



1. Project Data:		Date Posted : 08/07/2001	
PROJ ID: P057957		Appraisal	Actual
Project Name: Hard Coal SECAL	Project Costs (US\$M)	300.0	300.0
Country: Poland	Loan/Credit (US\$M)	300.0	300.0
Sector(s): Board: EMT - Mining and other extractive (63%), Other social services (31%), Central government administration (6%)	Cofinancing (US\$M)		
L/C Number: L4490			
	Board Approval (FY)		99
Partners involved :	Closing Date		09/30/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

The project supports the Government's Hard Coal Sector Restructuring Program which aims to restore the profitability of the hard coal sector in a socially and environmentally sustainable manner . Specifically, the project's objectives include:

- (1) Restructuring and rationalizing the sector's labor force;
- (2) Reducing production capacity;
- (3) Financial restructuring;
- (4) Improving management and corporate governance;
- (5) Improving environmental performance;
- (6) Introducing privatization; and
- (7) Regional development and social monitoring .

b. Components

Project objectives were to be implemented through seven components :

- (1) Employment Restructuring and Social Packages : This component included: three main financial Miners Social Packages (MSP) - a Miners Leave Package, a Social Allowance Package, and an Unconditional Lump Sum Package - designed to encourage voluntary labor reductions, especially for underground workers . A key action for second tranche release was the acceptance of lump sum packages by 18,000 miners. The program target was to reduce the employment in the coal mining sector to 128,000 (from about 243,000 at end of 1997);
- (2) Capacity Restructuring : Reduction of production capacity through closure of five mines and termination of production at four whole mines and three partial mines .
- (3) Financial Restructuring : Forgiveness or rescheduling of financial liabilities to the Central Government, municipalities, social funds and environmental funds . Restructuring was conditional on ensuring that the average monthly wage not exceed the mean annual increase of the CPI and that the debtor meet current liabilities due to the Social Insurance Fund, Labor Fund, and the Fund for Guaranteed Workers Benefits .
- (4) Management Strengthening : Loan conditions included the appointment of new supervisory boards with at least one full-time member and that costs per ton be reduced by 1.5% in nominal terms (equivalent to about 9% in real terms) from the first nine months of 1998 to the first 9 months of 1999. A second tranche release condition was the reconstitution of the Supervisory Board for each company and approval by the shareholder of satisfactory Year 2000 operating plans for each mining company .
- (5) Environmental Improvements : This component included: (1) Implementation of environmental mitigation measures in business plans prepared for each mining company; (2) Using funds from the Privatization and Restructuring Project (PRP), preparation of a Sectoral Environmental Assessment whose findings were to be introduced into the mining company's operating plans for Year 2000; and (3) The review and approval of environmental management plans and action programs by the Ministry of Environmental Protection, necessary for the waiver or restructuring of environmental liabilities .
- (6) Introducing Privatization : Using funds from the PRP, the preparation of a Sector Privatization Assessment .

Conditions for the second tranche release included introduction of SPA results into Year 2000 company operating plans, satisfactory implementation of privatization measures in business plans, the preparation of Bogdanka mine and Budryk mine for privatization, and appointment of privatization advisors for at least two mining companies .

(7) **Regional Development and Social Monitoring**: A key action for the second tranche release was the implementation of monitoring systems for social aspects of the Program through (i) social surveys of the labor market in Silesia and (ii) surveys of miners taking MSPs. Another key action is the implementation of Phase 2 of a Public Information and Communications (PIC) campaign.

c. Comments on Project Cost, Financing and Dates

This loan is the first in a series of three loans that will finance up to half of the \$ 2 billion cash costs of the Government's Hard Coal Sector Restructuring Program. The first and second tranches of the SECAL were released with full compliance of tranche conditions and no extension of the project closing date .

3. Achievement of Relevant Objectives:

(1) **Restructuring and rationalization of the sector's labor force** : This objective was highly achieved. 24,000 lump sum packages have been accepted, much higher than the target at approval of 18,000. Total employment has been reduced by 83,000 workers to 160,000.

(2) **Reducing production capacity** : This objective was highly achieved. Five mines were liquidated and production was terminated at a further five mines, one more than was required for second tranche release . Production was also terminated at three partial mines.

(3) **Financial restructuring** : This objective was negligibly achieved. Due to their inability to meet current liabilities to the Government, companies have been unable to take advantage of the financial restructuring provisions of the Program.

(4) **Improving management and corporate governance** : This objective was substantially achieved. The accountability of management has improved through the implementation of performance -based management contracts, transparent company business plans, and annual operating plans . As required under the loan, the supervisory board of each mining company was reconstituted on January 1, 2000, including the appointment of one full time supervisory board member for each company .

(5) **Environmental improvement** : This objective was highly achieved. Environmental management plans have been prepared for each mine. Environmental performance of the sector was even better than required under the second tranche conditionality: total saline content of water discharges and the quantity of solid waste generated were lower by 15 and 17% respectively for the first 9 months of 1999 compared to those of the same period in 1997. The aggregate amount of fees and fines assessed on the Mining Companies for solid waste surface discharges were 8% lower for the first 9 months of 1999 compared to those for the same period in 1998.

(6) **Introducing privatization** : This objective was modestly achieved. An SPA was prepared but it does not support its main conclusion - the need for more restructuring before privatization - with an implementable action plan. An information memorandum for the privatization of Bogdanka has been prepared and issued . Four expressions of interest have been received. Preparation of an information memorandum for Budryk was delayed but is now under preparation.

(7) **Regional development and social monitoring** : This objective was substantially achieved. Strong coordination and cooperation was fostered between the regional authorities, county governments, local governments, and mining companies through participation in such mechanisms as the Inter -Ministerial Coal Steering Committee (IMSC). Multiple approaches are being used to monitor the social impact of restructuring including labor and social assistance data, follow up surveys of workers taking social packages, and general labor market surveys . These surveys indicate that the project has been very successful in providing financial assistance to miners wanting to leave the sector and improving environmental performance, but less successful in ensuring the miners' reemployment outside the sector .

4. Significant Outcomes/Impacts:

(1) The project, the first in a series of SECALs, assisted in the fundamental reform of a sector that has been a severe financial burden to the Government. To improve sector efficiency and reduce production capacity to meet shrinking demand, the project has helped achieve a substantial reduction in the sector's labor force of 83,000 workers and the closure of five mines and production at a further five . These achievements exceeded conditionalities in the SECAL . Moreover, the project has supported the implementation of social surveys to better understand the social impacts of employment restructuring.

(2) Following the preparation of a Sector Environmental Assessment, environmental management plans were completed for each mine. The implementation of these plans resulted in significant environmental improvements, including the reduction of saline content of water discharges and of solid waste generated . The Bank played a strong role in pressing for improved environmental performance and ensuring that the plans were prepared .

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

(1) The Government was unable to maintain a hard budget constraint due to the poor financial performance of the mining companies, attributed mainly to the decline in demand and price of coal over 1999-2000, and the voluntary nature of the redundancies.

(2) Some applicants were not able to obtain MSPs as demand for MSP's in 1998 and 1999 exceeded the funds available. Initiatives were taken to mobilize additional funds from mining companies and from the Ministry of Labor and Social Protection. However, the Ministry of Finance was not willing to release additional funds .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Modest	<p>The ICR treats the IMSC - established prior to the project - as the main ID achievement. While this is one ID achievement, broader and deeper institutional achievements across the sector should be considered. In this case, they should also include the strengthening of the management of the mining companies.</p> <p>The rating of ID impact has been downgraded from substantial to modest as project achievements have contributed to a limited rather than a significant extent the region's ability to effectively use its human, financial and natural resources. The IMSC has proved useful to facilitate coordination and project <u>inputs</u> have improved organizational structures of the Management Boards and Supervisory Boards, initiated performance-based management contracts, and supported the preparation of business and operating plans. However, <u>outcomes</u> are less clear and, for an ID rating of 'substantial,' deeper and more fundamental institutional restructuring and reforms need to be demonstrated.</p>
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	Bank assistance has gone beyond this project to providing overall advice and guidance on the design and implementation of the Government's Hard Coal Restructuring Program.
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:

- (1) The Inter-Ministerial Coal Steering Committee has proven to be a useful forum for monitoring project implementation and improving coordination and cooperation between various levels of Government, government institutions, and the mining companies.
- (2) Large-scale employment restructuring requires a careful analysis of regional development and potential for job creation in order that retraining programs impart the right skills and that the labor market is capable of absorbing those who have left the sector.
- (3) Intensive dialogue between Government, mining companies, and trade unions and the participation of trade unions in the design of the employment restructuring program have contributed significantly to the successful implementation of the employment restructuring program, free of any social unrest.
- (4) A SECAL is a useful instrument for carrying out comprehensive sector reforms.
- (5) A monthly 'scorecard' completed by industry was a very effective tool for monitoring and evaluation of project implementation. The scorecard allowed ready monitoring of all aspects of the project, helped focus discussions on key performance issues, and facilitated analysis of actual vs planned performance.

8. Assessment Recommended? Yes No

Why? It would be a good candidate for an impact evaluation, given the wide -sweeping social impacts and successful environmental outcomes.

9. Comments on Quality of ICR:

The Intensive Learning ICR adequately covers the main issues and includes the results of beneficiary surveys, individual interviews, and a stakeholder workshop. However, it would have benefited from a clearer delineation of the

project's objectives within the scope of the overall Program, greater focus on the outcomes rather than the outputs of the project within the body of the ICR, greater detail on the mechanisms and achievements under the project for promoting regional development, and the inclusion of a policy matrix showing the key actions to be taken and the corresponding achievements under the project .