



Russia Coal Sector Reform: What were the outcomes?

Outcomes on the ground:

- ④ Subsidies to the coal sector have decreased from \$2.76 bn in 1994 to \$0.28 bn in 2000
- ④ Productivity of mines has increased from 764 tons per worker per year in 1994 to 1,355 tons per worker per year in 2000
- ④ Full and timely payment of social protection to redundant workers and ongoing payment of disability benefits
- ④ Physical closure of 153 mines that had been identified as having no future



What Were the Outcomes? (Cont.)

Organizational outcomes:

- ④ Dissolution of the coal monopoly
- ④ Creation of new actors through privatization
- ④ Finding new roles for existing organizations:
 - Treasury
 - Social Insurance Fund
 - Ministry of Energy

Institutional outcomes:

- ④ Rules for establishing a clear link between allocations and outcomes
- ④ Rules of accountability
- ④ Rules to secure the participation of critical organizations in the ongoing process of reform and decision-making
- ④ Rules for privatization



What Was the Context?

After 1991, Russia faced a series of transformations:

- ④ From command to market economy
- ④ From empire to nation state
- ④ From party state to formal democracy and tolerance of civil society

In 1996, the coal sector was in crisis:

- ④ Despite \$2.7 bn in subsidies, productivity was declining
- ④ Wages were not being paid and barter had become prevalent
- ④ The government was committed to reform of the sector, and an informal process of mine closure was in full swing
- ④ The coal sector had a history of militancy

At upper levels in government, there were frequent changes of personnel:

- ④ Between 1996 and 2000: 5 PMs, 7 Deputy PMs, 6 Ministers of Energy, 4 leaders of the Coal Agency
- ④ Top management had little access to information



Conditionality and outcomes

Coal SECAL I:

- ④ Articulation of outcome-based objectives without specification of organizational and institutional mechanisms
 - ④ E.g. Dealing with payment of social protection benefits through the coal monopoly: money was allocated to achieve the objective with no clear rules and no commitment from the organization to achieve objective
 - ④ E.g. Provision of adequate heating: no relation between objective and amount of money available



Conditionality and outcomes

Coal SECAL II:

- ④ Think through the implementation arrangements to achieve results on the ground
 - ④ Identify government organizations as stakeholders
 - ④ Map existing processes
 - ④ Identify catalytic mechanisms through stakeholder consultation
 - ④ Change the rules of the game and redefine organizational responsibility
- ④ E.g. Case of social protection: lay-offs
- ④ E.g. Channeling money directly to local governments



Tranching

Key idea for generation II adjustment:

- ④ Mechanisms in place before Board presentation, results on the ground before tranche release
 - ④ Rules of the game need to be in place at the beginning to ensure government commitment and to provide a clear roadmap e.g. allocation by categories, criteria for eligibility, mechanisms for coordination
 - ④ Requiring results on the ground allows progress to be measured by all stakeholders and helps them identify loci of responsibility
- ④ The drivers were identified as the mine closure program, the privatization program prioritization of allocation on a reducing scale and full payment of social protection



Tranching

Coal SECAL I and phase 1 of Coal SECAL II:

- ④ Omnibus tranche combining processes that should be successive and combining issues whose rate of progress can be different.
 - ④ E.g. carrying an audit on accountability without acting on it
 - ④ E.g. Social protection and local development programs, leading to inevitable compromise between different degrees of progress



Tranching

Phase II of Coal SECAL II:

- ④ 4 floating ‘mini’ tranches stipulated in terms of sequence
 - ④ Responds to the record of Russian government to mobilize well episodically but not sustainably through the year
 - ④ Links the interests of sectoral level stakeholders to the release of tranches; Ministry of Finance by contrast was keenly interested in a single omnibus tranche
 - ④ Enhances the dialogue with the government thereby transforming the role of the Bank to a policy adviser concerned with analysis of processes and data to achieve outcomes



Conditions for success

- ④ Existing, latent capacity within the government was utilized through institutional change and the participation of existing stakeholders, rather than the creation of new organizations or hiring of foreign consultants
- ④ Mechanisms of accountability were enhanced through constant monitoring, auditing and strengthening of internal processes
- ④ Adequate and predictable financing was ensured for key programs and categories
- ④ Outcomes were kept clearly in mind and the release of Bank funds was linked to achievement of measurable outcomes
- ④ Teamwork: within Bank team, with Gov't, and within Gov't



Remaining Challenges

Achievements

- ④ Dismantling ineffective organizations
- ④ Creation of effective institutions
- ④ Provision of short term security

Challenges

- ④ Creation of opportunities
 - ④ Job creation in mono-industry towns – E.g. Privatized and reorganized coal companies vs local development programs
- ④ Transparency
 - ④ Absence of a culture of investigative journalism and civil society organizations
- ④ Government strategy
 - ④ Federal government needs a coherent strategy to avoid the claims of local governments who would like a soft budget



Making policy lending work

- ④ Adjustment focuses on changing the rules of the game at the level of the central government; dealing with adverse consequences of development requires actions at the level of local governments and communities.
 - ④ Hence the need for a twinning arrangement between adjustment and investment operations?
- ④ Given the interdependence of sectors, key problems cannot be solved within a sectoral approach:
 - ④ Hence the need for programmatic lending?