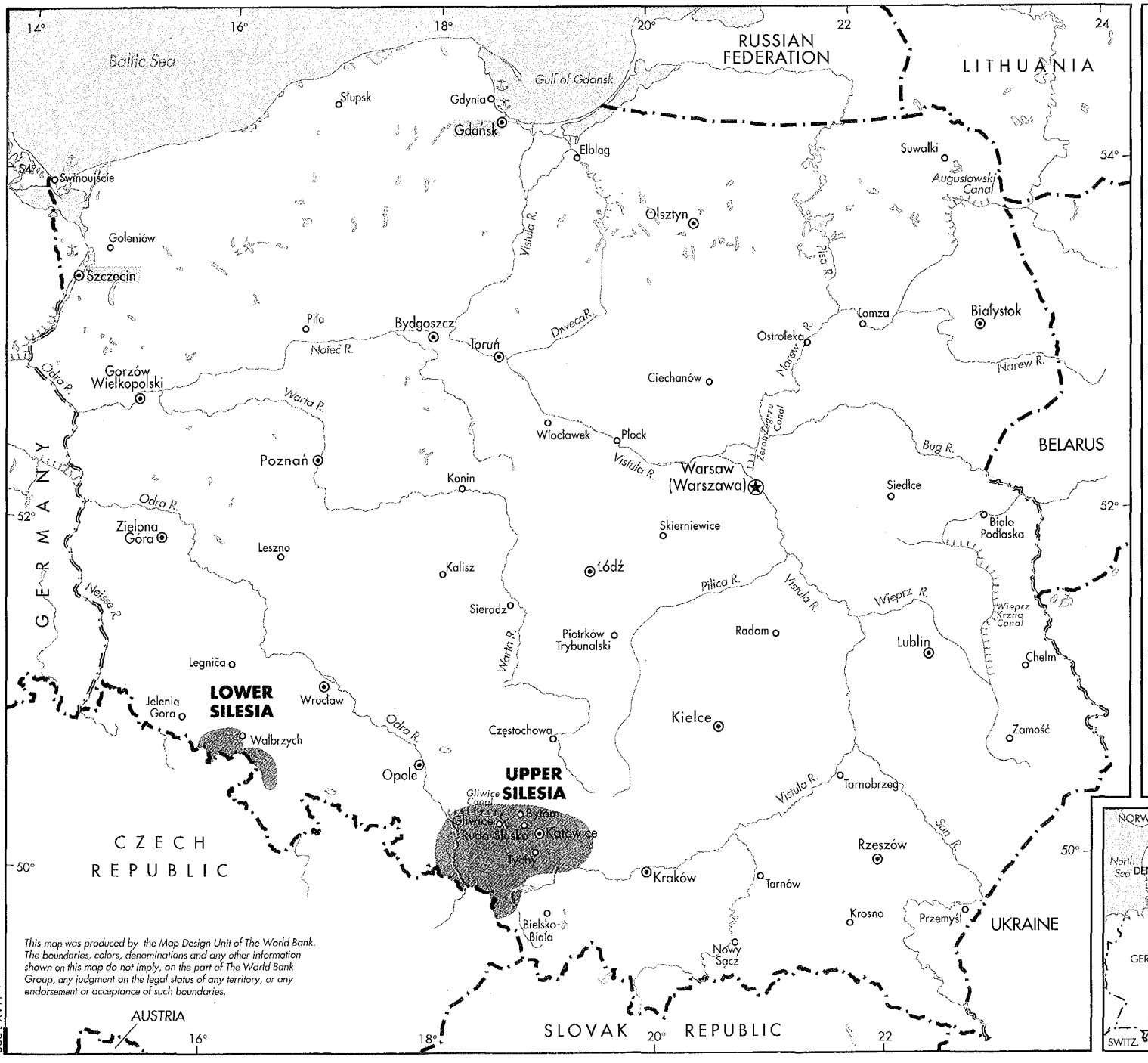
		Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic
1997	AMERBANK	8.00	0.00	7.00	0.00
1998	BWP (BANK WP)	4.99	2.00	0.00	0.00
1998	GLOBAL HOTELS	3.20	0.00	4.00	0.00
1998	PAROC POLSKA	6.90	0.00	0.00	7.40
Total Pending Commitment:		23.09	2.00	11.00	7.40

MAP SECTION

POLAND

HARD COAL SECTOR ADJUSTMENT LOAN

IMPORTANT HARD COAL BASINS



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IMPORTANT HARD COAL BASINS

EXPORTING PORTS

MAJOR PORTS

SELECTED CITIES AND TOWNS

PROVINCE CAPITALS

NATIONAL CAPITAL

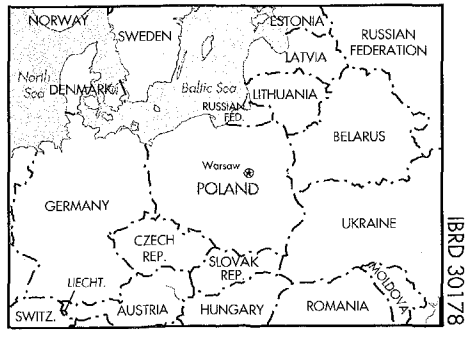
RIVERS

CANALS

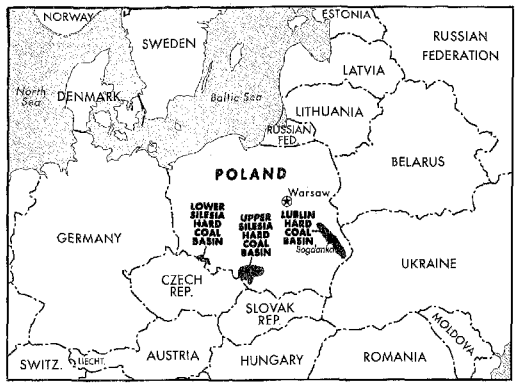
INTERNATIONAL BOUNDARIES

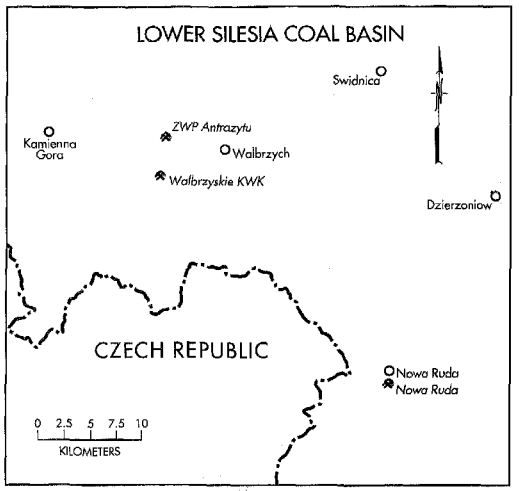
0 25 50 75 Kilometers

0 25 50 75 Miles



IBRD 30179





S.A. CONCESSION BOUNDARIES
MINE SHAFTS
SELECTED CITIES
NATIONAL CAPITAL
INTERNATIONAL BOUNDARIES

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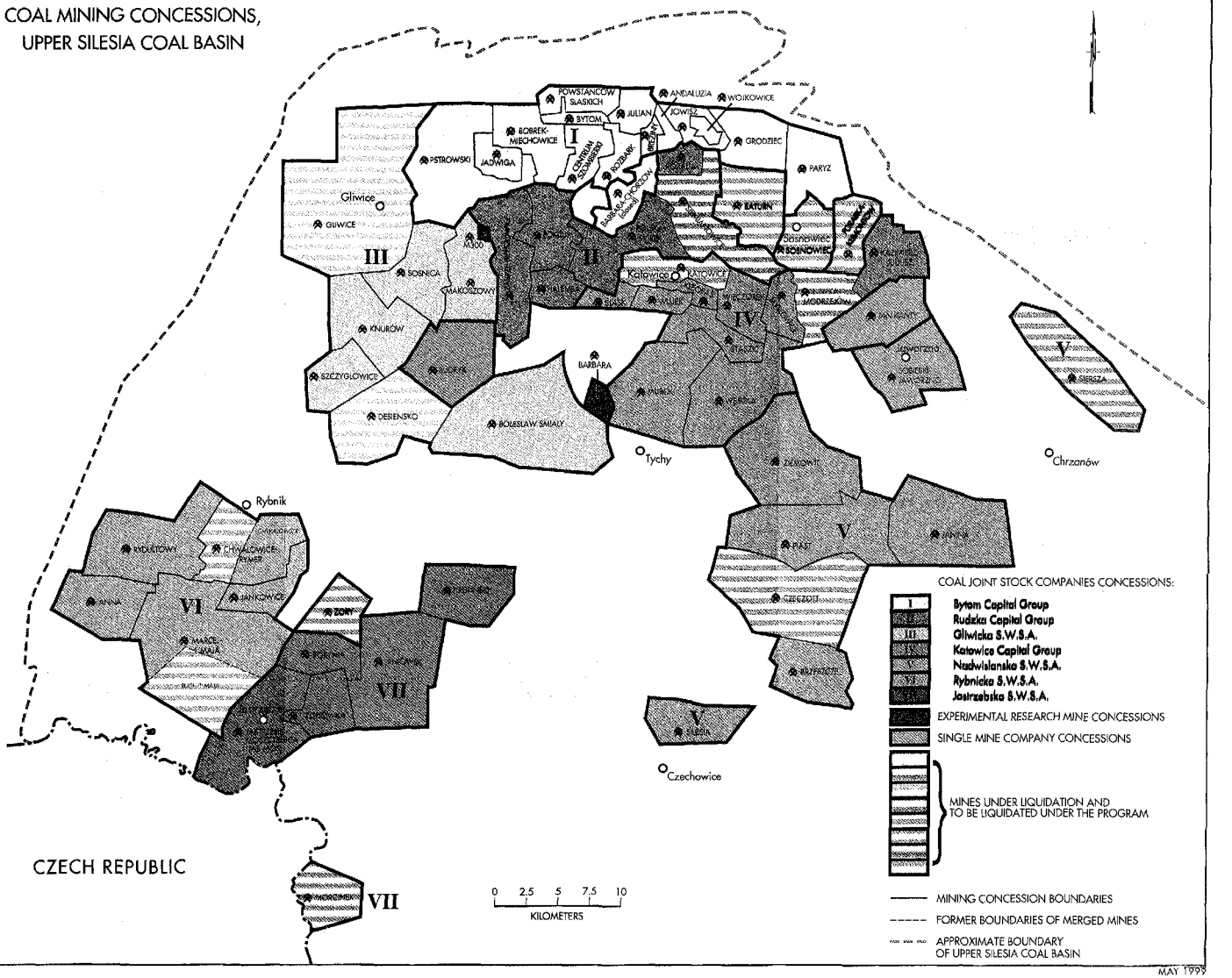
POLAND

HARD COAL SECTOR ADJUSTMENT LOAN

COAL MINING CONCESSIONS, UPPER SILESIA COAL BASIN



MAY 1998