



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/20/2002	
<b>PROJ ID:</b> P050486		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Coal Secal 2	<b>Project Costs (US\$M)</b>	800	800
<b>Country:</b> Russian Federation	<b>Loan/Credit (US\$M)</b>	800	800
<b>Sector(s):</b> Board: EMT - Mining and other extractive (44%), Other social services (31%), Central government administration (18%), Compulsory pension and unemployment insurance (4%), General energy sector (3%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L4262			
	<b>Board Approval (FY)</b>		98
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/1999	12/31/2001

<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

**NOTE:** The Coal SECAL project became effective in FY97 during which Coal SECAL 2 was appraised as a follow-up adjustment operation, along with the Coal Sector Restructuring Implementation Assistance Project (Coal IAP), for continued support to Russia's program of coal sector restructuring . Coal SECAL ran from 1996 to 1997 while Coal SECAL 2 ran from 1997 to 2001, and the Coal IAP will close in FY2002 to allow time for certain components to be completed. While it is impossible to disaggregate the performance ratings for each project, for reporting purposes, the three projects are the subject of different ESs .

The overall common objectives of Coal SECAL and Coal SECAL 2 were to help the government put in place a consistent policy and institutional framework for the continuous and socially sustainable restructuring of the coal sector and to provide assistance in implementing the initial steps of the overall restructuring program . Specific objectives under Coal SECAL 2 are as below:

- Separate state management functions and commercial activities in the industry and improve sector governance;
- Reduce the impact of the coal sector on the federal budget by supporting the decrease of subsidies;
- Promote the long-term efficiency, commercial viability and sustainability of the sector, together with its privatization; and
- Cushion the impact of restructuring on coal miners, their families and affected communities .

**b. Components**

Coal SECAL and Coal SECAL 2 supported the government's coal sector restructuring program in essentially the same five areas as below:

1. **Sector management:** To support the institutional transformation of the management of the coal sector from a non-transparent system to a transparent one through separation of the regulatory and commercial functions and improvement of sector governance through introduction of a system of inter -ministerial checks and balances;
2. **Subsidies and subsidies management system:** To provide for the progressive reduction and elimination of sector subsidies, which were unsustainably high and non -transparent in nature at the outset of sector restructuring;
3. **Mine closure program:** To implement a massive program of closure of heavily loss -making mines -- the majority of the country's 200 or more coalmines -- in a socially and environmentally responsible fashion;
4. **Social safety net:** Maintenance and operation of social assets (housing, kindergartens, health services, heating etc.) that had been divested from coal enterprises to municipalities; program of social protection for laid -off

workers; and community development programs to support job creation in coal communities adversely affected by sector restructuring; and

5. Demonopolization/commercialization/privatization/regulatory reform: Demonopolization and commercialization of the industry in anticipation of eventual privatization, with an explicit privatization component .

### **c. Comments on Project Cost, Financing and Dates**

The appraisal estimate of US\$800 million was financed by the Bank and utilized fully . The project closed on 12/31/2001, two years after the planned closing date of 12/31/1999. Delays were due to the financial crisis of 1998, strikes by the miners in May of 1998. as well as uncertainties in budget revenues for coal sector subsidies and other commitments.

### **3. Achievement of Relevant Objectives:**

The overall objective of the coal restructuring program was largely achieved, though reforms need to be completed in some areas.

Subsidies and subsidies management system: Subsidies were reduced considerably, and the composition of subsidies was changed in favor of supporting the restructuring process (including social protection, physical mine closure, community development program, safety etc .) rather than supporting loss-making mines. Early in the Coal SECAL project, there were allegations of misappropriation of funds, which a Ministry of Finance audit estimated to be equivalent to US\$60 million, that were distributed to the wrong recipients or used for the wrong purposes . Partly as a result of these findings, GoR decided to take a series of radical and far -reaching measures to improve the management of subsidies. Transparency and accountability was enhanced through transfer of subsidy administration to government ministries, and creating mechanisms for direct payments of entitlements to individuals and for job-creation programs to local administrations .

Social safety net: Maintenance and operation of social assets was de-emphasized due to more-broad-based programs at the federal level. In respect of social protection of individuals, payments of wage arrears, severance to laid-off workers and provision of disability to workers were quite successful as borne out by follow -up surveys, while provision of free coal proved to be more problematic . The Community Development Program (CDP) helped create new jobs (though small in proportion to the number of jobs lost ), a majority of which are confirmed by a survey to have some longevity. Other efforts by CDP (re-training, small business support etc.) were constrained by insufficient finance and capacity;

Demonopolization/commercialization: Disbandment of Rosugol, the national coal company, was completed, and sectoral management responsibilities were transferred to the newly -formed Ministry of Energy, while other responsibilities remained with the Inter-Agency Commission for Socio-Economic Problems in Coal Producing Regions (IAC).

Privatization/Re-Structuring: Overcoming initial constraints of an inadequate legal framework, a policy of competitive direct privatization supported by Coal SECAL 2 led to privatization of most of the industry's productive assets without any single group predominating. Though it is too early to judge the impact of privatization, initial indications in terms of productivity and employment are positive . However, uncertainties relating to financial and environmental liabilities, sustainability of ongoing investments, and political interference, remain . Under the Mine Closure Program, substantive mine closure has been completed in the majority of loss -making mines. However, some tasks including environmental mitigation works, social infrastructure repair, and relocation of homes damaged in mining have received little financing, blocking the legal closure of 64 mines where other substantive closure activities have been completed. Finance for these activities was constrained by unrelated activities having been added to the project plans, an issue which is being reviewed under the Coal IAP .

Coal IAP: Apart from the contributions of Coal IAP in the context of Coal SECALs mentioned in the preceding paragraphs, the project started the process of review of the the current legislative /regulatory/institutional framework of the coal sector and development of an action plan to deal with shortcomings identifies by it . The project provided support for stakeholders' participatory activities, especially local trade unions and Association of Mining Cities . It carried out environmental audits at closing mines and finance workshops on clean coal technologies, and financed environmental audits at functioning mines on a voluntary basis, which were used to carry the sectoral dialogue further. A plan for mining safety was developed but not pursued .

### **4. Significant Outcomes/Impacts:**

- The coal industry's basic performance indicators improved significantly . Total coal industry workforce declined by nearly 40% from 274,300 in 1996 to 177,500 in 2001. Over the same period, annual coal production improved by about 4% from 254 million tons to 269 million tons, yielding a productivity increase of 12% -- from 929 to 1063 tons per production worker per year;
- Subsidies which had increased over five-fold during the early years of transition (1993 to 1996) from Rb1,794 million to Rb10,400 million, were reduced by nearly 40% in absolute terms and by 85% relative to GNP over the project period;
- Subsidies to cover loss-making production were reduced annually over the years and finally eliminated by 2001.
- Mine closure was initiated in 183 mines of which 158 had completed underground closure; and
- The share of the coal production by the privates sector rose from under 10% in 1996 to 77% by 2001. this is

expected to rise to 90% by end-2002; and

- Over 19,000 jobs were created with CDP financing between 1998 and 2000 in 22 coal regions, though this number is quite low compared to the number of jobs lost through restructuring .

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

- The Mine Closure Program was unable to make much headway in certain activities of a critical nature including environmental mitigation works, social infrastructure repair, and relocation of homes damaged in mining; and
- There was a gap of about two years between stopping of funds from Rosugol to employees in the Far North for relocation, and in developing mechanisms for the purpose, resulting in avoidable resentment against the project (Borrower's comment).

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	High	Substantial	Many of the institutional changes that were initiated, especially in the case of the legal and regulatory framework are ongoing and it is still early to assess the impact in important areas including privatization.
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Highly Satisfactory	Highly Satisfactory	
<b>Borrower Perf .:</b>	Highly Satisfactory	Highly Satisfactory	
<b>Quality of ICR :</b>		Exemplary	

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

**7. Lessons of Broad Applicability:**

- Complex reform programs in difficult economic and political environment require time and flexibility;
- Government commitment and political will, and effective stakeholder participation are crucial in undertaking complex and politically contentious reform programs; and
- Field office staff can play an important role in ensuring the success of a major reform program through effective day-to-day management of operations.

**8. Assessment Recommended?**  Yes  No

**Why?** This was a large and complex restructuring program whose outcomes are still evolving at project completion. An audit will help confirm the extent to which the changes brought about by the project have been internalized. In turn, this can yield valuable insights for follow-up activities as well as lessons for design of projects in other similar situations.

**9. Comments on Quality of ICR:**

- The ICR covers major issues in detail and in a balanced manner . It provides data to substantiate its achievements under various objectives and components . It also provides detailed and informative comments from borrowers as well as important stakeholders including the Russian Independent Coal Employee's Union and the Association of Mining Cities. The presentation is clear and the arguments are generally consistent . The quality of the ICR is rated as Exemplary .