ICR Review
Operations Evaluation Department

Report Number : ICRR11254

1. Project Data:		Date Posted :	08/21/2002	
PROJ ID :	P009979		Appraisal	Actual
Project Name :	Coal Sector Rehabilitation Project	Project Costs (US$M)	1697	650
Country:	India	Loan/Credit (US$M)	532	263
Sector(s):	Board: EMT - Mining and other extractive (99%), Central government administration (1%)	Cofinancing (US$M)	530	261
L/C Number:	C2986; L4226; LP226			
		Board Approval (FY)		98
Partners involved :	Japan Bank for International Cooperation (JBIC)	Closing Date	06/30/2003	07/25/2000

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2. Project Objectives and Components

a. Objectives

(i) To support the market-oriented reforms India was undertaking in the coal sector, and specifically to provide technical and financial support to Coal India Limited's (CIL) efforts to make itself commercially viable and self-sustaining; and

(ii) To increase productivity and domestic supplies of coal, by financing investment in 24 of the most profitable opencast mines of CIL until imports and production from private investments could fill the emerging supply gap .

b. Components

(a) Investment component: High return and quick disbursing investments to maintain the profitability of the 24 existing mines in east and central India, including financing heavy earth -moving equipment at 15 mines, expansion at six mines, and completion of work-in-progess in three mines; and

(b) Technical Assistance component: Training to support the sector reform program and to strengthen CIL's institutional capacity for project implementation, main management operations, as well as its major restructuring and corporatization programs comprising: policy support; institution-building; and project implementation.

(The Coal Sector Environmental and Social Mitigation Project (CSEMP) was originally conceived to be an integral part of the current project, including both investment in coal sector reform and coal mine rehabilitation, expansion and mitigation of social and environmental impacts. Because of the scale and complexity, CIL and the Bank decided in 1995 to split them and begin addressing the mitigation measures in advance in a free standing CSEMP project .)

c. Comments on Project Cost, Financing and Dates

Costs and financing: The final project cost was about US$649.80 million compared with the SAR estimate of US$1.7 billion. The Bank disbursed US$261.3 million from the loan and US$1.42 million from the credit as against the planned Bank loan of US$530 million and credit of $2 million equivalent respectively. The remaining US$268.70 million and US$0.58 million of credit were cancelled. About US$37 million remained open for disbursement under special commitments. JBIC provided co-financing of US$261.3 million and CIL contributed US$125.78 million. CIL's contribution was proportionately less than planned due to the higher level of local procurement and savings in excise duties, reduced custom tariffs, and CIL's disproportionate share of works that were either deferred or dropped .

Dates: The project closed three years ahead of the scheduled closing date . Owing to the unsatisfactory performance of coal sector reform; reversal of reducing import duties on coal; financial deterioration beyond covenanted limits under the CSRP; and difficulties with economic rehabilitation and income restoration under CSEMP, the Bank gave GOI and CIL the option of reaching compliance in a reasonable time period or requesting cancellation of the balance of the loan and credit and the latter option was chosen .

Quality at Entry: The project received an award for Quality at Entry (QAE) in 1997, but the ICR finds its QAE unsatisfactory due to a failure to specify the policy reforms needed for project success in Bank or government documentation or to secure necessary legislative changes prior to loan approval .

3. Achievement of Relevant Objectives:

Increasing Coal Production and Productivity: The objective of increasing production at the sub-project level was achieved by end-2001 with an increased output of 17.85 tons (compared to a target of 13.4 million tons) and a total sub-project production of 112.83 million tons of coal (compared to 106 million tons at appraisal). The output of individual CIL subsidiary sub-projects was generally satisfactory (exceeding plan) although the 3 sub-projects at BCCL are not expected to meet planned production targets until 2002/3. CIL succeeded in reducing employment by 14% and increased labor productivity by 28% in terms of tons per man shift. However, more detailed indicators show that unit production and labor costs were considerably higher at 726 and 380 Rs/ton as against the SAR targets of 504 and 245 Rs/ton respectively. On the whole these outcomes are rated *Moderately Satisfactory*.

Pricing and distribution of Coal: Pricing and distribution of all categories of coal were liberalized in January 2000. Coal is also freely imported by anyone under an open general license. The project eliminated the automatic cross-subsidization of loss-making activities through the Coal Price Regulation Account (CPRA) pricing mechanism. This outcome is rated *Satisfactory*.

Sectoral Reform: The amendment of the Coal Mines Nationalization Act or CMNA (required to enable private participation in the development of new non-captive mines) was submitted belatedly to Parliament in April 2000. However, no headway could be made due to intense opposition from trade unions. This outcome is rated *Moderately Unsatisfactory*.

Regulatory Framework: The important policy TA designed to provide the critical foundation for coal sector reform did not take off due to limited interest on part of the Government of India (GOI); This outcome is rated *Unsatisfactory*.

Restructuring of CIL and its Subsidiaries: CIL's subsidiaries became largely independent and autonomous companies, improving their productivity, competing with each other and fixing their own prices according to market demand. But they are still owned and operated by the central government. Despite capital restructuring, CIL failed to take the bold steps needed to restore the financial viability of its loss-making subsidiaries -- Bharat Coking Coal Ltd. (BCCL) and Eastern Coalfields Limited (ECL), undermining the financial viability of CIL itself. On the whole, CIL has not transformed itself into a fully commercialized, cost-driven enterprise capable of operating in a liberalized and competitive environment and retains its status as a monopolistic enterprise. This outcome is rated *Unsatisfactory*.

The project yielded a positive expected economic NPV of US$ 593 million, and a financial NPV of US$397 million at a 16% discount rate. FIRR was estimated at 55%, while no EIRR is provided. The economic and financial NPVs are lower than estimated at appraisal principally due to the sub-projects that are not expected to meet planned production targets till 2002/3.

4. Significant Outcomes/Impacts:

- The project achieved its targets of increasing CIL coal production through rehabilitation and /or expansion of 24 mine sub-projects, ahead of schedule;
- Pricing and distribution was liberalized for all categories of coal, and coal is allowed to be freely imported under the open general license (OGL); and
- The project facilitated CIL reforming and restructuring its operations to the extent that its subsidiaries became largely financially independent and autonomous companies.

5. Significant Shortcomings (including non-compliance with safeguard policies):

- The CSRP, along with with its companion project, the Coal Sector Environmental and Social Mitigation Project (CSESMP), is subject to an ongoing Inspection Panel (IP) investigation. The CSRP and the CSESMP (which was designed to mitigate the complex environmental and social impacts that were expected to accompany the CSRP) are alleged to be in violation of various provisions of OD 4.01 (Environmental Assessment), OD 4.20 (Indigenous Peoples), OD 4.30 (Involuntary Resettlement), BP 17.50 (Disclosure of Operational Information), OPN 11.03 (Management of Cultural Property in Bank-financed project) and OD 13.05 (Project Supervision).
- The elements of sector reform that were crucial to the success of the project were not clearly defined in the SAR or articulated in a formal Letter of Development Policy or in the legal agreement, undermining its chances of success;
- Necessary legislative actions were not in place before loan effectiveness;
- The lack of political continuity and stability at the central government level made it difficult for GOI to move ahead with sector reforms; and
- With the benefit of hindsight, it is recognized that the Bank underestimated the magnitude of political and social resistance to sector reform.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Modest	Modest	
Sustainability:	Unlikely	Unlikely	
Bank Performance:	Satisfactory	Satisfactory	

Borrower Perf .:	Unsatisfactory	Unsatisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Policy reforms that are complex and crucial to the success of a project must, at the least, be clearly defined in the SAR, and articulated in a formal Letter of Development Policy;
- Failure to complete necessary legislative actions ahead of loan effectiveness reduces the project's leverage, and undermines its chances of success;
- The Bank should not rely on studies and their expected implementation of their recommendations as part of conditionality; and
- Developing a consensus on contentious issues as part of large sector reform can be time consuming, and should not be underestimated.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR covers all important issues in detail and in an objective and balanced manner. Clear indicators are provided and assumptions for economic analysis are explained. The presentation is clear. A glaring omission is the lack of any reference to the ongoing IP investigation of CSRP and the CSESMP. But for this important shortcoming, the ICR would have been rated as *Exemplary*.