



1. Project Data:		Date Posted : 08/15/2002	
PROJ ID: P065351		Appraisal	Actual
Project Name: Hard Coal SECAL II	Project Costs (US\$M)	200	200
Country: Poland	Loan/Credit (US\$M)	100	100
Sector(s): Board: EMT - Mining and other extractive (83%), Compulsory pension and unemployment insurance (14%), Other social services (3%)	Cofinancing (US\$M)		
L/C Number: L7071			
	Board Approval (FY)		02
Partners involved :	Closing Date	12/31/2001	12/31/2001
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
The Hard Coal SECAL 2 followed the first SECAL as a single tranche loan to support actions already taken under the 1998-2002 Hard Coal Sector Reform Program. Specific objectives were to support actions taken under the Reform Program (as revised in 1999) in respect of:			
<ol style="list-style-type: none"> 1) Assisting workers leaving the industry to find new jobs; 2) Improving the industry payment of taxes and fees to government; 3) Accomplishing further progress regarding preparation for privatization; and 4) Continuing progress to improve environmental performance . 			
Specific targets under the Revised Program included :			
<ul style="list-style-type: none"> • Coal companies should obtain a positive result on coal sales, at the latest, from the beginning of year 2001; • Coal companies will obtain a positive net financial result in the year 2002; • Production capacity of the coal mining sector would be reduced by approximately 36 million tons of annual production by the year 2002 (from about 137 million TPY capacity in mid 1998); • Employment in the coal mining sector would be reduced to the level of about 128,000 employees by the end of 2002 (from about 243,000 employees in end 1997); • Environmental impacts of the mining operations will be improved so that the hard coal sector is to meet environmental protection standards by the year 2005; and • Mining companies will be privatized according to Government's strategy that will be adopted based on the results of a Sector Privatization Assessment (SPA). 			
b. Components			
The main components of the project were :			
<ul style="list-style-type: none"> • <u>Employment Restructuring and Social Packages</u>: The Miners Social Package (MSP) was central to the restructuring and consisted of a range of options including the (i) Miners Leave Severance Package, (ii) Social Allowance Package, and (iii) Unconditional Lump Sum departure incentive; • <u>Capacity Restructuring</u>: This involved reduction of capacity involving (a) complete closure of 23 mines and (b) shutting down of large parts of other mines and uneconomic production faces and levels . • <u>Financial Restructuring</u>: Rescheduling or forgiveness of liabilities to government and government institutions including environment funds -- but not commercial liabilities -- , based on specified eligibility criteria . • <u>Privatization</u>: Privatization was specifically identified in the Revised Program as one of the tools to achieve the Program's long-term objectives. 			

- Social Monitoring: Multiple approaches for monitoring the social impact of restructuring including labor and social assistance data, followup surveys of workers taking to social packages, general labor market survey and divestiture of social infrastructure.

c. Comments on Project Cost, Financing and Dates

The loan was released as a single tranche upon effectiveness of the loan in September 2001.

3. Achievement of Relevant Objectives:

Achievements corresponding to the revised targets are as were as below :

- Financial Results: A small net financial profit of PLN 170 million was achieved in 2001, though mainly due to financial restructuring and forgiveness of some past liabilities of the mining companies . Because the profitability was achieved mainly through financial restructuring rather than improvements in productivity, this component is rated as *Moderately Satisfactory*.
- Capacity Restructuring: About 6 million tons per year (tpy) of coal production capacity was liquidated under this project (over and above 20 million tpy under the first SECAL). Production capacity has been reduced to 105 million tpy by end-2001, reasonably close to the year 2002 target of 101 million tpy. This component is rated *Satisfactory*.
- Employment Restructuring and Social Packages: Employment was reduced by 57,000 (over and above a reduction of 31,000 in the first SECAL) without social stress, and stands at 155,000 workers. However, the employment reduction targets under the Revised Program are unlikely to be achieved . Program interest in MSP is decreasing due to a slowdown in employment opportunities in other sectors . Meanwhile, shrinking demand for coal may necessitate further reduction in employment and put more pressure on the program . Outcome of this component is rated *Moderately Satisfactory*.
- Environmental Management: On the environmental front, saline water and solid discharge was reduced by 2.5% and 5% respectively over and above reductions of 18% and 24% achieved during the first SECAL; This component is rated *Satisfactory*.
- Privatization: Initial steps taken towards privatization in the first SECAL -- for the Bogdanka and Budryk mines -- did not result in significant progress in SECAL 2. A Privatization Strategy Framework was completed and approved in 2002, but progress in implementing it is slower than expected . This component is rated *Moderately Satisfactory*.
- Social Monitoring: Continuing six-monthly surveys that were started under the first SECAL showed that 60% of the miners viewed MSP positively while most of the others were concerned about the lack of alternative employment opportunities . Of those seeking to return to the workforce, 52% have been successful , and on the whole, 85% advise that they have sufficient funds to support their families . This component is rated *Satisfactory*.

4. Significant Outcomes/Impacts:

- Significant reduction in employment in the coal sector -- about 23% -- was achieved without social stress or disruption; and
- Production costs in the coal sector were reduced by 11% in real terms.

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

- There are few significant developments after the first steps towards privatization -- in respect of Bogdanka and Budryk mines -- were taken in the first SECAL; and
- There are few new and significant developments in the area of institutional development beyond the significant outcome attributed to the first SECAL -- the inclusiveness and effectiveness of the Inter -Ministerial Committee and the greater role of the Ministry of Environment .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	Employment was reduced but considerably less than revised targets; environmental impacts were reduced, but modestly so compared to the first SECAL .
Institutional Dev .:	Substantial	Modest	There are few new and significant developments in the area of institutional reform.
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

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

7. Lessons of Broad Applicability:

- An extensive dialogue between the government and the trade unions is an important factor in employment restructuring and mine closure efforts;
- The Bank can play an important role in bringing together key stakeholders to focus on important and contentious issues such as privatization; and
- A Sectoral Adjustment Loan is an appropriate instrument for supporting comprehensive sector reform .

8. Assessment Recommended? ☐ Yes ☒ No**9. Comments on Quality of ICR:**

The ICR presents all important issues in a clear and systematic manner, providing basic data for most indicators . Additional care could have been taken in completing the Annexes on key performance indicators, and project costs and financing. The quality of the ICR is considered satisfactory .