

RUSSIAN FEDERATION: COAL SECTOR ADJUSTMENT LOANS*

I. Abstract

The Russian coal sector was in need of reforms after beginning its transition from a planned economy in 1991. In 1996 and 2000, the World Bank provided two Sector Adjustment Loans, or SECALs, for socially sustainable restructuring of the Russian coal sector.

During this restructuring, some major reforms took place, including a change in institutional roles that ensured an improvement in accountability mechanisms in the coal sector, which ensured better social protection for all workers. The workers, including disabled miners, became aware of their entitlements and could voice their opinions through their local groups, which did not exist earlier. Wage payments were made on time, and the workers started to receive the entirety of their monthly salaries in cash.

Safety conditions for workers also improved. Inefficient mines ceased to operate, and restructuring was aimed at ensuring employment for the laid-off workers in other sectors. However, this approach could not fully address the aftermath of layoffs and terminations in the coal industry.

II. Background

Following the end of more than seven decades of Soviet rule, major reforms started taking place in various sectors of the new Russian economy in the 1990s. The coal sector was one of the most severely affected areas of the economy. Besides mismanagement during the socialist period, a drop in global demand for coal in the early 1990s contributed to the problems of this sector.

The coal sector's government subsidies were second only to those for the agricultural sector, and amounted to more than 1 percent of Russia's GDP in 1993. However, these subsidies failed to improve the output of the mines. The sector had various inefficiencies and deteriorating safety conditions. The system for wage distribution was weak. On average, payments were delayed by 8–16 months and were often in the form of commodities such as shoes, glass, sugar, and coal itself. Municipalities had limited capacity, and no systems in place, to transfer resources related to the coal sector. Information flows between the government and coal sector management, and between the mines and power companies, was not clear.

In order to support the country's coal restructuring program, the World Bank provided two Coal Sector Adjustment Loans. Coal SECAL I worth US\$500 million was granted in 1996, followed by Coal SECAL II worth US\$800 million in 2000. The coal SECALs aimed at a socially sustainable restructuring of the sector, including the provision of a social safety net system for redundant workers.

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As part of the reform process, information was collected on the availability of resources such as wages, pension, and insurance to workers, including disabled miners, so that the laid-off workers could shape their livelihood strategies. Evaluations of social impacts and financial audits were put in place to monitor the delivery of funds to the intended recipients, and to ensure awareness of their rights. In addition to the delivery of financial benefits, community development and employment programs were initiated in areas with high coal-related unemployment. These programs were intended for a successful transition of laid-off workers from the coal sector to other sectors of the economy. They provided occupational retraining, small business support, temporary public works, and subsidized loans to support economic activities in other sectors.

The coal sector reform included significant accountability mechanisms, such as process mapping and stakeholder mapping, greater information sharing and transparency, mechanisms providing consultation with and participation by stakeholders, checks and balances between ministries for budget allocation and enforcement of rules, and financial auditing and accountability processes. Process mapping by the World Bank involved tracing flows of funds and information in three key areas:

1. flows of money for the delivery of social protection programs;
2. flows of policies and decisionmaking regarding the closure of mines; and
3. flows of information among government ministries and officials, and between the government and the public.

III. Impact/Results

Outcomes of the Coal Sector Reforms

- Subsidies to the coal sector decreased from US\$2.76 billion in 1994 to US\$0.28 billion in 2000. The decrease in subsidies helped improve the delivery of social protection and community development. In the year 2000, 31 percent of the coal subsidy was directed to social protection.
- The delivery of social protection services improved significantly, as all workers laid off from closed or open mines received their benefits directly, in full, and on time (verified through multiple sources in government at 100 percent, and through social impact monitoring at 96–98 percent). All disabled workers from closed mines received their benefits in their entirety and on time.
- Coal worker salaries and work conditions also improved. For instance, monthly salaries are now paid entirely in cash and have reached 30,000 rubles in Siberia, as compared with earlier payments, which were made 8–16 months late and often in the form of a commodity. Safety conditions for the miners have also improved.

Organizational Outcomes

- There was a notable change in the roles of existing organizations. The Treasury, for instance, was made the central agency in the new system for ensuring accountability, delivering benefits, and managing subsidies. The Social Insurance Fund (SIF) agreed to deliver benefits to disabled miners

initially through funds from the Ministry of Energy and later from the fees collected from coal mines. Benefits were delivered in full and on time, establishing a credible operating pattern.

- Mechanisms were created for intragovernmental participation. An Interagency Coal Commission was created for discussions and decisionmaking among different stakeholders in the government. An interministerial group was also formed to ensure prompt and suitable actions by various stakeholders for timely results.

Institutional Outcomes

- The new rules across government agencies establish clear links between allocations and outcomes. For instance, the new budgets clearly identify the categories and recipients of subsidies, in addition to delivery and accountability mechanisms. This transparency has helped to avoid misunderstandings and delays.
- Initially, local municipalities opposed the new accountability mechanisms for local development funds, but later they found these mechanisms helpful in protecting local officials from being pressured by other stakeholders.

IV. Key Elements of Empowerment

Accountability

Internal accountability was strengthened because several ministries, as well as the World Bank, checked budget allocations, and because rules for internal processes, oversight mechanisms, and financial auditing were put in place. Floating loan tranches provided flexibility to address unexpected issues and brought the coal sector to the attention of key government officials several times a year.

Mapping the flows of money allocated for social protection from the top to the intended recipients revealed that coal companies and mine managers had sufficient budgets, but with little accountability for delivering funds to recipients.

Mapping the policy flows disclosed the gaps between policy intention and reality. For instance, government policy indicated that 300 billion rubles (US\$9,900 million) were to be spent on social protection in 1996. However, less than 35 percent of miners actually received their allocated funds. Furthermore, although only 8 mines were designated to close, about 60 mines closed illegally. The mapping between policy statements and policy outcomes revealed the ignorance of miners about the closure of mines and their entitlements. Furthermore, there were no procedures in place to inform miners of their rights.

Information

Mapping the information flows showed that low-level government officials often kept information from high-ranking officials, and that ministries usually failed to share information with each other. For example, the Ministry of Finance classified most information as “national secrets.” To address these problems in information flows, neutral mechanisms for gathering and analyzing information from multiple sources

were established, the information was cross-tabulated to find areas of agreement and disagreement, and mechanisms for timely delivery of information at monthly and quarterly intervals were established.

Stakeholder mapping was also important because stakeholders provided critical information on processes, and recommended mechanisms for institutional interventions. For example, stakeholder mapping at the local level showed that accountability and transparency were doubtful without budgeting and accounting procedures. In response, mechanisms were established to direct all payments through the Treasury in order to restrict local governments. The reform included government provisions to provide miners, their families, and their communities with adequate and timely information about the reform program, its implementation, their entitlements, and mechanisms for legal recourse during restructuring.

Inclusion/Participation

Participatory processes were created for better accountability at regional, local, and community levels:

- The regional Interagency Coal commissions set up in 1994–95 were strengthened, and commissions were established in new coal regions. These steps developed social partnership mechanisms that included residents' groups in the coal regions.
- Oversight committees, including local administrators and representatives of various affected groups, were formed to plan, coordinate, and implement a local strategy for development; determine social protection for laid-off workers and residents of mining communities; and create guidelines for the allocation of funds for local programs.
- Workers, communities, and unions were also included in the process as stakeholders. For instance, two labor unions were granted US\$400,000 each to promote workers' awareness of their rights and their participation in monitoring programs.
- Social impact monitoring was conducted at the local level to track and assess the delivery of benefits and the impact of coal sector reforms on miners, their families, and their communities. Federal government and bank officials regularly visited the field and met with workers directly.

Local Organizational Capacity

In this whole process, the workers could put forth their problems and demands for social protection to higher authorities through groups or unions. Workers, communities, and unions emerged as stakeholders in the process, and two labor unions received contracts to promote workers' awareness of their rights and to engage in monitoring programs.

Oversight committees, including the local heads of administrations and representatives of various affected groups, were formed to plan, coordinate, and implement a local strategy for development, to determine the specifics of social protection for laid-off workers and residents of mining communities, and to define criteria for disbursement of funds for local programs. An association of mayors of

mining cities was also established at the local level for ongoing discussions on the impacts of reform and ways of enhancing local capacity.

V. Issues and Lessons

Challenges

- The high level of instability in top government positions between 1996 and 2000 hindered reforms, and this may have contributed to a lack of interagency collaboration and low trust in government by citizens. During this period, Russia had five prime ministers, seven deputy prime ministers (who were also the formal convenors of the Interagency Coal Commission), six ministers of energy, and four leaders of the coal agency. Information flows within the government were constrained, because top officials had little access to information that seemed to be held by lower-ranking officials. Trust in the government, particularly in the coal sector, was notably low. According to a survey of mining households in 1995, 20 percent of households did not trust any organization to distribute money or assistance. Only 5 percent trusted RosUgol, the firm that enjoyed a monopoly in the Russian coal sector before reforms, less than 3 percent trusted regional coal companies, 3 percent trusted regional government, and 8 percent trusted trade unions. It thus became essential to develop systems and processes within the government focusing on reform goals. For lasting impact, empowering initiatives need to strengthen systems and processes and reduce dependence on top management.
- The dearth of investigative journalism made it difficult to independently access and validate information on the allocation and use of resources and funds by the authorities.¹
- Growth in the coal sector is quite apparent, but it has not affected related sectors. The lack of reforms in the banking sector, the lack of clarity in private sector development, and the lack of a clear government policy on oil, gas, and coal are hindering further growth opportunities.
- In terms of physical and social infrastructure, there are federal, regional, and local stakeholders who would prefer to continue subsidies for as many decades as possible. There is a risk that local governments could agree on ambitious plans of development to be funded by regional governments, without local prioritization or a realistic chance of any project being finished. The participation of entrenched interests at the local level could result in a consensus for lobbying the central government for resources, which would be counterproductive for the country at large and other stakeholders who are truly in need. Thus, there is a need for a clear government strategy that limits the extent of federal government obligations in relation to the coal sector and puts in place a system to ensure that the needs of the people adversely affected by reforms receive priority.
- New jobs and the creation of self-employment opportunities could not fully palliate high unemployment caused by massive layoffs.²

¹ Ashraf Ghani, *Russia: Coal Sector Reform* (Washington D.C.: World Bank, 2001). This is a case study of the Russia Coal SECAL II, 1996–2001 by the World Bank's Social Policy Unit.

² Marina Kolosnitsyna and Irena Topinska, *Russia: Bank Assistance for Social Protection* (Washington D.C.: World Bank, 2002), page 10.

Key Factors for Success

Mechanisms for ongoing consultation were established. A major lesson is that, whenever rules are altered, one round of consultation is insufficient, since it is difficult to anticipate (1) the full impact of the rules on the stakeholders and ministries, and (2) the impact of the stakeholders and ministries on the rules. For instance, municipalities initially resisted the accountability mechanisms imposed on them regarding local development funds, but many of them liked the new mechanism since it protected them from being pressured by other stakeholders. Likewise, other stakeholders initially viewed the Treasury with suspicion, but they soon developed an understanding that it provided a useful and replicable mechanism for subsidy management. Iterative rounds of consultation and discussions helped different stakeholders understand one another better.

- Institutional change and the participation of existing stakeholders showed that creating new organizations is not always necessary. The roles of organizations—such as the Treasury and the Ministry of Finance—were redefined, and they were involved in policy formulation and implementation.
- Constant interaction by the World Bank with officials working at various levels and in different functions was necessary to understand and modify the processes, thereby ensuring social protection for miners.
- Involving stakeholders other than local governments can enhance transparency.
- Informing miners of their rights and entitlements through consultations offered an effective mechanism of accountability, which proved vital in empowering the mining community.

Outlook

- Checks and balances among government ministries are now in place for the enforcement of rules. Mechanisms are also in place to secure the participation of government agencies in reform and decisionmaking processes.
- As the new government's rules and resolutions are translated into corresponding action, and they continue to provide long-term solutions for the coal sector, they can make a lasting positive impact on the credibility of the state by satisfying citizens' expectations.
- The new accountability mechanisms introduced in government for the coal sector reforms have set an example for reforms in other sectors of the Russian economy, such as electricity, gas, and railways.

VI. Further Information: References and World Wide Web Resources

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