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Report No. 26067

PROJECT PERFORMANCE ASSESSMENT REPORT

RUSSIAN FEDERATION

COAL SECTOR ADJUSTMENT LOAN
(Loan No. 4058)

SECOND COAL SECTOR ADJUSTMENT LOAN
(Loan No. 4262)

June 4, 2003

Country Evaluation and Regional Relations
Operations Evaluation Department

Currency Equivalents
Currency Unit = Ruble (Rbl)

Average Exchange Rates (Rubles per US$)

		Period Average			
1992	=	0.196	1997	=	5.785
1993	=	0.933	1998	=	9.705
1994	=	2.205	1999	=	24.62
1995	=	4.562	2000	=	28.129
1996	=	5.126			

Weights and Measures
Metric System

Government Fiscal Year
January 1–December 31

World Bank Fiscal Year
July 1–June 30

Abbreviations and Acronyms

CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CDP	Community Development Programs
ECA	Europe and Central Asia
EA	Environmental Assessment
ES	Evaluation Summary
GDP	Gross Domestic Product
IAC	Inter-Agency Commission
IAP	Implementation Assistance Project
ICR	Implementation Completion Report
NGO	Non-governmental Organizations
OED	Operations Evaluation Department
PPAR	Project Performance Assessment Report
SECAL	Sector Adjustment Loan

Director General, Operations Evaluation	:	Mr. Gregory K. Ingram
Acting Director, Operations Evaluation Department	:	Mr. Nils Fostvedt
Senior Manager, Country Evaluation and Regional Relations	:	Mr. R. Kyle Peters
Task Manager	:	Mr. Gianni Zanini
PPAR Prepared by	:	Mr. Richard Berney, Consultant

OED Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Operations Evaluation Department assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, OED annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, OED staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader OED studies.

Each PPAR is subject to a peer review process and OED management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: http://worldbank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Contents

This report was prepared by Gianni Zanini, Lead Evaluation Officer and Task Manager, OEDCR, drawing largely on the draft PPAR originally prepared by Richard Berney in 2001. Mr. Zanini was also responsible for the work during 2001–02 on the Russia Country Assistance Evaluation. Agnes Santos and Roziah Baba provided administrative support.

Preface

This is the Project Performance Assessment Report (PPAR) for two policy-based, quick-disbursing Bank loans to the Russian Federation: the *Coal Sector Adjustment Loan* (*Coal SECAL I*; $500 million; Loan No. 4058) and the *Second Coal Sector Adjustment Loan* (*Coal SECAL II*; $800; Loan No. 4262).

Coal SECAL I was approved in June 1996, made effective in July 1996, and closed in December 1997, as scheduled. It was fully disbursed in two tranches. *Coal SECAL II* was approved and declared effective in December 1997 and was fully disbursed in seven tranches. It closed in December 2001 after a cumulative extension of the loan closing date of two years. A companion technical assistance loan, the *Coal Sector Restructuring Implementation Assistance Project* (*Coal IAP*; $25 million; Loan No. 4059) was also approved in June1996, made effective in July 1996, and will close in December 2003 after a cumulative extension of its closing date of three years.

This PPAR is largely based on the preliminary draft PPAR prepared by Richard Berney, OED consultant, which underpinned the assessment of Bank assistance to the coal sector summarized in OED's Country Assistance Evaluation (CAE, 2002). It also takes account of the Implementation Completion Report (ICR) prepared by the Europe and Central Asia (ECA) Regional Office, which details the projects' components, implementation, and achievements and which contains the comments of the Government, a former government official responsible for coal sector restructuring, the Association of Mining Cities, and Rosugleprof (Russian Independent Coal Employees' Union). Other relevant documentation includes the ICR review by OED and subsequent comments by the Region, a desk review by Roger Batstone (OEDST) of the projects' compliance with the Bank's safeguard policy and subsequent comments by the Region, the President's and Staff Appraisal Reports for the three projects, the legal documents, project files, related economic and sector work, various Country Assistance Strategy (CAS) documents, discussions with Bank staff, and various internal and external inputs received in the context of the CAE.

A CAE and Coal PPAR mission led by Gianni Zanini, and including among others Richard Berney (energy consultant), Lawrence Thompson (social protection consultant), and Marek Dabrowski (general CAE consultant), visited Russia in February 2001 and discussed the effectiveness of the Bank's energy projects (including the coal projects) with government officials, representatives of the civil society, and other donors. The CAE background evaluation papers for the energy sector by Richard Berney and the joint CAE background evaluation paper by Yuri Bobylev, a Leading Researcher at the Institute for the Economy in Transition, Moscow, who joined many of the mission meetings, and by Jacek Cukrowski, a Senior Economist at the Center for Social and Economic Research, Warsaw, provided additional inputs to this PPAR.

Copies of the draft PPAR were sent to the Borrower for comment. No comments were received.

Summary

1. Against the backdrop of Russia's economy-wide transition to a market economy, declining demand for coal, large budgetary subsidies, and de facto mine closures, the objectives of the *Coal Sector Adjustment Loan* (*SECAL I*; $500 million; approved in June 1996) and the *Second Coal Sector Adjustment Loan* (*SECAL II*; $800 million; approved in December 1997) were to assist Russia in reducing subsidies to the coal industry, improving its structure and management, and addressing the social issues associated with coal mine closures. Major concerns included the payment of past wages, severance payments and disability benefits to miners affected by the closures; the financing of active labor market policies to mitigate the unemployment problems in coal communities; and the assurance of adequate funding for rehabilitation and maintenance of the housing and social assets (e.g. schools, roads, utilities) previously owned by the coal companies.

2. Good results were achieved during both the preparation and implementation periods of *Coal SECALs I and II.* State subsidies to the coal industry declined from more than one percent of GDP in 1993 to less than one-tenth of one percent today. During the same period, (i) the share of subsidies that went to support restructuring of the industry, as opposed to meeting the production costs of loss-making mines, increased from a negligible amount to 100 percent; (ii) the coal monopoly (Rosugol) was dismantled and replaced by a separation of policy, safety, environmental, subsidy management, and production responsibilities; (iii) privatization of the sector was initiated, with the share of private companies in total production rising from virtually nil in 1993 to over 80 percent of GDP in 2002; (iv) productivity in the sector, following the period of decline, almost doubled; and (v) systems were developed for channeling subsidies directly to beneficiaries in order to mitigate the social impact of mine closures and sector restructuring.

3. The Bank had a critical role in the consistent and far-reaching restructuring of the Russian coal industry. But there were also some shortcomings in outcome and in Bank and Borrower performance, mainly related to inadequate attention under this project to the issues of divested social assets, environmental mitigation, safety and health that make up the unfinished reform agenda. Thus, the ES rating of satisfactory for outcome of both projects is confirmed, and the performance of both the Bank and the Borrower is rated satisfactory rather than highly satisfactory. The rating of sustainability as likely for both projects is also confirmed, and that for institutional development impact is raised from substantial to high.

4. To assure the economic viability of the new private coal industry and complete the mine closure program, it is important that the Government tackle the unfinished reform agenda, which may require a longer period than envisaged of state support for environmental and social mitigation efforts. The Bank should continue its well designed support for reforms in the sector, but with enhanced attention to the Government's subsidy allocations and the honoring of its commitments.

5. General lessons from these loans that are applicable to similarly complex and politically contentious sector reform programs with a high social impact include the

importance of (i) Government commitment and political will; (ii) effective stakeholder participation; (iii) a strengthened safety net; (iv) adequate attention to and funding of the environmental aspects of enterprise closures; (v) realistic and flexible implementation schedules; and (vi) disbursements tied to concrete progress in agreed reforms.

Gregory K. Ingram
Director-General
Operations Evaluation

Ratings and Responsibilities

Performance Ratings

	ECA Region	*OED*	
	ICR	*EVM/ES*	*PPAR*
Coal SECAL I			
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	High	Substantial	High
Borrower Performance	Highly Satisfactory	Highly Satisfactory	Satisfactory
Bank Performance	Highly Satisfactory	Highly Satisfactory	Satisfactory
Coal SECAL II			
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	High	Substantial	High
Borrower Performance	Highly Satisfactory	Highly Satisfactory	Satisfactory
Bank Performance	Highly Satisfactory	Highly Satisfactory	Satisfactory

Key Project Responsibilities

Project	*Staff*	*Appraisal*	*Completion*
Coal SECAL I	Task Manager	David Craig	Michael Haney
	Sector Manager	Jonathan Brown	Peter Thomson
	Country Manager	Michael Carter	Julian F. Schweitzer
Coal SECAL II	Task Manager	Janet Koch	Michael Haney
	Sector Manager	David Craig	Peter Thomson
	Country Manager	Michael Carter	Julian F. Schweitzer

1. Background[1]

1.1 At the start of the transition, Russia was the world's third largest coal producer behind China and the United States.[2] As of 1994, its 199 underground mines and 68 surface mines, all affiliated with Rosugol, the state-owned coal monopoly, accounted for about 6 percent of world coal production. As with all primary energy sources, government controlled coal prices were substantially below their economically appropriate levels. The industry was subsidized primarily through government grants (non-repayable) for new investments and major maintenance. Coal consumption began to decline in the late 1980s, as more convenient natural gas began to replace it. This decline accelerated as the reforms of the early 1990s, including the elimination of the very large implicit subsidies on rail freight, substantially increased the price consumers had to pay for coal. However, in 1994, coal still accounted for some 18 percent of total energy supply in Russia. In some regions it was much more important: in the Far East it supplied more than half the region's primary energy needs.

1.2 The problems of the sector, as outlined in the Bank's first Russia Country Economic Memorandum in September 1992, were similar to those previously faced by Britain, Poland, and Germany. Each had been operated by a single monopoly with massive cross-subsidization between low- and high-cost mines. Labor shedding had been politically difficult and employment had stayed at unrealistically high levels when the industry should have been contracting in the face of increasing costs due to depletion of the most economically recoverable coal and of increasing competition from oil and gas. The full scale of subsidies to the industry had been concealed by mandatory purchases of coal by electricity generators and artificially low transport costs. And attempts to prevent explicit budget subsidies from reaching unsustainable levels had simply shifted the balance towards operating subsidies, leaving the industry starved of investment funds.

1.3 With declining demand and increasing costs, federal budget coal subsidies began to increase rapidly in the early 1990s. In 1993 coal prices were liberalized and allowed to respond to market forces. At the same time, rail transport subsidies were eliminated putting more pressure on uneconomic mines. Coal subsidies continued to increase, reaching just over 1 percent of Russia's GDP in 1993 and 1994, with a devastating impact on the Federal Government's budget. Thereafter, the Government began to reduce subsidy payments, effectively starving the sector for funds. Driven by the loss of markets, the loss of government funding, and failure of many users to pay their bills, the retrenchment process was both ad-hoc and chaotic. Reinvestment in repair and renewal became sporadic. Many coal enterprises stopped production and/or were unable to pay wages for months at a time, causing immense social distress and political tension. Coal miners took industrial action, including street protests in regional capitals and in Moscow. Other workers who could no longer afford to work without wages, simply quit. Employment in Rosugol's coal workforce fell from 914,000 in 1992 to 819,100 in 1994.

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[1] For a summary of the overall transition challenges and achievements in Russia, see OED's Country Assistance Evaluation: Gianni Zanini, "Assisting Russia's Transition: An Unprecedented Challenge," Washington, D.C.: World Bank, 2002.

[2] Russia remains the 6th largest producer today after China, the U.S., India, Australia, and South Africa.

1.4 The sector restructuring process began in 1994 with the establishment of mining enterprises as joint stock companies. In 1995 the Government issued a sector policy paper titled "Basic Trends for Coal Restructuring," which outlined a new strategy for downsizing the industry and transferring its social assets (housing, heating and water supplies, electricity, health services, schools, etc.) to municipal governments.[3] These services were often provided as an integral part of the mining company's operation, although many of them had been neglected during the recent period of scarcity of funds. In communities where mines were closing, this transfer placed an additional severe burden on municipal budgets at a time when their tax base was shrinking.

1.5 Thirty-seven mines ceased production in 1994–95 and closure activities were underway at 64 others. By the end of 1996, coal subsidies had been more than halved as a percent of GDP but were still large at about US$2.0 billion, larger in fact than the industry's total wage bill. They were nonetheless insufficient for many mining companies to keep their wage payments current. Nor were these subsidies being used to effectively restructure and downsize the sector. Instead, nearly half of the funds were being allocated for "price support," essentially payments to mining companies to cover operating losses and new investment, often in mines that had no prospect of ever becoming financially viable. By supporting uneconomic mines, the subsidy program was de facto blocking, rather than assisting, the restructuring process. But it was doing little to help the mineworkers: wages in some regions were still three to six months in arrears and miners were initiating serious labor stoppages.

1.6 At the time of the approval of Coal SECAL I (June 1996), it was estimated that if competitive market forces were allowed to function, a restructured, competitive, profitable industry would produce about one-third less than current production with about half the labor force. This was far less of a retrenchment than had been experienced in Western Europe, where upwards of 75 percent of the mines had to be closed as uneconomic in Germany and over 90 percent in the U.K. But the problems associated with mine closing were far more severe in Russia, where the restructuring was to be implemented during a period when the entire economy was contracting, and many other industries were also closing down.

1.7 The challenge facing the Government was to institute a program to close down a large number of mines and downsize others over a reasonable period of time and in a systematic and orderly manner, so as to minimize the hardship on displaced miners and their communities. To do so, the government needed to shift the use of federal subsidies from underwriting operating and investment costs of uneconomic mines to underwriting activities needed to facilitate the closure of these uneconomic mines. The challenge facing the Bank was to help the Government establish a system that would meet these goals, particularly the goals of protecting the displaced miners and their communities.

[3] The policy of transfer of social resources was being implemented for all industrial enterprises.

2. Bank Assistance to the Coal Sector

The Bank's Sector Assistance Strategy

2.1 The Government had pressed the Bank to support the coal sector from almost the beginning of the country dialogue, and about $50 million from the Bank's first loan to Russia was allocated to the coal sector.[4] The Bank undertook a detailed study of the coal sector in 1993 to determine what assistance should be given to the sector. Its draft report was issued in November 1993 and discussed with the Government the following month. In early 1994 this work was augmented with a detailed analysis of the likely impact of restructuring in all of Russia's main coal basins. The report's findings were widely distributed and discussed within the Russian Government, and published as a Bank sector report entitled *Restructuring the Coal Industry: Putting People First*, (Report 13187-RU, December 1994). The Bank in this report took the position that the inevitable employment reduction, with or without mine closures, needed to be managed in a socially responsible manner, within the context of an adequate social safety net. It argued that the process by which employment reduction was handled would be crucial to the acceptance by mining communities of the overall restructuring program.

2.2 The report was used as the basis for a series of discussions with and among all the impacted groups about how the restructuring process was to proceed. The Inter-Agency Coal Commission that the Government formed in 1994 to establish a consistent policy towards the sector discussed with the Bank the report's analysis and recommendations in May 1994 and again, after inviting 25 Russian agencies to submit written commentaries, in September 1994. In mid-1995, it issued a consensus document ("*Basic Trends for Coal Restructuring*"), outlining the basic elements of a proposed long-term strategy to transform the coal industry into a sustainable and competitive sector. This long process of stakeholder involvement led to a revised Russian coal sector restructuring policy, which was supported from mid-1996 through 2001 by the two *Coal Sector Adjustment Loans* (SECALs) for a total of $1,300 million, and through 2002 by a companion technical assistance loan, the *Coal Sector Restructuring Implementation Assistance Project* (IAP), for $25 million.[5]

2.3 The salient feature of this agreed restructuring policy was to shift the focus of the coal subsidy program away from financing wage payments and investments in uneconomic mines, and towards the closing of uneconomic mines and the costs of a social safety net program in a clear, transparent, and monitorable manner. This safety net would include payment of back wages, severance and disability claims, and social counseling and retraining needs of displaced and retiring miners. It was also intended to include investments in environmental remediation and cleanup, repair of social infrastructure, and replacement of housing undermined by previous mining activities.

2.4 All affected groups felt they had something to gain from cooperating with the Bank in an industry that was clearly going to have to retrench, one way or another. For the Federal Government, the agreed program provided a socially acceptable path for a

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[4] This was the first Rehabilitation Loan (L3513 approved August 6, 1992).

[5] The Bank also extended more recently (in FY00) a Coal (and Forestry) sector investment guarantee to encourage private lending to financially viable coal companies.

rapid decrease in subsidies. For the miners, the restructuring program eliminated the uncertainty of working for a mine that was unable to pay its wage bill, but continued to operate, as it provided workers with a guarantee that, if and when their mines were to close, they would receive the benefits of a redundancy payment plus full back pay (which could often be six or more months salary), plus some support for finding alternative employment. For municipal governments that had been given the responsibility for maintaining the social assets of all productive enterprises, including those of the mining companies (housing, schools, hospitals, as well as water, electricity and telephone supply), the program provided assurances that the Federal Government would actually make the agreed infrastructure support payments. Mining company assets were particularly burdensome as the industry retrenchment and the mine closings were eliminating the revenue base that had supported them.

2.5 For the uneconomic coal companies that knew they would have to close because they were too high cost to compete, the program offered assurances that the Government would provide the funds needed for physically closing the mine pits and discharging their responsibilities to their employees, in a timely and efficient manner. For the more efficient mines, it provided a framework under which they could privatize their productive assets. And by establishing an avenue for reducing the clearly unsustainable total subsidy burden on the Federal Government, it even allowed the more politically powerful mining areas (e.g. Rostov) to hope that their own subsidies could continue. The losers were Rosugol, the centralized mining monopoly, which would no longer have authority over individual mining companies, and the regional (Oblast) governments, which had also benefited in the past from the control of the flow of subsidy funds. Both were bypassed in the design and implementation of the restructuring program.

The Coal SECALs

2.6 The principal objectives of SECAL I were to:

- Reduce the impact of the coal sector on the federal budget by supporting the decrease, and eventual elimination, of subsides;
- Promote the long-term sustainability of the coal sector through establishment of a competitive, commercial industry;
- Support a restructuring program to reduce the size of the industry to increase efficiency; and
- Cushion the impact of the restructuring on coal miners, their families, and affected communities.

2.7 The specific objectives for Coal SECAL 2 were to support:

- Continued reduction and improved management of coal subsidies, aiming at the eventual elimination of coal subsidies;
- Development of a strengthened and more targeted social safety net for affected workers, their families and communities;
- Separation of state management functions and commercial activities in the industry and improvement of sector management; and
- Establishment of a more efficient and sustainable industry, and promotion of an accelerated privatization program.

2.8 The key elements of the 1996 reform program supported by the Bank with both loans were as follows:

- Subsidy funds would be redirected from the support of operating losses and investments towards restructuring (employment reduction, including mine closing) and related social programs;
- A transparent mechanism would be established for the allocation and monitoring of all subsidies;
- New investment would rely more on internal financing and direct private investment;
- At least 90 loss-making mines, with a total direct workforce of 83,000 people would be closed (increased to 150 in SECAL II);
- Non-core activities would be divested, resulting in a reduction in mining workforce of an additional 175,000 people;
- Community Support and Employment Programs in areas where coal-related unemployment is expected to be high would be established to help provide transitional assistance to create new, unsubsidized jobs;
- The industry would be restructured to eventually consist of independent, competing coal companies that would be self-financing on a long-term basis (a privatization program was specifically introduced in SECAL II);
- The Government would transfer the responsibility for allocating coal subsides from Rosugol (the state-owned coal sector holding company) to an Inter-Agency Commission and announced a monitoring and auditing system to ensure that subsidies would be used for the designated purposes; and
- Each coal region was to submit a restructuring program to the Inter-Agency Coal Commission.

3. Assessment of Development Effectiveness

Relevance

3.1 The focus of the first Coal Sector Adjustment Loan (SECAL I) was limited to the establishment of a socially sustainable policy and institutional framework for restructuring the industry. It had a strong poverty reduction element. Priority was given to the design of a social safety net program for miners who would be losing their jobs. These individuals were guaranteed to receive all the benefits to which they were legally entitled, including back pay, redundancy allowances, disability payments, counseling and other services to help in finding new employment. This was a major improvement over previous conditions, where many of the most inefficient mines had reacted to cash shortages by simply not paying their workers for many months, and then closing down, leaving their miners and their communities stranded. The safety net program also emphasized the need to provide funding for the maintenance of social infrastructure (housing, health services, education) that the municipal governments were receiving from the closing mines. The Government was not at that time ready to undertake a commitment to a privatization program, although this was its long term goal. Thus, the SECAL fostered the initial implementation of measures to commercialize and de-monopolize the coal industry.

3.2 SECAL II extended the objectives of SECAL I by strengthening the implementation of the safety net program and adding a substantial mining company privatization element. The sector holding company Rosugol, which had had substantial authority to allocate sector subsidies, was to be disbanded, and the individual mining companies were to become totally independent. The mine closure program was strengthened by an agreement covering (i) the minimum number of mines that would be closed; (ii) the percentage of the aggregate budgetary allocations that could be used for "non-essential" expenditures (direct mine subsidies and sector investment funds) and a schedule for increasing the percentage of the subsidy funds that would be used for "priority" activities, including payment of wage arrears and redundancy and retirement benefits, costs associated with closing mines, and necessary rehabilitation of social infrastructure of closed mines; and (iii) the percentage of the industry that would be privatized over the following two years.[6]

3.3 The ultimate sector goal was the elimination of all subsidies and the privatization of all mines that had not been closed. The Government also strengthened the social safety net program giving the Federal Treasury, rather than the mining companies, the responsibility for distributing social payments directly to the approved recipients. In all these areas, agreed outcomes were designed to be clearly measurable. By focusing loan conditionalities on aggregate outcomes, the micro level decisions (e.g. which mines to close, details of mine closure programs, what investments to support, which mines to privatize) were left totally to the Government.

3.4 In terms of the Government's financial objective of reducing and eventually eliminating coal subsidies, its economic objective of redirecting the existing subsidy

[6] Forty-five percent of the industry's output was to come from privatized mines, as measured by 1996 production levels, compared to less than 8 percent in 1994.

program to make it support the restructuring effort, and its social justice objective of providing a safety net for the displaced mine workers, the Coal SECALs were highly relevant to the needs of the sector. However, both the restructuring program and the Bank's projects shortchanged, although they did not ignore, the needs for environmental assessments and remedial measures. Thus, overall relevance is rated as substantial.

Achievements

3.5 The program achieved its primary objectives, as at least three quarters of the industry has been restructured and most highly inefficient mines have been closed, while the structure and operation of the safety net system has been improved in ways that have assured payment of due benefits and have mitigated social tensions within the affected populations. Since there is no disagreement among the lender, borrower, beneficiaries, external observers, and independent evaluators as to the results of the sector restructuring program described in great detail in the ECA Region's completion report, this PPAR only summarizes them.

3.6 **The production and employment** data in table 3.1 show a profound transformation of the Russian coal industry over the last decade. A large part of the initial reduction of the sector workforce was due to the transfer of the social assets to local municipalities, but significant downsizing of the workforce directly engaged in coal production also took place. Output continued to decline between 1993 and 1998 (by about 20 percent) and then started to recover, while labor productivity improved significantly after the Government's reform program began in 1994 to levels higher than any attained during the Soviet period.

Table 3.1. The Russian Coal Industry: Workforce, Production and Productivity, 1993–2001

	Total Industry Workforce (at year end; thousands)	*of which, coal production workers (thousands)*	*Coal production (mln tons)*	*Productivity (tons/production worker/year)*
1993	877.9	373.1	294.2	788.5
1994	819.1	342.6	260.6	760.7
1995	730.5	307.8	250.2	812.9
1996	630.6	274.3	254.9	929.3
1997	519.9	229.5	244.1	1,063.6
1998	416.9	193.3	232.2	1,201.2
1999	364.4	190.1	249.4	1,311.9
2000	340.4	182.1	257.9	1,416.3
2001	328.4	177.5	269.3	1,517.2

3.7 **Sector and subsidy management** was radically improved. As a result of reforms in the early post-Soviet era, the line ministry that managed the sector was disbanded and Rosugol was created as the successor agency with a monopoly over all fundamental policy, regulatory, and management responsibilities of the sector. In 1993, with the creation of the Inter-Agency Commission for Socio-Economic Problems in the Coal-Producing Regions (IAC), the Government began the long and complex process of separating the industry's commercial functions from governmental responsibilities.

3.8 Beginning in 1996, federal subsidies for social assets and job-creation programs were disbursed directly to coal regions instead of through the coal industry (subsidies to coal companies for all purposes ranging from investments to mine closure continued to be managed by Rosugol). Most of the enterprises producing coal and providing services to the coal industry were established as joint stock companies. In late 1997, the Government decided to liquidate Rosugol and transferred the responsibility for the day-to-day management of the sector to the Ministry of Fuel and Energy (later renamed Ministry of Energy) and for the management of state property in the coal sector to the Ministry of State Property. In response to charges of large-scale misappropriation of the funds disbursed under Coal SECAL I, the Government undertook an audit which concluded that about 3 percent (about $60 million) of the 1996 coal subsidies had either been disbursed to the wrong recipients or used for the wrong purposes. Partly as a result of these findings, the Government with the help of the Bank introduced and subsequently continued to refine new strict controls over the allocation and use of state support funds, so that what had previously been an opaque "subsidy management system" became a transparent, public system with important inter-ministerial checks-and-balances, most significantly through the IAC, the Ministry of Finance, and the latter's Federal Treasury division.

Box 3.1: Improving Transparency and Accountability of the Subsidy Management System

The key features of the successful efforts to introduce transparency and accountability into the subsidy management system included:

- the dissolution of the national coal company, Rosugol;
- the transfer of all subsidy management functions to appropriate ministries;
- the establishment of earmarked Treasury accounts for all subsidy categories and recipients;
- the classification of subsidies into "priority" and "other," with annual agreed targets;
- the setting, on a working level, of the absolute priority of social protection subsidies;
- the establishment of mechanisms ensuring that individual entitlements go directly to individuals; and
- the channeling of federal support for job-creation programs directly to local administrations.

Three special audits were essential to identify shortcomings in the system and to provide the Government with the information it needed to continue to improve the system. Two Coal SECAL 2 "social" tranches were directly linked to satisfactory progress in implementing improvements to the subsidy management system.

Source: World Bank.

3.9 As shown in table 3.2, aggregate **subsidies** were reduced rapidly. As a percentage of GDP the 2001 level of subsidies was one-fifteenth of the 1993 level and one-seventh of the 1996 level, when SECAL I was approved. It was also less than one-tenth of one percent of current GDP. Moreover, the composition of subsidies was changed every year in favor of supporting the restructuring and mine-closing process. Subsidies to support loss-making mines were eliminated entirely by 2002.

Table 3.2. Federal Subsidies to the Russian Coal Sector, 1993–2001

	Total Subsidies million Rbs (nominal)	*Total Subsidies billion USD (nominal)*	*% of which priority subsidies (a)*	*Coal Subsidies as % of GDP*
1993	1,794	1.76		1.05
1994	6,237	2.76		1.02
1995	11,453	2.51		0.72
1996	10,400	2.03		0.47
1997	6,469	1.12	29	0.25
1998	5,254	0.61	53	0.20
1999	10,000	0.40	67	0.22
2000	7,970	0.28	75	0.12
2001	6,295	0.22	80	0.07

(a) "Priority subsidies" are defined as those for: (i) social protection (consisting of severance, wage arrears, free coal, and disability, the last of which was transferred to the Social Insurance Fund beginning in 2001, i.e. no longer funded through coal subsidies); (ii) physical aspects of mine closure; (iii) community development programs (job-creation etc.); and (iv) safety. This was a concept introduced by the Bank and included in Coal SECAL 2 conditionality.

3.10 At the end of 2001, **mine closure works** were being carried out at 183 loss-making mines that had ceased production in the preceding eight years. At 158 of these mines, a first stage of critical underground closure works—those associated with substantive closure and other urgent priorities, such as temporary measures to prevent flooding at closed mines—was completed and all personnel with the exception of the liquidation commissions had been laid-off and received their separation entitlements, including all arrears. To put these results in perspective, as recently as end-1997 the Government believed that it would need to close some 136 mines. Today the estimated total number of mines that will have to close is about 200. These figures and those in table 3.3 describe a mine closure program of unparalleled magnitude in world mining history. In this regard, Russia has achieved with its mine closure program what no other country with a mining sector has achieved before, and has done so in a very condensed time frame.

Table 3.3. Heavily Loss-making Mines Having ...

	ceased production	*and completed substantive closure works*
1993	0	0
1994	23	0
1995	50	0
1996	69	0
1997	101	42
1998	140	80
1999	153	140
2000	170	153
2001	183	158

3.11 The achievements under the **demonopolization, commercialization, and privatization component** are striking: starting from virtually nil in the early 1990s, 77 percent of the industry's output was in private hands by the closing date of SECAL II, that is, by end-2001 (see table 3.4) and it is estimated that this share reached about

82 percent by the end of 2002. At the outset of coal sector restructuring, the dominant viewpoints regarding privatization were skepticism by even their most ardent Russian proponents and outright opposition on the part of the influential industrial lobby. As recently as in 1996 under SECAL I, the goal of reforming the industry's ownership structure was still limited to completing the corporatization of the industry, establishing competitive coal companies capable of self-financing on a long-term basis, and transforming the management structure of coal sector enterprises using the gradualist approach of trust management (otherwise known as management contracts).

Table 3.4. Privatization of the Russian Coal Industry

		*% of year's coal production by private sector**
	1993	under 10
	1994	under 10
	1995	under 10
Coal SECAL 1	1996	under 10
	1997	under 10
Coal SECAL 2	1998	22
	1999	28
	2000	47
	2001	77

* Measured as production accounted for by companies that are private at year's end.

3.12 While it is still too early to draw robust conclusions about the impact of privatization, the present ownership structure of the coal industry indicates that competition is certainly higher than in most other natural resource industries in Russia. And the steady increase in labor productivity and absence of telling signs of enterprise troubles like wage and other arrears point to a positive impact of privatization on the economic and financial performance of the coal sector.

3.13 The **social safety net component** of the coal restructuring program contributed to improved benefits to, and reduced tension within, the affected populations. The absence since mid-1998 of any major political demonstrations, which miners had previously felt were needed to receive fair treatment, has been a major achievement, considering the militant history of the workers in this sector. The overall system of social protection benefits for coal workers and their families was much improved under the SECALs, which included innovative institutional reforms that assured that wage, severance pay, and disability benefit payments were fully paid and reached their intended beneficiaries.

3.14 The highly innovative and effective monitoring system of the social impact of the entire reform program—introduced during the preparation of Coal SECAL I—was instrumental to document and correct problems in the size and targeting of wage and social protection payments. For instance, the monitoring carried out in 1996 had revealed the existence of serious arrears in severance payments, as company managers preferred to channel their limited resources to reducing wage arrears to remaining active miners. In response, the definition of social protection was broadened under SECAL II to include wage arrears and severance payments for redundant or retiring workers. By May 2000, the social impact monitoring proved that the Government had complied fully with the indicators agreed under SECAL II for the release of the "social" tranche, as over

90 percent of redundant miners and entitled recipients reported timely payment of wage arrears and severance and disability benefits.

3.15 Finally, the loans' component supporting Community Development Programs (CDP) helped the provision of pre-redundancy consulting services to, and occupational re-training of, laid-off workers; small business support (funding for business centers, business incubators, etc.); temporary public works; and job-creation outside the coal sector (19,115 new, permanent jobs were created under this component, at a cost per job that compares favorably with similar programs in Russia). In a few cases, the CDP funds were also used to meet a small part of the demand for voluntary relocation assistance of non-viable coal communities.

Box 3.2: Explaining the Coal Sector's Successful Privatization

Key factors that contributed to the successful privatization of the sector include:

- A general recognition of the flaws of the trust management approach in the overall poor institutional environment of Russia in 1996–98;
- The steadfast commitment by the Government to privatization of the coal industry;
- The decision by the Government to begin competitive direct privatization by offering for sale some of the coal industry's most attractive assets, surface mines in Siberia; as these included the industry's largest producers, the privatization of three companies was sufficient to create a critical mass of private producers and to change the perception of the industry and the role of the state in it;
- Coal's reputation as an undesirable, troubled industry, which provided an opportunity for various groups with roots in the sector and an understanding of its long-term potential to secure control of the assets offered for sale, and helped establish a competitive industry in which no single group dominates;
- The proven track record of the Government's program of closure of heavily loss-making mines and significant yearly real decreases in the allocation of subsidies to the sector, which were reassuring factors to private investors contemplating the acquisition of long-term interests in the coal sector; and
- Generally, opposition to privatization from organized labor was not an issue in the Russian coal sector once the Government had clearly demonstrated its commitment to reducing subsidies regardless of the industry ownership structure, and private owners emerged as better employers than the previously State-owned mines.

Shortcomings and Unresolved Challenges

3.16 Notwithstanding the success of the reform and restructuring program to date, some important sector problems remain unresolved. The restructuring program downplayed the environmental aspects, relied on an inadequate environmental assessment, and lacked an environmental action plan. The mine closure plans for each individual mine contain many items of a long-term nature that have to date received relatively little financing. According to the ICR, these remaining liabilities pertain primarily to: (i) environmental damage mitigation works, such as land reclamation; (ii) social infrastructure repair works (repair to boilers, gas lines, communications, etc. that were damaged in the course of the mine closure process); and (iii) assistance in relocation from housing that has been damaged as a result of mining. Other serious environmental problems also remain unresolved (flooding and poisoning of groundwater

from seepage), as do health and safety problems related to the mine closures that were inadequately addressed in the past. Because of these remaining liabilities, the legal liquidation of the 64 closed mines that are legal entities and where substantive closure works have been completed has not been possible. The Government has initiated bankruptcy proceedings against the mines, but there remains the problem of identifying a successor entity and an alternative source of financing for the works of critical importance in the mine closure plans before the courts will acknowledge any closed mines as legally bankrupt, making it possible to remove them from the national register of legal entities.

3.17 Comments by the Association of Mining Cities on the completion report for the projects support the above observations: "The process of mine closure has had an adverse impact on mining cities. The latter includes frequent sudden methane outbursts to the surface which leads to burns, poisoning and even deaths of people; in many coal communities, significant worsening of quality of drinking water; absence of any significant progress in land reclamation, etc. The above category has received insignificant financing. The environmental problems affecting residents of Russian coal communities are now among the most critical unresolved problems relating to coal restructuring." Basically, the mines have not yet been closed in an environmentally sound and safe manner.[7]

3.18 The program's social objectives have been also only partially met. The social infrastructure that was passed to the municipal governments was in an extremely poor

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[7] The Region comments that "The ... PPAR does not adequately reflect the complexity of the subject and the systems that exist in Russia to deal with the implementation of these parts of the mine closure plans. The Coal SECALs never had as a goal the completion of all aspects of the approved mine closure plans; it was recognized that more time and financing would be needed than could be made available by the Russian budget during the implementation of the Bank-supported project. Furthermore, there was a fundamental constraint that argued against the rapid implementation of the mine closure plans, namely, the realization that the mine closure plans had been inflated by local and regional authorities at the time of their preparation in the mid-1990s when such processes were poorly controlled. The aggregate financing need for mine closure was significantly over-stated through the inclusion in the mine closure plans of: (i) items that were illegitimate because they had no relationship to the mine closure process, and (ii) items that were legitimate but for which the cost estimates were exaggerated. For these reasons the Bank team felt that it would have been irresponsible in view of the Bank's fiduciary obligations to urge rapid completion of all items in the mine closure plans. One of the major challenges in the implementation of the mine closure program was to reach consensus on the need to revise the mine closure plans with the goal of identifying legitimate costs to be financed by the budget; this is a long, arduous process that began towards the end of the implementation of Coal SECAL 2 and continues today. At the same time, it is important to stress that budget financing for social infrastructure repair and mitigation of environmental damage at closing mines has been made available every year since the inception of the mine closure program and in recent years these categories have received the largest share of the budget allocations devoted to the physical aspects of mine closure." However, OED notes that the ECA Region recognized in mid-2002 that "at the beginning of sector restructuring, ... one of the major challenges ... was to implement a massive program of closure of heavily loss-making mines in a socially and environmentally responsible fashion", that many aspects of a long-term nature of this agenda "have to date received relatively little financing" and that both projects included a separate environmental management, technical assistance and training component "to strengthen the capacity needed for environmental management, including legal and financial aspects, to mitigate the adverse impacts of coal mines included in the restructuring program." As is clear from para. 3.16 above, OED's criticism is not about the lack of completion of this complex process, but rather the inadequate early attention to it by both the Bank and the Government. If these problems had been adequately scoped out in the Environmental Assessment and if the review of the "illegitimate" and "exaggerated" expenses had been carried out at the beginning instead of at the end of implementation of SECAL II, then the Borrower's understanding of requirements would have been clear, and adequate provisions over a realistic timeframe could have been made, monitored, and evaluated, with more progress to show after eight years of implementation than at present.

state, including much of the temporary housing built for miners barrack-style during the 1940s and 1950s with planned lifetimes of 15 to 20 years.[8] Repairs, maintenance, and reconstruction are needed for drinking water facilities, central heating facilities, the electric power distribution facilities, roads, and telephone exchanges. The activities needed to correct these infrastructure problems and the basic housing needs of displaced miners and their communities were supposed to be identified and costed as part of the mine closure plans approved and agreed to by the Government in the mid-1990s. At that time, however, when the control over the reform process was weak, local authorities sensed a good opportunity to use the mine closure plans as a vehicle to extract additional financing from the federal budget. As a result, the closure plans contained a large number of works that were either (i) legitimate but for which the budget estimates were unjustifiably high, or (ii) illegitimate, as measured by the regulations that govern this process, as they had nothing to do with the remediation of damage caused by mining or the mine closure process.

3.19 Despite resistance at many levels for obvious reasons, the Government commenced in 2001 a review of the mine closure plans (with the help of consultants financed by Coal IAP) to determine the legitimacy of the many thousands of individual work projects included in them. Such a review has already resulted in the exclusion of a significant portion of the financing items that were included in the original mine closure plans, which in their present form are out-of-date (and also not a credible source of information on the relocation assistance issue). Nevertheless, the fact remains that this review came late in the process and actual expenditures for some legitimate social needs of the restructuring program such as social infrastructure repair works and relocation from damaged or substandard housing have been inadequate (and much lower than allocated subsidies in the federal budget). Coal SECAL I proved ineffective at dealing with the pressing problems of rehabilitation, maintenance, and operation of divested social assets to local governments that were under severe fiscal and organizational stress. In response, this component was de-emphasized under Coal SECAL II.

3.20 The coal restructuring program has yet to find a sustainable policy solution for the free coal benefit, although its coverage was better targeted during the implementation of Coal SECAL II. The 2002 budget provides more funding, but the Government's commitment to supply free coal to the families of miners from closed mines has created a long-term, large unfunded liability, as it is a much heavier burden than originally anticipated, particularly in regions where coal is becoming scarce because most of the local mines have been closed. Free coal, however, is an essential element in the minimal consumption of mining families in the cold Russian winters. Without it, or an equivalent benefit, the social safety net will have been broken.

3.21 The coal sector faces also much the same problem of inherited debt and inadequately developed capital markets as do other capital-intensive industries in Russia. Almost all mining companies, private and public, are faced with a serious debt overhang problem, stemming primarily from the non-payment of various off budget taxes (payroll taxes, road taxes, etc). For closed mines with no source of revenue to pay the taxes due,

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[8] The OED mission in February 2001 toured some extremely substandard homes in the Tula region's mining communities, where elder residents still lived as they had no other alternatives, given their lower than subsistence pensions and occasional and limited transfers from migrant relatives.

the heavy penalties keep the closure process from reaching completion. For mines that continue to operate (both private and publicly owned), the problem is far more critical. The Government could press its "legitimate" claims at any time and force the enterprise into bankruptcy, where they can be renationalized, or sold to other, better connected parties. Of even more concern for the long term viability of the industry, no commercial bank would be willing to lend money to a company with such a weak balance sheet. In the last two years, Russia has made great strides towards resolving this economy-wide problem, by requiring that programs of debt restructuring be agreed between every enterprise that has debts and the Tax Revenue Ministry. The operating coal companies are participating in these programs.

3.22 New investment is scarce as most coal enterprises are already carrying too much debt and in any case a viable domestic capital market is yet to be established with the ability to provide medium and long term loans to the sector. The Bank has established a guarantee facility against non-commercial risks to spur new private investment in the industry and the IFC is looking at what it might do to ameliorate the situation. However, while some of the companies are willing to take foreign funding, others have found that such borrowing leaves them with a serious exchange risk. Most of their coal is sold locally and is only marginally related to border prices. A number of coal companies with foreign liabilities were badly burned by the 1998 financial crisis, when their foreign denominated debts quadrupled (in ruble terms), while the ruble prices of their output increased by less than 50 percent. It was clearly a mistake not cleaning up their balance sheets before privatizing these companies. Alternative means of obtaining medium and long term financing required for new investments remain to be identified.

Implementation Issues

3.23 Internal audits by the Government and the frequent social impact and monitoring reports under the SECALs identified some major holes in the reform process. Under SECAL I, the Government had been using Rosugol, the state owned coal sector holding company, for distributing federal subsidy funds to the sector. It was found, however, that about 3 percent of the subsidies allocated for mine closure activities (closing the mines, filling in mine-shaft entrances, tearing down associated buildings, maintaining social infrastructure that mining companies had transferred to the municipal governments, and individual payments to displaced miners) had either been disbursed to the wrong recipients or had been used for purposes other than those intended.[9] It was believed that most of these missing funds had been diverted to uneconomic investments in loss-making coal mines, thereby subverting the main objective of the program. During preparation for SECAL II, substantial changes were made in the program's institutional support arrangements, including an agreement that Rosugol's responsibilities would be shifted to other organizations and that Rosugol would be closed.

3.24 In the process of working on SECAL II, the Bank also helped the Government formulate a new resolution on State Financing Measures for Coal Sector Restructuring

[9] A series of articles in the local and international press claimed misappropriation of funds disbursed under the Coal SECAL I, but this was based on a misunderstanding of the general budget support nature of untied proceeds of adjustment loans. As is standard practice for such operations, the SECALs' funds were not tied for use as coal sector subsidies or any other budget expenditures.

(Resolution of the Government No. 1523 of December 1997, subsequently revised by No. 1026) that established the categories of eligible financing activities and eligible categories of recipients for each category. It included clearly defined categories of "priority" and "non-priority" subsidy supports. The Bank supported both the widening and deepening of the restructuring process: widening it to include a large increase in the number of mines to be closed under the program and deepening it by adding an agreement to privatize companies that became profitable after they had been restructured. Implementation of SECAL II was derailed by the financial crisis of August 1998. When it was renegotiated and put back on track in early 1999, all the original conditions were maintained, but disbursements were spread out over six additional tranches and a longer period of time. The program has required a significant increase in supervision, with missions scheduled on a quarterly basis.

3.25 The policy dialogue under SECAL II focused on Government commitments to limit and to continue to decrease the percentage of their subsidy payments for "non-priority" activities (financing of operating subsidies and mining investments). The agreed minutes of loan negotiations included a minimum number of mines that would be closed and a minimum percentage of the enterprises that would be privatized. These numbers were chosen on the basis of information derived from detailed mine by mine studies that the Ministry of Fuel and Energy had commissioned. These arrangements allowed the Bank to concentrate under supervision on the progress of the overall reform program and on assuring that the "priority investments" (those used to support the mine closure program) were used for the agreed purposes, while the Government took all responsibility for the day-to-day decisions about what was to be done with each mine.

3.26 The Bank paid less attention to how the non-priority subsidy funds were used, including the allocation of subsidies for investment, as long as the aggregate stayed below the agreed levels. It had been also agreed that investments were to be for improving the operation of existing mines, not for the sinking of new mines, and that they should have a reasonably short implementation period. However, despite its needs (see below) the coal mining sector has never been able to use all the funds made available.[10]

3.27 In addition to the quarterly supervision, SECAL II included a series of special audits of the new subsidy management system and subsidy flows and social impact monitoring studies, which began in the summer of 1998. In addition, Bank staff undertook intensive reviews of the impact of the social investment program (e.g., during a six-week period in the summer of 2000). This intensive supervision cycle was effective in helping the Government meet its coal sector commitments. All of these activities provided a solid foundation for fine-tuning the program during the course of the implementation of SECAL II, for the current policy dialogue, and for preparatory activities for possible future support by the Bank for completing necessary environmental, safety, and social protection activities. Unfortunately, the change in Government in May 2000 and the lack of a Deputy Minister for Coal for many months in 2000 and 2001 delayed the implementation of actions that the Government needed to take to meet the

[10] In 1998, only Rb469 million out of Rb900 million were used up, in 1999 about Rb800 million out of Rb1,000 million allocated, and in 2000 only Rb132 million out of Rb911 million allocated. The primary reason for the inability of beneficiaries to use more than 15 percent of their allocation in 2000 was the difficulty in meeting the requirements of the new Budget Code, passed by the Duma in January 2000.

goals of SECAL II and to trigger disbursement of the last two tranches.[11] Since Spring 2001, however, the Government brought the program back on track, making sufficiently encouraging progress to warrant a one-year extension of the loan closing date (to December 31, 2001, with a cumulative extension of the closing date of two years) and to disburse the final two tranches.

Outcome, Institutional Development Impact, and Sustainability

3.28 The Bank's assistance has met its primary goals, more than fully in the case of sector management, structure, production, employment, productivity, subsidies and subsidy management, and to a significant degree with respect to the closures of heavily loss-making mines and the social safety net. However, the program provided inadequate treatment of the environmental challenges and reaped commensurately modest achievements in this area. Thus, the overall outcome of both loans is rated as satisfactory.

3.29 The institutional development impact of the reforms supported by the Coal SECALs has been high, reaching beyond the sector itself. On the national level, the institutional structure of oversight, management, ownership, consultations, and policy-making in the coal sector has been completely and permanently transformed. In supporting programs of federal transfers to municipalities and locally-managed job creation programs, the loans have also supported institutional development at the municipal level, which is a priority of the current comprehensive medium-term reform program by the Government. And the experience of managing and tracking coal sector subsidies proved very valuable in the later development of a Federal Treasury system and the Government's departure from the practice of using commercial banks to execute the budget.

3.30 Despite the still formidable challenges, the sustainability of the achievements of the coal sector reforms is likely. The fundamental nature of the sectoral achievements so far, including the emergence of groups within and outside the Government that are strongly committed to preserving them, the improved economy-wide policy and institutional framework and performance, and various recent initiatives by the Government justify the expectations that the reforms will not only be sustained but also deepened beyond the contours of the original program supported by the Bank.

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[11] A $50 million tranche associated with the loan's social conditions, and a $100 million tranche associated with the loan's privatization conditions. Both tranches also required further progress in deciding how to handle the remaining twenty to thirty heavily loss-making mines that did not yet have restructuring programs.

4. Attribution of the Results

4.1 As is generally the case in successful projects, the results can be attributed to the contributions of all the affected groups. Of particular importance were (i) the interest of the Government in reducing subsidies and maintaining the peace in a highly contentious industry; (ii) the interest of the municipalities to be assured that the Government maintained its commitment to its approved allocation program; and (iii) the interest of the mining population in receiving their back wages and moving forward with their lives in as orderly and controlled a manner as was possible during this period of retrenchment.

4.2 On the Bank side, the Coal SECALs were designed on the basis of solid economic and sector analytical work, intensive policy dialogue with key senior policymakers, and broad consultations with stakeholders. They wisely offered a parallel companion technical assistance project. And they could rely on a skilled and responsive team, at both the staff and management levels. Furthermore, the Bank promoted an effective supervision environment by designing and agreeing with the Government monitorable and quantitative objectives that formed the basis for recurrent discussions about project progress. The Bank wisely focused its attention on the program's critical elements, which included the number of mines that were to be closed, the results of the mine closure program (number of mines substantially closed), and the percentage of the industry that had been privatized. It also reached an agreement on the broad parameters of the restructuring program, included conditions on the minimum budget allocation (in percentage terms) to "priority subsidies" (those that moved the restructuring program forward) and on the maximum allocation that could go to "non-priority" activities (primarily operating subsidies and investment funds). But it left the Government to work out the details of how it would achieve these goals. The Government chose the mines to be closed, the investments to support the mines that remained open,[12] and the mines that were to be privatized, with the proviso that the social safety-net payments that were to go directly to the miners would take priority, and that these payments had to be completed before the mines could be counted as substantially closed.

4.3 Both SECALs were designed with an understanding that many modifications would have to be made during implementation to the agreed components, and especially to the social component of the mine closure program. An independent panel of experts was established to monitor the social impact of the restructuring program and identify the needed adjustments. In addition, the parallel $25 million Coal IAP provided financing for teams of local and foreign consultants to conduct meetings and focus group discussions with stakeholders, business people and NGOs in the three major coal basins of Kuzbass, Rostov and Tula during the course of implementing the second project. The feedback from both of these sources has been critical in providing assurances that the program was meeting its declared objectives of supporting the affected populations and in establishing a framework for deciding what refinements in implementation procedures were needed.

4.4 The choice of lending instrument (a tranched sector adjustment loan) helped both sides to pay continuous attention to the critical policy issues. The project provided

[12] Subject only to the stipulation that the investments were for improvements in operating mine pits, not for investments needed to open new mines.

general budgetary support, so there was no direct link between the disbursement of Bank funds to the Government and the disbursement of the Government's budgetary funds that were used to subsidize activities in the coal sector. Nevertheless, the close supervision of the restructuring program by the Project Implementation Unit, a non-profit organization funded with loan proceeds, and by numerous Bank missions also led the public and especially the subsidy recipients to consider the Government funds as originating from, and controlled by, the Bank.

4.5 This perception was effectively and appropriately exploited by the Government to deflect political heat, when it had to make politically unpopular decisions needed to keep the restructuring program on course, although the Bank never tried to control the specific allocation of the Government's subsidies. The Bank, however, included a series of interim program audits and evaluations in the project design, as it wanted to know how well the subsidy program was meeting its agreed objectives. The results and recommendations of these audits provided the factual basis for subsequent discussions with the Government on adjustments to the institutional arrangements during the projects' implementation. This dynamic process and the continuous dialogue with the Government on all substantive issues, facilitated by almost quarterly supervision missions, kept the project on track.

4.6 Where the Bank staff did go into great detail was in the advice given on the formulation of Resolution No. 1523 on Public Finance for Coal Sector Restructuring. This critical implementing regulation defined how the subsidy disbursement system was to be handled by the Treasury and detailed all the categories of disbursement and the specific activities that would be included in each category, as well as the disbursement mechanism, and the accounting and control process to be used. Its language allowed no ambiguity, and the Treasury followed it in spirit as well as to the letter when disbursing subsidies.

4.7 From the Russian side, the commitment of key senior policy makers was critical. The Government had already worked on the design of the restructuring program with the help from the British Know How Fund and had already made concrete progress prior to Bank involvement. It also held extensive stakeholders' consultations on the basis of a draft proposal before finalizing its plan. Equally critical was the technical support provided by ReformUgol, the efficient Project Implementation Unit. ReformUgol had four operational units, a social program unit, an economic program unit and a unit for interaction with NGOs and the media, and a unit that provided technical support for the Government's Interagency Coal Commission (IAC). It was responsible for reviewing the coal subsidy management system, conducting the special audits that verified the expenditure eligibility under each category, and conducting studies to monitor the social aspects of the restructuring program. It was also active in reviewing the proposed improvements to the legal and regulatory acts governing the institutional structure and operation of the sector.

4.8 It would be difficult to overemphasize the importance of the special audits. The first special audit, which was a condition of the second tranche of SECAL II, focused on the eligibility of actual subsidy payments. It was based on detailed information on the use of budget resources at the company level. The systemic weaknesses identified in this audit led to the drafting and issuance by the Government of Resolution No. 1523,

mentioned above. The second special audit was designed to verify the legality, accountability and transparency of the subsidy process, and to establish whether the weaknesses identified during the first audit had been rectified. This audit showed that the new regulations had greatly improved the performance of the subsidy program. ReformUgol also monitored the social implications of the labor shedding process under the restructuring program. A result of this study was to refocus government efforts on employment assistance programs in mining communities. The result of all these audits and studies was that federal and regional authorities were provided with solid, real time information on which to base their sector policy decisions, thus greatly enhancing effectiveness of the Bank-Government dialogue.

4.9 Reformugol was active in providing assessments of the value and appropriate initial price for the federally owned shares of several of the mines that were subsequently fully privatized. It also implemented management and financial training programs for coal enterprises. It reviewed the substantial closure process of a large number of mines, providing recommendations on ways to reduce delays in this process, and has undertaken environmental audits of closing mines in all three coal regions, which have led to an action plan to eliminate the negative environmental impact of mine closing and improve the regulatory framework for the environmental protection process. All of these activities have greatly enhanced the effectiveness of the projects.

4.10 Nevertheless, Bank performance fell short of meeting the spirit and the letter of its own environmental safeguards that were very relevant to the process of mine closure. The SECALs were classified as "B" for environmental assessment (EA) purposes, a questionable decision that allowed an inadequate, inaccurate, and overoptimistic annex to the 1994 Bank sector report to qualify as an environmental assessment. Neither the Bank nor the Government had a clear understanding from the start of the projects through recent years as to what constituted necessary and desirable environmental mitigation measures. Bank staff in later supervision reports mentioned the importance of these issues, but due to lack of baseline information could not determine how inadequate the Government's limited actions and subsidy allocations for environmental mitigation were. Borrower performance fell short also in implementing a number of social protection components that had been envisaged and agreed upon with the Bank at the outset—namely, in the area of divested social assets and substandard housing in coal mining communities.

4.11 Based on the preceding assessment, this PPAR rates both Bank and Borrower performance in the two projects as satisfactory, rather than highly satisfactory as in the ESs. These ratings are consistent with the satisfactory rating for outcome of the projects by both the ECA region and OED.

5. Agenda for Future Assistance

Coal Restructuring in Russia

5.1 Since end-2001, the coal industry has entered a critical juncture with production subsidies for loss-making mines eliminated and the emergence of a number of profitable mining companies most of which have been, or are planning to be, privatized and operate in a competitive environment. The sector can prosper if a resolution of the debt overhang and of term financing problems is found.

5.2 However, there is a strong need for continuing sector support by the Government focused on the social infrastructure needs of the municipalities severely affected by mine closures, elimination of environmental hazards that directly affect local communities, provision of housing for those who live in unsafe building previously owned by mining companies, and job creating activities.

5.3 The Government's coal reform program was effectively paralyzed between August 2000, when the inter-ministerial Coal Committee was disbanded and the Deputy Minister for Coal was dismissed without replacement, and mid-2001. Since late 2001, however, the reform program has been brought back on track and the Bank is considering a possible follow-up operation to the SECALs, this time focused on addressing the negative environmental, safety, and health consequences of mine closures (with a Coal Social and Environmental Mitigation Facility). These problems along with those related to the financing for new investment will require careful consideration and strong political resolve.

5.4 The Bank's current insistence on continued sector reform as a condition for future financial support is appropriate. The Bank should continue to require clear and agreed quantitative guideposts for major goals, as they make supervision much more objective and effective. However, closer attention will have to be paid to issues related to the government funding needed to meet its obligations under the individual mine closure programs. There is still a need to look carefully at the details of the programs. Individual investment activities need to be consistent with the sector restructuring objectives. To achieve this consistency, investment guidelines need to have clearly defined quantitative economic efficiency criteria to ensure that investment funds are effectively used. In the absence of these criteria the decision making process loses its transparency, allowing purely political considerations to take precedence.

General Lessons

5.5 The experience of coal sector restructuring in Russia points to a few important lessons of general applicability in the case of complex and politically contentious reform programs with a high social impact:

- Government commitment and political will are indispensable. External financing in support of coal restructuring in Russia provided a powerful incentive to stay the course, but the decisive factor in securing success was the fundamental commitment of the Government.

- Effective stakeholder participation can greatly enhance robustness of the achievements and lessen the implementation and information burdens of the Government and the Bank. A particular strength of the design and implementation of both Coal SECALs was the constant attention to and involvement of the various restructuring stakeholders, beginning with the analytical sector work by the Bank and the Government's sector policy statement in the years preceding the operations.
- A strengthened safety net helps greatly in gaining acceptance of enterprise closures among workers and their communities, even in difficult and polarized situations.
- Adequate attention and funding should be devoted up front to the environmental aspects of enterprise closures (especially in the case of mines) to minimize the problem of large residual liabilities that may hold up the liquidation of enterprises that have already ceased operations.
- Finally, implementation schedules should be realistic and flexible, while disbursements should be tailored to concrete progress in agreed reforms. The Coal SECAL II was under implementation for four years instead of the originally planned two years, with most of the progress recorded in the last two years. Moreover, the 1999 restructuring of the loan's original floating tranches into smaller, more manageable tranches was instrumental in facilitating implementation of the agreed restructuring actions.

Basic Data Sheet

COAL SECTOR ADJUSTMENT LOAN 1 (LOAN 4058-RU)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	500.0	500.0	100
Loan amount	500.0	500.0	100
Cofinancing	0	0	-
Cancellation	0	0	-

Cumulative Estimated and Actual Disbursements *(amounts in US$ million)*

	FY96	*Total*
Appraisal estimate (US$m)	500.0	500.0
Actual (US$m)	500.0	500.0
Actual as % of appraisal	100 %	100 %
Date of final disbursement: December 24, 1996		

Project Dates

	Original	*Actual*
Project Concept Document	03/04/1996	
Appraisal	03/01/1996	
Approval	06/27/1996	06/27/1996
Effectiveness		07/02/1996
Closing date	12/31/1997	12/31/1997

Staff Inputs (staff weeks)

	Revised		*Actual*	
Stage of project cycle	*Weeks*	*US$*	*Weeks*	*US$('000)*
Identification/Preparation				522,406.85
Appraisal/Negotiation				
Supervision				325,064.21
ICR				
Total				**847,471.06**

Mission Data

Stage of Project Cycle	*Date (month/year)*	*No. of Persons*	*Specialty*	*Performance Rating[a]*	
				Development Objective	*Implementation Progress*
Preparation	07/18/1995	5	Manager (1); Task Manager (1); Social Sector (1); Social/Environmental (1); Subsidies, Fed. Budget (1)		
	10/02/1995	7	Manager (1); Task Manager (1); Social Sector (2); Social/Environmental (2); Subsidies, Fed. Budget (1)		
	02/08/1996	2	Manager (1); Task Manager (1)		
	03/18/1996	9	Task Manager (1); Social Sector (3); Social/Environmental (2); Subsidies, Fed. Budget (3)		
Appraisal/ Negotiation	05/01/1996	9	Task Manager (1); Social Sector (3); Social/Environmental (2); Subsidies, Fed. Budget (3)		
Supervision	07/03/1996	8	Implementation (1); Task Manager (1); Comm. Support (1); Social Sector (1) NGO Assessment (1); Social/ Environmental (1); Subsidies, Fed. Budget (1); Communication with the Government (1)	S	S
	09/20/1996	7	Implementation (1); Task Manager (1); Comm. Support (1); Social Sector (1) NGO Assessment (1); Social/ Environmental (1); Subsidies, Fed. Budget (1)	S	S
	02/09/1997	7	Implementation (1); Task Manager (1); Comm. Support (1); Social Sector (1) NGO Assessment (1); Social/ Environmental (1); Subsidies, Fed. Budget (1)	S	S
	03/20/1997	6	Implementation (1); Task Manager (1); Comm. Support (1); Social Sector (1) Social/Environmental (1); Subsidies, Fed. Budget (1)	S	S
	06/08/1997	7	Implementation (1); Task Manager (1); Comm. Support (1); Social Sector (1) Social/Environmental (1); Subsidies, Fed. Budget (1)	S	S
ICR	04/26/2002		Team Leader		

[a] **Performance Rating**
S = Satisfactory
U = Unsatisfactory

Other Project Data

Loan Title	*Purpose*	*Year of Approval*	*Status*
Preceding Operations			
Coal Sector Restructuring IAP		1996	Closed
Following Operations			
Coal SECAL 2		1997	Closed

Basic Data Sheet

COAL SECTOR ADJUSTMENT LOAN 2 (LOAN 4262-RU)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	800.0	800.0	100
Loan amount	800.0	800.0	100
Cofinancing	0	0	-
Cancellation	0	0	-

Cumulative Estimated and Actual Disbursements *(amounts in US$ million)*

	FY98	*FY99*	*FY00*	*FY01*	*FY02*
Appraisal estimate (US$m)	400	800	800	800	800
Actual (US$m)	400	400	650	650	800
Actual as % of appraisal	100 %	50 %	81 %	81 %	100 %
Date of final disbursement: December 27, 2001					

Project Dates

	Original	*Actual*
Project Concept Document	09/15/1997	
Appraisal	11/10/1997	
Approval	12/18/1997	12/18/1997
Effectiveness		12/19/1997
Closing date	12/31/1999	12/31/2001

Staff Inputs (staff weeks)

	Actual	
Stage of project cycle	*Weeks*	*US$('000)*
Identification/Preparation		269,088.49
Appraisal/Negotiation		
Supervision		1,173,307.92
ICR		
Total		**1,442,396.41**

Mission Data

Stage of Project Cycle	*Date (month/year)*	*No. of Persons*	*Specialty*	*Performance Rating*[a] *Development Objective*	*Implementation Progress*
Identification/ Preparation	06/08/1997	7	Implementation (1); Task Manager (1); Comm. Support (1); Social Sector, (2); Social/Environmental (1); Subsidies, Fed. Budget (1)		
	09/22/1997	6	Implementation (1); Task Manager (1); Social Sector, (2); Social/ Environmental (1); Subsidies, Fed. Budget (1)		
Appraisal/ Negotiation	11/21/1997	7	Implementation (1); Task Manager (1); Comm. Support (1); Social Sector, (2); Social/Environmental (1); Subsidies, Fed. Budget (1)		
Supervision	07/31/1998	7	Program Team Leader (1); Client Relations (1); Subsidies, Fed. Budget (1); Social, Economic (1); Privatization (1); Social, Subsidies (2)	S	U
	12/17/1998	7	Program Team Leader (1); Client Relations (1); Social, Subsidies (1); Social (1); Privatization (1); Environmental (1); Implementation (1)	S	U
	07/31/1999	5	Team Leader (1); Client Relations (1); Social (1); Implementation (1); Privatization (1)	S	S
	03/23/2000	5	Team Leader (1); Client Relations (1); Social (1); Privatization (1); Implementation (1)	S	S
	11/11/2000	5	Team Leader (1); Client Relations (1); Social (1); Implementation (1); Implementation (1)	S	U
	02/15/2001	3	Program Team Leader (1); Government Relations (1); Implementation (1)	S	S
	04/30/2001	4	Program Team Leader (1) ; Client Relations (1) ; Privatization (1) ; Implementation (1)	S	S
	11/05/2001	5	Sector Manager (1) ; Team Leader (1) ; Client Relations (1) ; Privatization (1) ; Social (1)	S	S
ICR	04/26/2002	1	Team Leader	N/A	1

[a] **Performance**
S = Satisfactory
U = Unsatisfactory

Other Project Data

Loan Title	*Purpose*	*Year of Approval*	*Status*
Preceding Operations			
Coal Sector Restructuring IAP		1996	Closed
Coal SECAL I		1996	Closed
Following Operations			
Coal and Forestry Sector Investment Guarantee			

Key Performance Indicators/Log Frame Matrix

Coal SECAL 1 (Effective July – December 1996)

Tranche:	*General Restructuring / Sector Management*	*Subsidy Management System and Subsidy Levels*	*Social Safety Net (social protection and social assets)*	*Demonopolization/ Commercialization/ Privatization/ Regulatory Reform*
1st Tranche (Effectiveness)/ Board ($250m)		Govt has approved and made public schedule of state support for 1996H2 – MET IAC has clarified rules of use of investment subsidies as agreed – MET IAC has confirmed that beginning 1996H2, state support for operating losses available only to companies having limited new recruitment to less than 1% of workforce – MET IAC has approved and made public the indicators and arrangements for financial monitoring and auditing, as agreed – MET	Govt has instructed Federal Employment Service to establish capacity to deliver pre-redundancy consultations by end-September 1996 – MET IAC has approved and made public the indicators and arrangements for social impact monitoring, as agreed – MET	IAC has approved and made public a schedule for demonopolization and commercialization of industry in keeping with agreed parameters – MET
2nd tranche ($250m)	Govt has established institutional framework for local development programs (LDPs) and initiated LDP activities – WAIVED	Govt's proposals for 1997 subsidies consistent with agreed parameters – MET Govt has demonstrated that no operating loss subsidies have been disbursed to coal mines having recruited employees in excess of 1% of total workforce – SUBSTANTIALLY MET Govt has delivered to Bank financial impact monitoring report for company recipients of subsidies in keeping with agreed parameters – SUBSTANTIALLY MET Govt has delivered to Bank audits on five coal companies that are main recipients of state support in keeping with agreed parameters – SUBSTANTIALLY MET	1996 subsidy disbursements for social assets and social protection in accordance with agreed schedule – WAIVED Govt has initiated operation of regional offices of Federal Employment Service in areas of mine closure – MET Completion of social impact monitoring demonstrating compliance with agreed indicators – WAIVED	Govt to appoint trust managers by end-1996 – WAIVED

Source: World Bank.

Note on conditions waived under Coal SECAL I: a waiver of the condition does not mean that no actions were completed under the condition. On the contrary, in most cases considerable steps were completed but timing constraints made completion by the Government impossible before the loan closing date. The large number of waivers is a function of a discrepancy between the short period of effectiveness of the operation (less than six months) and the objectively longer time frames required to complete certain actions. As conditions of the approval of the release of the second tranche under Coal SECAL 1, the World Bank's Board of Executive Directors required that a progress report on outstanding conditions be presented to the Board in 1997, and stipulated that no further loans would be made to the sector until all existing commitments had been met; these conditions were complied with before the presentation to the Board of Coal SECAL 2.

Coal SECAL 2 (Effective December 1997–December 2001)

Tranche:	*General Restructuring / Sector Management*	*Subsidy Management System and Subsidy Levels*	*Mine Closure Program*	*Social Safety Net (social protection and social assets)*	*Demonopolization/ Commercialization/ Privatization/Regulatory Reform*
1st Tranche (Effectiveness) / Board ($400m)	Govt's Letter on Coal Sector Policy to Bank - MET Issuance of Presidential Decree and Govt Resolution to restructure industry – MET Dep Minister of Fuel and Energy for coal sector restructuring appointed – MET Shareholders meeting to vote on liquidation of Rosugol and appoint Liq. Comm. – MET Formal announcement of Rosugol liquidation published – MET Ministerial Orders issued to create two closure agencies in Min Fuel and Energy (physical and social aspects); agency charters submitted for registration; and directors appointed – MET	Govt Resolution issued to revise subsidy mgmt system – MET MinFin Instruction Letter on using earmarked accounts for disbursement of coal subsidies beginning 1998 issued – MET Minister of Fuel and Energy has written to Bank setting out the Govt's proposed allocation of state support for 1998 – MET Consultants mobilized to assist in development and implementation of subsidy mgmt system – MET	Minister of Fuel and Energy has written to Bank setting out the Govt's mine closure program for 1998 – MET Mine Closure Guidelines approved by IAC - MET	Presidential Decree and Govt Resolution to transfer responsibility for disability payments to Social Insurance Fund issued – MET Tripartite Agreement for 1997 Federal-Regional transfers for divested social assets in Kemerovo oblast has been signed - MET	Acting Minister of State Property has written to the Bank setting out the Govt's proposed coal sector privatization for 1998 and early 1999 – MET Acting Minister of State Property has written to the Bank setting out the Govt's intentions on the use of the "golden share" in privatization of coal companies – MET Minister of Fuel and Energy has written to Bank with assurances that he intends to take all legally available measures to enable Vostsibugol to be included in 1998 privatization program – MET Notification of results of 55% of shares in Kuzbassrazrezugol and Yuzhnyi Kuzbass (previously announced) – MET
Restructured Coal SECAL 2*:					
Presentation to Board of restructured loan (negotiated February 1999; conditions met by July 1999)	Govt has written to Bank confirming overall objectives of Letter on Coal Sector Policy and attaching Govt's coal sector privatization program for 1999 – MET Min Fuel and Energy has conveyed to Bank environmental action plan based on the findings of environmental audit of closed mines – MET IAC has endorsed and made public the Govt's coal reform program supported by amended loan (including mine closure program, subsidy allocation and privatization program) – MET	At least minimum cumulative amounts of priority subsidies have been disbursed in accordance with agreed targets – MET	Minister of Fuel and Energy has written to Bank confirming substantive completion of closure at 80 mines, verified by independent consultant, and conveying mine closure program for 1999–2001 including 46 mines to be closed in 1999 – MET	MinFin has completed and submitted to Bank draft audit reports of 1998 Federal-Regional transfers for social assets divested in Kemerovo oblast – MET	Govt Resolutions have been issued to unreserve Federal shares and to sell Federal shares in coal companies in 1999 program – MET Consultants have been mobilized to carry out review of legislative and regulatory framework – MET

* After the initial tranche, all tranches were "floating" by design. They are presented here in the order of their actual disbursement.

Tranche:	*General Restructuring / Sector Management*	*Subsidy Management System and Subsidy Levels*	*Mine Closure Program*	*Social Safety Net (social protection and social assets)*	*Demonopolization/ Commercialization/ Privatization/Regulatory Reform*
2nd Tranche (1st Social; $50m)	Satisfactory progress in coal reform program as outlined in Letter on Coal Sector Policy – MET	Disbursement of coal subsidies in line with agreed targets – MET	Substantive completion of closure works at 16 mines – MET		
3rd Tranche (2nd Social; $50m)	Satisfactory progress in coal reform program as outlined in Letter on Coal Sector Policy – MET	Disbursement of coal subsidies in line with agreed targets – MET Satisfactory progress in implementing improvements to subsidy management system required on basis of special audit of system – MET	Substantive completion of closure works at 26 mines – MET	Completion of social impact monitoring demonstrating compliance with agreed indicators – MET	
4th Tranche (3rd Social; $50m)	Satisfactory progress in coal reform program as outlined in Letter on Coal Sector Policy – MET	Disbursement of coal subsidies in line with agreed targets – MET	Substantive completion of closure works at 36 mines – MET		
5th Tranche (1st Privatization; $100m)	Satisfactory progress in coal reform program as outlined in Letter on Coal Sector Policy – MET				
6th Tranche (2nd Privatization; $100m)	Satisfactory progress in coal reform program as outlined in Letter on Coal Sector Policy – MET Government has completed liquidation of Rosugol – MET				Completion of privatization of companies accounting for 45% of base year (1996) production and announcement of additional 10% for sale – MET AND EXCEEDED Govt has provided to Bank action plan for privatization of remainder of industry – MET Govt has completed review of existing legislative and regulatory framework and prepared an action plan to address the shortcomings identified in the review – SUBSTANTIALLY MET

Tranche:	*General Restructuring / Sector Management*	*Subsidy Management System and Subsidy Levels*	*Mine Closure Program*	*Social Safety Net (social protection and social assets)*	*Demonopolization/ Commercialization/ Privatization/Regulatory Reform*
7th Tranche (4th Social; $50m)	Satisfactory progress in coal reform program as outlined in Letter on Coal Sector Policy – MET	Disbursement of coal subsidies in line with agreed targets – MET Completion of 2nd phase of audit of subsidy management system demonstrating satisfactory results – MET	Substantive completion of closure works at 46 mines – MET AND EXCEEDED	Completion of social impact monitoring demonstrating compliance with agreed indicators – MET	

Alice Galenson
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