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**REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED COAL SECTOR ADJUSTMENT LOAN
IN AN AMOUNT EQUIVALENT TO US\$500 MILLION
TO THE
RUSSIAN FEDERATION**

JUNE 5, 1996

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CURRENCY EQUIVALENTS

(Figures are as of end of period)

CURRENCY UNIT = RUBLE (Rb)	RUBLES PER US\$
1991	169
1992	415
1993	1,247
1994	3,550
1995	4,640
May 1996	5,031

BORROWER'S FISCAL YEAR

January 1 - December 31

WEIGHTS AND MEASURES

Metric system is used

ACRONYMS, ABBREVIATIONS AND GLOSSARY

CBR	Central Bank of Russia	PHRD	Policy and Human Resource Development
EA	Environmental Assessment	PIU	Project Implementation Unit
EFF	Extended Fund Facility	PPU	Project Preparation Unit
GDP	gross domestic product	TA	Technical Assistance
GKI	State Property Committee	USAID	United States Agency for International Development
GOR	Government of Russia		
Inter-Agency Commission	Inter-Agency Commission for Socio-Economic Problems of Coal-Producing Regions		
IAP	Coal Sector Restructuring Implementation Assistance Project		
IMF	International Monetary Fund		
JGF	Japan Grant Facility		
MOE	Ministry of Economy		
MOF	Ministry of Finance		

RUSSIAN FEDERATION

COAL SECTOR ADJUSTMENT LOAN

Loan and Project Summary

Borrower:	Russian Federation
Executing Agencies:	Ministries of Economy and Finance of the Russian Federation
Amount:	US\$500 million equivalent
Terms:	Maturity of seventeen years, including five years of grace at the Bank's standard variable interest rate for currency pool loans.
Loan Objectives:	The proposed SECAL will help the Government put in place a consistent policy and institutional framework for the continuous and socially sustainable restructuring of the coal sector and provide assistance in implementing the initial steps of the overall restructuring program. The SECAL will support: (a) a program for the progressive reduction and eventual elimination of subsidies through (i) the elimination of subsidies for operating losses and investment, (ii) the redirection of remaining subsidies towards restructuring and related social programs, and (iii) the establishment of a transparent mechanism for the allocation and effective monitoring of subsidies; (b) special Community Support and Employment Programs in areas where coal-related unemployment is expected to be high; and (c) the development and initial implementation of measures intended to commercialize and de-monopolize the coal sector.
Loan Description:	The proposed SECAL will be quick-disbursing and will provide budget and balance of payments support, linked to the conditionality specified for tranche release. Disbursements of the Loan will not be linked to any specific purchases, but will be subject to a standard negative list of ineligible goods and countries of origin.
Benefits:	The proposed Coal SECAL would support the effective implementation of a far-reaching restructuring program in one of the most critical sectors of the Russian economy. The program will promote an increasingly profitable and competitive coal sector through judicious closure of unprofitable mines, demonopolization and commercialization of regional coal companies, and further improvements in operational efficiency over time. This would, in turn, decrease and eventually eliminate subsidies and the related impact of the coal sector on the federal budget. In addition to economic benefits, the restructuring program would promote sustainability of the coal industry through a participatory approach by key stakeholders and capacity building in key areas, including improved measures to mitigate social and environmental impacts in the affected areas.

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Risks: This is a highly risky operation. The major risks involve the ability of the Government to deliver on policy reforms stemming in part from political uncertainties and difficulties in maintaining a sustainable program of stabilization and structural reform. Even without the political uncertainties, reaching a consensus on the needed reforms and implementing them will be difficult since the reduction and redirection of subsidies, the closing of mines and the de-monopolization of the sector threaten major vested interests and face strong resistance. Moreover, the Government's institutional capacity to implement the complex social and structural reforms proposed is undemonstrated.

As a two-tranche, quick-disbursing operation, the proposed Coal SECAL by itself cannot provide sustained Bank support for the Government's coal restructuring initiatives over the medium term. The risk that the restructuring momentum will not be sustained is addressed through assistance provided under the proposed Coal Sector Restructuring Implementation Assistance Project, which is longer in duration and will serve as a vehicle: (i) to assure Government that the Bank intends to remain engaged in the sector beyond the life of the proposed SECAL; and (ii) to help strengthen the institutional capacity of the Government to implement the reforms. Progress on coal sector restructuring over the last 2-3 years, together with the commitments in the Government's Policy Letter, provide a reasonable assurance that the reforms will continue if implementation problems can be addressed.

Disbursement: The SECAL will be released in two tranches of equal size: the first on effectiveness (expected in July 1996) and the second on fulfillment of specific tranche release conditions (expected in the fourth quarter of 1996).

Commitment Fee: 0.75% on undisbursed credit balances, beginning 60 days after signing, less any waiver.

Poverty Category: Poverty-focused, limited to Social Safety Net for redundant coal industry workers, their families and affected communities.

Rate of Return: Not applicable

Project ID Number: RU-PA-38550

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Documents in Project File

1. *Russian Federation - Restructuring the Coal Industry: Putting People First* (Bank Report 13187-RU, December 1994)
2. *Basic Trends for Coal Industry Restructuring* (Inter-Agency Commission for Socio-Economic Problems of Coal-Producing Regions, July 1995)
3. Decree of the President of the Russian Federation of February 9, 1996 No. 168, *On Measures Regarding the Further Improvement of the Structure of the Coal Industry of the Russian Federation*
4. Government of the Russian Federation Resolution No. 598 of May 17, 1996, *On Confirmation of the Regulation on State Financing of Measures Regarding Coal Industry Restructuring*

This report is based on missions which visited Russia in August and October 1995 and February, March-April, and May 1996, comprising at various times Messrs./Mmes. David Craig (Senior Energy Economist, Task Manager and Mission Leader), Costas Michalopoulos, Jonathan Brown, Friedrich Peloschek, Vadim Voronin, Selina Shum, Gordon Hughes, Qimiao Fan, Lev Freinkman, Mary Canning, Jeff Procak, Mary Louise Vitelli, Aleksey Proskuryakov, and Ayse Kudat. The UK KnowHow Fund (David Merrick, Peter Scott, Tom Pedrick, Bruce Weston, and Ian Day) and USAID (Robert Hall, Patrick Bodnar, and Catherine Cosman) provided consulting services to the Russian Government in support of SECAL preparation. Peer reviewers were Peter Van der Veen, Laszlo Lovei, and Louise Fox. Yukon Huang and Jonathan Brown are, respectively, the Director of the Country Department and Division Chief of the Infrastructure, Energy and Environment Division, responsible for Russia in the Europe and Central Asia region.

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I. INTRODUCTION

1. I submit for your approval the following report and recommendation on a proposed Coal Sector Adjustment Loan (Coal SECAL) to the Russian Federation for the equivalent of US\$500 million to provide financial support for the Government's Coal Sector Restructuring Program. The Loan would be at the Bank's standard variable interest rate, with a maturity of seventeen years, including five years of grace.

2. **Background.** Restructuring the coal sector is a crucial part of the Government's program for sustaining stabilization of the Russian economy. The coal sector remains one of the largest recipients of budget subsidies in the country, second only to the agro-industrial complex. Further, a large part of the subsidies have been used to cover operational losses of regional coal companies and mine investments, thus hindering competition and financial discipline in the coal sector. The problems inherent in this subsidy system have been exacerbated by lack of transparency and financial accountability in the subsidy management system and by the practices of RosUgol, a state-owned enterprise which has exercised a virtual monopoly over the coal industry, including: (i) until recently, allocation of budget subsidies; (ii) management of state shares in regional coal companies; (iii) ownership in a broad spectrum of service industries in the coal sector; and (iv) enforcement of state directives pertaining to mine health and safety standards.

3. The Government has placed high priority on restructuring the coal sector. In mid-1993, the Government created an *Inter-Agency Commission for Socio-Economic Problems of Coal-Producing Regions* (the Inter-Agency Commission) for the purpose of advising the Government on coal industry restructuring.¹ Since then, under the direction of the First Deputy Prime Minister, the Government has prepared a large scale restructuring program aimed at transforming the coal industry into a sustainable and competitive sector of the economy. The principal objectives of the Program are to: (i) reduce the impact of the coal sector on the federal budget by supporting the decrease, and eventual elimination, of subsidies; (ii) promote the long term sustainability of the coal sector through establishment of a competitive, commercial industry; (iii) support a restructuring program to reduce the size of the industry to increase efficiency; and (iv) cushion the impact of the restructuring on coal miners, their families and affected communities.

¹ The Inter-Agency Commission includes representatives of: key federal agencies, including the Ministries of Finance, Economy, Fuels & Power, Labor, and Social Protection, the Federal Employment Service and the State Property Committee; regional governments in the coal producing areas; the management of the national coal company, RosUgol; and the two main coal labor unions. The Coal Department of the Ministry of Economy acts as the secretariat for the Inter-Agency Commission.

II. THE MACROECONOMIC CONTEXT

A. RELATIONS TO THE COUNTRY ASSISTANCE STRATEGY AND THE MACROECONOMIC SITUATION

4. The most recent Country Assistance Strategy (CAS) for the Russian Federation was discussed by the Board on June 6, 1995; a CAS Progress Report was discussed with the Board on March 28, 1996. The 1995 CAS recommended a flexible response strategy closely linked to the Government's progress on macroeconomic stabilization and structural reform. The CAS indicated that, under an Intermediate Case scenario, the Bank would be prepared to provide assistance to support restructuring of the coal industry, provided that the Government takes the lead in developing an appropriate program.

5. Since the last CAS, the Bank has continued to operate under an Intermediate Case scenario, which remains broadly appropriate in the current environment. This scenario assumes that there will be continued progress in macroeconomic stabilization, as evidenced by the recent agreement with the IMF on an Extended Fund Facility (EFF) program. In this situation, the Bank would aim to provide around US\$1.2-1.5 billion annually in investment lending, including a "core" program of relatively straightforward projects in infrastructure and the social sectors. In addition, the Bank would be willing to provide up to US\$1.5 billion annually in relatively fast-disbursing assistance if substantial progress was achieved on key structural reforms in specific areas of the economy, such as coal, the social sectors and agriculture, that are critical to the long-term sustainability of the stabilization process. Over the past year, the Bank has been working with the Government, both within the framework of the EFF negotiations and in separate discussions, to develop a consensus on specific programs of structural reforms that would allow these latter operations to move forward. In the meantime, the Government, with Bank assistance, has continued to prepare 6-7 priority investment projects as the basis for a sustained program of Bank support for the Russian economy over the medium term.

B. NEED FOR STRUCTURAL CHANGE

6. While the Government has made important progress in reducing the overall budget subsidies for coal (from 1.04% of GDP in 1993 to 0.45% of GDP in 1995), the current level is still high and represents a significant burden on the budget and the economy as a whole. Budget subsidies for 1996 are planned at Rb10.4 trillion (or equivalent to US\$2.2 billion at the current exchange rate) or about 0.36% of projected GDP. More seriously, a large part of the current subsidies are used to maintain inefficient, loss-making mines, hindering the downsizing of the sector and the emergence of an efficient core. For stabilization to be sustainable, the current level of subsidies to the coal sector has to be reduced further. Also, the remaining subsidies need to be redirected towards restructuring including mine closures, severance payments and related social programs. The proposed Coal Sector Adjustment Loan is designed to support the Government's efforts in these reforms and is consistent with the conclusions reached in the Bank's sector report, *Russian Federation - Restructuring the Coal Industry: Putting People First* (Bank Report 13187-RU, December 1994).

C. MACROECONOMIC PROSPECTS

7. Significant progress has been made by the Russian Government in macroeconomic stabilization during 1995 and early 1996. The decline in the economy appears to have bottomed out, with GDP contracting by 4 percent in 1995 on a year-to-year basis as compared to a decline of nearly 13 percent in 1994. Real income and consumption fell somewhat in 1995, while the decline in investment appears to have slowed down. The fiscal deficit fell from 10 percent of GDP to 6.8 percent in 1995 and monthly inflation decelerated from nearly 18 percent in January 1995 to about 4 percent in January 1996. As a result, Russia met all program targets for its Standby Arrangement with the IMF during 1995. The

Government reached agreement on a three-year, \$10 billion EFF arrangement in February 1996. Recognizing that the stabilization effort cannot be sustained without appropriate structural policies, e.g., on trade and fundamental reforms in many sectors, including coal, the Government with the assistance of the Bank developed a comprehensive structural reform agenda to accelerate economic transformation which is reflected in the EFF. Russia has met the performance criteria under the EFF during the first and second monthly reviews, the latter just finished on June 5, 1996. However, in light of the weak revenue performance during the pre-electoral period, the Government has resorted to a dramatic compression of expenditures, particularly social expenditures, investment, and rehabilitation. There is an urgent need to enhance revenue performance, particularly through improvements in the compliance of tax payments and arrears. The proposed Coal SECAL will provide an important amount of budgetary support, helping provide a breathing space for the Government until these additional revenue collection efforts start yielding the desired results. Provided the various macroeconomic targets and structural benchmarks developed in coordination with the IMF and the Bank are achieved, a further reduction in inflation and a resumption of growth in real GDP by 2 percent or more are envisaged during 1996.

III. THE COAL SECTOR

A. COAL SECTOR PROFILE

8. *Production Volumes.* Russia is the world's third-largest producer and consumer of coal, behind China and the United States, and accounted for 6% of world coal production in 1994. As of 1 January 1995, the Russian coal industry was comprised mainly of 199 active underground mines and 65 active surface mines affiliated with the state-owned coal monopoly RosUgol. These RosUgol affiliates accounted for 261.6 million tons out of a total of 271.3 million tons of coal produced in Russia in 1994. By comparison, the Ukrainian coal industry consists of 244 mines which produced 76 million tons in 1994; the United States coal industry consists of 2,354 mines which produced 937.4 million tons in 1994. 1995 RosUgol coal production amounted to 250.2 million tons. Coal's contribution to total primary energy supply in Russia has been falling steadily since the 1960s. However, while coal now accounts for only about 18% of total energy supply at a national level, it is very important in certain regions. In the Far East, for example, coal supplies more than half of all primary energy requirements.

9. *Geographic Scope of Production.* Significant volumes (in excess of 15 million tons annually) are produced in seven coal basins covering virtually every region of the country: from the Pechora Basin in the Komi Republic to the Donetsk Basin (Donbass) in Rostov Oblast; from the Ural coal fields to the Kuznetsk Basin (Kuzbass) in Kemerovo Oblast (the heart of Russia's coal industry, which produced 93.5 million tons of coal in 1995, or nearly 40% of Russia's coal production for the year); from Eastern Siberia and Kansk-Achinsk to Yakutia and Primorskiy Krai in the Far East. RosUgol is also involved in shale production; four shale mines in Leningrad Oblast are affiliates of RosUgol. Coal production activities in Russia are also carried out by RosTopProm (which owns 17 mines producing approximately 2 million tons annually for local consumption in the Rostov and Kemerovo oblasts), other ministries, and by oblast-owned, operated, and subsidized companies (OblKemerovoUgol, for example, is expected to produce 5.5 million tons in 1996).

10. *Workforce.* RosUgol's coal industry workforce, which accounts for 1.1% of the total labor force, amounted to 819,078 in 1994, compared with 914,331 in 1992. The Ukrainian coal industry employed 925,000 people in 1994, while the United States coal industry reported an average daily workforce of 97,500 employees. The top four employers in 1994 were RostovUgol (84,119), KuznetskUgol (59,422), ProkopyevskUgol (43,733), and VorkutaUgol (42,588) coal companies.

11. *Scope of Activities.* Data on employment reflect a variety of occupations within the coal industry. In addition to coal mining, mine building, and coal preparation, the industry owns and operates machine-building plants, collective farms, construction companies, research and design institutes, power generation facilities, investment companies, restaurants and cafeterias, and other similar commercial activities. RosUgol itself manages an equipment leasing operation which is funded by the state. There are also a number of social services owned and operated by coal companies, most of which have now been transferred to municipal administrations. These include housing stock, kindergartens, and a number of sanatoria and vacation resorts which cater to the industry workforce.

12. *Coal Demand and its Repercussions.* World coal consumption has been declining consistently since 1989. In Russia, this decline has been underway since 1987. During the 1980s the coal industry in Russia failed to adapt to increasing competition from low-cost, environmentally friendly natural gas and the consequent decrease in demand for coal. Its problems were then compounded during the reforms of the early 1990s, both by falling demand for all forms of energy and by the removal of very large implicit subsidies on rail freight. It has been estimated that, if the coal industry takes timely measures to adapt to changing economic circumstances, nearly two-thirds of existing coal capacity will remain viable and that as much as one half of the labor force will eventually have to find new jobs. This is, however, a much smaller contraction than that faced by European coal producing countries during the 1970s and 1980s.

B. DISTORTIONARY EFFECTS OF SUBSIDIES ON COAL INDUSTRY PERFORMANCE

13. *Subsidies.* After the price liberalization of the early 1990s, the coal industry became dependent on explicit subsidies from the federal budget (para. 6). These coal subsidies have allowed the coal industry's main customers — power stations and the steel industry — not to pay their coal bills, in the knowledge that the coal industry will extract the shortfall from the federal budget. Perhaps more importantly, coal subsidies have included an explicit subsidy for a portion of the coal industry wagebill, as mandated in a labor accord known as the Tariff Agreement. This has established an implicit belief that the Government is responsible for paying miners' wages, regardless of economic conditions in the coal industry and regardless of whether or not the Government has fulfilled its obligations under the Tariff Agreement. The problems inherent in this subsidy system have been exacerbated by the Government's entrusting to a national coal monopoly (RosUgol, the former Ministry of the Coal Industry) the responsibilities of (i) determining how federal subsidies are to be used and (ii) designating which companies are to be recipients of state support — see below.

14. *Structure of the Coal Industry.* Until recently, the coal industry has consisted of state-owned coal enterprises (individual mines, service companies, etc.), coal associations (i.e., multi-mine groups of enterprises), and a national coal company (RosUgol). The coal associations and most of the enterprises have now been converted to joint stock companies. RosUgol remains 100% owned by the state and will continue to be 100% state-owned for a period of at least three years although it is shortly to be transformed into a joint stock company to conform with the corporate entity clauses of the Civil Code which came into force on March 1, 1996. However, the coal associations and enterprises have taken a first step towards privatization by giving small, non-controlling packages of shares to the labor collective (management and employees) and to local governments. The state's shares in the coal associations and the coal enterprises are vested in the State Property Committee (GKI). However, GKI delegates commercial management of the state's shareholding in the coal associations and enterprises to RosUgol "in trust". RosUgol therefore appoints the directors of associations and enterprises. The patterns of ownership and control are varied and complex. In general, production units are more tightly controlled by RosUgol than by the coal association to which they belong. Subsidies are calculated and allocated by RosUgol on the basis of individual production units rather than on the basis of coal associations. For this

reason, the coal associations have neither the incentive nor the power to close individual unprofitable mines within their portfolio.

C. ADAPTING TO CHANGING ECONOMIC CIRCUMSTANCES

15. **Restructuring Strategy.** While there are many aspects of the problem that are specific to Russia and other transition economies — particularly concerning the social safety net —, the basic remedy has been the same as in all countries that have faced restructuring of their state-owned coal industries. Uneconomic mines have to be closed. Workers have to be transferred to other mines or offered some support while they search for new jobs. Mines that stay in business also need to reduce the size of their workforce. Mine closures and redundancies need to be managed in a socially responsible manner, so that the downsizing process remains politically sustainable. Federal subsidies for operations and investment need to be phased out and remaining subsidies need to be redirected to mine closures and employment/social programs. And, in parallel, the national monopoly company needs to be restructured into a series of independent, multi-mine coal companies — probably regionally based — all competing with each other and with other fuel suppliers.

16. **Initial Response.** There has been progress on coal restructuring in three areas. First, the Government, within the framework of its coal industry restructuring program, began to close non-viable and unprofitable mines in 1994. In 1994-1995, coal production ceased at 37 mines. A schedule for the preparation of mine closure proposals and other necessary documents to close 95 loss-making non-viable mines has been approved. Forty mines have their closure proposals prepared and approved. Closure proposals for the remaining 55 mines are at various stages of preparation, i.e., being coordinated with local authorities, labor unions, and state expertise. In 1996, the closure of Halmer-Yu mine in the Pechora coal basin was completed. Closure activities are now under way at 64 mines and include the cessation of production, the dismantling of equipment, and the demolition of surface structures. At 34 out of the above-mentioned mines, closure will be completed in 1996-1997, with 22-24,000 employees being laid off in 1996.

17. Second, in 1994 and again in 1995, net attrition (departures minus recruitment) in the coal industry was in the order of at least 10% per annum, in the absence of a major restructuring program. During the early closure activities, many of the laid off workers have been re-employed in nearby mines. As the mine closure program expands, the scope for such transfers will diminish. So far, redundancies from mine closures have been very low compared with the number of voluntary departures from the coal industry as a whole. Miners are leaving not because of mine closures or severance offers, but because they are often receiving their wages 3-6 months in arrears.

18. Third, in the last months of 1995, a substantial portion of the coal industry-owned housing stock was transferred to municipal governments. Most housing, attached utility networks, and social assets in the mining settlements historically were administratively attached to the coal mines and financed through corresponding coal enterprises. More than 2.5 million people, mainly miners and members of the families, lived in such housing in 1993. It is estimated that by January 1, 1996, the initial stock of the social assets remaining attached to RosUgol enterprises declined by more than 70%. As regards other social assets previously operated by the coal companies, anywhere from 9% (sanatoria) to 66% (kindergartens) of this inventory has been transferred to regional or local governments.² In both cases, however, evidence suggests that the maintenance, repair, and operation of divested social assets are

² 19.3% of coal industry dormitories and 21% of coal industry recreation and sport facilities have been divested. About 60% of total social costs incurred by coal companies were associated with the housing stock; kindergartens accounted for a further 25% of social costs.

underfunded. Sustainable financing for social assets in the coal regions, including those in housing, health, education, childcare being divested from mines, is an important component of the overall social protection system for miners and members of their families. Housing and childcare facilities deserve special attention as they are components of basic social support.

19. **Social Impacts.** In the second half of 1995, the Bank undertook a Social Assessment in two coal basins (Vorkuta and the Kuzbass) likely to be most affected by the mine closures proposed by RosUgol. The people to be affected by these mine closures feel that: (i) several mine shutdowns reportedly have been inconsistent with existing laws and regulations in the sense that the workers have not received the advance notice required by Russian labor legislation; (ii) coal subsidies could have been used to provide better social protection for those who have lost their jobs; (iii) the coal labor unions have failed to defend the interests of the workers affected by mine closures; (iv) social services transferred from coal companies to municipalities have been allowed to deteriorate; (v) non-miners are inadequately protected from the impact of mine closures by the existing social safety net; (vi) the present institutional arrangements do not ensure an equitable allocation or reliable distribution of subsidies; (vii) coal company management is diverting coal subsidies from wages and other social obligations to operating losses and investment; and (viii) miners are ill-informed about their rights and about the restructuring program and have little trust in the present system, particularly for allocating and distributing subsidies³.

IV. THE GOVERNMENT'S COAL INDUSTRY RESTRUCTURING PROGRAM

A. GOVERNMENT'S STRATEGY

20. The Government of the Russian Federation has prepared a large scale restructuring program aimed at transforming the coal industry into a sustainable and competitive sector of the economy. The program is designed to improve coal industry efficiency by creating a non-monopolized organizational structure which would include strong regional coal companies. In addition to this, the program stipulates a shift in the focus of coal subsidies from financing wages and uneconomic mines to restructuring of coal companies in a manner that is clear, transparent and monitorable. Unlike coal industry restructuring programs in other countries where coal production capacities were reduced by up to 80-90%, the coal industry in Russia after restructuring is expected to remain one of the largest in the world.

21. The Government has demonstrated its commitment to coal sector reform over the past few years through: (a) liberalization of coal prices;⁴ (b) a significant reduction in the levels of subsidies in real terms; (c) reduction of RosUgol's role in the allocation and distribution of subsidies; (d) the issuance of a Presidential Decree which allows organizations other than Rosugol to act as trust managers for the state shares in regional coal companies; and (e) commencement of downsizing and other measures to increase efficiency, including cessation of coal production at 37 loss-making mines which have no prospects for economic viability (see para. 16). In sum, the initial restructuring efforts have begun to pay off; labor productivity increased by 11 percent in 1995; and following sharp increases in domestic coal prices toward the end of 1995, the industry as a whole reduced its operating losses significantly in 1995.

³ See "Russia Coal Sector Restructuring Social Assessment", distributed separately to the Board of Directors.

⁴ In July 1993, the Government took the first major step towards restructuring the coal industry, viz., all federal administrative controls on coal prices were removed. This first step was not fully effective, since RosUgol retained the power to influence individual coal prices by directing smaller or larger subsidy flows to individual coal companies.

22. **Long Term Strategy, 1996-2000.** In July 1995, the Inter-Agency Commission (para. 3) issued a consensus document on *Basic Trends for Coal Restructuring* (Basic Trends).⁵ The main elements of the Government's long term strategy, which are reflected in this document, are:

- (i) **Subsidies.** Subsidies to loss-making mines will be gradually withdrawn. Alternative sources of funding will be used to finance maintenance of social assets and to increase expenditure on social programs that support coal restructuring.
- (ii) **Investment.** Modernization, rehabilitation and expansion will have to rely more on internal financing by coal companies, loans, direct private domestic and foreign investment and extra-budgetary sources, in addition to state support.
- (iii) **Mine Closures.** At least 90 loss-making mines (overall capacity 60 million tons/year, with total direct workforce of 83,000 people) will be closed.
- (iv) **Workforce Reductions.** Closure of loss-making companies and modernization of remaining mines will result in reduction of the workforce by 100,000 people, or 20% against the 1994 level. Further reduction of the workforce by 175,000 people will take place as non-core production activities are divested.
- (v) **Social Protection.** The main goal of social protection of redundant miners is to provide transitional assistance in parallel with programs to create new, unsubsidized jobs.
- (vi) **Change Management.** The federal and regional authorities, in cooperation with RosUgol, RosTopProm and local coal companies, will restructure the system of state support and management of the coal industry.
- (vii) **Commercialization and Demonopolization.** The coal industry will consist of a number of independent, competing coal companies that are self-financed on a long term basis. RosUgol will be transformed into a joint stock company whose goals reflect the goals of coal sector restructuring.

23. **Medium Term Goals.** In the period since Basic Trends was issued, the Government has prepared a set of intermediate goals for 1996-97. In particular, coal subsidies were reduced in real terms in 1996 and Government announced its intention to reduce them again in 1997 by at least 15% in real terms. Government also announced a target of 30% for the share of coal subsidies to be allocated to downsizing/restructuring in 1996, followed by a substantial increase in this share in 1997. In addition, Government transferred the responsibility for allocating coal subsidies from RosUgol to the Inter-Agency Commission and announced monitoring and auditing systems to ensure that coal subsidies are received and used for their designated purposes. Further, starting in mid-1995, the regions have been submitting draft Regional Coal Restructuring Programs to the Inter-Agency Commission as a basis for future funding of restructuring costs and associated social programs. The Inter-Agency Commission has now approved programs for five of the nine major coal basins. Finally, in February 1996, the President of the Russian Federation issued a decree that empowers the Government to strengthen the regional coal companies and

⁵ On July 17, 1995, the First Deputy Prime Minister transmitted the program to the Bank with a request for a Bank loan to support the program.

to assign trust management of the state's shareholding in these companies to various trust agents.⁶ The Government intends to use these powers during 1996 and 1997 to appoint a number of new trust agents to manage the restructuring and privatization of selected regional companies.

24. ***Government's Short Term Action Program, 1996.*** In February 1996, the Government wrote to the Bank stating their intention to move forward on coal restructuring and outlining specific steps for 1996 and 1997. For the immediate future, the Government has a detailed program of actions for the second half of 1996 and early 1997. This program consists of: (i) targets for reducing coal subsidies and refocusing remaining subsidies on downsizing/restructuring; (ii) changes in employment policies in the coal industry to minimize the need for compulsory redundancies; (iii) an acceleration of mine closure completions — but with increased attention to social safeguards; (iv) a substantial reinforcement of the social safety net in coal regions — in the form of new community employment and labor mobility programs and improved delivery of basic social services; (v) new initiatives to promote public participation in the coal restructuring program and to monitor the social impacts of the program; (vi) a systematic program to strengthen the independence of regional/local coal companies; and (vii) additional support for the Inter-Agency Commission to implement the coal restructuring program. This action program is outlined in more detail below; the concrete measures identified bearing target implementation dates prior to mid-June 1996 constitute the conditions of Board presentation and first tranche release. Subsequent measures with later target implementation dates will be conditions of second tranche release and will also be used as evidence to justify future Bank interventions in the coal sector. The conditions of Board presentation and of second tranche release are summarized in Annex 2, Policy Matrix.

B. SUBSIDY PHASE-OUT AND TARGETING

25. ***Subsidy Levels, 1996-1997.*** Phasing out coal subsidies is an essential part of the Government's macroeconomic stabilization program and strategy for establishing a profitable, market oriented coal sector. Government has already reduced coal subsidies substantially over the last three years. Government will continue to reduce coal subsidies in 1996 and 1997 and will eliminate them entirely as soon as they are no longer needed to support downsizing of the coal industry.

26. The 1996 budget passed by the Duma provides for support to the coal sector amounting to Rb7.4 trillion. In addition, the Prime Minister has instructed the Government (Protocol No. VCh-P14-1pr of 23 January 1996) to increase the amount of support provided to the sector by Rb3.0 trillion, for a total of Rb10.4 trillion. The Government intends to finance this additional amount of expenditures through borrowing from abroad so as not to compromise its stabilization objectives. Even this larger total of Rb10.4 trillion represents a 9% reduction in real terms compared with 1995.

27. The Government's original target was to reduce total budget support to the coal sector further in 1997, by at least 15% in real terms compared with 1996. On the basis of the Government's current commitments (see below), the real reduction in 1997, compared with the 1996 total of Rb10.4 trillion, will be at least 20%.

28. ***Subsidy Allocation, 1996.*** In the second half of 1995 a large proportion of the social assets of the coal industry — mainly housing, associated heating systems, kindergartens and health clinics — were nominally transferred from the coal companies to local governments. In principle, the corresponding subsidy flows were then incorporated into the overall system of federal-regional transfers. In practice,

⁶ Presidential Decree No. 168, February 9, 1996, "*On Measures Regarding the Further Improvement of the Structure of the Coal Industry of the Russian Federation*", empowers the Government to move forward with demonopolization of the coal industry.

when there are revenue shortfalls, this part of the federal budget is very poorly protected against expenditure cuts. As a result, funding of operating costs of social assets has collapsed in practically all coal communities except those where the assets have not yet been transferred to local governments. With the exception of wages, these social assets are the single most important element of the social safety net in coal communities. Coal restructuring cannot proceed on a sustainable basis unless funding of social assets is restored to a satisfactory minimum level. For this reason, as an exceptional measure, the Government has decided to allocate Rb1.6 trillion of coal industry subsidies in the second half of 1996 to regional governments. This allocation will finance local government expenditures on the operation of social assets divested from the coal industry to local governments and, to a lesser extent, on rehabilitation and replacement of such assets.

29. The second priority for the social safety net in coal communities is the social protection expenditures by coal companies, mainly for pre-redundancy services to workers at mines whose closure has been announced, severance payments to workers who are made redundant, and free coal for former workers and/or their dependents. The Government has allocated a minimum of Rb300 billion for these expenditures in the second half of 1996.

30. As a third priority the Government has decided to create a series of pilot Community Support and Employment Programs, initially in five coal basins and to allocate not less than Rb200 billion in total to these programs in the second half of 1996. Funding for these programs will be transferred directly from coal subsidies to regional and local governments without passing through the coal industry. These programs will be managed by local committees (including representatives of local administrations, employment services, businesses, labor unions and non-government organizations) and will provide funding to local initiatives designed to improve or repair social and environmental infrastructure, create new small business and employment opportunities, offer training or re-training and more generally promote labor mobility for displaced workers (details below).

31. In order to finance the increased support for the social safety net in the second half of 1996 within the total subsidy limit of Rb10.4 trillion for 1996 as a whole, the Government will find savings in the subsidy allocations for operating losses and investment. In parallel, the Government has announced new policies for these two categories of subsidies. From July 1, 1996, subsidies for operating losses will be available only to coal companies that have limited their recruitment to comply with the new employment policy (see below). Also, investment projects that were already under construction as of January 1, 1996, will be grandfathered and will continue to receive grant financing. However, from July 1, 1996, all other viable investment projects will be funded by loans at positive real interest rates. In this connection, government direct lending to the coal sector, as well as government guarantees for credits provided to the sector by foreign export credit agencies, need to be contained so that they do not imperil the government's creditworthiness and debt service capacity.

32. In summary, the Government has allocated a total of R2.1 trillion for the social safety net in coal communities in the second half of 1996, consisting of: (i) Rb1.6 trillion to regional/local governments for divested social assets; (ii) Rb300 billion for social protection expenditures by coal companies; and (iii) Rb200 billion to regional/local governments for pilot Community Support and Employment Programs. This total of R2.1 trillion represents 38% of the projected total subsidy payments in the second half of 1996 (approximately Rb5.6 trillion).

33. *Subsidy Allocation, 1997.* The Government's strategy for 1997 is to provide adequate funding for divested social assets through the overall system of federal-regional transfers and to devote a correspondingly larger proportion of remaining coal subsidies to restructuring and the industry-specific social safety net. The Government has set itself two targets for allocation of coal subsidies in 1997:

(i) Not less than one-third of coal subsidies will be allocated to restructuring (ie, physical costs of mine closures) plus a broadly defined social safety net, consisting of: (a) social protection expenditures by coal companies (for the same purposes as in 1996), (b) expanded Community Support and Employment Programs financed through regional and/or local governments, and (c) disability compensation for disabled workers at closed mines.

(ii) Production subsidies (i.e., mainly for operating losses and investment) will decline by at least 40% in real terms in 1997 relative to their projected 1996 level of Rb7.1 trillion. Production subsidies include all subsidies other than for restructuring and the broadly defined social safety net (as described above). For monitoring purposes, production subsidies will not include investment loans to coal companies at positive real interest rates.

34. In the light of these commitments, total subsidies provided by the Government to the coal sector for 1997 are estimated at Rb6.4 trillion in 1996 prices, of which Rb4.3 trillion are for production and Rb2.1 trillion are for restructuring and the associated social safety net. This total does not include government expenditures in support of already divested social assets or support for investment via loans at positive real interest rates. The Government, however, has committed itself to provide an adequate amount of financing for divested social assets in coal communities through federal budget allocations to regional governments for that purpose. If this financing is maintained at the same level in real terms in 1997 as in 1996 (ie, Rb1.6 trillion), total government subsidies to the coal sector would be approximately Rb8.0 trillion. Within this total, Rb3.7 trillion, or 47%, would be committed to restructuring and the associated social safety net.

35. *Subsidy Mechanism.* To ensure that coal companies and other beneficiaries use the subsidies for the purposes for which they were intended, the Government has changed the mechanism of allocation and distribution of coal subsidies. As a first step, the Government changed the procedures of channeling subsidies to the local level. Previously, these were largely channeled through RosUgol. As of January 1996, approximately 90% of coal subsidies are channeled from the Ministry of Finance to the local level via the Regional Treasury Departments of the Ministry of Finance. The remaining 10% is accounted for mainly by the Central Reserve Fund, which is used by RosUgol and the Ministry of Fuels & Power for emergencies and other unforeseen expenditures. A very small proportion, about 0.2%, is channeled through RosUgol to locations not served by Regional Treasury Departments. These arrangements now permit Government to identify the causes of delayed delivery of budget funds if and when they arise. As a second step, at its February 1996 meeting, the Inter-Agency Commission approved new subsidy management regulations on the basis of which, starting July 1, 1996, the Inter-Agency Commission will decide on quarterly allocations of coal subsidies between the eleven major categories and between "leading recipients", i.e., either coal companies or regional governments.

C. EMPLOYMENT POLICIES

36. In the early 1990s, net attrition from the coal industry workforce was relatively low. However, starting in about 1994, employees have been leaving the coal industry at annual rates of up to 30%. Despite the poor employment prospects in most coal regions, many coal industry employees are finding alternative occupations outside the coal industry that are sufficiently attractive to justify leaving. At the same time, annual recruitment has typically been on the order of 15-20% of the workforce. About 30% of the new recruits are people with no previous employment experience in the coal industry. As a result of natural attrition, the coal industry workforce has been declining at annual rates of around 10-15%.

37. Over the next 12-18 months, the most humane and cost-effective way to reduce the size of the coal industry workforce is to limit recruitment, especially of workers who do not have experience in the

coal industry. In May 1996, the Inter-Agency Commission approved a new employment policy designed to restrict recruitment in mines that will be closed and use transfers between mines to minimize the need for compulsory redundancies. From July 1, 1996, a coal company will only receive subsidies for operating losses if it limits total recruitment in any quarter to less than 1% of the total number of its employees. This condition will be embodied in the agreements signed with subsidy recipients. After the limits on recruitment take effect, the net rate of departures from the coal industry will probably be in the range 15-20%, initially with a relatively small proportion of compulsory redundancies. The Government plans to monitor the employment situation in the coal industry closely so that it can adapt its strategy if and when natural attrition rates decline.

38. In support of the objective of establishing a viable, independent, market oriented coal industry, the Government wishes not to be a party to future agreements between coal companies and coal industry employees. In order for the Government to withdraw, the regulatory and legal basis of collective bargaining needs to be changed. By the end of 1996, the Government intends to develop proposals for changes to the collective bargaining process so that future wage agreements are negotiated between employees and employers (the coal companies) on the basis of the financial capacity of the company and of the labor legislation in force at the time.

D. MINE CLOSURES

39. A key element in Government's coal restructuring strategy is to close mines that have no prospect of becoming economically viable (para.15 above). Government's mine closure program started in 1993 and is gathering momentum. However, progress has been slow on completing the closures. Government is now planning to accelerate the permanent closure of mines that have stopped producing coal.

40. The Russian Federation has a legal framework that specifies the steps that a coal company must take before it will be authorized to close a mine. This framework includes the measures required in the areas of employees' rights and entitlements, health and safety and environmental protection. In February, 1996, the Inter-Agency Commission endorsed "The Basic Principles of Closing Non-Viable and Unprofitable Mines" in order to codify these procedures. The Commission now plans to expand and revise these guidelines to ensure that no mine will be closed and no employee made redundant unless there is an adequate social safety net in place and funded. The Government intends to use the proposed Bank-supported Coal Sector Restructuring Implementation Assistance Project to support this work.

41. One of the proposals under consideration is to modify the conditions under which the Inter-Agency Commission will approve requests for state support for a mine closure. In addition to the usual technical and financial proposals, requests for funding would include: (i) evidence that the mine has complied with the new policy on limiting recruitment; (ii) numbers of employees transferring to adjacent mines; (iii) numbers of employees (if any) to receive severance or early retirement packages - and arrangements for pre-redundancy counselling; (iv) funding arrangements to maintain a satisfactory level of social services in affected communities; and (v) satisfactory arrangements for public participation in the mine closure process.

42. Another proposal is to modify the purposes for which the Inter-Agency Commission will allow mine closure subsidies to be used. Under this proposal, state subsidies would be provided for the full cost of the least-cost way of closing the mine (i.e., rapid closure with no recovery of underground equipment or materials) plus the associated social and environmental costs. The Government would not provide subsidies for ongoing coal production at mines once the closure process has started.

E. SOCIAL SAFETY NET

43. The Government's first priority is to ensure that the existing social safety net is fully funded and operational. As noted above, the main elements of the existing social safety net for coal communities would be: (i) timely payment of wages and benefits by coal companies; (ii) adequate funding for maintenance and operating costs of housing, heating systems, kindergartens and health clinics; (iii) free coal to employees, former employees and their dependents for cooking and/or heating; (iv) full advance notice of mine closures (generally six months); (v) limits on recruitment and maximum use of transfers to minimize the need for compulsory redundancies when mines are closed; and (vi) statutory severance payments for workers who are made redundant.

44. Some of the funding for divested social assets in coal communities will be used to finance labor-intensive activities such as housing maintenance and repairs. While these activities will generate some transitional employment opportunities, they are unlikely to be sufficient to absorb rising unemployment in coal communities. In parallel, therefore, the Government plans to expand the social safety net in two areas related to employment. First, in the workplace, the Federal Employment Services will expand their coverage to ensure that pre-redundancy counseling is available to all coal industry employees threatened with redundancy. Second, for everyone in the communities affected by coal restructuring, the Government plans to introduce new transitional employment and longer term job creation programs.

45. The transitional employment and longer term job creation programs will be implemented through an expanded set of Community Support and Employment Programs, initially in five coal basins (Pechora, Moscow, Kuzbass, Eastern Donbass, and Kizel). Funding will be channeled directly from coal subsidies to the regional governments in these coal basins. The Government plans to use the proposed Bank-supported Coal Sector Restructuring Implementation Assistance Project (para.69) to accelerate the design and implementation of these pilot programs. Specifically these programs will develop:

(i) Emergency Social Assistance: canteens for the poor and disadvantaged; day care centers; special programs for the unemployed to get credit and training to set up small enterprises; job clubs; counselling for disabled and young people leaving school early.

(ii) Transitional Employment Programs: to provide interim employment for workers for whom alternative employment cannot be found and whose unemployment and other benefits have been exhausted, eg, in labor-intensive community projects such as rehabilitating housing, cleaning up the environment, and repairing public facilities.

(iii) Local Economic Development Programs: aimed at creating sustainable new jobs through the development of new enterprises and expanding existing ones, eg, via technical assistance to small and medium businesses; setting up business incubators; establishing revolving loan funds and, in certain situations, grant facilities; and restructuring of vocational schools to provide new training opportunities.

46. The Community Support and Development Programs will be designed and managed locally. In cases where employment prospects are poor, for example in Vorkuta, the local authorities may decide to use the funding to promote labor mobility rather than to create uneconomic jobs in the far north. The creation of appropriate agencies and committees at local level will take time. In the meantime, the Federal Employment Services (which has offices and staff in all five targeted coal basins) will participate in the startup of these Community Support and Employment Programs. The pilot program for Economically Devastated Areas, which is being developed under the World Bank Employment Services and Social Protection Project, will provide some guidance for the design of these programs. The administrative

capacity of local offices of the Federal Employment Services will be strengthened in coal regions. The capacity of local offices of the Ministry of Labor and the Ministry of Social Protection also needs to be strengthened to ensure that they can deliver the benefits and services available through the other components of the legal social safety net.

F. PUBLIC PARTICIPATION AND SOCIAL IMPACT MONITORING

47. The Government will take steps to promote local community participation in coal restructuring by: (i) providing miners, their families and communities with adequate and timely information about the content of the coal sector reform program, the reform implementation arrangements, their entitlements during restructuring and the mechanisms for legal recourse; and (ii) strengthening the capacity of local institutions, labor organizations, and non-governmental organizations so that miners, their families and communities can more effectively voice their concerns and promote actions on their behalf.

48. Social partnership mechanisms of various groups of residents in coal regions whose interests are directly affected by restructuring of coal industry will be developed by strengthening regional Inter-Agency Commissions set up in 1994-1995, and by setting up such commissions in coal regions where they have not yet been established.⁷ On the local level, oversight committees are to be formed with the local heads of administrations of mining communities as the head and consisting of representatives of various affected groups.⁸ The main objective of the oversight committees will be to determine the strategy for local development, coordination of the development and implementation of local development programs, and the social protection for laid-off workers and residents of mining communities. Oversight committees will determine the guidelines for the disbursement of funds allocated to finance local development programs.

49. The Government will also establish mechanisms at the local level to monitor and assess the impact of restructuring on coal miners, their families and their communities. The main objective of social impact monitoring is to ensure that the benefits for mine workers affected by restructuring and downsizing of the coal industry actually reach them. This means that all benefits that accrue to the coal sector employees under various legal provisions are fully respected; that workers are actually fully informed of their entitlements and are given notice, as per existing laws and regulations; that mechanisms and opportunities for recourse are available; and that the local, regional and federal institutions mandated to assisting the workers and their families and communities actually provide the appropriate services. In cases where the social impact monitoring system determines that intended benefits and services do not reach the miners, the Government will examine the constraints and identify the steps needed for their removal.

G. COMMERCIALIZATION AND DEMONOPOLIZATION

50. As noted above (para. 22), *Basic Trends* outlines Government's vision for a commercial and competitive coal industry, operating within a clear legislative and regulatory framework. As a first step towards implementing that vision, the President of the Russian Federation signed, on February 9, 1996,

⁷ In May-June 1996 the organization of regional Coal Commissions in the Rostov and Tula regions will be strengthened and improved. Special working groups will be set up under the authority of regional administrations to ensure trouble-free operation in terms of organizational and technical assistance. Regional Coal Commissions will be set up in all coal regions before January 1, 1997.

⁸ In May-June 1996, local oversight committees will be formed in five pilot mining towns of largest coal-mining regions. Over the longer term, local oversight committees will be established in about 30 mining communities.

Decree No. 168 on *Measures Regarding the Further Improvement of the Structure of the Coal Industry of the Russian Federation*. This decree: (i) transferred the responsibility for allocating coal subsidies from RosUgol to the Inter-Agency Commission; (ii) instructed the Government to convert RosUgol into a 100% federally-owned joint stock company; and (iii) empowered the State Property Committee (GKI) to delegate commercial management of the state's shareholding in the coal industry "in trust" to a number of trust managers.

51. The Government's approach to demonopolization is the following. *First*, the power of RosUgol will be substantially reduced as the Inter-Agency Commission takes over the allocation and distribution of subsidies. *Second*, RosUgol's power as the sole trustee for management of Government's shares in coal companies will be diluted over time as new trustees are appointed. *Third*, RosUgol's power as the monopoly supplier of technical assistance and marketing services to coal companies will be reduced over time — as has been the case in the petroleum sector — as the coal companies not controlled by RosUgol become free to shop around for these services. *Fourth*, the Ministry of Fuels & Power will be strengthened to take over RosUgol's de facto role in governmental and regulatory functions, such as health, safety, environment and licensing). *Fifth*, given this agenda, the Government sees no need to include any restrictions — such as a requirement to divest all commercial subsidiaries by a target date — in RosUgol's charter when it is incorporated as a 100% federally-owned joint stock company.

52. The Government is therefore focusing mainly on improving the transparency and financial accountability of subsidy allocation and utilization and on the selection and appointment of new trust managers. The Government intends to use the proposed Bank-supported Coal Sector Restructuring Implementation Assistance Project to accelerate both these activities. The Government's immediate priority is to strengthen the Inter-Agency Commission to take over the allocation of coal subsidies, starting July 1996. In parallel, by the end of the year, the Government plans to ensure that new trust managers control about 25% of the state's shareholding in the coal industry. This is defined as coal companies that produced in aggregate not less than 65 million tons of coal in 1995.

53. The Government will set up a program to appoint new trust managers via a competitive bidding process open to investment funds, banks and other non-coal institutions. In order to reach the 25% target for new trust managers by the end of the year, the following steps will be completed over the period June to October, 1996. First, the Government will approve rules governing the trust management of state shares in coal companies, including those covering appointment of new trust managers and their obligations to the federal authorities. Second, the Government will select a number of companies, generally of the "holding" company structure, and transfer to the charter capital of these companies the state shares in subsidiary or related companies. Third, the Government will issue to potential bidders for trust management contracts for the selected companies all of the information required by them for the preparation of their bids. From about October onwards, the Government will start appointing new trust managers.

V. THE PROPOSED BANK LOAN

A. BANK INVOLVEMENT TO DATE

54. The Bank's involvement in the coal sector began in 1992 with the First Rehabilitation Loan when the Government requested that US\$50 million be used to finance critical imports for the coal industry. The Government also asked the Bank to provide advice on coal sector restructuring. The results of this sector work were published in *Russian Federation - Restructuring the Coal Industry: Putting People First* (Bank Report 13187-RU, December 1994).

B. RATIONALE FOR FURTHER BANK INVOLVEMENT

55. In response to the Government's request, the Bank has extended its collaborative work through the preparation of a Coal SECAL to support the program. The rationale for the Bank moving forward actively at this time is based on the major up-front actions taken over the past two years and the key policy commitments in the EFF (see paras. 5 and 7) and reaffirmed in the First Deputy Prime Minister's letter of February 21, 1996. The proposed SECAL will help the Government put in place a consistent policy and institutional framework for the continuous and socially sustainable restructuring of the sector and provide assistance in implementing the initial steps of the overall restructuring program of the coal sector. The SECAL will support:

- a program for the progressive reduction and eventual elimination of subsidies through (1) the elimination of subsidies for operating losses and investment, (2) the redirection of remaining subsidies towards restructuring and related social programs, and (3) the establishment of a transparent mechanism for the allocation and effective monitoring of subsidies;
- special Community Support and Employment Programs in areas where coal-related unemployment is expected to be high;
- the development and initial implementation of measures intended to commercialize and de-monopolize the coal sector.

C. WORLD BANK GROUP AND IMF SUPPORT

56. The proposed SECAL is fully consistent with the CAS described above (paras. 4 and 5) and has been developed in close collaboration with the Government. It is buttressed at the macro level by the IMF's EFF agreement noted above (paras. 5 and 7), which includes structural measures on coal reform consistent with the program supported by the proposed SECAL. The principal objectives of the Program to be supported by the proposed SECAL are to: (i) reduce the impact of the coal sector on the federal budget by supporting the decrease, and eventual elimination, of subsidies; (ii) promote the long term sustainability of the coal sector through establishment of a competitive, commercial industry; (iii) support a restructuring program to reduce the size of the industry to increase efficiency; and (iv) cushion the impact of the restructuring on coal miners, their families and affected communities. This program will be supported by a companion Coal Sector Restructuring Implementation Assistance Project (IAP), as described below (paras. 69-72). The Bank is prepared to consider future operations to support coal industry restructuring so as to remain engaged in the implementation of reforms as agreed under the current proposed Coal SECAL.

D. LOAN FEATURES

57. The proposed SECAL will be quick-disbursing and will provide balance of payments and budget support, linked to the conditionality specified for tranche release. The proposed SECAL of US\$500 million equivalent would be made to the Russian Federation as represented by the Ministry of Finance. Disbursements will be made into a Ministry of Finance Deposit Account in the Central Bank of the Russian Federation (CBR) specially set up for this purpose. The CBR will withdraw the foreign exchange as and when needed to meet market demand from both the public and private sectors and will reimburse the MOF at that time with the equivalent local currency at the market exchange rate. The exchange rate to be applied will be determined by the inter-bank foreign currency auction market.

58. The SECAL will be released in two tranches of equal size: the first on effectiveness (expected in July 1996) and the second on fulfillment of the specific tranche release conditions outlined below. The second tranche is expected to be released in the fourth quarter of 1996, pending the outcome of a Review of third quarter 1996 performance, scheduled for October 1996. Disbursements of the Loan will not be linked to any specific purchases, but will be subject to a standard negative list of ineligible goods and countries of origin. Government has indicated that the counterpart funds will be used to provide support for the coal sector reform program. Upon notification by the Bank of tranche release for each tranche, proceeds of the loan will be deposited by the Bank into the MOF Deposit Account at the Government's request. If after deposit in this account, the proceeds are used for ineligible purposes (i.e., to finance items imported from non-member countries, or goods or services in the standard negative list), the Bank will require the Government to either (a) return that amount to the account for use for eligible purposes, or (b) refund the amount directly to the Bank, in which case the Bank will cancel an equivalent undisbursed amount of the loan.

59. This tranche structure will provide urgently needed budget support for 1996. Disbursement of the second tranche will depend in part on continued progress towards macro-economic stability.

60. **Conditions of Board Presentation.** The objectives announced in *Basic Trends for Coal Restructuring* have now been largely translated into specific targets, mechanisms and dates. A number of key actions have been completed prior to Board presentation. These are:

- i. a schedule of state support to the coal industry for the second half of 1996 has been approved and made public with details by expenditure category and recipient together with the corresponding implementation schedule for mine closures in the second half of 1996. In the second half of 1996 the Borrower will transfer:
 - a. not less than Rb1.6 trillion to regional governments to finance expenditures on the development, replacement, rehabilitation, maintenance and operation of social assets divested from the coal sector to local governments;
 - b. not less than Rb200 billion in total to Kemerovo Oblast, the Komi Republic, Rostov Oblast, Perm Oblast, and Tula Oblast to finance pilot Community Support and Employment Programs for coal communities within these regions; and
 - c. not less than Rb300 billion to coal companies to finance expenditures on social protection by coal companies for mine workers, former mine workers and their dependents, viz. severance payments, free coal (or cash payments in lieu of free coal), and pre-redundancy services to workers at mines whose closure has been announced.
- ii. the Inter-Agency Commission has confirmed that, with effect from July 1, 1996, state support funds for investment will be available on a non-repayable basis only for projects where construction began before January 1, 1996. For all other investment projects in the coal industry, state support will be available on a repayable basis only (at positive real interest rates, as specified in the Policy Letter);
- iii. the Inter-Agency Commission has confirmed that, with effect from July 1, 1996, state support for operating losses will be available only to coal companies that have reduced the number of vacancies so as to limit total recruitment in any quarter to less than 1% of the total number of employees;

iv. the Government has instructed the Federal Employment Service to establish, by the end of September 1996, the capability to deliver pre-redundancy services including advance notice and counselling to all workers in the coal industry threatened with redundancy;

v. the Inter-Agency Commission has approved and made public a Demonopolization Program to conclude, by December 31, 1996, the appointment of new Trust Managers. These measures will include the issuance, by October 31, 1996, to potential bidders for trust management contracts all of the information required by them for the preparation of bids. The companies for which new Trust Managers will be appointed by December 31, 1996 will be selected so that their aggregate production of coal in 1995 was not less than 65 million tons, i.e., approximately 25% of the Russian coal industry.

vi. the Coal Commission has approved and made public the indicators and arrangements for social impact monitoring, financial monitoring, and auditing of a set of subsidy recipients.

a. Social Impact Indicators include:

- access to severance compensation specified in the Employment Law
- availability and accessibility of training, re-training, job placement and job counselling services
- access to adequate level of social services in the course of sector restructuring
- access to heating, housing maintenance and utilities
- access to and availability of information on social safety measures prior to departures from the sector (whether voluntary or not)
- provision of pre-redundancy counselling at mines announced for closure, and
- adequacy of participation / representation in relevant decisions.

b. Financial Impact Indicators include agreed data on:

- Subsidies
- Output and employment
- Revenues and Expenditures
- Receivables and Payables, and
- Capital expenditure.

c. Special Purpose Audits will be carried out in accordance with International Auditing Standards and will determine whether or not:

- financial reports and related supporting schedules prepared by the entities being audited give a true and fair view of the financial situation of resources and expenditures related to state financing;
- financial information is presented in accordance with established or stated criteria by the Government and by RosUgol;
- the use of state financing for each subcategory of subsidies has complied with the relevant laws, regulations, policies and contractual agreements; and

· the audited entities' internal control systems used in administering state financing are adequate.

61. **Conditions of Second Tranche Release.** Disbursement of the second tranche (US\$250 million equivalent), anticipated before the end of 1996, would be contingent on a review, satisfactory to the Bank, of: (i) macro-economic performance; (ii) successful implementation of the coal reform program; and (iii) fulfilment of the specific second tranche release conditions listed below:

i. During the second half of calendar 1996, the Borrower's actual transfers from the allocation for state support to the coal sector in the Borrower's 1996 budget (a) to regional governments for the development, replacement, rehabilitation, maintenance and operation of social assets divested from the coal sector to local authorities, and (b) to coal companies and local authorities for social protection, including Community Support and Employment Programs, are or were being made in accordance with the schedule, agreed upon by the Borrower and the Bank (see para. 60 (i)).

ii. The Borrower has demonstrated to the satisfaction of the Bank that, during the calendar quarter immediately preceding the Second Tranche Release Review, no state support for operating losses was made available to coal mines which have recruited employees in excess of 1% of their respective total number of employees during such period.

iii. State support to the coal industry for 1997 incorporates and is consistent with the parameters agreed upon by the Borrower and the Bank. State support will be assessed on the basis of the most recent approvals available at the time of the Second Tranche Release Review. Depending on whether the particular review takes place in late 1996 or early 1997, the available approvals may include some or all of the following: (a) the Borrower's proposal for state support to the coal industry for 1997; (b) the actual approved budget for 1997; (c) the allocation of State Support to the Coal Industry for 1997 approved by the Inter-Agency Commission; and (d) the actual quarterly transfers during 1997. The Government will present the information on subsidy allocations (in the budget and/or in decisions by the Inter-Agency Commission) in sufficient detail for the Bank to determine whether the Government has met its commitments on coal subsidy allocations for 1997. The parameters agreed by the Borrower and the Bank are as follows:

a. the Budget category State Support for the Coal Industry will exclude financing for transferred social assets and such financing will be included in the overall federal budget category for financing of social assets transferred to local authorities throughout Russia;

b. not less than one-third of State Support for the Coal Industry will be allocated to:

- physical costs of mine closure,
- qualifying expenditures on social protection by coal companies,
- Community Support and Employment Programs for coal communities financed through regional and/or local authorities, and
- disability compensation for disabled workers at closed mines;

c. State Support for the Coal Industry excluding the items specified in (b.) above and excluding loans to mining companies at positive real interest rates for production development investment will decline by at least 40% in real terms in 1997 relative to 1996;

d. Qualifying items for state support for the physical costs of mine closure will be works required to close mine shafts and workings, to make safe all mine workings, to demolish surface buildings and structures, to mitigate the environmental impact of mine closure, and to rehabilitate the environmental damage caused by past mining activities.

e. Qualifying expenditures on social protection by coal companies will be as defined above (para 60.(i).(c)).

f. Qualifying expenditures on disability compensation for disabled workers at closed mines will be lump sum payments to the workers themselves, to social insurance funds, or to similar agencies either in lieu of or to replace wage income and other regular benefits for workers at closed mines who are partially disabled as a result of accidental injury or occupational disease resulting from employment in the coal industry.

iv. The Borrower has initiated the operation of the regional offices of the Federal Employment Services, in all regions where mines are being closed, with adequate capacity to deliver pre-redundancy services free of charge to employees prior to cessation of coal production for all coal industry employees of mines whose closure has been announced.

v. The Borrower has established the necessary institutional framework, which includes the participation of the Federal Employment Services, and has initiated the activities of the Community Support and Employment Programs, agreed upon by the Borrower and the Bank, in the Kuzbass, Eastern Donbass, Pechora, Moscow region and Kizel coal basins.

vi. The Borrower has taken all actions required to be taken in accordance with the Demonopolization Program, agreed upon by the Borrower and the Bank (see para. 60.(v.)).

vii. The Borrower has demonstrated, on the basis of social impact and monitoring reports for the calendar quarter preceding the Second Tranche Release Review, overall compliance with social impact indicators, agreed upon by the Borrower and the Bank (see para. 60.(vi).(a.)), and has made public such reports.

viii. The Borrower has prepared and furnished to the Bank a financial impact monitoring report on the financial performance of the regional coal companies in such scope and detail as agreed by the Borrower and the Bank (see para. 60.(vi).(b.)).

ix. The Borrower has submitted to the Bank audits on five coal companies, which are main (largest) recipients of state support, in such scope and detail as has been agreed upon by the Borrower and the Bank (see para. 60.(vi).(c.)).

E. MONITORING ARRANGEMENTS

62. ***Social Impact Monitoring.*** The Bank has been assured by Government that comprehensive efforts are envisioned to monitor the social impact of coal sector restructuring (see paras. 60.(vi).(a.) and 61.(vii.)).

63. ***Financial Monitoring.*** Difficulties in obtaining prompt and relevant information on the distribution and use of subsidies to the coal industry have been a major barrier to reforming the subsidy system over the past 2-3 years. Government is acutely aware of this problem and through the Inter-Agency Commission has emphasized that, in future, subsidies must be allocated in a manner that

addresses issues of transparency and accountability. Rosugol has undertaken to provide all relevant information (para. 60.(i.)) to the Inter-Agency Commission and the Bank.

64. **Special Purpose Audits.** Principal recipients of state support identified as receiving substantial budget subsidies have been identified as candidates for special purpose audits (para. 61.(ix.)) to monitor the use of public funds. For purposes of the Second Tranche Release Review, planned for the fourth quarter of 1996, the audits will be based on performance in the first half of 1996.

F. POVERTY CATEGORY

65. The proposed SECAL supports government policies that aim to make coal sector restructuring socially sustainable. This will be accomplished in part by strengthening the existing social safety net to meet the needs of those most affected by restructuring: redundant coal sector workers and their families and communities. The social reforms that underpin the proposed SECAL are an integral part of the Government's program for coal sector restructuring, which includes both support for the maintenance and operation of essential social assets divested by the coal industry and community support and employment programs designed to address the particular needs of towns and settlements which are unusually dependent on the coal industry. The SECAL will be in the category "Program of targeted interventions".

G. ENVIRONMENT

66. **Environmental Assessment.** Environmental issues are potentially important in mine closures. The Bank undertook an extensive review of the environmental problems of the coal industry in preparing the 1994 sector report. This review concluded that the most serious environmental problems in mining areas were linked to the burning of coal rather than to mining activities *per se*. Apart from a small number of localized issues, the main weaknesses in the environmental performance of mining were the consequence of poor incentives and bad management that sustained inefficient mining practices encouraged by a focus on meeting output targets. Thus, reform of incentives and operating procedures combined with the closure of the most inefficient mines, which tend to cause disproportionate environmental damage, will reduce the environmental damage caused by the industry.

67. Specific measures will be required to ensure that mine closures occur in an orderly manner that takes account of the need to cap operating or disused shafts, to minimize risks associated with the accumulation of gas in old mine workings, and to deal with any problems following the flooding of old workings. Design institutes and other organizations have experience in preparing plans and implementing the appropriate measures, though there is a tendency to opt for over-elaborate schemes which concentrate too much on the recovery of equipment that cannot be economically justified.

68. **Environmental Rating.** The proposed SECAL is not expected to result in any significant negative environmental impact. The proposed SECAL has been rated "Category B" for Environmental Assessment. Moreover, under the proposed companion IAP, technical assistance will be provided for managing the environmental rehabilitation of lands disturbed by past mining operations. The IAP will also provide assistance to the federal and regional authorities responsible for developing, reviewing, and monitoring the implementation of mine closure plans. The Appraisal mission reviewed these issues as part of the discussions on the draft Mine Closure Guidelines.

H. PROPOSED COAL SECTOR RESTRUCTURING IMPLEMENTATION ASSISTANCE PROJECT

69. To meet the challenge of translating its reform agenda into effective actions, the Government has requested that the Bank finance a Coal Sector Restructuring Implementation Assistance Project (IAP) to

support the implementation of: (i) special approaches to respond specifically to the needs of local communities affected by coal restructuring; and (ii) Government's program for coal sector restructuring generally.

70. There is a need for: (i) improvements in management of the restructuring process through increased participation of stakeholders as well as enhancement in transparency and openness; and (ii) filling critical skill gaps and capacity building in a number of key areas which are essential to design the details and implement the restructuring program effectively. The proposed IAP has been designed to address the above concerns through the provision of necessary implementation assistance identified by the key stakeholders. In this connection, the Bank has been instrumental in the mobilization of financing from the international community to help prepare the program, including the United States Agency for International Development (USAID), the UK Know-How Fund and the Policy and Human Resource Development (PHRD) Japan Grant Facility (JGF).

71. ***Sustainability of Coal Sector Restructuring.*** The IAP would build upon ongoing efforts which provide support for the implementation of the coal sector restructuring program and assistance to the affected people and organizations. Based on the results of consultation with key stakeholders, including social assessment in two coal basins (Pechora and the Kuzbass) affected by the mine closures, the project would comprise the following main components:

(a) *support for stakeholders participatory activities*, including support for: (i) the Government's efforts to improve industrial relations and social partnership in the coal sector; (ii) the IAC (both federal and regional commissions); (iii) trade unions; (iv) local governments and the Association of Mining Cities; (v) independent coal enterprises and their association; and (vi) public relations to enhance trust and to create reform constituencies;

(b) *social programs*, including: (i) continuous social assessment and social impact monitoring in coal mining regions; (ii) provision of consultant services, training and computer equipment for the design of improvements in social protection of coal industry employees, management of social asset operation and maintenance as well as design of community support and employment programs in Kuzbass, Eastern Donbass, Pechora, Moscow and Kizel coal basins; and (iii) implementation of pilot activities of community support and employment programs in the above five coal basins;

(c) *strengthening subsidy management* to enhance transparency and financial accountability through provision of consultant services and computer equipment for improvements in: (i) allocation; (ii) reporting; (iii) monitoring; and (iv) arrangements for independent audits of recipients of state support in accordance with international auditing standards;

(d) *technical assistance and training for commercialization and demonopolization of coal companies*, including provision of consultant services for: (i) the preparation of business plans of coal companies; (ii) development of a framework for trust management of mining companies, including preparation of a model agreement; (iii) the bidding process to select the trust managers; (iv) development of measures aimed at attracting investments in the coal sector; and (v) management and financial training;

(e) *technical assistance for environmental management* through provision of consultant services to strengthen the capacity needed for environmental management, including legal and financial aspects, to remediate the adverse impacts of coal mines included in the restructuring program;

(f) *technical assistance for mine closure guidelines*, including provision of consultant services for the legal, organizational and informational support for the development of procedures for closure of unprofitable mines; and

(g) *Support to REFORMUGOL*, including provision of consultant services and computer and office equipment to strengthen the capacity of REFORMUGOL (see para. 72).

72. A Project Preparation Unit (PPU) was established in the Ministry of Economy in October 1995 to prepare the proposed Coal SECAL and, subsequent to its identification in March 1996, the IAP. The Project Implementation Unit (PIU) will build upon the current PPU in terms of staffing and lessons learned. The PIU, to be entitled "The Foundation For Promotion Of Restructuring The Coal Industry" (REFORMUGOL) would be established in the form of a non-commercial foundation. The founders would include the State Property Committee (GKI), Federal Center for Project Finance, and Association of Mining Cities. The Presidium of the IAC would be the Trustee Council overseeing REFORMUGOL. Staffing of the PIU is expected to be built up gradually, first with the appointment of the Director General, Director for subsidy management and a deputy director to coordinate activities under the proposed Project. In addition, other key managers are expected to be appointed shortly, including two directors to cover: (a) institutional support for the IAC; and (b) social monitoring and information on restructuring, respectively. In general, technical assistance and training activities will be carried out by a partnership of foreign and local consultants, with a view to building up the capacity of local consultants over time. Pilot activities for community support and employment programs would include contracting with community based organizations (CBOs) and non-governmental organizations (NGOs) as implementing agencies, based on an operating procedure acceptable to the Bank. The Project would be implemented over a three-year period. With a view to minimizing implementation delays, a procurement consultant is being mobilized by the PIU to assist in key procurement activities under the Project.

VI. BENEFITS AND RISKS

73. **Benefits.** The proposed Coal SECAL would support the effective implementation of a far-reaching restructuring program in one of the most critical sectors of the Russian economy. The program will promote an increasingly profitable and competitive coal sector through judicious closure of unprofitable mines, demonopolization and commercialization of regional coal companies, and further improvements in operational efficiency over time. This would, in turn, decrease and eventually eliminate subsidies and the related impact of the coal sector on the federal budget. In addition to economic benefits, the restructuring program would promote sustainability of the coal industry through a participatory approach by key stakeholders and capacity building in key areas, including improved measures to mitigate social and environmental impacts in the affected areas.

74. **Risks.** This is a highly risky operation. The major risks involve the ability of the Government to deliver on policy reforms, stemming in part from political uncertainties and difficulties in maintaining a sustainable program of stabilization and structural reform. Even without the political uncertainties, reaching a consensus on the needed reforms and implementing them will be difficult since the reduction and redirection of subsidies, the closing of mines and the de-monopolization of the sector threaten major vested interests and face strong resistance. Moreover, the Government's institutional capacity to implement the complex social and structural reforms proposed is undemonstrated.

75. As a two-tranche, quick-disbursing operation, the proposed Coal SECAL by itself cannot provide sustained Bank support for the Government's coal restructuring initiatives over the medium term. The risk that the restructuring momentum will not be sustained is addressed through assistance provided under the proposed Coal Sector Restructuring Implementation Assistance Project, which is longer in duration

and will serve as a vehicle: (i) to assure Government that the Bank intends to remain engaged in the sector beyond the life of the proposed SECAL; and (ii) to help strengthen the institutional capacity of the Government to implement the reforms. Progress on coal sector restructuring over the last 2-3 years, together with the commitments in the Government's Policy Letter, provide a reasonable assurance that the reforms will continue if implementation problems can be addressed.

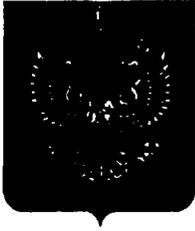
VII. RECOMMENDATION

76. *Recommendation.* I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and I recommend that the Executive Directors approve it.

James D. Wolfensohn
President

Attachments

Washington, D.C.
June 5, 1996



ПРЕДСЕДАТЕЛЬ *Annex 1*
ПРАВИТЕЛЬСТВА РОССИЙСКОЙ ФЕДЕРАЦИИ

г. МОСКВА

"22 " мая 1996 г.
1748п-П2

Уважаемый господин Вулфенсон,

В соответствии с договоренностями настоящим направляю Вам письмо с изложением политики Правительства Российской Федерации в угольной промышленности.

С уважением,

В.Черномырдин

Президенту Международного
банка реконструкции и развития
г-ну Джеймсу Вулфенсону
г. Вашингтон, округ Колумбия
США

О политике Правительства Российской Федерации
в угольной промышленности

1. Правительство Российской Федерации подготовило и приступило к осуществлению комплекса мер, направленных на преобразование производственной и организационной структур угольной отрасли для повышения ее эффективности и на решение социально-экономических проблем угледобывающих регионов. В рамках этих мер предусмотрена переориентация выделяемых бюджетных средств с финансирования угледобычи на финансирование мер по реструктуризации угольной отрасли, в том числе на ликвидацию убыточных и неперспективных шахт и разрезов, социальную защиту высвобождаемых работников и обеспечение рентабельности угледобычи на основе перспективных и стабильно работающих угледобывающих предприятий. Намечено внедрение нового механизма распределения средств государственной поддержки, обеспечивающего большую гласность и открытость и усиление контроля со стороны Правительства. Меры по совершенствованию организационной структуры угольной промышленности предусматривают децентрализацию управления и создание конкурентной среды в угольной отрасли.

Фактически реструктуризация угольной промышленности началась в 1993 году. Размеры государственной поддержки угольной отрасли были существенно сокращены - с 1,04% валового внутреннего продукта (ВВП) в 1993 году до 0,45% ВВП в 1995 году. Доля средств федерального бюджета в общем объеме финансирования угольной промышленности уменьшилась с 77% в 1993 году до 31% в 1995 году. Прекращена добыча угля на 37 убыточных шахтах. Численность занятых на производстве в угольной промышленности сократилась с 626 тысяч человек в 1993 году до 529 тысяч человек в 1995 году. Около 73% объектов социальной сферы в шахтерских городах и поселках переданы с баланса угледобывающих предприятий в ведение местных органов власти. Годовой объем добычи угля снизился с 305,5 млн. тонн в 1993 году до 270 млн. тонн в 1994 году и до 263,3 млн. тонн в 1995 году.

В отличие от программ реструктуризации угольной промышленности в других странах, где сокращение производственных мощностей достигало 80-90%, угольная промышленность России после ее реструктуризации останется одной из крупнейших в мире, а ее продукция станет конкурентоспособной как на внутреннем, так и на внешнем рынках.

2. Стратегия реструктуризации угольной промышленности

2.1. Долгосрочная стратегия

В 1993 году была создана Межведомственная комиссия по социально-экономическим проблемам угледобывающих регионов (далее — Межведомственная комиссия), состав которой утвержден постановлением Правительства Российской Федерации. Председателем комиссии является Первый заместитель Председателя Правительства Российской Федерации. В состав Межведомственной комиссии входят руководители министерств и ведомств, непосредственно участвующих в реструктуризации угольной промышленности, главы администраций основных угледобывающих регионов, руководители угольных профсоюзов и руководители предприятий угольной промышленности.

14 июля 1995 г. Председателем Межведомственной комиссии утверждены "Основные направления реструктуризации угольной промышленности", в которых отражены основные элементы долгосрочной стратегии Правительства:

(а) Выделение бюджетных средств на возмещение убытков производства

Постепенное сокращение объемов государственной поддержки угольной промышленности является существенной частью программы макроэкономической стабилизации народного хозяйства России и стратегии создания рентабельной угольной отрасли, действующей в рыночных условиях. Правительство сокращает выделение бюджетных средств на избирательную поддержку шахт, которые не в состоянии покрывать свои производственные расходы за счет свободного ценообразования на угольную продукцию.

(б) Инвестиции

Модернизация, реконструкция и расширение производства будут осуществляться за счет собственных средств угольных компаний, займов, а также частных отечественных и иностранных капиталовложений. Выделяемые на эти цели средства государственной поддержки будут способствовать развертыванию инвестиционной деятельности.

Page 5 of 34 (в) **Ликвидация убыточных и неперспективных угледобывающих предприятий, передача непрофильных предприятий**

Будет ликвидировано не менее 90 убыточных шахт и разрезов суммарной мощностью 60 миллионов тонн в год с общей численностью занятых 83 тысячи человек. По мере вывода из состава угольной отрасли непрофильных производств произойдет дальнейшее уменьшение численности занятых на 175 тысяч человек.

(г) **Меры в социальной сфере**

Смягчение негативных социальных последствий реструктуризации будет обеспечено с помощью ряда мер по поддержке занятости, осуществляемых одновременно с программами создания новых недотируемых рабочих мест, выплатами пособий и компенсаций работникам, высвобождаемым в связи с реструктуризацией угольной промышленности, членам их семей, пенсионерам, ранее работавшим в угольной промышленности, инвалидам и членам семей умерших шахтеров. Кроме того, будет завершена передача объектов социальной сферы в ведение местных органов власти. В дальнейшем будет проведена реформа системы управления социальной инфраструктурой и реформа отношений собственности.

(д) **Защита окружающей среды**

Правительство считает своей задачей смягчение всех форм неблагоприятного воздействия ликвидации шахт на окружающую среду. Технические планы мероприятий по ликвидации шахт и контролю за выполнением требований, содержащихся в природоохранных разделах утвержденных планов, разрабатываются с участием компетентных природоохранных ведомств. Намечено провести исследование приоритетов и вариантов решения экологических проблем, порожденных в прошлом угледобывающим производством, и разработать рекомендации по созданию организационной и финансовой схем, а также нормативной базы для рекультивации земель, испорченных угледобывающим производством.

(е) **Преобразование системы управления, коммерциализация и демонополизация**

Правительство принимает меры, направленные на децентрализацию управления и формирование условий для создания рентабельных угольных компаний и конкурентной среды в угледобывающей отрасли. Доля федеральной

собственности в угольной промышленности снизится в результате приватизации, после чего угольная отрасль будет состоять в основном из нескольких независимых, самофинансируемых, конкурирующих между собой угольных компаний. Государственное предприятие "Росуголь" будет преобразовано в акционерное общество, цели которого будут соответствовать целям реструктуризации угольной промышленности.

2.2. Среднесрочные цели

В соответствии с "Основными направлениями реструктуризации угольной промышленности" Правительство определило и приступило к реализации комплекса среднесрочных мероприятий.

9 февраля 1996 г. Президент Российской Федерации подписал Указ № 168 "О мерах по дальнейшему совершенствованию структуры угольной промышленности Российской Федерации", который дает полномочия Правительству по усилению региональных угольных компаний и передаче государственных пакетов акций угольных компаний в доверительное управление различным агентам, а также по преобразованию государственного предприятия "Росуголь" в акционерное общество с закреплением 100% его акций в федеральной собственности сроком на три года.

В феврале 1996 года Межведомственной комиссией были рассмотрены и утверждены программы социально-экономического развития ряда угледобывающих регионов России (Печорского угольного бассейна, Подмосковского угольного бассейна, Кузбасса) и одобрен проект программы по Восточному Донбассу, а также представлены рекомендации по завершению в 1996 году подготовки аналогичных программ для других угледобывающих регионов страны.

2.3. Краткосрочные меры

Впервые в практике государственной поддержки угольной промышленности на заседании Межведомственной комиссии принят план-график распределения средств государственной поддержки, выделяемых отрасли в первом полугодии 1996 года, с разбивкой по получателям и направлениям целевого использования. Аналогичный план-график на второе полугодие рассмотрен Межведомственной комиссией 20 мая 1996 года.

На заседании Межведомственной комиссии 26 февраля 1996 года одобрено и постановлением Правительства № 598 от 17 мая 1996 г. утверждено

Положение о государственном финансировании мероприятий по реструктуризации угольной промышленности”, определяющее порядок распределения средств государственной поддержки по получателям и направлениям целевого использования.

Указанные решения являются важными шагами на пути к обеспечению гласности и открытости в распределении и использовании средств государственной поддержки угольной промышленности и усилению общественного и правительственного контроля за расходованием указанных средств.

3. Объем, структура и механизмы государственной поддержки угольной промышленности

3.1. Объем государственной поддержки

Федеральный бюджет на 1996 год включает в себя средства государственной поддержки угольной промышленности общим объемом 7,4 триллиона рублей. Впоследствии Правительство приняло решение об увеличении этих расходов на 3,0 триллиона рублей, что довело общий объем расходов на государственную поддержку угольной промышленности до 10,4 триллиона рублей. Во избежание инфляционных последствий такого ранее не планировавшегося увеличения предполагается финансировать дополнительные расходы за счет внешних займов. При этом общая сумма расходов в 10,4 триллиона рублей будет означать сокращение объема государственной поддержки на 9% в реальном исчислении по сравнению с 1995 годом.

В 1996 году применяются следующие категории расходования средств государственной поддержки угольной промышленности:

А. Государственная поддержка реструктуризации угольной промышленности;

Б. Временная государственная поддержка угледобывающего производства;

В. Поддержка объектов социальной сферы, переданных с баланса угольных предприятий в ведение местных органов власти.

Детализированное описание указанных категорий субсидий приводится ниже.

Page 8 of 34 В 1997 г. категории расходования средств государственной поддержки угольной промышленности останутся теми же, что и в 1996 г., исключая, однако, категорию государственной поддержки переданных объектов социальной сферы (любая поддержка такого рода подлежит финансированию через общие трансферты субъектам Российской Федерации).

3.2. Распределение средств государственной поддержки угольной промышленности.

В рамках общей суммы средств государственной поддержки, выделяемых в 1996 году, намечено видоизменить ее структуру с тем, чтобы увеличить долю статей расходов, предназначенных для структурной перестройки угольной отрасли и для содержания и развития объектов социальной сферы в угледобывающих регионах.

В соответствии с классификацией, принятой в “Положении о государственном финансировании мероприятий по реструктуризации угольной промышленности”, в состав расширенной категории (А) “Государственная поддержка реструктуризации угольной промышленности” входят:

- (1) технические работы по ликвидации убыточных и неперспективных угольных шахт и разрезов;
- (2) расходы на социальную защиту высвобождаемых работников и членов их семей, а также пенсионеров и инвалидов, ранее работавших в угольной промышленности (в эту подкатегорию входят Программы местного развития и обеспечения занятости — см. Раздел 4.1);
- (3) пособия по инвалидности и профессиональным заболеваниям работникам ликвидированных шахт;
- (4) работы по сносу ветхого и строительству нового жилья в шахтерских городах и поселках;
- (5) капиталовложения в техническое перевооружение и реконструкцию действующих шахт и разрезов с целью обеспечения их рентабельности;
- (6) капиталовложения в строительство новых рентабельных угольных шахт и разрезов;
- (7) научно-техническое и проектное обеспечение;

Page 9 of 34 (8) отчисления в централизованный резервный фонд для покрытия расходов, связанных с несчастными случаями, катастрофами и прочими подобными событиями.

В состав расширенной категории (Б) “Временная государственная поддержка угледобывающего производства” входят:

(9) избирательная поддержка угледобывающих предприятий, не способных возместить свои производственные расходы за счет доходов от свободных рыночных цен на угольную продукцию (субсидии на покрытие производственных убытков);

(10) расходы предприятий и организаций угольной промышленности и шахтного строительства по реализации отраслевых тарифных соглашений;

(11) содержание находящихся на балансе предприятий и организаций угольной промышленности объектов социальной сферы, не переданных в ведение местных органов власти.

В дополнение к этому, на вторую половину 1996 года будет введена новая категория (В) “Поддержка объектов социальной сферы, переданных с баланса угольных предприятий в ведение местных органов власти”, включающая выплаты местным администрациям на цели финансирования содержания и развития объектов социальной сферы, переданных в ведение местных органов власти.

20 мая 1996 года Межведомственная комиссия одобрила график распределения средств государственной поддержки угольной отрасли на второе полугодие 1996 года.

График распределения средств государственной поддержки угольной промышленности на второе полугодие 1996 года предусматривает выделение: (а) не менее 1,6 триллиона рублей субъектам Федерации для финансирования их расходов на развитие, замену в случае выбытия, ремонт, содержание и эксплуатацию объектов социальной сферы, переданных предприятиями угольной отрасли в ведение местных органов власти; (б) суммарно не менее 200 миллиардов рублей Кемеровской области, Республике Коми, Ростовской области, Пермской области и Тульской области для финансирования их расходов на пилотные Программы местного развития и обеспечения занятости для шахтерских районов, расположенных на территории указанных субъектов Федерации; (в) не менее 300 миллиардов рублей угольным компаниям для

При распределении бюджетных средств государственной поддержки угольной промышленности (исключая финансирование переданных в ведение местных органов власти объектов социальной сферы) в 1997 году будут учтены следующие положения: (а) не менее одной трети от общего объема средств государственной поддержки угольной промышленности будет направлено на технические работы по ликвидации шахт и разрезов, социальную защиту, включая Программы местного развития и обеспечения занятости, и пособия по инвалидности нетрудоспособным работникам ликвидированных в настоящее время шахт; (б) общий объем средств государственной поддержки угольной промышленности, исключая статьи, перечисленные выше в пункте (а), а также исключая средства, предоставляемые угольным компаниям на возвратной основе под положительную реальную ставку ссудного процента на капитальные вложения для развития производства, снизятся в 1997 г. не менее чем на 40% в реальном исчислении по сравнению с 1996 годом.

В проекте Федерального бюджета на 1997 год будут предусмотрены в достаточном объеме трансферты субъектам Российской Федерации для поддержки объектов социальной сферы, переданных в ведение местных органов власти, с учетом темпа передачи указанных объектов, увеличения доли расходов, покрываемых местными органами власти и получателями средств, а также необходимости единообразного подхода ко всем переданным объектам социальной сферы.

3.3. Механизм государственной поддержки

При рассмотрении распределения средств государственной поддержки угольной промышленности, Межведомственная комиссия определит список головных получателей этих средств, в который, помимо РАО "Росуголь" и открытого акционерного общества "Ростоппром", будут включены независимые угольные компании (по мере их формирования), администрации субъектов Федерации и местные администрации угледобывающих регионов (в части, касающейся финансирования социальной поддержки населения). После рассмотрения и утверждения плана-графика распределения средств государственной поддержки по получателям (с выделением направлений использования) будут заключаться соглашения о целевом использовании бюджетных средств, а также об иных условиях, которым должны отвечать получатели субсидий, между Министерством топлива и энергетики Российской

Федерации и головными получателями средств государственной поддержки; а также между головными получателями и конечными получателями средств государственной поддержки (юридическими лицами, отвечающими за мероприятия по реструктуризации, – угольными компаниями и иными организациями).

Получатели средств государственной поддержки должны будут предоставлять Межведомственной комиссии финансовую и иную информацию, касающуюся величины и направлений использования средств государственной поддержки. Состав этой информации и периодичность ее представления определяются в соответствующие сроки Межведомственной комиссией. Все получатели бюджетных средств подлежат аудиторской проверке.

Средства государственной поддержки на очередной квартал будут выделяться в зависимости от исполнения обязательств по целевому расходованию средств за предыдущий квартал в соответствии с заключенными соглашениями.

Министерство финансов Российской Федерации отвечает за распределение средств государственной поддержки угольной промышленности через региональные отделения Казначейства в соответствии с утвержденным Межведомственной комиссией планом-графиком распределения и соглашениями, заключенными между Министерством топлива и энергетики и получателями субсидий.

4. Политика в социальной сфере

Краткосрочные меры Правительства в социальной сфере по отношению к угольной промышленности, включают: (а) социальную защиту работников угольной промышленности и жителей угледобывающих регионов; (б) содержание и развитие объектов социальной инфраструктуры в шахтерских городах и поселках.

4.1. Социальная защита

Основные мероприятия в области социальной защиты включают: (а) предоставление социальных гарантий, пособий и компенсаций работникам, высвобождаемым в ходе реструктуризации, членам их семей, пенсионерам и инвалидам, ранее работавшим в угольной промышленности; (б) меры по содействию занятости и получению квалификации для трудоустройства в

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областях, где положение в сфере занятости обострилось в связи с реструктуризацией.

В России сложилась система социальных гарантий для работников, высвобождаемых с предприятий. Правительство обеспечит следующие меры:

— выплату высвобождаемым работникам законодательно установленных выходных пособий и компенсаций в соответствии с действующим законодательством;

— координацию деятельности различных министерств и ведомств, участвующих в формировании, финансировании и реализации социальных программ в ходе широкомасштабного высвобождения работников.

Правительство считает, что наиболее гуманным и экономически эффективным способом сокращения численности занятых в отрасли является ограничение найма, в особенности лиц, не имеющих опыта работы в угольной промышленности. При предоставлении средств государственной поддержки следует предусматривать, что претендующие на нее убыточные предприятия угольной промышленности должны обеспечивать ограничение числа принятых на работу в течение любого квартала до уровня не более 1% от общей численности занятых. Это условие будет оговорено в соглашениях, заключаемых между Министерством топлива и энергетики Российской Федерации и головными получателями средств государственной поддержки, а также между головными и конечными получателями.

Всем работникам шахт, объявленных к реструктурированию или ликвидации, будут оказываться бесплатные консультационные услуги. Эти услуги будут организованы Федеральной службой занятости на основе соответствующих договоров с угольными предприятиями с использованием средств государственной поддержки угольной промышленности. Работникам угольных предприятий будут оказаны консультационные услуги по вопросам высвобождения, в том числе: (а) процедурам заблаговременного уведомления об увольнении и (б) механизму оперативного совместного консультирования работников и местного населения.

Для руководителей угольных предприятий, а также для руководителей профсоюзных организаций в период между июнем и октябрём 1996 года во всех угольных бассейнах будут организованы семинары по вопросам управления

процессами массового высвобождения, а также по вопросам социальной защиты высвобождаемых шахтеров.

В июне 1996 года будут определены порядок и формы участия органов государственной службы занятости населения в программах социально-экономического развития угледобывающих регионов. К концу июля 1996 года местными службами занятости будут разработаны и представлены в региональные отделения Межведомственной комиссии планы мероприятий этих служб на шахтах, намеченных к ликвидации или реструктуризации в 1996 г. и 1997 г., и сметы затрат на реализацию этих планов. Реализация указанных мероприятий начнется к концу сентября 1996 года.

Во втором полугодии 1996 года начнется практическая реализация пяти пилотных Программ местного развития и обеспечения занятости в шахтерских бассейнах, в наибольшей степени затронутых реструктуризацией (Печорском и Подмосковном угольных бассейнах, Кузбассе, Восточном Донбассе и Кизеловском бассейне). Источниками финансирования указанных программ станут средства, выделенные на социальную защиту в рамках государственной поддержки угольной промышленности, а также ресурсы местных фондов занятости. Главными получателями бюджетных средств, направляемых на реализацию этих программ, будут администрации субъектов Федерации, на территории которых расположены указанные выше угледобывающие регионы. В качестве конечных получателей будут выступать организации, уполномоченные на то местными органами власти.

Органы государственной службы занятости населения примут участие в разработке и реализации указанных программ местного развития и обеспечения занятости, а также обеспечат софинансирование этих программ из средств местных фондов занятости.

Во второй половине 1996 года на пять пилотных программ местного развития и обеспечения занятости будет выделено в совокупности не менее 200 миллиардов рублей. Эти средства послужат для поддержки целого ряда проектов, а именно: (а) ремонта объектов социальной и природоохранной инфраструктуры путем организации общественных работ; (б) поддержки малого бизнеса; (в) переобучения; (г) консультирования по вопросам трудоустройства и содействия трудоустройству; (д) прочих инициатив по созданию новых рабочих мест на перспективных предприятиях. Пилотные программы войдут составной частью в региональные программы

Особое внимание будет уделено шахтерским городам и поселкам, где угольные предприятия являются градообразующими, и где последствия реструктуризации оказывают серьезное влияние на всех жителей, а не только на тех, кто непосредственно связан с угольной промышленностью.

Наряду с прочими мероприятиями, которые получают поддержку в рамках указанных программ, создается целевой фонд "Воркута-Центр", основными задачами которого являются информационная и консультационная поддержка отдельных граждан и семей, желающих выехать из районов Крайнего Севера в другие регионы России. Фонд будет координировать свою деятельность с заинтересованными министерствами и ведомствами (ФСЗ России, ФМС России, Фондом социального страхования и другими) по созданию единой системы содействия подвижности рабочей силы на основе обмена информацией и организационного взаимодействия с регионами потенциального переселения.

На основании опыта, приобретенного в ходе осуществления пилотных программ, Правительство разработает более крупномасштабные Программы местного развития и обеспечения занятости для каждого угольного бассейна для их реализации в 1997 году.

4.2. Поддержка социальной инфраструктуры

Правительство в своей политике исходит из того, что реструктуризация угольной промышленности не должна снизить объем или ухудшить качество социальных услуг, предоставляемых населению шахтерских городов и поселков. В ходе реструктуризации средства, выделяемые на государственную поддержку угольной промышленности, будут использоваться для финансирования следующих мероприятий: завершение передачи в ведение местных органов власти объектов социальной сферы и жилищного фонда, находящихся на балансе угольных предприятий; обеспечение достаточного финансирования для эксплуатации и технического обслуживания объектов социальной сферы, переданных в ведение местных органов власти; снос или ремонт ветхого жилья.

Для обеспечения необходимого финансирования объектов социальной сферы в течение второго полугодия 1996 года Правительство Российской Федерации выделит 1,6 триллиона рублей местным органам власти для финансирования развития, замены в случае выбытия, эксплуатации,

технического обслуживания и ремонта объектов социальной сферы в угольных бассейнах.

Эти средства могут использоваться для финансирования выплаты заработной платы работникам социальной сферы, ремонта коммунальных сетей, подготовки объектов социальной сферы к зиме, возмещения задолженности по коммунальным услугам, ремонта объектов здравоохранения и образования, а также закупок топлива.

В августе 1996 года Межведомственная комиссия рассмотрит отчет о ходе передачи объектов социальной инфраструктуры шахт местным органам власти, который будет подготовлен компанией "Росуголь" и администрациями субъектов Федерации, на территории которых расположены угледобывающие регионы.

5. Ликвидация убыточных и неперспективных шахт и разрезов

В 1994 году Правительство начало осуществлять меры по ликвидации убыточных и неперспективных шахт и разрезов в рамках программы по реструктуризации отрасли. В 1994-1995 годах прекращена добыча угля на 37 шахтах. Утвержден график подготовки предложений о ликвидации угольных предприятий и другой необходимой проектной документации по ликвидации 95 убыточных и неперспективных шахт. Разработаны и утверждены технико-экономические обоснования ликвидации по 40 шахтам. Техничко-экономические обоснования ликвидации остальных 55 шахт находятся на различных стадиях разработки, т.е. согласования с местными органами власти, профсоюзами, и органами государственной экспертизы.

В 1996 году в Печорском угольном бассейне была завершена работа по ликвидации шахты "Хальмер-Ю" с соблюдением всех необходимых инженерно-технических и социально-экономических требований. В настоящее время на 64 шахтах ведутся технические работы по их ликвидации, включая погашение выработок, демонтаж оборудования и сооружений на поверхности шахт, причем на 34 из них эти работы будут завершены в 1996-1997 годах. За счет ликвидации убыточных шахт и разрезов в 1996 году будет высвобождено 22-24 тысячи человек.

Российское законодательство определяет общий порядок ликвидации предприятий различной организационно-правовой формы. Учитывая особенности угольной промышленности, Межведомственная комиссия в

Феврале 1996 года одобрила "Основные принципы ликвидации неперспективных и особо убыточных шахт и разрезов", в которых общий порядок ликвидации предприятий конкретизирован применительно к шахтам и разрезам. Указанный порядок определяет дополнительные меры по обеспечению целевого использования бюджетных средств, выделяемых на ликвидацию шахт и разрезов, гарантий занятости и социальной защиты высвобождаемых шахтеров и повышения роли местных органов власти в реализации программ социально-экономического развития угледобывающих регионов.

В июне 1996 года окончательный вариант "Основных принципов ликвидации неперспективных и особо убыточных шахт и разрезов" будет направлен на утверждение в Межведомственную комиссию. Это обеспечит возможность более объективного отбора шахт и разрезов, подлежащих ликвидации, усиления правовой основы их ликвидации, введения плана-графика бюджетного финансирования работ по ликвидации, исключения возможности принятия решений о ликвидации шахт без обеспечения необходимого финансирования и осуществления предусмотренных законодательством мер социальной защиты трудящихся, высвобождаемых в связи с реструктуризацией, членов их семей, а также ранее работавших в угольной промышленности пенсионеров и инвалидов, исключения возможности ликвидации хотя бы одной шахты или разреза без предварительного предоставления соответствующей защиты высвобождаемым работникам.

В мае-июне 1996 года Межведомственная комиссия рассмотрит, утвердит и доведет до сведения всех заинтересованных организаций план-график бюджетного финансирования мероприятий по ликвидации шахт и разрезов на второе полугодие 1996 года. При этом примерно 70% средств будет направлено на социальную защиту высвобождаемых работников, а приблизительно 30% — на выполнение инженерно-технических мероприятий. Указанный план-график позволит завершить в 1996 году технические работы по ликвидации не менее 20 шахт.

В ноябре-декабре 1996 года в рамках формирования проекта распределения бюджетных средств на 1997 год Межведомственная комиссия утвердит проект плана-графика бюджетного финансирования мероприятий по ликвидации шахт и разрезов на 1997 год.

Политика Правительства заключается в том, чтобы приступить к переходу на коммерческие принципы финансирования инвестиций в угольную промышленность. В мае-июне 1996 года Межведомственной комиссией при рассмотрении планов-графиков распределения государственной поддержки на второе полугодие 1996 года будет принято решение о том, что финансирование капитального строительства в угольной промышленности за счет средств государственной поддержки во втором полугодии 1996 года будет осуществляться на безвозвратной основе только по объектам, начатым строительством ранее 1 января 1996 года. Всем другим проектам капиталовложений в угольную отрасль государственная поддержка будет предоставляться только на возвратной основе по положительной реальной ставке процента и только под коммерчески перспективные инвестиционные проекты.

В 1997 году Правительство завершит переход к выделению инвестиционных ресурсов из средств государственной поддержки угольной промышленности на платной, возвратной и конкурсной основе. Для финансирования строительства и развития новых высококорентабельных шахт и разрезов будут привлекаться кредитные средства под правительственные гарантии.

В ноябре 1996 года Межведомственная комиссия организует проведение конкурса инвестиционных проектов и по его результатам примет решение о распределении средств государственной поддержки угольной промышленности, выделяемых на инвестиции в 1997 году.

7. Коммерциализация и демонополизация

Принципы и пути реформирования системы управления угольной промышленностью определены в "Основных направлениях реструктуризации угольной промышленности". Важнейшее значение для их реализации имеет Указ Президента Российской Федерации от 9 февраля 1996 г. № 168 "О мерах по дальнейшему совершенствованию структуры угольной промышленности Российской Федерации". Во исполнение этого указа к концу июня 1996 года Правительство преобразует государственное предприятие "Росуголь" в открытое акционерное общество.

К концу октября 1996 г. Правительство:

Page 18 of 34 · утвердит нормативные документы, регламентирующие вопросы доверительного управления государственными пакетами акций угольных компаний, в том числе касающиеся назначения новых доверительных управляющих и их обязательств перед федеральными органами власти;

· передаст в уставные капиталы этих отобранных угольных компаний государственные пакеты акций связанных с ними акционерных компаний, как это предусмотрено в Указе Президента Российской Федерации № 168 от 9 февраля 1996 года;

· направит потенциальным участникам конкурса на контракты по доверительному управлению отобранными компаниями всю информацию, которая им потребуется для подготовки своих предложений.

На основе использования указанных механизмов к концу декабря 1996 года Правительство обеспечит, чтобы новые доверительные управляющие контролировали угольные компании, суммарный объем добычи которых в 1995 г. составлял не менее 65 млн. тонн угля, т.е. приблизительно 25% от всего объема добычи угля в Российской Федерации.

Не позднее трех месяцев после конкурсного выбора доверительных управляющих государственными пакетами акций указанных выше угольных компаний, федеральные органы исполнительной власти рассмотрят бизнес-планы, представленные новыми доверительными управляющими.

К концу декабря 1996 года Межведомственная комиссия определит меры по ускорению децентрализации управления в угольной промышленности на 1997 год применительно к другим действующим в настоящее время угольным компаниям и акционерным обществам.

8. Социальное партнерство

Политика Правительства исходит из того, что механизмы социального партнерства являются основой взаимодействия и информационного обмена участников реструктуризации угольной промышленности.

Создавая нормативно-правовые условия для конструктивного взаимодействия работодателей и работников в процессе коллективных переговоров, органы исполнительной власти всех уровней не должны принимать непосредственного участия в разработке и заключении коллективных договоров и соглашений, что потребует изменения действующей

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формативно-правовой базы. К концу 1996 года Правительство рассмотрит предложения по изменению порядка разработки и заключения коллективных договоров и соглашений, не требующих его прямого участия и закрепляющих самостоятельность работодателей и работников и/или их представителей при заключении коллективных договоров и соглашений, в том числе, по уровню и форме оплаты труда, в зависимости от финансовых возможностей предприятий и в рамках действующего законодательства.

Развитие механизмов социального партнерства различных групп населения угледобывающих регионов, чьи интересы непосредственно затрагиваются реструктуризацией угольной отрасли, будет осуществляться путем организационного укрепления образованных в 1994-1995 годах региональных Межведомственных комиссий и создания таких комиссий в угледобывающих регионах, где они еще не созданы.

На местном уровне будут создаваться наблюдательные советы, руководимые главами администраций шахтерских городов и включающие представителей различных социальных групп. Основной задачей наблюдательных советов будет определение стратегии местного развития, координация разработки и осуществления программ местного развития, социальной защиты высвобождаемых трудящихся и жителей шахтерских городов и поселков. Наблюдательные советы будут определять основные принципы использования средств, выделяемых на финансирование программ местного развития.

В мае-июне 1996 года в шахтерских городах пяти угледобывающих регионов будут созданы местные наблюдательные советы.

В мае-июне 1996 года будут организационно укреплены региональные Межведомственные комиссии по социально-экономическим проблемам угледобывающих регионов, созданные в Ростовской и Тульской областях. Для организационно-технического обеспечения их деятельности при администрациях этих областей будут созданы специальные рабочие группы.

До 1 января 1997 года во всех угледобывающих регионах будут созданы региональные Межведомственные комиссии. Примерно в 30 шахтерских городах и поселках будут организованы местные наблюдательные советы.

Page 20 of 34 Будут созданы условия для обеспечения активного и заинтересованного участия шахтеров, жителей шахтерских городов и поселков в процессе реструктуризации угольной промышленности. Для этого предусматривается:

- обеспечивать работников угольных предприятий, жителей угледобывающих регионов информацией о программах и ходе реструктуризации отрасли, формах социально-правовой защиты шахтеров и членов их семей;
- укреплять местные общественные организации в интересах более эффективной социально-правовой защиты жителей угледобывающих регионов;
- осуществлять мониторинг реструктуризации угольной промышленности и информировать через средства массовой информации жителей угледобывающих регионов о результатах этого мониторинга.

9. Организационная поддержка

Для реализации политики Правительства по реструктуризации угольной промышленности необходимо обеспечить решение следующих вспомогательных задач межведомственного характера:

- укрепление организационно-технического и информационно-аналитического обеспечения деятельности Межведомственной комиссии;
- мониторинг функционирования механизма государственного финансирования реструктуризации угольной промышленности и выработка мер по его совершенствованию;
- организация независимых аудиторских проверок юридических лиц - получателей средств государственной поддержки;
- организация комплексного мониторинга социально-экономической ситуации в угледобывающих регионах, информирование общественности, работников угольной промышленности и жителей угледобывающих регионов о ходе реструктуризации отрасли.

С целью решения указанных задач в мае-июне 1996 года будет образован специальный фонд, действующий в соответствии с законом о некоммерческих организациях и Гражданским кодексом Российской Федерации. Фонд будет адекватно финансироваться, в том числе из средств технического содействия.

Официальный перевод письма на английский язык прилагается.

Председатель Правительства
Российской Федерации



В.Черномырдин

20 мая 1996 года

LETTER ON COAL SECTOR POLICY

The Russian Government has prepared and started to implement a set of measures aimed at transforming production and organizational structures of the coal industry to improve coal industry efficiency and to resolve social and economic problems of the coal regions. In the framework of these measures, it is stipulated that the structure of allocation of budget funds will be shifted from financing coal production to restructuring measures, including closing unprofitable and non-viable deep and surface mines, social protection of laid-off workers, and the creation of profitable coal production based on viable and sustainable coal enterprises. A new mechanism for the allocation state support will be introduced which will ensure transparency and government control. Measures to enhance the organizational structure of the coal industry include the demonopolization of management and creation of a competitive environment in the coal sector.

Coal restructuring actually commenced in 1993. State support to the industry has been considerably reduced: from: 1.04% GDP in 1993 to 0.45% GDP in 1995. The share of federal budget funds as a proportion of coal industry financing has been reduced from 77% in 1993 to 31% in 1995. 37 loss-making mines have stopped production. The number of coal sector employees was reduced from 626,000 in 1993 to 529,000 in 1995. Approximately 73% of social assets in mining communities have been transferred from coal associations to municipalities. Annual coal production decreased from 305.5 million tons in 1993 to 270 million tons in 1994 and to 263.3 million tons in 1995.

Unlike coal industry restructuring programs in other countries where production capacity was reduced by up to 80-90%, after restructuring the Russian coal industry will remain one of the largest in the world, and will become competitive both domestically and internationally.

2. Coal Restructuring Strategy

2.1. Long Term Strategy.

In 1993, an Inter-Agency Commission for Socio-Economic Problems of Coal-Producing Regions (the Coal Commission) was created; its members were approved by the decision of the Russian Government. The Head of the Coal Commission is the Russian Deputy Prime Minister. The Commission includes Heads of Ministries and Agencies directly involved in coal sector restructuring, Heads of Regional Administrations of the key coal-producing regions, union leaders, and managers of coal enterprises.

On July 14, 1995, the Head of the Coal Commission approved "Basic Trends for Coal Restructuring" which reflected the main elements of the Government's long term strategy:

Annex 1

Page 24 of 34 *Budget fund allocation to cover operating losses.* The gradual phasing-out of state support to the coal industry is an essential part of Russia's program of macro-economic stabilization and its strategy to create a profitable market-oriented coal sector. The Government is reducing the total volume of budget funds allocated to selective support for mines which can not cover their losses from liberalized prices for coal (subsidies for operating losses).

(ii) *Investment.* Modernization, rehabilitation and expansion will rely on internal financing by coal companies, loans, and private domestic and foreign investment. State support funds allocated for this category will facilitate the development of investment activities.

(iii) *Closing loss-making and non-viable coal enterprises, divestiture of non-core enterprises.* At least 90 loss-making deep and surface mines (overall capacity 60 million tons/year, with a total workforce of 83,000 people) will be closed. As non-core production activities are divested, further reduction of the workforce by 175,000 workers will take place.

(iv) *Social Sphere.* Cushioning the negative social impacts of restructuring will be accomplished by a set of measures to support employment in parallel with programs to create new jobs without subsidy, with benefits and compensations to workers made redundant due to restructuring, their families, pensioners who used to work in the coal industry, disabled people and families of deceased miners. The transfer of social assets to municipalities will also be completed. In the longer term, the social infrastructure management system and ownership will be reformed.

(v) *Environmental Protection.* The Government is committed to mitigating any adverse environmental effects caused by the closure of mines. The relevant environmental authorities are involved in the preparation of technical plans for mine closures and monitor compliance with the environmental requirements of the approved plans. A study will be carried out to examine priorities and options for addressing the environmental problems caused by past mining activities and to recommend an institutional and financial framework for the rehabilitation of lands disturbed by mining.

(vi) *Transformation of Management System, Commercialization and Demonopolization.* The Government is taking steps toward the demonopolization of the management of the industry and promotion of conditions to create profitable coal companies and competition in the coal sector. Privatization will reduce the federal share in ownership of the industry and result in a the coal industry consisting of a number of independent, competing self-financed companies. Rosugol will be transformed into a joint stock company whose goals reflect the goals will of coal sector restructuring.

2.2. Medium Term Goals.

In accordance with the "Basic Trends" document, the Government has identified and commenced implementation of a series of medium term measures.

On February 9, 1996, the President of Russia signed Decree No. 168 "On Measures to Enhance the Russian Coal Industry Structure" which empowers the Government to strengthen regional coal companies and to assign trust management of the State's shareholding in these companies to various trust agents, and to transform Rosugol into a joint stock company with 100% shares in federal ownership for 3 years.

In February 1996, the Coal Commission considered and adopted Programs of Social and Economic Development for a number of coal regions of Russia (Pechora, Moscow, Kuzbass), and adopted a draft program for Eastern Donbass and presented recommendations on completing similar programs in other coal regions in 1996.

2.3. Short Term Set of Measures.

For the first time in the history of State support to the coal industry, the Coal Commission adopted a schedule for the allocation of State support for the 1st half of 1996 by recipient and category. A similar schedule was considered by Coal Commission on May 20, 1996.

On February 26, 1996, the Coal Commission approved and the Government adopted a Resolution No. 598 of 17 May 1996 on "State Financing of Coal Restructuring" which identifies the allocation of subsidies by recipient and category.

The above-mentioned decisions are important steps toward creating transparency of State support use and enhancement of public and government control of the use of funds.

3. Amount, Structure, and Mechanisms of State Support to the Coal Industry

3.1. Level of State Support.

The 1996 federal budget provides for state support to the coal sector totaling 7.4 trillion rubles. Subsequently, the Government made a decision to increase the amount of support provided to the sector by 3.0 trillion rubles, bringing the total expenditure to 10.4 trillion rubles. In order to avoid an inflationary impact from this unplanned increase, we intend to finance the additional expenditure by borrowing from abroad. However, the total expenditure of 10.4 trillion rubles would represent a 9% reduction in real terms compared to 1995.

The categories of state support for the coal industry in 1996, are :

- A. State support for coal restructuring;
- B. Temporary state support for coal production; and
- C. Support to transferred social assets.

The details of these subsidy categories are given below.

The categories of state support for the coal industry in 1997 will be the same as in 1996, except that support to transferred social assets will be excluded (any such support to be funded through general transfers to subjects of the Russian Federation).

3.2. Allocation of State Support.

Within the total state support provided to the sector in 1996, we intend to change the structure of state support allocation in order to increase the share of categories allocated to coal sector restructuring and for the maintenance and operation of social assets in coal regions.

In accordance with the classifications in “State Financing of Coal Restructuring”, the broad category (A) ‘State support for coal restructuring’ covers:

- (1) physical closure of loss-making and non-viable mines;
- (2) ‘social protection expenditures’, focused on redundant workers and their families, as well as pensioners retired from the coal industry and disabled former employees (this sub-category will include Community Support and Employment Programs--see section 4.1);
- (3) compensation to workers at closed mines who are disable or suffer from occupational diseases;
- (4) demolition of dilapidated housing, and construction of new housing in mining communities;
- (5) investment in renovating and improving existing mines in order to make them profitable;
- (6) investment in the construction of new profitable mines;
- (7) research and design consultancy;
- (8) contributions to the Central Reserve Fund to cover the costs of coping with accidents, disasters and similar events.

The broad category (B) ‘Temporary state support for coal production’ includes:

- (9) selective support to mines which are unable to cover operating costs with revenues received from coal market prices (subsidies for operating losses);
- (10) expenditures of coal enterprises and mine construction organizations to cover industry Tariff Agreements;
- (11) support for social assets which have not been transferred to municipalities.

In addition, for the second half of 1996, a new category will be introduced to cover (C) 'Support for transferred social assets', covering payments to local governments for the operation, maintenance and improvement of social assets transferred to local authorities.

In May 1996, the Coal Commission will adopt a schedule for the allocation of State support in the second half of 1996.

The Schedule for state support to the coal industry in the second half of 1996 will include allocations of: (i) not less than 1.6 trillion rubles for transfers to subjects of the Federation to finance their expenditures on the development, replacement, rehabilitation, maintenance and operation of social assets already divested from the coal industry to local governments; (ii) not less than 200 billion rubles in total for transfers to Kemerovo Oblast, the Komi Republic, Rostov Oblast, Perm Oblast and Tula Oblast to finance their expenditures on pilot Community Support and Employment Programs for coal communities in these regions; and (iii) not less than 300 billion rubles to coal companies to finance their expenditures on social protection for mine workers, former mine workers and their dependants.

The draft federal budget for 1997 for the allocation of State Support for the Coal Industry (to exclude financing for already transferred social assets) will incorporate the following provisions: (i) not less than one-third of total state support for the coal industry will be allocated to physical costs of mine closures, social protection including Community Support and Employment Programs, and disability compensation for disabled workers at closed mines; and (ii) total state support for the coal industry, excluding the items listed in (i) above and excluding loans to coal companies at positive real interest rates, will decline by at least 40% in real terms in 1997 relative to 1996.

Adequate provision will be made in the 1997 draft Federal Budget for transfers to subjects of the Russian Federation for support for divested social assets, taking into account the pace of transfer of such assets, increased cost sharing by local authorities and beneficiaries, and the need for similar treatment for all divested social assets.

3.3. Mechanism of State Support.

In considering the allocation of State support, the Coal Commission will identify the list of primary recipients which, in addition to Rosugol and Rostopprom, will include independent coal companies (when formed), and regional and local authorities in coal regions (for social support). After a proposed allocation of coal subsidies (by category/sub-category and recipient) has been reviewed and approved by the Coal Commission, agreements will be signed between the Ministry of Fuel and Energy of Russia and the primary recipients of subsidies, and between the primary recipients and the final recipients (legal entities responsible for restructuring measures - coal companies and other organizations) These agreements will specify the purposes for which allocated subsidies may be spent as well as other conditions to be met by the entities receiving subsidies.

Recipients of state support will be required to provide to the Coal Commission such financial and other information relevant to the level and use of subsidies. The type of such information and the frequency of reporting will be determined from time to time by the Coal Commission. All recipients of subsidies shall be subject to audit.

State support funds will be allocated for each quarter on the basis of fulfilling commitments for the preceding quarter for targeted utilization of funds according to the executed agreements.

The Ministry of Finance will be responsible for the distribution of State support via regional treasury departments in compliance with the allocation adopted by the Coal Commission and the agreements between the Ministry of Fuel and Energy and the recipients.

4. Social Policies.

The short-term measures of the government in Social Policy include : (a) social protection of coal industry employees and residents of the coal regions, and (b) the maintenance and operation of social infrastructure in mining communities.

4.1. Social Protection

The main actions in the field of social protection include: (a) the provision of social guarantees, benefits and compensation for workers made redundant during restructuring, members of their families, pensioners and disabled people retired from the coal industry, and (b) measures to promote employment opportunities and skills in areas affected by the restructuring of the coal industry.

Russia has a system of social guarantees for people made redundant from enterprises. The Government will ensure that :

- employees made redundant from mines receive statutory severance payments and compensation in accordance with the provisions of the Employment Law;
- various ministries and agencies participate in the creation, financing and implementation of social programs during mass layoffs coordinate their assistance.

The Government considers that the most humane and cost-effective way to reduce the size of the coal industry workforce is to limit recruitment, especially of employees who do not have experience in coal mining. Thus, it will be a condition of the disbursement of subsidies that any coal company receiving subsidies for operating losses - sub-category (9) - will reduce the number of vacancies so as to limit total recruitment in any quarter to less than 1% of the total number of its employees. This condition will be embodied in the agreements signed between the

Page 29 Ministry of Fuel and Energy and primary recipients of subsidies, and between primary recipients and final recipients of subsidies.

Employees at mines announced for restructuring or closure will be offered counseling free of charge. These counseling services will be organized by the Federal Employment Services, financed by the mine out of funds allocated by the Coal Commission. Employees will be offered counseling on layoff procedures including: (a) an agreed procedure for advance notice of redundancy, and (b) a rapid response mechanism which uses a joint consultative approach where trained advisors will work with employees and with the local communities.

Workshops for managers of coal enterprises and unions on the management of mass layoffs and on the social protection available to redundant miners will be organized in all coal basins between June and October 1996.

In June 1996 proposals for the procedure and forms of participation of the FES in the programs of social and economic development of coal-mining regions will be approved as necessary. By the end of July 1996 local employment services will prepare and submit to regional Coal Commissions action plans covering the measures to be undertaken by them at all mines scheduled to close or be restructured in 1996 and 1997 together with estimates of the budget required to implement these plans. Implementation of the action plans will commence by the end of September 1996.

In the second half of 1996 five pilot Community Support and Employment Programs located in the coal basins affected to the greatest extent by restructuring (Pechora, Moscow, Kuzbass, Eastern Donbass and Kisel) will be established. These programs would finance social and transitional employment projects with funds allocated under sub-category (2) -- social protection expenditures -- of state support to the coal industry, and the resources of local Employment Funds. Primary recipients of budget funds allocated for the implementation of these programs will be the regional administrations situated in the coal regions mentioned above. Final recipients will be organizations authorized by local authorities.

The FES will participate in the design and implementation of these Community Support and Employment Programs and the resources of local Employment Funds will be used in conjunction with them.

A total of at least 200 billion rubles will be allocated in the second half of 1996 to the five pilot Community Support and Employment. These funds will support a range of projects, such as (a) the repair of the social and environmental infrastructure via public works, (b) the creation of small business opportunities, (c) retraining, (d) job counseling and search, and (e) other initiatives to create new jobs in viable enterprises. The pilot programs will build on initiatives developed by the Coal Commission in its Regional Coal Restructuring Programs.

Page 30 of 34 Special attention will be given to the needs of communities dominated by single mine enterprises, where coal restructuring will also have a severe impact on non-mining families.

Among the activities to be supported by these programs will be the establishment of a center in Vorkuta which would provide information and counseling to individuals and families wishing to be relocated from the Far North to other regions of Russia. The center will work in cooperation with relevant ministries and agencies (Federal Employment Service, Russian Migration Service, Social Insurance Fund etc.) to develop a uniform system of labor mobility assistance based upon information exchange and interaction with possible recipient regions.

On the basis of the experience gained from these pilot programs the Government will develop larger Community Support and Employment Programs in each of the coal basins for implementation in 1997.

4.2 Support for social infrastructure.

The government policy proceeds from the fact that restructuring of coal industry should not mean the deterioration in volume or quality of social services provided to people residing in mining communities. In the course of restructuring the following issues will be addressed with the help of funds allocated from state support: completing the transfer of social assets and housing owned by coal companies to municipal authorities; ensuring adequate finance for the operation and maintenance of social assets transferred to municipal authorities; demolition or renovation of dilapidated housing.

To ensure that adequate funds are available to support social assets during the second half of 1996 the Government of the Russian Federation will allocate 1.6 trillion rubles to local authorities for transfers to local authorities to fund the development, replacement, operation, maintenance and renovation of social assets in coal basins.

Work to be financed from these resources may include wage payments to social asset workers, rehabilitation of utility networks, winterization of social assets, repayment of debts to utilities, repairs to health and education facilities, and the purchase of fuel.

In August 1996, the Coal Commission will consider a report on progress in transferring of social assets from mines to local authorities to be prepared jointly by Rosugol and regional authorities in coal basins.

5. Closure of non-viable and unprofitable mines.

The Government began to close non-viable and unprofitable mines within the framework of the program on restructuring of coal industry in 1994. In 1994-1995, coal production ceased at 37 mines. The schedule for preparation of mine closure proposals and other necessary documents to close 95 loss-making non-viable

mines has been approved. Forty mines have their closure proposals prepared and approved. Closure proposals for the remaining 55 mines are at various stages of preparation, i.e., being coordinated with local authorities, labor unions, state expertise.

In 1996, the closure of Halmer-Yu mine in the Pechora coal basin was completed in full compliance with the relevant technical, social and economic requirements. Closure activities are now under way at 64 mines and include the cessation of production, the dismantling of equipment, and the demolition of surface structures. At 34 out of the above-mentioned mines, closure will be completed in 1996-1997, with 22-24,000 employees being laid off in 1996 .

Russian federal legislation provides for standardized closure procedures for companies with various forms of management. However, in consideration of some specific features of the coal industry, the Coal Commission endorsed "The Basic Principles of Closing Non-Viable and Unprofitable Mines" in February 1996 in which uniform closure procedures for all types of companies, as determined by federal legislation, is particularized as regards the specific mines. At the same time, instructions were given to draft a document for Coal Commission approval, the final version of which should contain additional measures to ensure targeted disbursement of federal budget funds allocated for mine closures, guarantee employment and social protection of laid-off workers, and increase the role of local government in the implementation of social and economic development programs in coal regions.

In June 1996, the final version of "The Basic Principles of Closing Non-Viable and Unprofitable underground and surface mines" will be submitted for approval to the Coal Commission. This will allow an opportunity to make the selection of underground and surface mines for closure more objective, to enhance the legal basis for their closure, to adopt time scales for financing closure activities from the federal budget, to eliminate the possibility of making closure decisions without ensuring the necessary financing and carrying out social protection measures guaranteed by legislation to workers laid off due to restructuring, as well as to their family members and veterans and disabled previously employed in coal industry; to make sure that no underground or surface mine is closed without the prior provision of appropriate social protection to redundant workers.

In May-June 1996, the Coal Commission will consider, approve and inform all organizations involved of the schedule of financing mine closures to be allocated from the federal budget in the second half of 1996. In doing so, approximately 70% of funds will be earmarked for social protection measures to workers made redundant and approximately 30% for physical mine closure activities. The above schedules will result in completion of technical aspects of mine closure at no less than 20 mines by the end of 1996.

In November-December 1996, the Coal Commission will approve a draft schedule for the allocation of budget funds for mine closures in 1997, within the framework of drafting the 1997 budget.

The Government's policy is to start a transition towards commercial financing of investment in the coal industry. In May-June 1996, the Coal Commission, while developing schedules for the allocation and distribution of state support for the second half of 1996, will decree that financing of capital development in the coal industry with state support funds in the second half of 1996 is to be conducted on non-repayable basis only at facilities where construction began before January 1, 1996. For all other coal industry investment projects, state support will be provided only in the form of loans at positive real interest rates and only for investment projects that are commercially viable.

In 1997, the Government will complete the transition to allocating investment resources from state support funds for the coal industry on a commercial, repayable and competitive basis. To finance the construction and development of new profitable mines, non-state credit funds will be raised with Government guarantees.

In November 1996, the Coal Commission will conduct an investment projects tender and then decide on the distribution of state support funds allocated for investment in the coal industry in 1997 based on the results of the tender.

7. Commercialization and Demonopolization.

The principles and guidelines of reforming the coal industry management system are set out in "The Basic Trends of the Restructuring". Presidential Decree, No. 168, February 9, 1996, "On Measures to Improve the Structure of the Russian coal industry" is of paramount importance for the implementation of the above principles and guidelines. In compliance with the Decree, by end June 1996 the Government will convert the state company Rosugol into an open joint-stock company;

By the end of October 1996 the Government will:

- approve rules governing the trust management of state shares in coal companies, including those covering appointment of new trust managers and their obligations to the federal authorities;
- transfer to the charter capital of these selected companies the state shares in related companies, as envisaged in Presidential Decree no. 168;
- issue to potential bidders for trust management contracts for the selected companies all of the information required by them for the preparation of their bids.

Using this mechanism, by the end of December 1996 the Government will ensure that new trust managers will control coal companies that produced in

aggregate not less than 65 million tonnes of coal in 1995, i.e., approximately 25% of the volume of coal produced in the Russian Federation.

Not later than three months after the competitive selection of trust managers of state shares in the above-mentioned coal companies the relevant Federal executive bodies will review the business plans submitted by the new trust managers.

As far as other currently operating coal companies and joint-stock companies are concerned, by end December 1996, the Coal Commission will define measures to accelerate demonopolization in the coal industry in 1997.

8. Social Partnership

The Government policy proceeds from the fact that social partnership mechanisms are the basis of interaction and information exchange amongst participants in the process of restructuring the coal industry.

To foster constructive employer/employee interaction during collective bargaining, executive authorities at all levels should not take a direct part in the development and conclusion of collective agreements - which requires the regulatory and legal basis in effect to be modified. Therefore, by the end of 1996, the Government will develop proposals on the changes in the procedures regarding collective agreement drafting and conclusion such as will not require its direct participation, while providing an independent role for employer and employee representatives in the conclusion of collective agreements, covering, among other things, the level and form of wages, depending on the financial capacity of enterprises and in conformity with legislation in force.

The development of social partnership mechanisms of various groups of residents in coal regions whose interests are directly affected by restructuring of coal industry will be carried out by enhancing regional Coal Commissions set up in 1994-1995, setting up such commissions in coal regions where they have not yet been established.

On the local level, oversight committees are to be formed with the local heads of administrations of mining communities as the head and consisting of representatives of various affected groups. The main objective of the oversight committees will be to determine the strategy for local development, coordination of the development and implementation of local development programs, and the social protection for laid-off workers and residents of mining communities. Oversight committees will determine the guidelines for the disbursement of funds allocated to finance local development programs.

In May-June 1996, local oversight committees will be formed in five pilot mining towns of largest coal-mining regions.

Page 34 of 34 In May-June 1996 the organization of regional Coal Commissions in the Rostov and Tula regions will be strengthened and improved. Special working groups will be set up under the authority of regional administrations to ensure trouble-free operation in terms of organizational and technical assistance are concerned.

Regional Coal Commissions will be set up in all coal regions before January 1, 1997. In about 30 mining communities local oversight committees will be established.

Measures will be taken to ensure that miners and residents of mining communities are interested in actively participating in the process of restructuring of the coal industry. It is thus envisaged that:

- workers employed by coal companies and residents of coal regions will be provided with information on programs and the course of restructuring of coal industry, forms of legal and social protection of miners and their family members;
- local public organizations will be strengthened in order to achieve more effective social and legal protection of coal region residents;
- monitoring of the restructuring of coal industry will be conducted and coal region residents will be informed about the results of the monitoring through mass media.

9. Organizational support

In order to pursue the Government's policy on restructuring the coal industry it is also necessary to ensure resolution of the following second-priority tasks:

- strengthening of organizational, technical, informational and analytical aspects of the Coal Commission's operation;
- monitoring of how the mechanism of state financing of restructuring of coal industry is working and development of improvements and corrective measures;
- organization of independent audits of legal entities which are the recipients of state support funds;
 - organization of complex monitoring of social and economic situation in coal regions, informing the public, coal industry workers and residents of coal regions on the course and progress of restructuring of coal industry.

In order to resolve the above-mentioned issues, a special fund will be set-up in May-June 1996, which will operate in accordance with the law on non-profit organizations and the Russian Civil Code. The fund will be adequately financed, including from technical assistance funds.

Please find attached an official English translation of this Letter.

RUSSIA — COAL SECTOR ADJUSTMENT LOAN (Coal SECAL)
SUMMARY OF GOVERNMENT REFORM PROGRAM

OBJECTIVES	ACTIONS TAKEN PRIOR TO APPRAISAL	GOVERNMENT COMMITMENTS	TIMING	CONDITION OF
<u>A. Amount, Structure, and Mechanisms of State Support to the Coal Industry</u>				
<p>Reduce the burden of coal subsidies on the federal budget and improve its structure.</p> <p>Improve transparency of allocation of state support to coal industry.</p>	<p>State support to the coal industry reduced from 1.04% of GDP in 1993 to 0.45% of GDP in 1995. Budget subsidies are planned at Rb10.4 trillion for 1996 or 0.36% of projected GDP.</p> <p>Government has established arrangements to channel state support for the coal industry directly to local coal companies and oblast/local governments - 90% coverage by end 1995.</p> <p>Government has issued Resolution No. 598 of May 17, 1996, <i>On Confirmation of the Regulation on State Financing of Measures Regarding Coal Industry Restructuring</i>, giving the Inter-Agency Commission authority to approve state support to coal industry and monitor its use.</p>	<p>A schedule of state support to the coal industry for the second half of 1996 has been approved and made public with details by expenditure category and recipient for the second half of 1996, including:</p> <p>a. not less than Rb1.6 trillion to regional governments to finance expenditures on the development, replacement, rehabilitation, maintenance and operation of social assets divested from the coal sector to local governments;</p> <p>b. not less than Rb200 billion in total to Kemerovo Oblast, the Komi Republic, Rostov Oblast, Perm Oblast, and Tula Oblast to finance pilot Community Support and Employment Programs for coal communities within these regions; and</p> <p>c. not less than Rb300 billion to coal companies to finance qualifying expenditures on social protection by coal companies for mine workers, former mine workers and their dependants.</p>	6/96	Board Presentation
		<p>During the second half of calendar 1996, actual transfers from the allocation for state support to the coal sector in the 1996 budget will be consistent with the schedule of state support to the coal industry for the second half of calendar 1996.</p>	11/96	Second Tranche Release

RUSSIA — COAL SECTOR ADJUSTMENT LOAN (Coal SECAL)

OBJECTIVES	ACTIONS TAKEN PRIOR TO APPRAISAL	GOVERNMENT COMMITMENTS	TIMING	CONDITION OF
		<p>Government's proposal for state support to the coal industry for 1997 to be included in the federal budget and the actual quarterly transfers during 1997 incorporate and are consistent with the following parameters and schedules:</p> <p>a. the Budget category State Support for the Coal Industry will exclude financing for transferred social assets as such financing will be included in the overall federal budget category which provides for the financing of social assets transferred to local authorities throughout Russia;</p> <p>b. not less than one-third of State Support for the Coal Industry will be allocated to: (i) physical costs of mine closure, (ii) qualifying expenditures on social protection by coal companies, (iii) Community Support and Employment Programs for coal communities financed through regional and/or local authorities, and (iv) disability compensation for disabled workers at closed mines;</p> <p>c. State Support for the Coal Industry excluding the items specified in (b.) above and excluding loans to mining companies at positive real interest rates for production development investment will decline by at least 40% in real terms in 1997 relative to 1996.</p>	11/96	Second Tranche Release
B. Social Policies				
Ensure sustainable delivery of essential social services.	Approximately 72% of coal industry housing stock (and from 9% to 66% of other social assets) had been transferred to regional or local governments at end 1995 - but without adequate measures to ensure satisfactory level of service after transfer.	Adequate financing for divested social assets — see Section A above.	Continuing	
Ensure that employment policies minimize the need for compulsory redundancies.		The Inter-Agency Commission has confirmed that, with effect from July 1, 1996, state support for operating losses will be available only to coal companies that have reduced the number of vacancies so as to limit total recruitment in any quarter to less than 1% of the total number of employees.	6/96	Board Presentation

OBJECTIVES	ACTIONS TAKEN PRIOR TO APPRAISAL	GOVERNMENT COMMITMENTS	TIMING	CONDITION OF
		It has been demonstrated to the satisfaction of the Bank that, during the calendar quarter immediately preceding the Second Tranche Release Review, no state support for operating losses was made available to coal mines which have recruited employees in excess of 1% of their respective total number of employees during such period.	11/96	Second Tranche Release
Strengthen the social safety net in areas where coal-related unemployment is expected to be high.		The Government has instructed the Federal Employment Service to establish, by the end of September 1996, the capability to deliver pre-redundancy services including advance notice and counselling to all workers in the coal industry threatened with redundancy.	6/96	Board Presentation
		The Federal Employment Services has initiated the operation of regional offices in all regions where mines are being closed, with adequate capacity to deliver pre-redundancy services free of charge to employees prior to cessation of coal production for all coal industry employees of mines whose closure has been announced.	11/96	Second Tranche Release
		Government has established the necessary institutional framework, which includes the participation of the Federal Employment Services, and has initiated, as agreed and incorporated in the Coal Sector Restructuring Implementation Assistance Project, the activities of the Community Support and Employment Programs in the Kuzbass, Eastern Donbass, Pechora, Moscow region and Kizel coal basins.	11/96	Second Tranche Release

OBJECTIVES	ACTIONS TAKEN PRIOR TO APPRAISAL	GOVERNMENT COMMITMENTS	TIMING	CONDITION OF
C. Closure of Non-Viable and Unprofitable Mines				
Close unviable mines in a socially and environmentally acceptable manner.	A total of 37 mines stopped producing coal in 1994-95. A schedule for preparation of mine closure proposals and other necessary documents to close 95 loss-making non-viable mines has been approved. Forty mines have their closure proposals prepared and approved. Closure proposals for the remaining 55 mines are at various stages of preparation, i.e., being coordinated with local authorities, labor unions, state expertise. Permanent closure has been completed at one mine.	An implementation schedule for mine closures in the second half of 1996 — consistent with state support allocated for this purpose — has been approved and made public.	6/96	Board Presentation
D. Investment				
Ensure that new investments are commercially viable.		The Inter-Agency Commission has confirmed that, with effect from July 1, 1996, state support funds for investment will be available on a non-repayable basis only for projects where construction began before January 1, 1996. For all other investment projects in the coal industry, state support will be available only on a repayable basis at positive real interest rates.	6/96	Board Presentation
E. Commercialization and Demonopolization				
Develop strategy for commercialization, demonopolization and privatization of the coal industry over the longer-term	Presidential Decree No. 168 of 9 February 1996: (i) transferred coal subsidy allocation responsibility from RosUgol to the Inter-Agency Commission; (ii) instructed Government to convert RosUgol into 100% federally owned joint stock company; and (iii) empowered the State Property Committee to delegate management of state shareholding to trust managers other than RosUgol.	The Inter-Agency Commission has approved and made public a Demonopolization Program to conclude, by December 31, 1996, the appointment of new Trust Managers. These measures will include the issuance, by October 31, 1996, to potential bidders for trust management contracts all of the information required by them for the preparation of bids. The companies for which new Trust Managers will be appointed by December 31, 1996 will be selected so that their aggregate production of coal in 1995 was not less than 65 million tons, i.e., approximately 25% of the Russian coal industry.	6/96	Board Presentation
		Government has taken all actions required to be taken in accordance with the Demonopolization Program.	11/96	Second Tranche Release

OBJECTIVES	ACTIONS TAKEN PRIOR TO APPRAISAL	GOVERNMENT COMMITMENTS	TIMING	CONDITION OF
<u>F. Social Partnership</u>				
Prepare a socially sustainable coal restructuring program in each regional coal basin.	Social Assessments completed in Vorkuta and in the Kuzbass (March 1996).	The Inter-Agency Commission has approved and made public the indicators and arrangements for social impact monitoring, financial monitoring, and auditing of a set of subsidy recipients.	6/96	Board Presentation
	Regional Inter-Agency Commissions created in 1995. Preparation of Regional Coal Restructuring Programs underway since late 1995.	Government has demonstrated, on the basis of social impact and monitoring reports for the calendar quarter preceding the Second Tranche Release Review, overall compliance with agreed social impact indicators, and has made public such reports.	11/96	Second Tranche Release
<u>G. Organizational Support</u>				
Enhance institutional capacity in the design and implementation of the coal restructuring program	Inter-Agency Commission for Socio-Economic Problems of Coal-Producing Regions (Inter-Agency Commission) created mid-1993. Inter-Agency Commission issued initial proposals (<i>Basic Trends for Coal Restructuring</i>) in July 1995.	Government has prepared and furnished to the Bank a report on the financial performance of the regional coal companies.	11/96	Second Tranche Release
	Government has requested the Bank to finance a Coal Sector Restructuring Implementation Assistance Project (IAP) to strengthen institutional arrangements for: (a) participatory activities of relevant stakeholders; (b) social programs; (c) strengthening subsidy management; (d) technical assistance and training for commercialization and demonopolization of coal companies; (e) technical assistance for environmental management; (f) technical assistance for mine closure guidelines; (g) support to REFORMUGOL, the non-commercial foundation charged with implementation of the IAP.	Government has submitted to the Bank audits on five coal companies, which are main (the largest) recipients of state support.	11/96	Second Tranche Release

Status of IMF Operations in Russia

Russian Federation: Fund Relations

(As of February 29, 1996)

I. Membership Status: Joined June 1, 1992; Article XIV

<u>II. General Resources Account:</u>	<u>In millions of SDRs</u>	<u>In percent of quota</u>
Quota	4,313.0	100.0
Fund holdings of currency	11,470.97	266.0
Reserve position in Fund	0.77	--

<u>III. SDR Department:</u>	<u>In millions of SDRs</u>	<u>Percent of allocation</u>
Holdings	279.32	--

<u>IV. Outstanding Purchases and Loans:</u>	<u>In millions of SDRs</u>	<u>In percent of quota</u>
Stand-by arrangements	5,002.10	116.0
Systemic Transformation	2,156.55	50.0

V. Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expira- tion Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
Stand-by	4/11/95	4/10/96	4,313.10	4,313.10
Stand-by	8/05/92	1/04/93	719.00	719.00

VI. Projected Obligations to Fund (In millions of SDRs; based on existing use of resources and present holdings of SDRs):

	<u>2/29/96</u>	<u>Forthcoming</u>				
		<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Principal	--	329.5	359.5	673.9	2,426.1	2,111.6
Changes/Interest	--	<u>228.5</u>	<u>291.8</u>	<u>272.9</u>	<u>212.9</u>	<u>108.2</u>
Total	--	558.0	651.3	946.8	2,639.0	2,219.8

Russian Federation - Key Economic Indicators

Unified Survey FY96 projection (November 1995)

Indicator	Actual			Estimate		Projected		
	1990	1991	1992	1993	1994	1995	1996	1997
National accounts (as % GDP at current market prices)								
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture ^a	15.5	13.8	7.2	8.3	6.4	-	-	-
Industry ^a	44.3	44.4	47.6	44.0	35.1	-	-	-
Services ^a	33.3	38.2	47.4	42.2	50.0	-	-	-
Total Consumption	68.1	60.6	61.6	65.0	70.9	74.4	75.6	77.6
Gross domestic fixed investment	28.7	23.4	18.5	22.5	24.0	22.0	22.0	20.0
Government investment	7.1	7.1	4.2	4.5	5.7	2.6	4.6	4.9
Private investment (includes increase in stocks)	23.0	29.2	29.1	26.5	21.3	22.4	19.4	17.1
Exports (GNFS) ^b	18.9	16.6	55.0	36.2	26.7	22.3	19.0	18.4
Imports (GNFS)	17.2	13.5	49.9	32.3	24.5	21.7	18.6	18.0
Gross domestic savings	31.9	39.4	38.4	35.0	29.1	25.6	24.4	22.4
Gross national savings ^c	31.7	39.2	33.8	32.5	27.6	24.3	22.8	20.8
Memorandum items								
Gross domestic product (US\$ million at current prices)	1100068	803736	97962	180181	285776	385736	489402	553685
Gross national product per capita (US\$, Atlas method)	4,120	3,923	3,108	2,569	2,051	2,150	2,559	3,319
Real annual growth rates (%, calculated from 1993 prices)								
Gross domestic product at market prices	-3.6%	-5.0%	-14.5%	-8.7%	-12.6%	-4.0%	2.5%	4.0%
Gross Domestic Income	..	-13.6%	-17.4%	-9.2%	-12.3%	-2.6%	2.8%	4.5%
Real annual per capita growth rates (%, calculated from 1993 prices)								
Gross domestic product at market prices	-4.0%	-5.2%	-14.5%	-8.6%	-12.5%	-3.9%	2.7%	4.2%
Total consumption	..	-30.7%	-2.2%	-2.8%	-4.4%	-0.3%	1.2%	4.2%
Private consumption	..	-30.4%	..	..	-2.4%	..	..	4.7%

(continued)

**Russian Federation - Key Economic Indicators
(Continued)**

Indicator	Actual			Estimate		Projected		
	1990	1991	1992	1993	1994	1995	1996	1997
Balance of Payments g/ (US\$m)								
Exports (GNFS) ^b	80300	53800	41577	51276	58506	68526	74373	82428
Merchandise FOB	80300	53800	41577	44454	51398	60505	65436	72429
Imports (GNFS) ^b	74000	46900	42706	47422	54008	68421	74136	81798
Merchandise FOB	72000	44500	37206	34900	39500	50500	55100	60900
Resource balance	6300	6900	-1129	3854	4498	105	236	629
Net current transfers (including official current transfers)	0	0	0	0	0	0	0	0
Current account balance (after official capital grants)	4100	6300	-2629	2160	598	-4395	-7766	-8284
Net private foreign direct investment	-400	-100	700	386	-1000	2200	2500	2500
Long-term loans (net)	2000	5500	2600	-10100	-11900	-9100	-3568	-866
Official	4695	3816	1845	988	614	-873	1782	1074
Private	-2695	1684	755	-11088	-12514	-8227	-5350	-1940
Other capital (net, including errors and omissions)	-14400	-12300	129	10954	8402	15095	9686	7527
Change in reserves ^d	8700	600	-800	-3400	3900	-3800	-852	-877
<i>Memorandum items</i>								
Resource balance (% of GDP at current market prices)	0.6%	0.9%	-1.2%	2.1%	1.6%	0.0%	0.0%	0.1%
Real annual growth rates (1993 prices)								
Merchandise exports (FOB)	..	-34.5%	-14.8%	24.8%	15.6%	6.2%	4.5%	6.9%
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	-48.2%	-19.8%	-0.3%	11.9%	16.0%	5.6%	8.0%
Public finance (as % of GDP at current market prices)^e								
Current revenues	..	..	43.2	38.6	35.7	29.7	34.4	36.2
Current expenditures	..	..	57.3	41.8	40.5	33.9	36.0	35.4

(Continued)

**Russian Federation - Key Economic Indicators
(Continued)**

Indicator	Actual			Estimate		Projected		
	1990	1991	1992	1993	1994	1995	1996	1997
Current account surplus (+) or deficit (-)	..	..	-14.2	-3.2	-4.8	-4.2	-1.6	0.8
Capital expenditure	..	..	7.7	4.8	5.5	3.1	4.5	4.8
Foreign financing	..	..	..	5.3	1.2	0.6	1.1	1.1
Monetary indicators								
M2/GDP (at current market prices) h/	..	..	18.9	13.9	11.5	10.6	-	-
Growth of M2 (%)	..	..	778.2	340.6	191.9	74.0	-	-
Private sector credit growth / total credit growth (%)	..	..	..	72.0	31.4	0.8	-	-
Price indices(1993 =100)								
Merchandise export price index g/	125.8	128.7	116.7	100.0	100.0	110.9	-	-
Merchandise import price index g/	85.4	101.9	106.3	100.0	101.1	111.5	-	-
Merchandise terms of trade index g/	147.2	126.3	109.8	100.0	98.9	99.5	-	-
Real exchange rate (US\$/LCU) ^f	620.1	393.2	48.7	100.0	167.9	224.6	-	-
Real interest rates								
Consumer price index (% growth rate)	5.6%	92.6%	1354%	895%	303%	189%	-	-
GDP deflator (% growth rate)	16.6%	129%	1506%	878%	320%	191%	-	-

a. GDP components are estimated at factor cost.

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Should indicate the level of the government to which the data refer.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

g/ Excluding transactions with former Soviet republics.

h/ Ratio of M2 to 12 times December GDP.

Russian Federation - Key Exposure Indicators

Unified Survey FY96 projection (November 1995)

Indicator	Actual			Estimate		Projected		
	1990	1991	1992	1993	1994	1995	1996	1997
Total debt outstanding and disbursed (TDO) (US\$m) ^a	59,817	67,590	78,992	83,888	94,232	106,536	116,568	127,333
Net disbursements (US\$m) ^{a*}	2,000	5,500	2,213	-9,894	-11,956	-200	132	3,134
Total debt service (TDS) (US\$m) ^{a,d}	7,800	7,700	14,300	19,700	19,200	18,600	18,803	16,506
Debt and debt service indicators (%)								
TDO/XGS ^b	73.8	124.5	186.0	162.0	159.7	153.9	155.9	153.7
TDO/GDP	5.4	8.4	80.6	46.6	33.0	27.6	23.8	23.0
TDS/XGS ^d	9.6	14.2	33.7	38.0	32.5	26.9	25.1	19.9
Concessional/TDO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IBRD exposure indicators (%)								
IBRD DS/public DS	0.0	0.0	0.0	0.1	0.2	0.2	0.5	1.1
Preferred creditor DS/public DS	0.3	0.6	0.3	1.4	2.6	3.1	7.6	10.7
IBRD DS/XGS	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2
Share of IBRD portfolio ^f	..	..	0.0	0.0	0.0	0.8	1.9	3.1
IFC (US\$m)								
Loans								
Equity and quasi-equity ^{/c}								
MIGA								
MIGA guarantees (US\$m)								

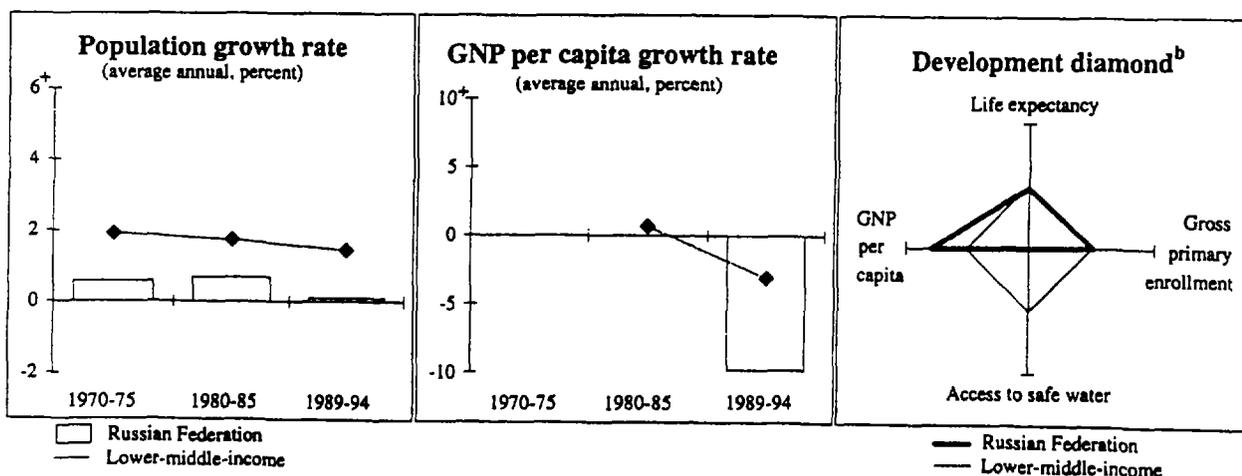
- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Includes equity and quasi-equity types of both loan and equity instruments.
- d. Scheduled debt service payments before debt relief.
- e. Scheduled amortization payments before debt relief.
- f. Including the present value of guaranties.

Policy and Social Development Indicators
Russian Federation

Indicator	Unit of measure	Latest single year		Most recent estimate 1989-94	Same region/income group		Next higher income group
		1970-75	1980-85		Europe & Central Asia	Lower-middle-income	
Priority Poverty Indicators							
POVERTY							
Upper poverty line	local curr.	..	..	20,578	..	..	..
Headcount index	% of pop.	..	..	32	..	..	..
Lower poverty line	local curr.	..	..	10,289	..	..	..
Headcount index	% of pop.	..	..	12	..	..	..
GNP per capita	US\$	..	..	2,640	2,270	1,670	4,710
SHORT TERM INCOME INDICATORS							
Unskilled urban wages	local curr.	..	..	..	..	..	..
Unskilled rural wages	"	..	..	..	..	..	..
Rural terms of trade	"	..	..	..	..	..	..
Consumer price index	1987=100	..	..	..	..	..	..
Lower income	"	..	..	..	..	..	..
Food ^a	"	..	..	..	..	..	..
Urban	"	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
SOCIAL INDICATORS							
Public expenditure on basic social services	% of GDP	..	..	7.6	..	..	..
Gross enrollment ratios							
Primary	% school age pop.	..	104	107	97	104	107
Male	"	..	104	107	97	105	..
Female	"	..	104	107	97	101	..
Mortality							
Infant mortality	per thou. live births	..	21	19	23	36	36
Under 5 mortality	"	..	..	24	31	47	43
Immunization							
Measles	% age group	..	..	..	..	77.4	82.9
DPT	"	..	..	..	..	82.0	74.7
Child malnutrition (under-5)	"	..	..	..	..	..	..
Life expectancy							
Total	years	..	69	64	68	67	69
Female advantage	"	..	10.2	13.8	9.7	6.4	5.8
Total fertility rate	births per woman	2.0	2.1	1.4	1.9	2.7	2.8
Maternal mortality rate	per 100,000 live births	..	68	52	..	..	..

Supplementary Poverty Indicators

Expenditures on social security	% of total gov't exp.	..	..	21.4	..	..	..
Social security coverage	% econ. active pop.	..	..	..	..	..	..
Access to safe water: total	% of pop.	..	..	..	..	..	86.2
Urban	"	..	..	..	..	..	94.0
Rural	"	..	..	..	..	..	64.8
Access to health care	"	..	..	..	..	..	..



a. See the technical notes, p.387. b. The development diamond, based on four key indicators, shows the average level of development in the country compared with its income group. See the introduction.

Russian Federation

Indicator	Unit of measure	Latest single year		Most recent estimate 1989-94	Same region/income group		Next higher income group
		1970-75	1980-85		Europe & Central Asia	Lower-middle-income	
Resources and Expenditures							
HUMAN RESOURCES							
Population (mre=1994)	thousands	134,200	143,858	148,350	487,445	1,096,881	472,807
Age dependency ratio	ratio	0.47	..	0.49	0.54	0.63	0.62
Urban	% of pop.	66.4	71.9	73.2	65.2	55.9	73.7
Population growth rate	annual %	..	0.8	-0.1	0.4	1.3	1.7
Urban	"	..	1.4	-0.3	1.4	2.7	2.5
Labor force	thousands	70,745	76,346	77,048	236,973	488,647	198,841
Agriculture	% of labor force	17	15	14	24	36	21
Industry	"	43	43	42	36	26	27
Female	"	50	49	49	45	40	34
Labor participation rates							
Total	% of pop.	53	53	52	49	45	42
Female	"	26	26	25	43	36	29
NATURAL RESOURCES							
Area	thou. sq. km	17,075.40	17,075.40	17,075.40	24,354.02	40,594.43	20,668.74
Density	pop. per sq. km	7.86	8.42	8.70	19.96	26.66	22.49
Agricultural land	% of land area	..	..	..	..	41.05	41.49
Change in agricultural land	annual %	..	-0.23	-1.26	-1.26	-1.38	0.02
Agricultural land under irrigation	%	1.67	2.66	2.38	6.73	11.40	9.28
Forests and woodland	thou. sq. km	..	..	..	770.81	5,969.25	7,520.52
Deforestation (net)	% change, 1980-90	..	..	..	..	..	..
INCOME							
Household income							
Share of top 20% of households	% of income	..	..	38	..	..	..
Share of bottom 40% of households	"	..	..	20	..	..	..
Share of bottom 20% of households	"	..	..	7	..	..	..
EXPENDITURE							
Food							
Food	% of GDP	..	..	18.0	..	..	..
Staples	"	..	..	2.4	..	..	..
Meat, fish, milk, cheese, eggs	"	..	..	6.0	..	..	..
Cereal imports	thou. metric tonnes	..	..	3,687	33,202	68,936	43,633
Food aid in cereals	"	..	..	1,124	4,392	5,771	67
Food production per capita	1987 = 100	..	..	..	..	102	102
Fertilizer consumption	kg/ha	..	..	25.1	41.4	46.3	68.9
Share of agriculture in GDP	% of GDP	..	11.1	6.4	12.7	14.0	8.0
Housing							
Average household size	persons per household	..	..	4.5	7.2	..	..
Urban	"	..	..	2.8	..	..	..
Fixed investment: housing	% of GDP	..	..	5.7	5.2	..	..
Fuel and power							
Energy consumption per capita	kg of oil equiv.	4,422	6,317	4,038	2,756	1,602	1,618
Households with electricity							
Urban	% of households	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
Transport and communication							
Fixed investment: transport equipment	% of GDP	..	..	4.2	..	..	..
Total road length	thou. km	638	783	934	..	..	..
INVESTMENT IN HUMAN CAPITAL							
Health							
Population per physician	persons	286	222	222	362	3,064	..
Population per nurse	"	95	83	93	248	..	..
Population per hospital bed	"	81	74	79	136	592	402
Oral rehydration therapy (under-5)	% of cases	..	..	..	..	..	51
Education							
Gross enrollment ratios							
Secondary	% of school age pop.	..	97	88	86	63	59
Female	"	..	98	91	90	62	..
Pupil-teacher ratio: primary	pupils per teacher	..	..	..	..	..	25
Pupil-teacher ratio: secondary	"	..	..	..	..	..	..
Pupils reaching grade 4	% of cohort	..	..	..	..	..	..
Repeater rate: primary	% of total enroll	..	..	..	..	..	..
Illiteracy	% of pop. (age 15+)	..	..	2	..	..	13
Female	% of fem. (age 15+)	..	..	..	..	..	15
Newspaper circulation	per thou. pop.	842	918	580	..	236	135

Russian Federation - Balance of Payments

(Excluding transactions with former Soviet republics)
(US\$ millions at current prices)

Unified Survey FY96 projection (November 1995)

	<i>Actual</i>			<i>Estimate</i>		<i>Projection</i>		
	1990	1991	1992	1993	1994	1995	1996		1997
Total exports of GNFS ^a	80300	53800	41577	51276	58506	68526	74373	82428
Merchandise (FOB)	80300	53800	41577	44454	51398	60505	65436	72429
Nonfactor services	0	0	0	6822	7108	8021	8936	9998
Total imports of GNFS	74000	46900	42706	47422	54008	68421	74136	81798
Merchandise (FOB)	72000	44500	37206	34900	39500	50500	55100	60900
Nonfactor services	2000	2400	5500	12522	14508	17921	19036	20898
Resource balance	6300	6900	-1129	3854	4498	105	236	629
Net factor income	-2200	-2200	-4500	-4500	-4700	-5300	-8003	-8914
Factor receipts	700	500	900	500	500	700	400	400
Factor payments	2900	2700	5400	5000	5200	6000	8403	9314
Interest (scheduled)	2900	2700	5400	5000	5200	6000	7924	8585
Total interest paid ^b	2642	3044	357	681	1208	3214	5754	6683
Net adjustments to scheduled interest	258	-344	5043	4319	3992	2786	2170	1902
Other factor payments	0	0	0	0	0	0	479	729
Net private current transfers	0	0	0	0	0	0	0	0
Current receipts, of which	0	0	0	0	0	0	0	0
Workers' remittances	0	0	0	0	0	0	0	0
Current payments	0	0	0	0	0	0	0	0
Net official current transfers	0	0	0	0	0	0	0	0
Current account balance	4100	4700	-5629	-646	-202	-5195	-7766	-8284
Official capital grants	0	1600	3000	2806	800	800	0	0
Private investment (net)	-400	-100	700	386	-1000	2200	2500	2500
Direct foreign investment	-400	-100	700	386	-1000	2200	2500	2500
Portfolio investments	0	0	0	0	0	0	0	0
Net LT ^c borrowing	2000	5500	2600	-10100	-11900	-9100	-3568	-866
Disbursements ^b	16978	13393	12600	4936	2278	4927	7811	7555
Repayments (scheduled)	4900	5000	8900	14700	14000	12600	10379	7421
Total principal repaid ^b	7942	9392	948	1558	2277	3970	3649	2691
Net adjustments to scheduled repayments	-3042	-4392	7952	13142	11723	8630	6730	4730
Net other LT inflows	-10078	-2893	-1100	-336	-178	-1427	-1000	-1000

a. Goods and nonfactor services.

b. Historical data from Debt Reporting System (DRS); other data projected by country operations division staff.

c. "LT" denotes "long-term."

Russian Federation - Balance of Payments (continued)

(Excluding transactions with former Soviet republics)
(US\$ millions at current prices)

Unified Survey FY96 projection

	Actual		Estimate		Projection		1997	
	1990	1991	1992	1993	1994	1995		1996
Adjustments to scheduled debt service	-2784	-4736	12995	17461	15714	11416	8900	6632
Debt service not paid	-2784	-4736	12995	17461	15714	25148	8900	6632
Reduction in arrears/prepayments (-)	0	0	0	0	0	-13732	0	0
Other capital flows	-11616	-7564	-12866	-6507	-7313	3679	786	895
Net short-term capital	0	0	-1400	-1300	-1600	3500	1000	1200
Net capital flows n.e.i. ^d	0	-700	-6200	-900	-8700	0	0	0
Errors and omissions	-11616	-6864	-5266	-4307	2987	179	-214	-305
Change in net international reserves (- indicates increase in assets)	8700	600	-800	-3400	3900	-3800	-852	-877
Memorandum items								
Total gross reserves, of which	..	2813	4531	8875	6475	15675	19227	22903
Total reserves minus gold	1300	16	1953	5816	3416	12616	16168	19844
Gold (at year-end London price)	..	2797	2578	3059	3059	3059	3059	3059
Total gross reserves (in months' imports G&S ^g)	..	0.7	1.1	2.0	1.3	2.5	2.8	3.0
Exchange rates								
Annual average (LCU/US\$) ^f	0.6	1.7	196.0	951.9	2204.8	4559.7	5063.9	5281.2
At end year (LCU/US\$)	0.6	100.0	414.5	1247.0	3550.0	4571.8	5400.2	5181.4
Index real average exchange rate (1993 =100)	620.1	393.2	48.7	100.0	167.9	224.6	275.5	292.9
Current Account Balance as % GDP	0.4	0.6	-5.7	-0.4	-0.1	-1.3	-1.6	-1.5

d. "n.e.i." denotes "not elsewhere included."

e. "G & S" denotes "goods and services."

f. "LCU" denotes "local currency units."

g. The index of the real exchange rate reflects US\$/LCU, so an increase is an appreciation at the real exchange rate.

Russian Federation - Public Finance
(at current prices and exchange rates)

Unified Survey FY96 projection (November 1995)

	Actual			Estimate		Projection		
	1990	1991	1992	1993	1994	1995	1996	1997
Government budget (billions LCUs) /a								
Total current revenues	8285.8	66126.2	224943.3	522333.1	853263.5	1058719.8
Direct taxes	4272.7	34988.9	113050.3	283437.4	431186.0	518431.0
Indirect taxes	2845.9	28643.9	109530.5	223001.1	400958.4	516947.2
On domestic goods and services	20199.3	87323.4	189583.1	368740.7	478933.9
On international trade	8444.6	22207.1	33418.0	32217.7	38013.2
Nontax receipts	1167.2	2493.4	2362.5	15894.6	21119.1	23341.6
(of which current grants)
Total Current Expenditures	11004.8	71691.1	255478.4	595692.9	891804.2	1034210.6
Interest on external debt	1058.4	3201.4	8577.3	25534.3	36915.8	40506.5
Interest on domestic debt	78.6	1194.6	7498.4	35154.1	29123.0	32577.9
Transfers to private sector	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to other NFPS ^b	3124.6	13774.5	51784.5	132877.3	220141.3	299027.8
Subsidies	4108.9	19151.4	56182.3	121638.3	160882.4	145035.1
Consumption	133.9	209.7	2634.3	34369.3	131435.9	280489.0	444741.8	517063.3
Wages and salaries
Other consumption
Budgetary Savings	-2719.0	-5564.9	-30535.0	-73359.8	-38540.7	24509.2
Capital Revenues	62.3	318.9	748.4	8794.2	12391.4	14620.5
Total Capital Expenditures	1478.3	8261.5	34969.5	54524.0	111329.4	140758.1
Capital transfers	4296.3	19998.2	20842.3	56886.1	71636.4
Budgetary fixed investment	3965.2	14971.4	33681.8	54443.4	69121.8
Overall balance (- = deficit)	-4135.0	-13507.5	-64756.2	-119089.6	-137478.7	-101628.5
Sources of financing (+)	4135.0	13507.5	64756.2	119089.6	137478.7	101628.5
Official capital grants	2671.0	0.0	0.0	0.0	0.0
Net external borrowing	6377.6	7276.0	10031.3	27532.4	31259.2
Net disbursements (cash)	7276.0	10031.3	27532.4	31259.2
Adjustments to scheduled principal repayments (-)	0.0	0.0	0.0	0.0
Adjustments to scheduled debt service (+)	0.0	0.0	0.0	0.0
Net monetary system	1023.0	9400.0	60200.0	43132.0	0.0	0.0
Net other domestic borrowing	-4941.0	-2719.8	65926.3	109946.3	70369.3

a. "LCU" denotes "local currency unit."

b. "NFPS" denotes "nonfinancial public sector."

Russian Federation - Public Finance (continued)
(at current prices and exchange rates)

Unified Survey FY96 projection

	Actual			Estimate		Projection		
	1990	1991	1992	1993	1994	1995	1996	1997
Shares of GDP (%)								
Current revenues	43.2	38.6	35.7	29.7	34.4	36.2
Current expenditures	57.3	41.8	40.5	33.9	36.0	35.4
Budgetary savings	-14.2	-3.2	-4.8	-4.2	-1.6	0.8
Capital revenues	0.3	0.2	0.1	0.5	0.5	0.5
Capital expenditures	7.7	4.8	5.5	3.1	4.5	4.8
Overall Balance (- = deficit)	-21.5	-7.9	-10.3	-6.8	-5.5	-3.5
Official capital grants	1.6	0.0	0.0	0.0	0.0
Net external borrowing	3.7	1.2	0.6	1.1	1.1
Monetary system credit	5.3	5.5	9.6	2.5	0.0	0.0
Other domestic financing	-2.9	-0.4	3.7	4.4	2.4
Government Debt (DOD /c at the end of the year, in (billions LCUs, unless noted))								
External debt	139,764	430,615	..	..	..
External debt (in US\$ millions) c/	112,081	121,300	..	..	..
Debt to monetary system	..	177	1,200	10,600	70,800	113,932	113,932	113,932
Other domestic debt	7,100	22,300	..	..	..
Total government debt	157464.4	523715.0	..	..	..
Total government debt as percent of GDP	91.8	83.1	..	..	..
Tax burden indicators (%)								
Direct taxes / GDP	22.3	20.4	17.9	16.1	17.4	17.7
Indirect taxes on domestic G&S ^a / GDP	11.8	13.9	10.8	14.9	16.4
Indirect taxes on domestic G&S / private consumption	26.2	27.7	18.4	25.8	27.3
Taxes on international trade / merchandise imports	25.4	25.5	14.5	11.5	11.8

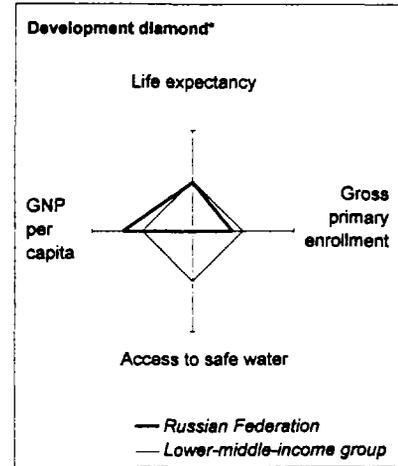
c. "DOD" denotes "debt outstanding and disbursed."

b. "G&S" denotes "goods and services."

c. Including debt to official creditors other than Paris Club (Kuwait, South Korea, member states of ex-CMBA).

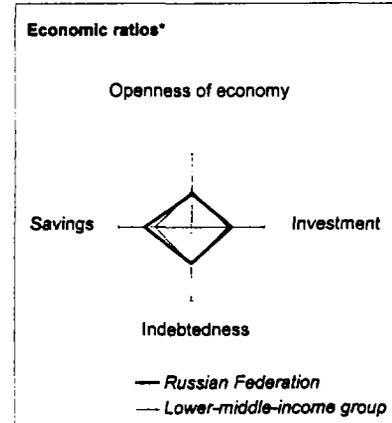
Russian Federation at a glance

POVERTY and SOCIAL	Russian Federation	Europe & Central Asia	Lower-middle-income
Population mid-1994 (millions)	148.3	498	1,097
GNP per capita 1994 (US\$, Atlas method)	2,320	2,430	1,680
GNP 1994 (billions US\$, at Atlas conversion factor)	344.4	1,209	1,843
Average annual growth, 1990-94			
Population (%)	0.0	0.5	1.4
Labor force (% Russia: 1992-95)	-0.9	..	1.6
Most recent estimate (latest year available since 1989)			
Poverty: headcount index (% of population)	32	..	..
Urban population (% of total population)	73	84	54
Life expectancy at birth (years)	65	69	67
Infant mortality (per 1,000 live births)	18	19	35
Child malnutrition (% of children under 5)	..	..	..
Access to safe water (% of population)	..	..	78
Illiteracy (% of population age 15+)	0	..	..
Gross primary enrollment (% of school-age population)	82	97	104
Male	..	97	105
Female	..	97	101



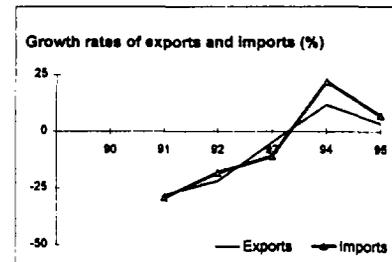
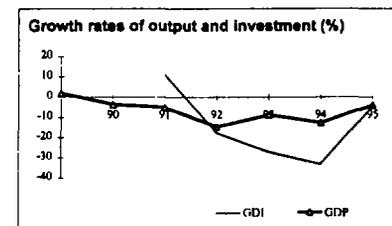
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1994	1995	
GDP (billions US\$)	277.1	363.7	
Gross domestic investment/GDP	28.9	28.0	
Exports of goods & non-factor services/GDP	27.8	24.7	
Gross domestic savings/GDP	31.7	30.7	
Gross national savings/GDP	30.1	29.3	
Current account balance/GDP	1.2	1.3	
Interest payments/GDP a)	1.8	1.7	
Total debt/GDP	44.1	33.1	
Total debt service/exports a) b)	26.1	20.1	
Present value of debt/GDP	
Present value of debt/exports	
(average annual growth)					
GDP	-12.6	-4.0	5.1
GNP per capita	-12.6	-4.3	5.4
Exports of goods and nfs	11.8	3.6	4.8



STRUCTURE of the ECONOMY

	1975	1985	1994	1995
(% of GDP)				
Agriculture	7.8	9.4
Industry	34.8	33.9
Manufacturing
Services	57.4	56.7
Private consumption	47.4	..
General government consumption	20.9	..
Imports of goods and non-factor services	25.0	22.0
(average annual growth)				
Agriculture	-9.0	..
Industry	-18.6	..
Manufacturing
Services	-10.0	..
Private consumption
Total consumption	2.2	-2.8
Gross domestic investment	-33.1	-4.5
Imports of goods and non-factor services	22.0	7.1
Gross national product	-12.7	-4.4



Note: 1995 data are preliminary estimates.

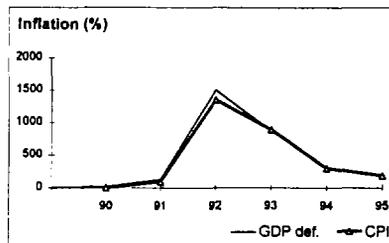
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

- a) Scheduled payments before debt relief.
b) Exports of goods and services.

Russian Federation

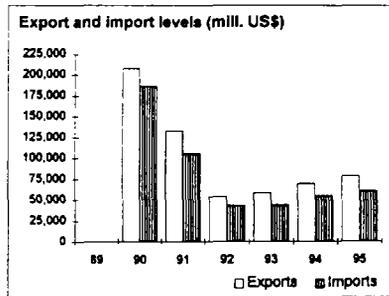
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
<i>(% change)</i>				
Consumer prices	303.2	189.2
Implicit GDP deflator	307.6	182.8
Government finance				
<i>(% of GDP)</i>				
Current revenue	37.7	29.8
Current budget balance
Overall surplus/deficit	-10.0	-4.8



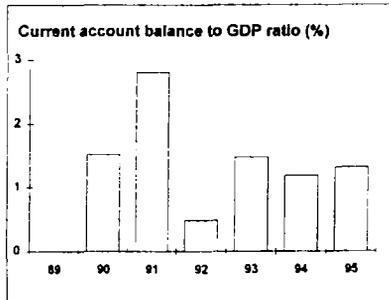
TRADE

	1975	1985	1994	1995
<i>(millions US\$)</i>				
Total exports (fob)	69,600	78,500
Petroleum, crude and processed	16,454	18,162
Natural gas	12,632	13,834
Manufactures
Total imports (fob)	55,200	60,600
Food
Fuel and energy
Capital goods
Export price index (1987=100)
Import price index (1987=100)
Terms of trade (1987=100)



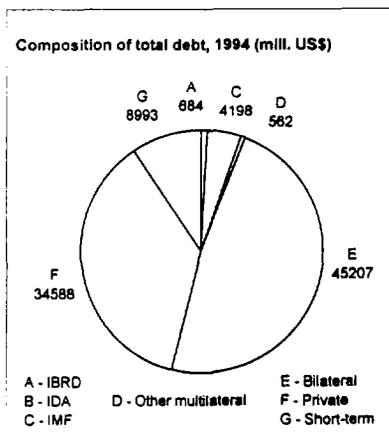
BALANCE of PAYMENTS

	1975	1985	1994	1995
<i>(millions US\$)</i>				
Exports of goods and non-factor services	77,100	89,900
Imports of goods and non-factor services	69,400	79,900
Resource balance	7,700	10,000
Net factor income	-4,300	-5,400
Net current transfers	-100	200
Current account balance, before capital transfers	3,300	4,800
Financing items (net)	-7,200	600
Changes in net reserves	3,900	-5,400
Memo:				
Reserves including gold (mill. US\$)	6,475	17,275
Market exchange rate (local/US\$)	2,205	4,562



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1993	1994
<i>(millions US\$)</i>				
Total debt outstanding and disbursed c)	83,888	94,232
IBRD	367	684
IDA	0	0
Total debt service paid	2,331	3,661
IBRD	12	38
IDA	0	0
Composition of net resource flows				
Capital transfers, net	2,802	800
Official creditors
Private creditors
Foreign direct investment	386	600
Portfolio equity	0	-200
World Bank program				
Commitments	700	600
Disbursements	371	283
Principal repayments	0	0
Net flows	371	283
Interest payments	12	38
Net transfers	360	245



Note: Estimates for economies of the former Soviet republics are subject to more than the usual range of uncertainty. 1995 data are preliminary estimates.

c) Debt owed to the members of ex-CMEA is excluded.

RUSSIAN FEDERATION
COAL SECTOR ADJUSTMENT LOAN

TIMETABLE OF KEY PROJECT PROCESSING EVENTS

Time taken to prepare	11 months
Project prepared by	Government with IBRD assistance
First IBRD mission	July 1995
Departure of appraisal mission	May 1996
Negotiations	May 1996
Planned date of effectiveness	July 1996
List of relevant PCRs and PPARs	Not applicable

STATUS OF BANK GROUP OPERATIONS IN RUSSIA

A. STATEMENT OF BANK LOANS^{a/}
(as of June 3, 1996)

Loan No.	Fiscal Year	Borrower	Project	US\$ Million	
				Loan	Undisbursed
Two fully disbursed loan				1200.00	0.0
<u>Loans Under Disbursement:</u>					
35320	1993	Russia	Employment services and Social Protection	60.00	46.51
35460	1993	Russia	Privatization	90.00	64.51
36230	1993	Russia	Oil Rehabilitation	604.77	407.93
37060	1994	Russia	Highway Rehabilitation and Maintenance	300.00	248.04
37340	1994	Russia	Financial Institutional Development	200.00	195.00
37560	1994	Russia	Land Reform Implementation Support	80.00	78.49
37570	1994	Russia	Agriculture Reform Implementation Support	240.00	238.69
37630	1994	Russia	Enterprise Restructuring	200.00	200.00
37680	1994	Russia	Oil Rehabilitation II	500.00	457.93
38060	1995	Russia	Environment Management	110.00	106.04
38240	1995	Russia	Management and Finance	40.00	36.78
38440	1995	Russia	Portfolio Development	40.00	38.28
38500	1995	Russia	Housing	400.00	396.81
38530	1995	Russia	Tax Administration	16.80	16.45
38720	1995	Russia	Emerg. Oil Spill. Mit	99.00	37.21
38760**	1995	Russia	Gas Distribution and Energy	106.50	106.50
38850	1995	Russia	Urban Transport	329.00	329.00
39610 *	1996	Russia	Standards Development	24.00	24.00
39900 **	1996	Russia	Bridge Rehabilitation	350.00	350.00
40090 **	1996	Russia	Community Social Infra	200.00	200.00
40120 **	1996	Russia	Enterprise Housing Diverstiture	300.00	300.00
40290 **	1996	Russia	Capital Markets	89.00	89.00
Total				4394.30	3974.33
Of Which: Repaid				0.00	
Total Now Held by the Bank				5570.07	
Total Amount Sold				0.00	
Of Which: Repaid				0.00	
Total Undisbursed					3974.33

a/ The status of these projects is described in a separate report on all Bank/IDA financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

* Not yet effective.

** Not yet signed.

B. STATEMENT OF IFC INVESTMENTS
(As of April 30, 1996)

FY Appr.	FY Committed	Description	Sector	Loan	Equity	Other /a-	Total	Undisb
<u>A. Approved and Committed (Signed) Projects</u>								
93	94	International Moscow Bank	Financial Services	15.0	0.0		15.0	12.0
93	94	Polar Lights	Mining & Extraction	60.0	0.0		60.0	0.0
94	94	Framlington Russ. Inv. Fund	Financial Services	0.0	8.0		8.0	0.0
95	95	First NIS Regional Fund	Financial Services	0.0	15.0		15.0	4.5
94	95	Russian Telecom Dev. Corp.	Infrastructure	0.0	7.5		7.5	0.0
95	95	Nizhniy Newsprint Holding	Timber, Pulp and Paper	30.0	11.0	45.0	86.0	20.2
95	95	National Registry Com	Financial Services	0.0	1.5		1.5	0.6
95	95	Vasyugan Services	Mining & Extraction	9.0	0.0		9.0	0.0
96	96	Alpha Cement Open Jt. Stock	Cement & Construction		13.33		13.33	0.0
95	96	Dapsona	Food & Agribusiness	6.8	0.0		6.8	5.3
95	96	Sector Capital Development	Financial Services	0.0	0.47		0.47	0.13
95	96	Sector Capital Fund	Financial Services	0.0	4.53		4.53	4.22
96	96	Russian Technology Fund	Financial Services	0.0	2.00		2.00	1.50
96	96	Savvinskaya-Seiyo Company	Indus & Cons Svcs	7.7	0.00		7.70	7.70
Total gross commitments				128.5	63.33	45.0	236.83	56.15
Less cancellations, terminations, repayment & sales				19.8	-	-	19.80	-
Total commitments now held				108.7	63.33	45.0	217.03	56.15
<u>B. Approved Projects Pending Commitment</u>								
		CTC Foods	Food & Agribusiness	0.0	7.0		7.0	
		Volga Fund	Financial Services	0.0	20.0		20.0	
		ICF/UNEXIM	Financial Services	15.0	0.0		15.0	
		Svyazinvest	Telecommunications	0.0	50.0		50.0	
Total pending commitments				15.0	77.0		92.0	
Total commitments held and pending				123.7	140.33	45.0	309.03	
Total undisbursed commitments held and pending				29.0	10.95	16.2	56.15	

/a Participants portion.

MAP SECTION

RUSSIAN FEDERATION COAL SECTOR ADJUSTMENT LOAN COAL, POWER, AND STEEL INDUSTRIES

The boundaries, colors, denominations and any other information shown on this map do not imply on the part of the World Bank Group any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

UNITED KINGDOM

NETHERLANDS DENMARK

GERMANY

CZECH REP. POLAND

HUNGARY

ROMANIA

TURKEY

ARMENIA

SYRIAN ARAB REP.

NORWAY

SWEDEN

FINLAND

ESTONIA

LIATVIA

UKRAINE

ARMENIA

ISLAMIC REP. OF IRAN

GEORGIA

AZERBAIJAN

UZBEKISTAN

RUSSIAN FED.

PECHORA

MOSCOW

SYKTYVKAR

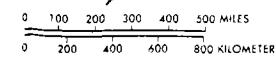
KAZAKHSTAN

UZBEKISTAN

- MAJOR COAL FLOWS GREATER THAN 10 MILLION TONS (1992)
- MAJOR COAL MINES
 - BROWN COAL
 - HARD COAL
- COAL BASIN:
 - BROWN COAL
 - HARD COAL
- IRON ORE
- STEEL TOWNS
- COAL FIRED POWER PLANTS WITH INSTALLED CAPACITY OF 1300 MEGAWATTS OR GREATER

- MAJOR COAL BASINS FOR COMMUNITY SUPPORT AND EMPLOYMENT PROGRAMS
- ADMINISTRATIVE CENTERS FOR COMMUNITY SUPPORT AND EMPLOYMENT PROGRAMS
- "M" ROADS
- OTHER FEDERAL ROADS
- SELECTED SECONDARY ROADS
- SIGNIFICANT PORTS
 - LOCAL
 - REGIONAL
 - NATIONAL

- RAILROADS
- SELECTED TOWNS AND CITIES
- NATIONAL CAPITAL
- RIVERS
- ECONOMIC REGION BOUNDARIES
- OBLAST, KRAI OR REPUBLIC BOUNDARIES
- AUTONOMOUS OBLAST, OKRUG OR REPUBLIC BOUNDARIES
- INTERNATIONAL BOUNDARIES



IMAGING

Report No: P- 6919 RU
Type: PK