



1. Project Data:		Date Posted : 08/20/2002	
PROJ ID: P045622		Appraisal	Actual
Project Name: Coal Sector Restructuring Implementation Assistance Project (IAP)	Project Costs (US\$M)	30.8	19.73
Country: Russian Federation	Loan/Credit (US\$M)	25	17.43
Sector(s): Board: EMT - Mining and other extractive (66%), Other social services (22%), Central government administration (10%), Sub-national government administration (2%)	Cofinancing (US\$M)		
L/C Number: L4059			
	Board Approval (FY)		96
Partners involved :	Closing Date	12/31/1999	12/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
NOTE: The Coal SECAL project became effective in FY 97 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 FY 2002 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 main objective of the Coal IAP was to enhance the effectiveness in implementation of the coal sector restructuring program -- complementing the Coal SECAL and Coal SECAL 2 projects -- through assistance to the government, affected people and organizations . Specific objectives were to:			
<ol style="list-style-type: none"> 1. Make improvements in management of the restructuring process through increased participation of stakeholders as well as enhancement in transparency and openness; 2. In the short run, filling critical skill gaps in a number of key areas which are essential to design the details and implement the restructuring program effectively; and 3. In the long run, strengthen the country's institutional capacity to sustain reform . 			
b. Components			
Coal IAP supported the following components : Support for stakeholders participatory activities; Social programs; Strengthening of subsidy management to enhance transparency and financial accountability through provision of consultant services and computer equipment; technical assistance and training for (i) commercialization and demonopolization of coal companies, (ii) environmental management, (iii) mine closures and (iv) mining safety including implementation of a mining safety program; and support to the Foundation for Promotion of Restructuring the Coal Industry.			
c. Comments on Project Cost, Financing and Dates			
Coal IAP: This project will be under implementation until 12/31/2002, three years after the planned closing date of 12/31/1999 to allow certain components to be completed . The latest project cost estimate is US\$ 19.73 million, against the appraisal estimate of US\$30.8 million. A major portion of the cost, US\$ 17.43 million, has been financed by the Bank.			
3. Achievement of Relevant Objectives:			

The overall objectives of supporting the coal restructuring program carried out through Coal SECAL and Coal SECAL 2 were largely achieved, though reforms need to be completed in some areas .

Coal IAP 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 identified 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 . Apart from these specific outcomes, Coal IAP contributed to the following overall outcomes of the coal restructuring program :

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 .

4. Significant Outcomes/Impacts:

The project contributed to the following significant outcomes /impacts in conjunction with Coal SECAL and Coal SECAL2:

- 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
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	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.
Sustainability:	Likely	Likely	
Bank Performance:	Highly Satisfactory	Highly Satisfactory	
Borrower Perf .:	Highly Satisfactory	Highly Satisfactory	
Quality of ICR:		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 project supported a large and complex sectoral 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.