



1. Project Data:		Date Posted : 08/07/2001	
PROJ ID: P040564		Appraisal	Actual
Project Name: Coal Secal	Project Costs (US\$M)	300	300
Country: Ukraine	Loan/Credit (US\$M)	300	300
Sector(s): Board: EMT - Mining and other extractive (58%), Central government administration (16%), Other social services (16%), Compulsory pension and unemployment insurance (7%), General industry and trade sector (3%)	Cofinancing (US\$M)		
L/C Number: L4118			
	Board Approval (FY)		96
Partners involved :	Closing Date	12/31/1997	06/30/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
<p>The Coal SECAL (Sector Adjustment Loan) was a quick-disbursing loan providing budget support . It financed part of the fiscal costs of restructuring the coal sector and provided balance of payment support . The ultimate objective of the Government's coal sector reform program was a competitive and efficient industry, no longer reliant on budgetary support. Performance indicators were set in the SAR including number of mines, budget support, employment and profit/loss. The objectives can be summarized as to :</p> <ol style="list-style-type: none"> 1. Support the balance of payments and budget financing needs for late 1996 and in 1997, including the fiscal costs of restructuring the coal sector . 2. Help transform coal into a sustainable sector . 3. Improve the productivity of the coal sector . 			
b. Components			
<p>Disbursement was linked to conditionality for tranche release which replace the conventional components of a specific project loan. Following a restructuring in 1997 the number of mines to be closed was raised to 44 and all unfulfilled conditions for operating mines were waived . The components are listed below under the second half of achievement of objectives .</p>			
c. Comments on Project Cost, Financing and Dates			
<p>A parallel Coal Pilot Project (CPP), approved earlier in 1997, piloted the physical closures and social mitigation at 3 sites. Disbursement of the SECAL was not linked to any specific purchases but was subject to a standard list of ineligible goods. On December 1997, following earlier rapid disbursement of \$ 150 million before the end of 1996, the second tranche was restructured into 4 smaller tranches, with conditionality entirely directed towards the implementation of mine closures and associated social and environmental mitigation . The central objective of reducing large operating subsidies for the coal industry by fast restructuring was retained . The development objectives were revised to extend the period of balance of payment support to December 31, 2000 with three tranches of \$40 million and a final one of \$30 million.</p>			
3. Achievement of Relevant Objectives:			
<ol style="list-style-type: none"> 1. <i>Balance of Payments support and fiscal costs of restructuring</i> - Government provided sufficient funds for restructuring to take place at a rate sufficient to meet the implementation progress criteria agreed with the Bank for release of individual loan tranches . 2. <i>Transformation to a self sustaining sector</i> - significant progress was made through closure of more than 70 mines, larger than the amount agreed under the revised objectives . 			

3. *Improving productivity* - despite closure of 49 mines, and a reduction of employment of 24% during 1995-1999, production only fell 3%, an increase in labour productivity of 27%.

The major achievements by components were as follows :

1. *Subsidies* were eliminated for 76 class 1 mines were restricted to category 2 and 3 mines. Conditions for receiving subsidies were enforced through performance contracts .Restrictions on investment in these latter mines was only partially observed .
2. *Corporatization* - all category 1 and 2 mines were corporatized but little progress was made in merging and closing holding companies and production associations to streamline management of the sector .
3. *Restriction on coal exports and price control* - restrictions on exports were removed and price control abolished . The full potential impact could not be realized due to rampant barter trade and nonpayment for coal .
4. *Investments in Category 1 Mines* - the system of repayable bank loans as set out in the Letter of Coal Sector Policy was generally not implemented and most investment continued to be financed by grants .
5. *Coal Sector Budget for 1997* - funds were provided by Government in the agreed total but their use deviated agreed allocations between restructuring and more operating subsidies and investments . The explicit condition of not increasing payables for the mines beyond the level of August 1996 was not achieved .
6. *Closure of 40 mines in a socially and environmentally satisfactory manner* - this was achieved and exceeded .
7. *Divestiture of social assets of 100 mines* - Limited progress was made on transfers to municipalities, a key issue being the refusal of regional administrations to take responsibility for operation and maintenance without adequate budgetary support .

4. Significant Outcomes/Impacts:

1. The feasibility of the central task of closing of uneconomic mines and mitigation of social and environmental impact was confirmed under this adjustment operation .
2. The SECAL had a significant impact on the institutional capacity for mine closures - the mine closure agency, UDKR, created for the CPP, executed its tasks competently and successfully despite political attacks and budget shortages .
3. Both CCP and the Coal SECAL were valuable for designing a follow -on Coal Sector Social Mitigation Project .
4. The agreement of the coal sector budget for 1997 was an important step to achieve consensus among different branches of the Government .

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

1. The original tranche release conditions were very demanding and not all responsive to the sector's circumstances and development priorities . However for the country and sector there were no relevant lessons from prior projects available .
2. For political and social reasons the Government continues to grant production subsidies with first priority to wage payments for practically all mines .
3. Nonpayment and barter trade, which are systemic throughout the state sector, have been the most important negative factors influencing implementation outcomes, especially for the better part of the coal industry . Net payables have exceeded agreed SECAL levels, caused by nonpayment for coal and aggravated by apparently high dealer profits and corruption in the opaque and economically inefficient barter trade . Non-wage debt has risen dramatically - the increase in net payables represents an additional hidden subsidy equal to about half of the open budget subsidies .
4. Established regulations and procedures increase the time and cost of mine closures .
5. Government did not normally come forward with public information on coal restructuring and the lack of a coherent reform policy may have favoured political opposition to coal sector reform .
6. The Ministry of Construction and Industry (MCI) did not give the necessary absolute priority to the funding of UDKR for fast and efficient mine closures .
7. MCI controlled design institutes have exercised bureaucratic power with a negative impact on time and costs of mine closures, despite their key role in preparation and supervision of mine closures .

8.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	The momentum of the pilot project was not replicable with a wider scale of closures, but still substantial .
Sustainability :	Unlikely	Unlikely	The latest changes in government suggest the rate of closures achieved under the restructured SECAL are unlikely to be sustained in the short-term. In the longer term the mine closures effected under the SECAL are a significant step to

Bank Performance :	Satisfactory	Highly Satisfactory	achieving sustainability of the sector . The major constraints to better implementation were systemic and beyond operational staff's control . Intensive supervision was supported by essential follow-up by the Kiev Resident Mission. Performance on the parallel CPP was also rated "Highly Satisfactory."
Borrower Perf .:	Satisfactory	Satisfactory	The Borrower brought UDKR into operation with speed and efficiency and an adequate initial number of mines was transferred to UDKR for closure, without major problems.
Quality of ICR :		Exemplary	

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

7. Lessons of Broad Applicability:

1. Closure of uneconomic mines was identified to be the single most important action that was fully under the control of the implementing agency and had the most positive impact on the operating mines .
2. The key action needed now is to improve the closure procedure and apply lessons learned from the SECAL to the next round of mine closures.

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

Exemplary. The ICR needs to be read in conjunction with that for the CPP to fully understand how closely related the two operations were.