LABOR TRANSITION IN THE COAL SECTOR

SOUTHEAST EUROPE

APPENDIX G: LESSONS LEARNED AND BEST PRACTICES

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ABBREVIATIONS

AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
ALMPs	Active Labor Market Programs
ARP	Industrial Development Agency
CEE	Central and East European
CLC	County Labor Centers
E-RAIN	European Regional Agencies for Innovation Network
EC	European Commission
EIRO	European Industrial Relations Observatory
EU	European Union
GAP	Polish Mining Labor Agency (Gorniczej Agencji Pracy)
GARR	Upper Silesian Regional Development Agency (Górnośląska Agencja Rozwoju Regionalnego)
GDP	Gross Domestic Product
IAC	Inter-Agency Coal Commission
IEA	International Energy Agency
ILO	International Labor Organization
JSW	Jastrzebska Coking Coal Company
KHW	Katowki Holding Weglowy
KW	Kompa ia Weg owa
LED	Lo al E onomic Develo ment
LES	Lo al E l ent Serv ce
LDP	Lo al Development P ogram
LMAT	abor-Managem nt djustmen Te m
LOC	Local Oversight Councils
MERIT	Municipal, Social and Economic Reform Initiative of TACIS
MVM	Hungarian Power Works (Magyar Villamos Murek)
NES	National Employment Service
NGO	Non Governmental Organization
NPG	Independent Union of Coal Miners (Nizavisamy Profsayuz Gosudarvse)
OECD	Organization for Economic Cooperation and Development
OSE	Observatoire Social Européen
PAD	Project Appraisal Document
PARP	Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiębiorczośći)
PHARE	Poland and Hungary Assistance for Reconstruction of their Economies
PID	Project Information Document
PIER	Partners in Economic Reform
PIU	Project Implementation Unit
PMU	Project Management Unit
PPU	Project Preparation Unit
PSAL	Programmatic Structural Adjustment Loan
RAC	Reemployment Assistance Committee
RIS-Silesia	Regional Innovations Strategy for Silesia
SECAL	Sector Adjustment Loan
SEE	Southeast Europe
SME	Small and Medium-sized Enterprise

SOE	State Owned Enterprise
SWOT	Strengths, Weaknesses, Opportunities, and Threats Analysis
SZESZEK	Coal Mining Restructuring Center (Hungary)
TACIS	Technical Aid to the Commonwealth of Independent States
UK	United Kingdom
UN	United Nations
UNECE	United Nations Economic Commission for Europe
US	United States
USAID	United States Agency for International Development
USD	United States Dollar
USDOL	United States Department of Labor
WDP	Workforce Development Project
WSI	Worldwide Strategies, Inc.

Technical Terms:

GW	Gigawatt
MW	Megawatt
Mt	Million tons

CURRENCY EQUIVALENTS

(Exchange Rate Effective October 2006)

C rency Unit Euro

Euro 1 = USD 1.26

Euro €0.793 USD $1

Appendix G

LESSONS LEARNED AND BEST PRACTICES

The Labor Impacts of Coal Sector Restructuring in Poland, Russia and Hungary[1]

Throughout the world, the employment impacts of coal sector restructuring can be devastating for sector workers and affected communities, particularly in transition economies. In transition economies, coal sector restructuring has for the most part been directly linked to national economic reform and re-orienting the national economy to be more market-based. This re-orientation translates into reducing state fiscal support, resulting in mine closings and mass lay-offs.

> A century ago when mines ran out of ore, production stopped and mines were simply boarded up and abandoned. That was mine closure. … However, most countries and most companies now recognize that mine closure is much more than stopping production and decommissioning the mine. They readily accept that mine closure also requires returning the land to a useful purpose. But beyond physical reclamation, it is increasingly becoming clear that the socio-economic issues of mine closure and the impact on workers, their families, communities, and the local economy must also be addressed.[2]

In the coal sector restructuring experiences of Hungary, Poland and Russia that started in the late 1980s and were carried out during the next decade dramatic economic, political and social changes were closely intertwined. In addition to tackling new economic approaches to coal industry and labor, there were new levels of citizen participation and public information, new expectations for the use of modern technology and safety practices, and the establishment of a new legal and regulatory framework.

Even in developed economies, the impacts of mine closures are evident years after the fact. According to a study done in the United Kingdom (UK) ten years after mine closures, communities formerly dependent on mining still suffer from pervasive unemployment, poverty and long-term disability.[3] Likewise, the former coal communities in the Appalachian region of the United States remain sites of persistent poverty.[4] While there have been notable environmental improvements, broad economic renewal has progressed very little.[5]

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[1] The *Labor Transition in the Coal Sector: Southeast Europe* report in its entirety, including all appendices, will be available online through the USAID Development Experience Clearinghouse at http://dec.usaid.gov (PN-ADI-883).
[2] Christopher Sheldon, John E. Strongman, Marika Weber-Fahr, *Mining and Development: It's Not Over When It's Over: Mine Closure Around the World*, World Bank's Mining Department and International Finance Corporation (Washington: International Finance Corporation. 2002):1.
[3] Katy Bennett, Huw Beynon and Ray Hudson, *Coalfields Regeneration: Dealing with the Consequences of Industrial Decline* (Bristol: The Policy Press, 2000).
[4] Madeline Baran, "Poverty Still Pervasive Throughout Much of Appalachia," *The New Standard,* 17 June 2004, http://newstandardnews.net/content/?action=show_item&itemid=565.
[5] Bennett, Beynon, and Hudson 2000.

For future coal sector (and other industry) reform, there are lessons to be learned from the coal restructuring experiences of transition economies, such as Hungary, Poland, and Russia. These experiences also provide examples of best restructuring practices that – while not resolving all problems – offer a starting point upon which stakeholders in other countries can build.

LABOR PROGRAM ASSISTANCE

The three contries studied concentrated their efforts on providing these main types of labor redeployment support:

- **Pre-lay-off advice and counseling** that provided information on legal and financial rights and benefits, available employment and social services, and peer support.
- **Job search assistance** (including placement and intermediation to match workers with available jobs), job clubs, interview and resume writing skills.
- **Training,** including retraining, skill upgrading and training for self-employment.
- **Employment development**, including identifying jobs that are not included in the employment service listings, assisting with the creation of potential spin-off activities from the restructuring company, and providing support for entrepreneurship and self-employment**.** Stakeholders may organize job fairs, advertise workers' skills, contact area employers, rely on word-of-mouth possibilities, and try to tap into the "hidden labor market" (i.e., identify jobs that are not listed with the employment service). Employment and local economic development requires partnerships with other community actors that may have resources to assist the effort, such as local enterprise agencies, municipalities, chambers of commerce, and non-governmental organizations (NGOs).

Future restructuring plan ing could combine thes interv nti ns to dress impleme tation needs as restructuring efforts evo e.

The following table show how t e Uni d Natio E onomic C mm ssion for Europ (UNECE) estimated the impacts coal sector restructuring had on employment levels and highlights the large number of lay-offs required in Hungary, Poland and Russia. What the table does not capture is the non-coal worker impact, which is estimated to be at least double the employee figures shown above. This includes coal sector support workers and ancillary business activities conducted by the sector, such as institutes, child care, medical clinics and transport.

Major Indicators of Coal Sector Restructuring for Hungary, Poland and Russia[6]							
	1990	1993	1995	1997	1998	1999	2000
Hungary							
Coal Production, Mt	17.6	14.6	14.6	15.6	15	14.5	13.8
Number of Mines – 30 Closed in 10 Years	41	26	23	19	18	17	11
Employees (in 1000's)	49	26.2	20.4	16.5	16	12.4	11.3
State Subsidies (1990 = 100)	100	28	30	28	61	23	9
Productivity Growth (1990=100)	100	152	191	214	236	273	284
Poland							
Coal Production, Mt	147	130	135	137	121	109.1	102.2
Number of Mines - 29 Closed in 10 Years	70	68	65	56	53	53	41
Employees (in 1000's)	388	319.6	274.5	243.3	207.9	173.6	155
State Subsidies (1990 = 100)	100	none	none	none	none	none	none
Productivity Growth (1990=100)	100	109	133	153	160	174.5	198.3
Russia							
Coal Production	395.4	309.5	262.8	244.4	232.3	249.1	257.9
Number of Mines – 76 Closed in 10 Years	238/63	232/65	214/67	174/67	124/105	119/112	106/119
Employees (in 1000's)	559.1	431.2	360.5	315.7	278.8	252.4	242.2
State Subsidies (in %)	n.a.	6 33	5 54	4 48	4 19	1.67	1.12
Productivity Growth (199 =100	1 0	70.	7 7	86.8	94.1	110.2	118.1

Principles of Best Prac ce or Lay-off As t e Pro ects

Researchers and practitio ers the int rnati nal deve opm nt community onsistently advance five principles as standards in best practices for lay-off assistance projects:

- Adequate advance notice
- Early intervention and rapid response
- Effective communication links to affected workers
- Temporary intensive on-site services tailored to worker needs
- Local level cooperation and linkages to community economic development

Experience from Russia, Poland and Hungary shows that these best practices can be accomplished by properly planning the structural aspects of labor and coal sector restructuring, considering reform timing and sequencing, and implementing broad-based active and passive measures.

Countries Selected for Study of Best Practices and Lessons Learned

Various aspects of experience from Hungary, Poland and Russia have been selected to demonstrate better (if not best) practices to be considered during the coal sector restructuring process. Lessons learned have contributed to building a more informed, if not broad, approach to sector reform. A common platform of best practices achieved by these countries includes:

- A national coal sector reform program and restructuring plan with donor support

[6] United Nations (UN) Economic and Social Council, Economic Commission for Europe, Committee on Sustainable Energy (UNECE), *Restructuring of the Coal Industry in Economies in Transition,* ENERGY/GE.1/2001/4 (UNECE, 12 September 2001): 9-10.

- Sequencing of mine closings and attendant labor and social changes that include active and passive labor measures
- Local coal community participation and public information campaigns for workers and affected communities

As indicated in the general report, these countries based their coal sector operations on centrally planned economics with no market-based planning or orientation until the late 1980s and early 1990s. Coal mines and all related operations were state-owned when restructuring started to introduce new market-based frameworks that would facilitate more efficient operations and private investment. Coal mines were generally state owned enterprises (SOEs) or housed under an umbrella SOE. These SOEs conducted core coal functions and ancillary services that included locksmiths and metal works; training institutes, schools and kindergartens; medical clinics; cafeterias; and transportation services. The legacies of Soviet planning, social security, and labor expectations set the stage for strong resistance and a lack of understanding of market change.

This report provides an overview of common themes for labor assistance considered and implemented during coal sector restructuring in Hungary, Poland and Russia from the late 1980s to present. Commentary is provided to add international experience and labor experts' analyses of these reform scenarios, including commercialization, corporatization, and privatization. Following the overview are specific and detailed reviews of the three countries' coal restructuring experiences.

OVERVIEW OF THE HUNGARY, POLAND AND RUSSIA EXPERIENCE

The overall experiences ungary nd Russia oal sect t g p ence share common lessons learned n which est ractices ay be und:

1. The establishmen of a framewo k for c al sec or rest uctu ng is essential.
2. The timing of res ructuri g and he sequ ncin of suppo ting actions have sig ificant impact on the success of the restructuring process.
3. Balancing active and passive labor measures is essential to safeguarding people's quality of life in the short term and for building a sustainable foundation for longer-term employment opportunities.
4. Community member participation and public information are critical components toward building the understanding, cooperation and collaboration that are needed to facilitate the benefits of coal sector restructuring.

ESTABLISHING A FRAMEWORK FOR WORKFORCE RESTRUCTURING

In Hungary, Poland and Russia, a common thread for coal sector reform was the establishment of an overall framework in which the restructuring would take place. This helped to set the pace, the understanding, and the definition of roles and timelines for reform actions.

Successful international industry restructuring in transition economies has shown that fundamental commitment to restructuring is based on certain fundamental rationales:[7]

Economic Rationale: (1) To reduce labor costs, so the enterprises in question can become competitive, and (2) to support the re-employment of workers, reducing the need for state-financed income supports.

[7] David H. Fretwell, *Mitigating the Social Impact of Privatization and Enterprise Restructuring,* (Washington: World Bank, 2004).

For restructuring in Hungary, Poland, and Russia, national economic and political re-orientation laid the foundation for reforming how the coal sectors were operating. An unprecedented shift away from centrally planned state operations toward market-based operations triggered government commitments to coal sector restructuring in the form of Presidential decrees supporting reform, liberalized pricing for coal and coal transport, the establishment of legal and regulatory frameworks, and the divestiture of state assets. For various reasons, each country's started with coal sector restructuring and related commercialization and corporatization efforts before privatization.

> Social Rationale: To provide transitional or extended supports to those who need them, preventing workers from descending into poverty.

As these countries supported a dramatic change in economic orientation, the social impact directly altered the cradle-to-grave social protection scheme that was an integral part of coal sector operations. As government strived to facilitate more economically efficient coal operations that would sustain market challenges, it similarly sought to establish a viable framework for sector employees, coal communities and laid-off workers to be assured of social entitlements and a decent quality of living during and after the reform process.

> Political Rationale: To build support for restructuring by signaling to affected workers and communities that they will not be forsaken in the process.

Government commitment and political will to support and to facilitate coal sector reform has proven to be essential to ensure requisite funding, unimpeded implementation and inclusion of the entire secto

Especially in Hu Poland a d R ia the tran i ion of coal operations o marke bas d functio s requ ed constant and co istent po tic suppo to dea with the harsh realities o reform. Gove nmen had to n a re ponsive postur to very strong union mechanisms, to he incre sing olitical v ices of the em rgi g civil society a d to the newly engaged international community, ensuring the safeguarding of worker and community well-being and livelihood.

Securing a viable coal sector restructuring framework required fundamental yet challenging actions and institutional arrangements to address restructuring's impacts on labor.

Government Commitment

Experience has shown that national government commitment and political will are essential to successful coal sector reform. While external financing from the World Bank has provided powerful incentives, in some cases (such as in Russia), government commitment was the penultimate factor in successful restructuring.[8] Here, a Presidential Decree initiated coal sector restructuring, followed by a set of laws that laid out the market-based structure of the new coal sector, including a corporatized state coal company, allowing for private investment, and to liberalizing coal prices. By contrast, although Poland made notable advances in early transition efforts and had significant World Bank support, government commitment lagged in the coal (and agricultural) sectors, causing critical delays in privatization.[9] Importantly, as the reform process ensued, national commitment was focused at the regional-and local government-level support and implement reforms in affected communities. This process required

[8] World Bank, *Project Performance Assessment Report Russian Federation Coal Sector Adjustment Loan (Loan No. 4058), Second Coal Sector Adjustment Loan (Loan 4262)*, Report No. 26067 (Washington: World Bank 2003).
[9] Michael Haney, Energy Specialist for Europe and Central Asia, World Bank, Telephone Interview by Maria Heidkamp, 20 September 2006.

national government oversight and the empowerment of coal region and local governments to take on some portion of the restructuring mandate.

Intra-governmental Cooperation

Restructuring a state-owned coal sector raises an enormously complex set of issues, affecting ministries dealing with energy, coal, labor, regional development, environment, treasury, and privatization. This requires information-sharing and resource coordination at the national, regional and local levels of government. All three countries relied on some degree on national-level intra-government cooperation to implement coal reform programs. However, in some cases, entrenched interests and a desire to protect the status quo hampered the reform process and required a realignment of the power structure.

In Russia, considerable collaboration with the Labor and Social Protection Offices (established a year before the beginning of coal restructuring) provided valuable insights into issues of local communities impacted by coal restructuring, knowledge of newly established national social entitlements for citizens, and assurance that coal restructuring actions were in line with national fiscal, social and labor legislation. The Inter-Agency Coal Commission was established by inviting approximately 60 regular members of national and regional government entities to meet quarterly throughout the reform process. This resulted in increasing exchanges of information and agendas among key ministries. Media was also invited to these commission meetings. The commission provided a legitimate venue for the equitable distribution of information; this dispersed responsibilities away from traditional coal sector leaders (who in many cases were resisting reform) to an array of government leaders in positions to enable reform.[10] In Russia, the establishment of the Association of Mayor of Coal Mining Towns also built collaboration and coordination among mor h 60 coal yors.[11]

Poland's inter-ministerial ooperati n a the nati nal lev l wa reaso ably strong and mportant to restructuring efforts. Ho ever, nu ero s chan es of g nt in post-transition fluenced the course of reform, with e h succe sive overnm nt m difying i pre ecessor's prog ams.

Dedicated Champions

As transition ensued, a number of new entities emerged (primarily out of necessity) to gather and provide information, improve coordination, or provide a voice to those without one. Reforms needed a lead coordinator or champion organization to ensure consistent and timely local-level implementation. Efforts to mitigate the employment impacts of coal sector restructuring in Poland, Russia and Hungary were addressed in a variety of ways with varying degrees of success through:

Some governments chose to use privatization or other designated agencies to implement labor redeployment programs because standard employment programs were not responsive to the needs of displaced workers.

- Company-specific labor management adjustment committees, such as the Reemployment Assistance Committees in Hungary
- Community-wide committees, such as the Local Oversight Councils in Russia
- Existing or newly established public or private agencies dedicated to providing dislocated worker services, such as the Mining Labor Agency in Poland
- Trade Union/Labor Management Committees in Russia

[10] United Nations Economic Commission for Europe (UNECE), Committee for Trade, Industry and Enterprise Developments, *Social Aspects and Financing of Industrial Restructuring* (New York: United Nations, 2005).
[11] Mary Louise Vitelli, Russian Coal Sector Reform and Restructuring Program Manager, World Bank 1993-1997, written response (March 2007).

Employment Service

Many factors influenced what role the local employment service played in addressing impacts of restructuring. Hungary's County Labor Centers played a key role in organizing and delivering early intervention services for affected workers, particularly for non-integrated mines. In Poland, the dedicated Mining Labor Agency assumed some roles that might otherwise have been played by the local employment offices and had the advantage of being located on site. The Employment Service in Russia did not directly assist redundant coal workers, but provided basic legal and operational information, as well as the services of its country-wide local offices.., The Employment Service played an especially important role in sustaining support to redundant workers in need as coal-specific labor redeployment assistance funding dissipated after 1998. Also of note were various committees self-generated by Russia's Independent Union of Coal Miners (Nizavisamy Profsayuz Gosudarvse - NPG) and state labor union to assist redundant coal workers nation-wide.

Onsite delivery of employment and training services prior to lay-offs increased participation rates.

Resources and Funding

Resources must be available to cover the social costs of industrial restructuring. Employment programs require collaboration between donors and governments and proper funding for service delivery organizations to support implementation capacity and active and passive labor measures, including:

- Wage arrears
- Redundancy and severance compensation
- Income support for the unemployed
- Provisio of lo l pu c serv es that w re pre ously provide by the re tru tured en ty
- Migratio or reloc tio ance
- Retrain g
- Encourag g j creation and eco o ic developme

Before mass layoffs begin, resources must be made a over social costs nd public services previo sly provided by the restru tured entity.

Absent donor support, it is unlikely that Hungary, Poland or Russia could have achieved the reform and mitigated labor impacts as they did. The social costs of restructuring are high and often require considerable up-front contributions to mitigate long-term economic impact. These countries' experiences have proven that this up-front contribution is well-spent.

Local Initiative and Community Participation

Local participation in labor mitigation and community regeneration efforts is critical. Poland, Russia and Hungary each incorporated versions of local initiatives into their mitigation strategies. In Poland, the Mining Labor Agency played a role on-site at affected mines, and (in some cases) coordinated with labor management adjustment teams and peer counselors. In Russia, the Local Oversight Councils model, and in Hungary, the Reemployment Assistance Committee and the local economic development (LED) committee involved a wide range of stakeholders: unions, local government, financial institutions, employers, the employment service, NGOs and others.

Community consultation early in the restructuring process increased the effectiveness of mitigation strategies.

In the UK, researchers found that coal regeneration programs were not successful if they depended on a top-down approach alone. Grassroots and community initiatives can fill gaps overlooked by national

implementers and provide alternative forms of support and services in isolated and marginalized localities.[12]

Stakeholder Consultation and Monitoring

Communication with labor and other stakeholders is crucial when restructuring. Certainly, labor unions in all three countries played significant roles in shaping aspects of the restructuring programs.

> Stakeholder consultation, based on quantified, systematic social assessment techniques, played a critical role in the success of the Bank in the coal sector, and was one of the key building blocks for increasing support for reform in Russia—a lesson for the future in sector reform.[13]

Russia appeared to make the most significant and sophisticated use of stakeholder consultation and social assessments, providing in-depth information about attitudes, wage and severance arrears, misuse of funds, and other factors. This information was used to fundamentally reshape programs:

Stakeholder consultations and ongoing monitoring can help ensure that programs are well-targeted and reflect local labor market realities.

Targeting Beneficiaries

When developing social mitigation programs, implementers must determine to what extent programs should be targeted to mine company employees or to the community at large. Rese show impact of mine workers losing e ploymen affe ts famili and communities as a whole. A study o res ructuri g experiences in the Ruhr oal Basin (Ge many) nd in Nord Pa de Calais (France), e imates that one mining job generates thre jobs o tside f mining Fam lies lose con mic status and urchasing power with the loss of primary incomes from mining. Communities frequently see an increased demand for social services while the local economy suffers from a loss in purchasing power of mining families.

> Expanding social protections measures to the wider mining community improves the economic health of the comm nity and helps mitigate the impac of layoffs of mi rs.

In the Katowice region of Poland, restructuring affected 88 mine-owned service units that administered health services, housing, and recreation centers.[14] In recognition of these broader impacts, Poland's Silesia Economic Program is aimed at job creation and economic recovery for the whole region, not just areas affected by the coal industry.

Very early on in Russia, social protection measures were available only to coal workers (miners and others at the site) laid-off because of mine closure. This was quickly expanded to include coal workers who were laid off from mines that continued to operate. Ancillary workers in clinics, schools, guest houses and factories received social entitlements under the national program and some union entitlements; by 1999 they were included in the coal program as well.[15]

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[12] Bennett, Beynon and Hudson 2000.
[13] Richard Berney, *Russia: Bank Assistance for the Energy Sector (*Washington: World Bank, 2002).
[14] Marek S. Szczepañski and Adrian Cybula, "Economic Restructuring and Employment Promotion in the Katowice Voivodship, 1989–1996," in *Regional Development and Employment Policy: Lessons from Central and Eastern Europe* Maarten Keune, ed., (Geneva, International Labor Organization [ILO], 1998).
[15] Michael Haney and Maria Shkaratan, *Mine Closure and its Impact on the Community: Five Years after Mine Closure in Romania, Russia and Ukraine* (Washington: World Bank, 2003).

Regional Problems Need Local Flexibility

The effects of restructuring are not felt in the same way across a country's coal regions. Diversified regions may not suffer the same impacts as mono-industrial areas. In some cases, the employment service and local actors may be able to manage lay-offs without undue stress. In others, the consequences of lay-offs may be overwhelming. The regional nature of restructuring problems calls for a significant local role in planning and execution of programs.

In Russia, labor and social protection issues vary by region. In the Kuzbass (Western Siberia), coal continues to be important to the local economy, and the coal industry has been able to absorb many displaced workers. The economy of the Eastern Donbass, meanwhile, has remained depressed. Remote and inhospitable coal regions in the Far East and Far North are confronted with a unique set of problems concerning relocation.[16] In Chelyabinsk, the economy was relatively diverse. In Vorkuta, the economy revolved around coal.[17]

TIMING AND SEQUENCING

The importance of timing and sequencing of restructuring actions cannot be overstated. Hungary, Poland and Russia had different results, based on the pace and actions taken to divest, commercialize, corporatize, and privatize their coal sectors. The pace and priorities of restructuring had important impacts in determining the types and extent of labor mitigation programs.

In Hungary, the government deliberately postponed restructuring the last round of non-integrated coal mines for fear o bating y ad unemp yment p n gions. Gradual restructuring of on-integ ated mines en bled th g vernm nt to delay the rospect of a politically and socially untenab rise in u em oyment

While delaying structu ng ca keep w rke s employed in existing enterprises, it can lead to a path of decreased income and slow development that is not sustainable in the long term. Governments must eventually deal with the social cost of restructuring.[19] On the other hand, experience shows that a too rapid pace for restructuring can result in lay-offs occurring without adequate job creation and social safety net mechanisms in place.

> ll economies h ve cycles, with downswings and upswings…. If the government has a chance to hold off, it may not want to restructure the coal industry during an economic downswing. Once an upswing has started in the macro-economy, restructuring will be much, much less contentious. A very dramatic upswing in the Russian economy made life easier.[18]

This was the case in the early years of Russia's coal sector reform. During the first phase of restructuring, all government and sector leaders were new to the restructuring process and could not have predicted the social impacts of such sweeping economic change, so the social supports for workers lagged behind the mine closure process. In the second phase – notably as World Bank funding and program development assistance was provided – Russia made a determined effort to coordinate mine closures with support for dislocated workers and affected communities.[20]

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[16] Ibid.
[17] World Bank, *Russian Federation: Restructuring the Coal Industry: Putting People First, Volume II Annexes,* Report No. 13187-RU (Washington: World Bank, 1994).
[18] Haney 2006.
[19] UNECE 2005.
[20] World Energy Council, *Restructuring the Coal Industries in Central and Eastern Europe and the CIS (Commonwealth of Independent States),* (London: World Energy Council 2000).

To find a path in which unemployment does not get unbearably high and economic growth remains satisfactory, thorough analysis of the macroeconomic and institutional environments is critical.[21]

Macroeconomic Conditions

Macro-economic policies that eliminate obstacles to private sector job creation and support sustainable economic growth are vital.

The social implications of reform closely depend on overall macroeconomic conditions.[22] Restructuring during a period of economic growth improves the chances of effective restructuring. Poland benefited from implementing the first phase of restructuring during a robust, low-unemployment economy. After 1998, when unemployment hovered in the 18% range, additional lay-offs were more contentious. In Russia, it can be said that a steadily improving economy made restructuring easier by the late 1990s. However, the majority of the challenging aspects of Russian coal sector restructuring were conducted by 1996, well before the Russian economy took an upswing resulting from its tremendous market transition.

If the timing is not propitious to start restructuring, the government should use the time to make the extensive preparations required for success. Considerations for the timing of stages of restructuring in these countries included macro-economic analysis of industry realities, workforce demographics, community impacts, and the likelihood for continued macro-economic conditions.

Early Intervention

Early intervention was a key to success. Offering employment and r g e to worker la -offs facilitated more rapid t iti and min mized the a verse impacts o workers and c mmunities.

Experience shows that countries with social safety net and labor redeployment programs in place prior to employment restructuring better mitig r prob d lessen th time it takes for econom recover [23] T is is kno n as " ar intervention" and reflect a combin tio of activ and pa sive measures that generally t rget wor ers nd co muniti Paramount among the be t practi es is arly inte vent on. Experience from a wide range of cases shows that workers are more likely to take advantage of employment and retraining services if they are available before workers are laid off, and ideally if the services are provided at the workplace.[24]

Coal sector workers present particular challenges. There is a historic worldwide pride among sector workers who are very often from families of coal workers. Generally operating in isolated (if not remote) work environments, they have been less likely to take leave from work until forced. In Russia as reform took hold 1992-1995, even when Artic coal miners were put on "forced vacation" (an unlimited amount of unpaid time out of the mine operation), they did not pursue other work or take advantage of national re-employment programs, always believing that they would return to the mine. US experience shows the same coal worker response in West Virginia and Pennsylvania mine restructuring efforts of the 1970s.

In Hungary, Poland and Russia, as information was provided to better educate workers and communities of the reality of changes ahead and subsequent social and employment packages that were market-based, workers became significantly more inclined to leave their workplaces.

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[21] UNECE 2005.

[22] World Bank, *Initial Project Information Document (PID), Poland Programmatic Structural Adjustment Loan (PSAL) I,* Report No. AB120, (Washington: World Bank 11 June 2003).

[23] Chen Yi, *The World Bank and the Provision of Assistance to Redundant Workers: Experience with Enterprise Restructuring and Future Directions* (Washington: World Bank, 2001).

[24] Gary B. Hansen and Maria Heidkamp, "Innovative Approaches to Worker and Community Adjustment in Hungary," in *Regional Development and Employment Policy: Lessons from Central and Eastern Europe,* Maarten Keune, ed., (Geneva: ILO, 1998).

Capacity Building

Capacity building in regions and local areas facing restructuring must occur early in the restructuring process. A learning curve of several years occurs before local development efforts and active labor market policies are established and when they begin to have a discernable impact. Problems from mass lay-offs arise much more quickly than response systems can be built.[25]

The capacity-building technical assistance loan made by the World Bank to Russia in 1996 was critical to improving the ability of the local stakeholders to respond to coal sector restructuring. It supported initiatives of the newly created Association of Mining Cities, enabled the trade unions to participate in pre-lay-off activities, and provided much needed training to Local Oversight Councils. Labor redeployment and Local Development Programs (LDP) were noticeably more effective after 1998, once some level of genuine capacity building had occurred.

In Hungary, by the time the final non-integrated mines were being closed, the County Labor Centers (CLCs) had considerable experience in using Rapid Response and labor-management adjustment committees. They underwent training in participatory community economic development models, as had many of the local area leaders. Although the unemployment rate in Borsod County remained critically high, the local actors were able to handle the crises, relying heavily on creating local partnerships to mitigate the effects of mine closures.

Effective Communication

Successful inter- ental ion requi s timely and effective co municat n. A most all eviews of he labo impacts of coal ctor rest uct ring in oland empha ize th fact that it was a complish d la gely w hout s gnifican soci disruption. Each overnment re orm pro ram in Poland was based on social dialogue with mining sector trade unions, which mitigated social unrest despite high unemployment.[26] Similarly, the World Bank noted that Poland's Hard Coal Sector Adjustment Loans (SECALs) I and II succeeded in reducing uneconomical production levels and overstaffing with little social stress.[27]

With app opriate technical ssistanc and blueprints to follow, local init tives can be powerful catalysts r long-term change.

During the first phases of reform, the Russian central government did a poor job of communicating its restructuring strategy to those most affected. This hindered consensus-building and created obstacles that could have been prevented.[28] In Poland, according to one observer, the reform was seen largely as an exercise of the central government, with local authorities not being well-informed. This had a damaging effect on public opinion and on the instruments that local authorities had for retraining, which were underutilized.[29]

In Hungary, coordination and communication between various levels of government contributed greatly to their ability to implement programs supporting the last round of mine closures.[30] Representatives from

[25] Haney and Shkaratan 2003.
[26] Central and East European (CEE) Bankwatch Network and Bank Information Center, *Grounded in Washington: Extractive Industries Review Implementation in Europe and Central Asia (2004-2005),* (Washington: CEE Bankwatch Network and Bank Information Center, December 2005).
[27] World Bank, *Project Appraisal Document (PAD) on a Proposed Loan in the Amount of EURO 160 Million to the Republic of Poland for a Hard Coal Social Mitigation Project* (Washington: World Bank, March 2004).
[28] Mary Louise Vitelli, Esq., *US Assistance to Russian Coal,* (Washington: USAID, 1998).
[29] Roman Palac, Economist, World Bank, Warsaw, Telephone Interview by Maria Heidkamp, 20August 2006.
[30] SzabónéBikki Ágnes, *The Borsod County Labor Center Role in Mining Lay-offs,* (Miskolc: 2000).

the inter-ministerial committee, the mine companies, and the CLCs met periodically to share information.

BALANCING ACTIVE AND PASSIVE PROGRAMS

Social safety net or support programs need to provide incentives for workers to leave their work places/enterprises primarily in cases of over-employment, inefficient and/or unsafe operations. These programs need to assist dislocated workers to re-enter the labor market as quickly as possible and to re-acquire a livelihood that optimally is similar to the earlier payment and entitlements, but at a minimum provides for regionally-appropriate living and quality of life. Incentives through passive labor market programs include temporary income support, payment of wage arrears, regular or special severance packages, and early retirement. Assistance through active labor mechanisms includes labor redeployment and active labor market programs.

A high reliance on passive benefits may enable coal sector restructuring to proceed at a more expeditious pace and with less tension than it might otherwise, but it may also contribute to declining labor force participation and increasing long-term unemployment.

In Poland, Russia and Hungary, government restructuring programs offered passive tools in combination with a standard array of active measures. It is very important to note that none of the countries had initially designed labor programs per se, but rather, labor assistance measures "fell out" of the restructuring efforts that were being implemented sector-wide.[31]

The table below illustrate expend ures on passi and a tiv labor arket program relative to gross domestic product (GDP) n Hungar Po and an Russia Espe ially in the case of Rus a, it is important to note that not all expendi res are c ptu ed her ; trade nd di ct donor fundi g of certain labor market initiatives have no been well ac ounted r, b t were p ovid d.

Expenditures on Active and Passive Labor Market Programs in Hungary, Poland and Russia, 1998[32]

	Total Spending (% of Total GDP)	Spending by Program Type (% of Total GDP)		
		Active Measures	Passive Measures	NES
Hungary	1.3	.28	.91	.11
Poland	1.0	.30	.59	.11
Russia	0.2	.02	.13	.05

Note: NES – National Employment Service Spending

[31] In Romania, a specific program on labor mitigation was supported for the coal sector commencing in 1998.
[32] Based on table 2.4 from Christopher O'Leary, Alena Nesporova and Alexander Samorodov, *Manual on Evaluation of Labor Market Policies in Transition Economies,* (Geneva: ILO, 2001).

In general, active labor market programs are intended to address frictional and structural unemployment. In cases of *frictional unemployment*, dislocated workers have in-demand skills, but may need intensive job placement assistance. When there is *structural unemployment*, dislocated workers require retraining because they lack skills or have skills for which there is no market. An overall lack of demand for labor is often a problem in one-industry and high-unemployment communities, such as many of the coal communities.

Active labor programs can be administered in parallel with standard unemployment programs using the same systems. However, in some cases with specific reference to coal workers, standard programs may not be sufficiently responsive to displaced workers, especially in terms of start-up speed or targeting.[33] For this reason – or sometimes by chance – some areas have chosen to establish programs that are run by a privatization or other designated agency. In Russia, a specific coal worker assistance program was designed as part of the overall sector restructuring framework; this program led the assistance measures that became available to coal workers in consideration of federal employment, union, regional and other programs.[34]

A 2006 study noted that European transition economies and those in the former Soviet Union use different coping mechanisms for dislocated workers. European nations tend to rely more heavily on relatively generous passive programs, such as early retirement, disability pensions, unemployment insurance and social assistance. In the countries of the former Soviet Union, these benefits are "less diffused" and many dislocated workers moved i bsistenc i lture, self-employment and work in he i ormal se tor.[35]

Policies that eliminate obstacles to private sector job creation and support sustainable economic growth are vital.

[33] Fretwell 2004.
[34] Vitelli 2007.
[35] Jan Rutkowski, *Labor Market Developments During Economic Transition,* Policy Research Working Paper 3894 (Washington: World Bank, 2006).

Common Labor Market Interventions

Passive Labor Market Programs provide social assistance to unemployed persons without further intervention.

- **Unemployment benefits**: temporary income support provided to eligible registered unemployed individuals.
- **Early retirement**: income support provided to individuals who have worked long enough to qualify for old-age pensions, but who are less than one and a half to three years away from retirement age.

Active Labor Market Programs provide skill-based, ongoing interventions that aim to provide sustainable employment.

- **Employment services:** job counseling, referrals, interview and résuméassistance, skills assessment, job search training, job fairs, job clubs, and targeted services for marginalized populations.
- **Labor market training:** training or retraining is usually free of charge to registered jobless, and is covered by the public employment service.
- **Direct job creation:** grants or preferential loans made to employers to cover costs associated with job creation provided that the new jobs will be offered to registered unemployed people and maintained for a certain period of time.
- **Subsidized employment:** w ge s bsidies, o ten su plemented by social insura ce, paid to employers as incenti s to hire reg tered job seeke s for a cert n period. Subs zed employment may be combined w h training
- **Public works:** temp j bs cre ed by m nic pal author ies r private firms usually directed at maintaining infrastructure, cleaning public areas, and other activities that benefit the community. Funding may cover wages, social insurance, and operational costs.
- **Self-employment support:** programs may include grants equal to the total unemployment benefit due the job seeker, preferential loans, payment of interest on commercial loans, business training, and assistance developing business plans.
- **Relocation promotion:** promotes geographic mobility of the labor force by covering costs associated with relocation. In some cases, it may provide a transport subsidy.

PASSIVE MEASURES

Voluntary Lay-offs, Early Retirement and Disability Pensions

A high reliance on passive benefits may enable coal sector restructuring to proceed at a more expeditious pace and with less tension than it might otherwise, but it may also contribute to declining labor force participation and increasing long-term unemployment.

A high reliance on passive benefits can enable coal sector restructuring to proceed at a more expeditious pace and with less tension than it might otherwise, but it can also contribute to declining labor force participation and increasing long-term unemployment. Experience shows that while voluntary lay-off mechanisms can mitigate the tension of involuntary lay-offs, liberal use of pension programs can result in serious problems. To a great extent in Poland, but also in Russia and Hungary, governments relied on incentives to induce as many voluntary lay-offs as possible. This approach to downsizing is often credited with minimizing the social

tensions that are inevitable in the face of mass job loss. However, they have cost implications beyond the simply financial.

In Russia, nearly a quarter of miners were of retirement age by the time of sector restructuring. However, in Russia, a number of coal workers were misled into believing that should they leave their coal jobs, other work awaited them or housing in a new more vibrant economic setting, and that was not the case.

At the beginning of the transition in Hungary, there was a sharp fall in participation in the labor market because of the massive number of people who voluntarily left the labor market. In Hungary, nearly 40% of early coal sector lay-offs were accomplished through retirement and disability pension options. In the early 1990s, many people took advantage of pre-retirement and early retirement schemes and disability pensions.[36] A 1999 assessment found that about one-quarter of the working age Hungarian population was receiving some form of financial benefit from the government, with disability pensions constituting the largest group.[37]

Poland appears to have made the most deliberate and extensive use of voluntary lay-offs. Many pension privileges established during the transition years were developed to address the rapid increase in unemployment from restructuring. The table below demonstrates the difference in social insurance benefits to miners and other occupational groups from a study done in Poland.[38]

Com i on of Di bility and R tireme t P io f Miners and the opulat n a a Wh le in 1996[39]

Pensi n Charac ris	Ave ge	Miners
Avera e retire ent ge	65 7	59.4
Averag g of retir es who h ve eceived p nsi ns	56 7	47.6
Average level of retirement pension*	100.0	208.7
Average level of disability pension*	100.0	247.6
Average level of survivor pension*	100.0	183.2

*** Ratio of average levels(=100) to benefits provided by miners .**

Similar differences were observed in every country in the Central and East European region, with the number of people receiving pension payments increasing, while the number of people paying social insurance contributions was decreasing.[40]

A 2004 Organization Economic Cooperation and Development (OECD) report called for policies that reserve disability pensions for those who are truly disabled while reducing passive income support from other early labor withdrawal programs (such as disability benefits and early and pre-retirement) and for

[36] Klara Foti, "Common Employment Policies of the EU – Challenges and Opportunities for Hungary" *Papeles del Este* 11, (2006): 1-14.
[37] János Hoós, *Employment policy in Hungary with special regards to the problems of Unemployment* (Budapest, University of Economic Sciences, 1999).
[38] Jerzy Hausner, "The Merits of Fully-Funded Versus Pay-as-you-go in Transition Economies," in *Pension Systems and Reforms in the Transition Economies,* Economic Survey of Europe, no. 3, Maria Augusztinovics, ed. (Geneva: UNECE, 1999).
[39] Jerzy Hausner, "Security through Diversity: Conditions for Successful Reform of the Pension System in Poland," Collegium Budapest, Institute for Advanced Study, Discussion Paper, no. 49, 1998.
[40] Jerzy Hausner 1999: i.

able-bodied individuals. Disability pensioners in Poland represent more than 13% of the working age population, more than twice the OECD average.[41] The OECD cautioned that Poland needed to reform pension systems and strengthen labor market institutions to break the current cycle of dependency.[42] Indeed, although Poland has the highest unemployment rate and the lowest employment rate in the OECD, Poland spends less than a quarter of 1% of GDP on active labor market programs, one of the lowest ratios among member countries.[43] However, where high employment exists (as in Poland) a bridge to retirement for older workers can be an integral tool to improve labor markets.[44]

Younger workers with basic educational levels and skills were the most likely to benefit from retraining.

Retraining vs. Severance Pay

Before 1997, no donor program provided comprehensive support to labor support programs. The World Bank was the primary donor, and its labor assistance was included in the form of overall sector adjustment lending activities such as in Russia – the "Coal SECAL" or Coal Sector Adjustment activity. The dominant component of World Bank labor assistance programs for Hungary, Poland and Russia consisted of union support, worker training, retraining and public information (including notice provisions and actions), outreach for affected communities, and linkages to other donor economic development programs in the affected regions.

By 1998, severance pay had become the major form of compensating laid-off workers in all ten World Bank restructuring loans provi year. ime, considerably fewer coal workers r mai d in the sectors and a much more pragmati and manag able program approach was fe sible. In ddit n, the World ank fo nd t at the number o downsizings using voluntary exit mechanism had in ease.[46] Likely reas ns for th W rld Bank's shift n emphasis include:

Sometimes paying workers "not to work" is ss cost nt mploy them in loss-mak g enterprises.[4]

- Several evaluations and information provided by non-government organizations indicated that training and retraining programs were expensive and were not proving to be the most effective approach to assist laid-off coal workers, especially if they were not well-targeted.
- The remoteness of coal communities and the ability and/or willingness of coal workers to integrate into the local economy were underestimated.
- In situations where labor unions were strongly present, there was pressure for workers to be immediately compensated when downsizing and closing occurred.[47]

Reluctance to Participate in Training

Studies have found that retraining programs can slightly improve re-employment prospects, but that wage changes were minimal or negative. In addition, compared to job search assistance, retraining programs may be two to four times more expensive, but produce outcomes that are no more effective. Training

[41] After-tax benefits and other forms of social assistance for disabled pensioners are often twice as high as after-tax earnings from a minimum wage job.
[42] Organization for Economic Cooperation and Development (OECD), *Policy Brief: Economic Survey of Poland*, (OECD 2004)
[43] Andrew Burns and Przemyslaw Kowalski, *The Jobs Challenge in Poland: Policies to Raise Employment,* OECD Economics Department Working Papers, no. 414, (Paris: OECD, 23 December 2004).
[44] John Strongman, Mining Expert, World Bank, telephone interview by Maria Heidkamp, 20 August 2006.
[45] Fretwell 2004.
[46] Yi 2001.
[47] Ibid.

programs may fail due to poor sequencing and implementation delays, inadequate institutional capacity, low education levels, and a dearth of employment opportunities for retrained workers. Another structural problem is that training providers sometimes receive funds based on the number of people attending training rather than on the number of those re-employed.[48]

Affected workers often have little faith in training, especially in high unemployment regions. One study that found that an average of only 10-20% of displaced workers participate in training programs, compared with 50% for counseling services.[49] When workers in Poland were given a choice to participate in retraining and other programs, they overwhelmingly selected a severance package.

In Poland's 2003-2006 coal sector restructuring program, different components were offered to workers (Component A, Component B, etc.), including various social support options. A 2005 study found that most people who left the enterprise did so using some form of pre-retirement and that only 41 of the anticipated 8,600 people had accepted the "Component B" social package, which included job creation and training assistance.[50] For those who participated in training through the European Union (EU) Poland and Hungary Assistance for Reconstruction of their Economies (PHARE) Initiative program, the results were mixed: more than half said the training did not contribute to their finding a new job.[51]

In Russia, even when retraining was of high quality, the prospect for finding and keeping a job in the new profession was limited. Russian coal miners who were interviewed were skeptical about the value of retraining, preferring to find jobs at other mines if possible.[52] Less than 5% of Russian coal miners surveyed in 1994 showed any interest in becoming entrepreneurs.[53]

In Hungary, in o der to qualify or a seve ance p yment call d a "restart end wment," miners were required to part ipate in sic ob sear h and r -integratio training. A clos g report from one mine shows that mor than 99% of t ose e gible pa p d in t e required trai ng. However, interest in retraining for new profes ons as limit d. T e same r por indicated that i the end, out of 534 people who used the restart program, 17 took part in a computer course, and 15 undertook training for entrepreneurship.[54] Of the re-start participants, 44% retired after the training (mostly on some form of disability pension or miners' retirement); 15% found new jobs or became entrepreneurs; 41% ended up registered unemployed.

In addition, experience from other countries regarding the use of incentives or stipends for workers who attend training programs has been mixed, finding that incentives can distort participation rates.[55]

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[48] Adam Smith International, *Labor Issues in Enterprise Restructuring and Infrastructure Reform* (Asian Development Bank, March 2006), http://www.asiandevbank.org/Documents/Events/2006/Workshop-Labor-Issues/labor-issues-working-doc.pdf.
[49] Sunita Kikeri, *Privatization and Labor: What Happens to Workers When Governments Divest* (Washington: World Bank, 1998)
[50] CEE Bankwatch Network and Bank Information Center 2005.
[51] Government of Poland, *Evaluation of PHARE PL 9811 Initiative Programme: Final Report* (Warsaw: Government of Poland, 7 May 2004).
[52] Haney 2006.
[53] Vitellli 2007.
[54] Karoly Lovas, Managing Director, Feketevolgy Mine Inc., *Closing Report: Feketevolgy Mine Inc. Re-Start Program Implementation* (Feketevolgy, Hungary: 2001).
[55] Adam Smith International 2006.

Severance as Seed Capital

It is sometimes suggested that severance payments can serve as seed capital for dislocated workers to start new businesses. In most cases, severances as seed capital has not proven to be an effective tool for entrepreneur development.

Severances as seed capital has not proven to be an effective tool for entrepreneur development in most cases.

In Poland, many miners who opted for the lump-sum compensation (estimated at about USD $10,000) instead of training programs were encouraged to use severance payments for new business start-ups. Evidence indicates that most workers used most of the lump-sum payments for consumption instead of investment or establishing a business. In Poland, only 14 % of redundant miners used severance money on business investment projects associated with work. A third of the investment projects went bankrupt. As much as 18% spent their severance on consumer goods and services and 17% paid off debts. An estimated 25% of severance recipients returned to government support.[56]

In Hungary, very few of the "restart" grant recipients used the support to start new businesses. At one mine, 15 of 534 restart grantees (less than 3%) took part in an entrepreneurship training course. Of 873 former mine employees who registered for assistance with the Borsod County Labor Center from the 1999-2000 mine closures, only 1% became entrepreneurs.[57]

In Russia, the government ran a pilot project offering grants of two to three times the average severance payment to 570 miners who were laid off in two towns in the Rostov Oblast to encourage them to start individual businesses. The effort was unsuccessful because the funding was offered indiscriminately to people, many of whom w likely ca did for nurturi g and m i sm ll b i s. In addition, there was no support sys em to as ist w th basic usiness ta ks.[58]

Based on these results, it s clear th t b ter ta geting a g bu ness support sy tems in place could improve outcomes. How ver, eve wit these suppor element it essential that g vernments and donors recognize the interest and capacity of workers being encouraged to undertake new business development. As indicated, a survey of Russian coal workers found less than 5% of coal workers showed any interest in starting a business,; the majority sought factory employment.[59] According to one study, of the 6 to10% of any group of dislocated workers who consider it, self-employment or micro-enterprise requires limited entrepreneurial acumen but also results in very little job creation.[60]

Labor Migration and Relocation Programs

Research indicates that relocations programs, when offered, were not widely used.[61] Reasons include:

- Family and community ties are very strong, and voluntary relocation (as of the 1990s) was not a common attribute among labor market participants.
- In some regions, notably Russia, regional passports limited the job opportunities for workers in the state sector, keeping them confined to their state zone for state employment, housing and school entitlements.
- In transition economies, housing is generally problematic in all regions, not only in regions where lay-offs occur.

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[56] Iwona Dominik, "In the Forefront of Life: Time for Silesian Women," *The Polska,* 17 April 2005.
[57] Szabóné 2000.
[58] Haney and Shkaratan 2003.
[59] Mary Louise Vitelli, *1994 Coal Worker Survey* (Washington: World Bank, 1994)
[60] Jacob Levitsky and Clare Tawney, *Small Enterprise Development as a Strategy for Reducing the Social Cost of Restructuring and Privatization, Working Paper IPPRED-6* (Geneva: ILO, 1997).
[61] Haney and Shkaratan 2003.

- Migration costs can be high.

One study noted that Hungarians opted to remain in their native regions despite high levels of unemployment, even while there were labor shortages in the economically strong region of Western Transdanubia.[62]

In some cases, workers may leave their families in the original residence and find permanent or temporary work elsewhere. In Poland, incentives to offset the cost of commuting to more distant regions may have been valuable additions to the labor mitigation programs.[63]

Perhaps nowhere is the issue of relocation support more relevant than in some of Russia's remotest Northern coal mining regions, north of the Arctic. Similarly, the extreme expense of supporting social services in the remote western Siberian areas is estimated at seven times as high as elsewhere in Russia. The earliest attempt to support relocation was commenced in 1996 for the city of Vorkuta (population 200,000), 42 km north of the Arctic Circle. Coal workers were offered free and new housing in Rostov-on-Don and small Siberian coal towns, where they were not assured jobs but would receive considerable severance packages that included the "northern coefficient," a Soviet legacy of additional pay based on geographic location. At that time, the coefficient allowed for up to 40% more pay based on geography. The workers would also receive regionally appropriate passports. The program's outcomes reflected its flawed design:

- A number of Vorkuta coal workers immediately filed for divorce, permitting their spouses to keep th a resid ile they w ld still b t esidence. In some cases th Vorkuta resid nce was old fo ca h but i most cases, th families enjoyed having two homes.
- Many of he Rosto -on Don b ed wo kers e ded p taking jobs in Ukraine's Donetsk coal region, drive f m th region, uild ng tension am ng the already ruggling Ukrainian coal miners.
- Personal deals permitted many of the Vorkuta miners to relocate to areas outside the prescribed relocation regions.[64]

ACTIVE MEASURES

Job Creation and Active Labor Market Programs

In spite of the best intentions, there are limits to what worker adjustment efforts can accomplish. Several studies from developed and transition countries reported mixed results for redeployment programs. In a 2004 assessment, the World Bank found that in Poland, attempts to create employment opportunities in other sectors for laid-off coal workers fell short of expectations, implying that most complex restructuring projects do not give adequate attention to the arduous task of alternative employment generation.[65]

Programs to address the general lack of demand for labor include public works, small business supports, incubators, and micro-loans. Local economic development initiatives are another response to lack of

[62] Observatoire Social Européen (OSE), *Security Systems in Hungary and Some of the Problems in View of Adhesion*, (Brussels: OSE, n.d.), http://www.ose.be/files/Hungary%20-%20Report.doc.
[63] Palac, Interview, 2006.
[64] Vitelli 2007.
[65] World Bank, *PAD Poland Hard Coal Social Mitigation Project*, 2004.

demand for labor. These generally create few jobs in the short-term, but are important to an area's long-term prospects for revitalization.

While efforts involving business incubators, business support services, and special enterprise zones have shown promise in all three countries, local economic development efforts tend to have modest short-term results. Small business supports can be effective but tend to be more expensive than other services and are used by only a small number (5-6%) of participants.[66] Public works can have positive social and infrastructure benefits, but are expensive and can have no or even negative impact on long-term employment and wages.[67]

Local economic development initiatives create few jobs in the short term, but are important for long-term.

Russia had well-designed, reasonably financed local development programs directly associated with the coal restructuring program. These programs, which were evenly distributed across the country, included economic diversification, micro-credit loans and other local economic development measures, and generated jobs for about 18% of those entering the workforce due to mine closure. These job creation challenges further highlight the importance of general economic growth in absorbing labor that is shed during restructuring.[68]

Spin-off Enterprises and Outsourcing for Goods and Services

Some attempts to "spin-off" activities that were previously carried out within coal enterprises were conducted in all three countries. These "spin-off" activities were generally conducted by private cooperatives or groups of f r emplo [69] As describ d, these c l p i ertically and horizontally integrated to nclude c re f nctions d anci ary service , such as repair hops, health centers, schools, transpo tation se ice travel gencies and afeter services that c uld become more viable contributors to loc l econom es separa ed from p com anies.[70]

Spin-off enterprises from the Feketvolgy coal mine in Hungary included a small business to provide coal for residential use, and a metal working shop that used equipment that had belonged to the mining company. In the Tula region of Russia, with World Bank funding through the coal sector adjustment loan program, former coal mine properties were transformed into truck stops, complete with restaurants, hotels, recreation areas and parking for large trucks. These are operated by former mine managers and employees and their family members.[71] Some privatization of coal enterprises took place by unbundling and outsourcing non-core activities, including housing, power generation, agriculture, briquetting, cement production, trading, repairs, beneficiation, design and construction, recreation, canteens and community services.[72]

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[66] Fretwell 2004.
[67] Ibid.
[68] Haney 2006; Mary Louise Vitelli, Esq., former Program Manager for the World Bank Russia Coal Reform and Restructuring Program, Written Comments, October 2006.
[69] Levitsky and Tawney 1997.
[70] Joseph Stiglitz, *New Bridges across the Chasm: Institutional Strategies for the Transition Economies* (Washington: World Bank 2000).
[71] Vitelli 1998.
[72] World Energy Council 2000.

CONCLUDING REMARKS

Although some impacts of coal industry workforce restructuring are unique to or exacerbated by the nature of a transition economy, others are simply a fact of life. Ideally, sector restructuring occurs during a strong, low-unemployment economy to better provide for the process of community decline and recovery. Nevertheless, experience has shown that the process is slow and difficult, particularly in areas that have a high rate of unemployment due to lay-offs rather than to a lack of job creation.[73]

Research on the coal sector in Russia found that roughly a third of laid-off workers registered with the employment service. Another third were of pre-retirement or retirement age. There was little information about the remaining third. Some may have been re-absorbed into the formal or informal economy, but they were not obligated to report back and are difficult to track, especially across the vast expanse of Russia.[75] This was also true in principle in Hungary and Poland, making overall outcomes of employment reconstruction difficult to ascertain.

> Don't forget you're dealing with communities, and you don't want to end up with ghost towns. Government can't be seen to be ignoring the plight of people. The perception is important; it's a political reality. At the same time, local people need the sense of hope they're not being abandoned. It really does matter to try.[74]

Nevertheless, from the County Labor Centers in Hungary to the Mining Labor Agency in Katowice to the wide range of foreign experts who spent time in remote Russian mining communities, many of those involved in prog mitiga h i pacts of co l sector ri i d determined to persevere.

The lessons lear ed from ola d, Hun ary and an in orm future plan ing in transition countries yet to make the eap into estr cturing oal s ctor labor. A hough experien e shows that the process is long and arduous, reforms are unavoidable to ensure the overall prosperity of a country's coal sector and economy. To avoid painful social impacts, governments must carefully plan for reforms, provide adequate resources for implementation and social programs, prepare for a lengthy transition process, engage local and national stakeholders in planning, and implement passive and active measures for labor redeployment. Above all, governments must commit to the reform process and persevere.

[73] Strongman, 20 August, 2006.
[74] Haney 2006.
[75] Ibid.

ANNEX A
CASE STUDY: HUNGARY
COAL SECTOR RESTRUCTURING

OVERVIEW

In comparison to the coal sectors of Poland and Russia, Hungary's experience in restructuring was less dramatic. The primary reasons were (1) a considerably smaller coal sector (approximately 30,000 workers were displaced with reform) and (2) Hungary's better macro-economic conditions (new economic development provided some alternative employment opportunities for affected communities). By the late 1980s, Hungary had broken out of the centrally planned economy approach to macro- and sector-specific operations (including coal) and was progressing toward a market-based economy based on profit and guided by newly emerging market realities.

> The Hungarian coal industry represents the problems of transition from a centrally-planned to a market economy to a sharper degree than almost any other sector. While there are staggering inefficiencies in the sector and large parts of it have to be shut down to relieve the burden on the economy, these very actions exacerbate unemployment to an almost intolerable degree in areas where there are few or no alternatives.[76]

Hungary was the first country in Eastern Europe and the former Soviet Union to begin restructuring and privatizing its energy sector assets. Coal production started to decline in 1987, a symptom of economic problems that would spread throughout the region and signal the break-up of the Soviet Union.[77] Hungary's coal industry was challenged by the relatively poor quality of its deposits, which were high in sulfur and ash, highly polluting, and tl to comb t d transport. In addition, H gary's m nes ere becoming deeper and less safe, mak ng the co m re expe sive to extract. These basic p oblems re ult d in a risis for the domestic coal indust immed tely fter Hu gary egan the tran tion to a free arket economy.[78] The industry's chronically poor financial condition deteriorated sharply after 1989.[79]

When restructuring started, Hungary's coal industry consisted of 41 mines and almost 50,000 employees. because most of the mines were not commercially viable, as the Hungarian Government committed to a market-based economy, it had to start a major downscaling of its highly state subsidized coal sector in 1989. Concerns over the socio-economic impacts of the program resulted in a strategy of gradual restructuring.[80] In 1990, the Government passed a resolution to establish the Coal Mining Restructuring Center (SZESZEK), which was tasked with reorganizing the industry's productive assets into viable entities. Supervised by the Ministry of Economic Affairs, mine sector creditors gave the Coal Mining Restructuring Center ownership of coal mining assets on a provisional basis. Government's resolution on coal sector restructuring outlined plans to write off existing state allocations and loans to mining companies in liquidation.[81]

Remaining independent mines were operated under SZESZEK until 1993, when they were transferred to three new regional mining associations in the Mecsek, Borsod and Veszprem regions. All three had high unemployment areas. These mines received direct government subsidies, as well as purchase contracts

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[76] International Energy Agency (IEA), *Energy Policies of IEA Countries: Hungary 1999 Review* (IEA, 1999).
[77] Sarah Benson, *Coal in Hungary* (Lexington, KY: Center for Applied Energy Research, 2001).
[78] Greg Spencer, "Burning Out," *Business Hungary* 16, no. 5 (May 2002).
[79] IEA 1999.
[80] World Bank, *Privatization of the Power and Natural Gas Industries in Hungary and Kazakhstan* (Washington: World Bank 1999).
[81] IEA 1999.

from the power industry (under pressure from the government).[82] This paper includes a detailed review of restructuring in Borsod County, where the North Hungarian Regional Training Center was established.

To facilitate the economic survival and privatization of some Hungarian coal mines, the government combined the least inefficient mines with power stations that could use their coal production. In 1993 and 1994, all but eight of the remaining coal mines were integrated with power plants. SZESZEK transferred mine assets to the power plants in exchange for shares in the integrated companies (about 25% on average). By 1994, roughly 13,800 coal miners out of 19,000 were employees of power companies.[83]

Integration was intended to increase the competitiveness of coal-based power by decreasing costs for interdependent mines and plants and to allow for their coordinated development or divestiture. The assumption was that the integration would cause coal sector reorganization to proceed in at a more rapid pace, reduce social tensions, and promote job security. On the other hand, there were fears that the government decision to integrate non-viable and unprofitable coal mines with power plants would diminish the value of power plants owned by the government.[84] Most of the domestic mines produced coal that was twice as expensive as imported coal, and many of the coal-fired power plants were 30-40 years old and inefficient. Electricity generation in the integrated plants often cost twice the average, making them potentially unviable in a free market system.[85]

The economic reality of Hungary's failing coal sector surfaced. It was understood that (in Hungary as throughout East E ope and h f mer Soviet Union fo d d) l i received the highest wages and earne the gre test ocial pre tige by ir ue of t ir work "for th people." In 1999, on National Miners Day the c al iners' l gacy w rec nfirm d when Hungar s then president pronounced, "M ning is a n tio al trea ure, the n of hich must be maintained." However, the President then d fended he go ernmen 's de ision to eas the state's subs dy of the coal sector and began closure of Hungary's remaining non-integrated coal mines, because of the economic burden placed on the country from the non-competitive sector.[86]

By 1999, all but the obsolete Vertes coal-fired power plant had been privatized.[87] The only conditions that Government placed on how new owners could operate the coal/power companies concerned the labor force. The Government of Hungary and trade unions negotiated agreements that helped to minimize labor resistance to privatization and committed new owners to retain the existing management of the companies for at least two years. This requirement helped to ensure that existing management would cooperate with and during restructuring.[88]

In 1999, Government announced its decision to restructure non-integrated coal mines over two years. The plan called for ceasing operational subsidies for the non-integrated mines, except to support closure costs and transitional financial help to rehabilitate affected regions.[89] Unions claimed this would result in

[82] IEA 1999.
[83] Ibid.
[84] International Energy Agency (IEA), *Energy Policies of IEA Countries: Hungary 2003 Review,* (Paris: OECD/IEA, 2003).
[85] Christof Timpe and Veit Burger, *Electricity Disclosure in a Liberalised European Market – Annexes: Phase 1 Report from the 4C Electricity Project, Annex I: Country Reports: Hungary*, (Freiberg, Germany: Altner Project, 2003), http://www.electricitylabels.com/downloads/Annexes_4CE_Phase_1_Final_Report.pdf.
[86]"Miners' Day Speeches Defend Mine Closures" *Budapest Business Journal*, (3 September1999).
[87] World Bank 1999.
[88] Ibid.
[89] IEA 2003.

the loss of 20,000 jobs. Nation-wide protests altered the government's timetable and a plan was made to protect miners by providing financial support for comprehensive human resources management.[90]

The Ministry of Economic Affairs made plans to grant a "restart endowment" to 2,500 miners it planned to lay-off in three east Hungarian coal mines. Miners were to receive between 6 to 24 months' severance each, depending on seniority and current wages. The project was to be funded by money saved by the Hungarian Electricity Works from lower coal costs. It was expected that 6 to 7% of the miners would become entrepreneurs, 20% would retire, and 10% would be willing to be retrained.[91]

Knowing that company reorganizations were necessary to combat over-employment, potential investors submitted business plans that included steps to reduce the number of employees. Under the terms of the government's Privatizations Sales Agreements, each company agreed to specific numbers of employees for five years, with reductions to be achieved by divesting non-core coal and power activities, natural attrition, and retirement. In addition, 5% of privatization revenue was used to establish a fund to support retrenched coal employees. Owners were permitted to offer inducements for voluntary retirement.[92] After privatization, the new owners reduced employment by roughly 30%.[93]

Deregulation of the country's electricity market, which took effect in 2001 as part of the country's transition to market economy, was another factor that drove mine closures. In an effort to remain competitive, Hungarian power plants increasingly switched from coal to natural gas. By 2004, EU energy regulations took effect, generally calling for stringent market parameters for sector operation, placing more pressure on the remaining Hungarian coal-fired power stations.[94]

In 2005, Hungary had on open-pit mine serving e Matr p wer pl nt, one undergr und mine serving the Vertes power plant, d six mi r o en cast mines s rvin local markets The op n cast mines are economically viable. The mine serv g t Vert s plant [95] On October 30, 2006 however, the Hungarian state-owned Hungarian Power Works (Mag ar Villamos Murek - MVM) so d its majority stake in the Vertes Power Plant to a local investor. The new owner has indicated plans to continue to operate an associated coal mine through 2014.[96]

[90] "Government Agrees to Talks after Miners Protest," *Budapest Business Journal* (12 April 1999).
[91] "Government Spends Ft 10 bn on Dismissed Miners," *Budapest Business Journal*, (12 April 1999).
[92] World Bank 1999.
[93] Ibid.
[94] Spencer 2002.
[95] European Commission (EC), *European Commission Approves "Coal Package" Authorizing Restructuring Plans for Polish, German and Hungarian Coal Industry until 2010,* Memo/05/217, (Brussels: EC, 22 June 2005).
[96] "MVM Sells Vertes Power Plant Stake," *Budapest Business Journal*, (30 October 2006).

Coal Sector Employment Restructuring in Hungary

Major Indicators of Coal Sector Restructuring for Hungary[97]

	1990	1993	1995	1997	1998	1999	2000
Hungary							
Coal Production, Mt	17.6	14.6	14.6	15.6	15	14.5	13.8
Number of Mines – 30 Closed in 10 Years	41	26	23	19	18	17	11
Employees (in 1000's)	49	26.2	20.4	16.5	16	12.4	11.3
State Subsidies (1990 = 100)	100	28	30	28	61	23	9
Productivity Growth (1990=100)	100	152	191	214	236	273	284

In 1990, there were roughly 49,000 employees in Hungary's coal mines. 14,800 employees were in integrated mines (coal operations attached to power plants), 1,900 were employees of the Mine Holding Company and 8,600 were employed in non-integrated mines. There were also 900 foreigners.[98]

Number of Employees in 1990

	1990
Total Employees in Mine	49,000
Including:	
Integrated Mines	14,800
Mine Holding Company	1,900
Non-Integrated Mines	8,600
For i	900

Between 1991 and 1993, as many as 36,000 miners were let go from the sector. However, 10,000 miners were hired, for a net decrease of 26,000. Of the 36,000 who were laid off, 14,000 (nearly 40%) were able to qualify for one of several retirement options, while 2 000 rem ined on the labor marke A spe al miners' retirement program w started n 199 wh ch low red the retirem nt age requirement and improved retire ent options. oughly 26% of ho re red in the earl years of restructuring took advantage of the retireme t pr gram. Of not close to 40% of coal worker qualified for "disability retirement", which SZESZEK described as more lenient at the time. Various other early retirement schemes accounted for almost 20%, and 14% were retirement age.[99]

- **Disability Retirement.** In Hungary, the base criteria for a disability pension required that an individual had lost 67% of his working potential due to deterioration of health or physical or mental capabilities, with no improvement expected for a period of one year. To be eligible for disability pension, a ratio of age to number of years employment was set (for example, 10 years for someone between the ages of 35 and 44, 15 years for someone between 45 and 54, etc.). The person also had to be currently unemployed or employed with an income smaller than before becoming disabled.[100]

- **Early Retirement.** The early retirement system allowed a worker to retire five years prior to becoming eligible for an old-age pension, with the employer financing the costs. The employer was responsible for paying in a lump sum the employee's five years of pension to the Pension Insurance Fund, which made monthly payments to the retired individual.[101]

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[97] UNECE 2001.
[98] Coal Sector Restructuring Center, *2004 Annual Report,* (Budapest: Coal Sector Restructuring Center, 2005).
[99] Ibid.
[100] Szilvia Borbély, *Pensions in Hungary and Influence of External Players*, New Governance and the Social Dimension of Enlargement, (Brussels: OSE 18 October 2000).
[101] Ibid.

DONORS

Unlike restructuring initiatives throughout Eastern Europe and the former Soviet Union, Hungary was not a beneficiary of significant coal sector restructuring support from the international donor community. Part of this is attributed to the timing of Hungary's economic reforms as one of the first dramatic shifts from centrally planned economics to market orientation. Donors had yet to recognize the strong economic legacy of coal mining to these economies and were not set up to facilitate market reform in this specific regard. In addition, the macro-economic changes in Hungary were well-supported by the Hungarian people themselves, and private investment entered the Hungarian market in a more timely and effective way than in other former Soviet states. The coal regions and workers received the windfall benefits of these economic developments. Finally, the Hungarian coal sector was significantly smaller in number of workers and level of production than nearby sectors, making the changes easier to target and more manageable to implement.

Most of the significant reforms in the sector were linked to broader economic regional development and were facilitated through a self-generated set of institutions that included:

- Inter-Ministerial Committee
- SZESZEK
- County Labor Centers (CLC)
- Rapid Response Re-employment Assistance Committees (RAC)

CLCs had particular effect on coal regions as noted in the Borsod County Case Study below. Labor center officials worked c y ith coa g s, worker and uni sh p de channels for information, to link the c al restru turi g impact with regio al eco omic developm nt and to provide a foundation from which n w employmen opport nities could e sec red

World Bank

Unlike Poland and Russia, Hungary did not receive a World Bank loan dedicated to restructuring the coal sector. In early 1989, Hungary became the first country in the region to receive support for sector restructuring when the World Bank approved the Third Industrial Restructuring Project loan for $140 million. The loan was the result of planning in Hungary, which started in 1987 during the pre-transition period. The project closed in June 1997 with a total utilization of $82.7 million. The goal of the project was to support the restructuring of the industrial sector and improve its international competitiveness. Part of the loan went to support restructuring of the steel and coal mining industries and included assistance for redundant workers.

The loan supported efforts to increase exports to convertible currency markets, assist entrepreneurs and small businesses, and restructure and create employment in regions where industrial restructuring had created unemployment. Labor components included an employment fund, unemployment allowance, retraining allowance, early retirement provisions, support for public service employment, and support for individual businesses.[102] Several aspects of the project were directed at the high-unemployment coal and steel regions, especially Borsod County, where the North Hungarian Regional Training Center was established. The state-of-the-art training center became a model for centers subsequently established around the country.[103]

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[102] Yi 2001.

[103] World Bank, *Implementation Completion and Results Report Hungary Third Industrial Restructuring Loan Project* (Washington: World Bank, 1998).

CASE STUDY: EMPLOYMENT RESTRUCTURING AT THE NON-INTEGRATED COAL MINES IN BORSOD COUNTY

In 1999, an inter-ministerial committee (including SZESZEK, the Ministry of Social and Family Affairs [formerly Labor], Ministry of Economic Affairs, and Ministry of Agriculture and Rural Development) was working to develop a way to coordinate resources that the government was setting aside for restructuring efforts at non-integrated mines. The Ministry of Economic Affairs found that while resources were available to assist with coal mine area restructuring in earlier lay-offs, local actors were unable to work together to develop viable plans. The Ministry of Economic Affairs therefore decided to include the Rapid Response pre-lay-off and local economic development models in a government decree. By 1999, all CLCs in Hungary used the models, which were included among the active labor market tools in the Employment Act in 1997. Projects were already in progress at several coal mines and had recently concluded at the country's only uranium mine.

The Borsod CLC regional employment counselor, who is responsible for coordinating lay-off projects, described the efforts taken to mitigate the effects of mine closures.

The government decision in 1999 to close the non-integrated mines resulted in lay-offs of almost 2,500 people in Borsod County. Although the county unemployment rate was near 20%, the lay-offs primarily affected three high-unemployment regions: Ózd-Putnok, Kazincbarcika and Edelény, where unemployment rates were between 25-30%. The three contiguous areas are in northeastern Hungary near Slovakia and have a population of 177,000 – close to a quarter of Borsod County's population. The regions represe a tota f 10 small lo al areas w ere the conomy histor ally revolved around heavy industry, metallu gy and m ning

According to th CLC, th re w re few ntre reneurs few ther sources o employment, and a lack of willingness to en i entrep neurial a tiv ties. Educa ion evels were low and over half the unemployed were over 40 years old. The CLC observed a declining willingness amongst the population to take on work. Little had been done in the way of new job creation.

There was an increasing mismatch between the supply and demand characteristics of the labor market: large-scale unemployment contrasted with chronic labor shortages in certain occupations. Available jobs, such as for seamstresses, sales workers, welders, stone masons, and carpenters, were not viewed as not suitable for former miners.

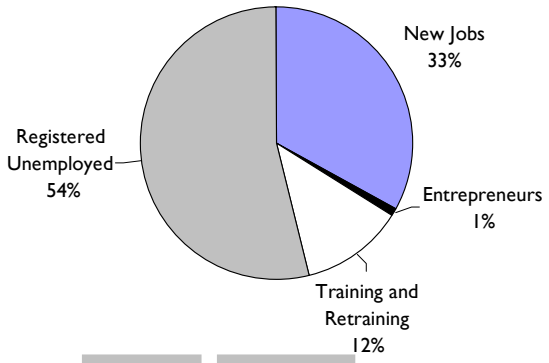
Re-employment Assistance Committees

The CLC established a Rapid Response Reemployment Assistance Committee (RAC) at each affected mine in 1999. The goal of the RAC was to start its work in the critical phase between the notice of lay-off and the actual date of lay-off, striving to prevent unemployment in as many cases as possible. The RACs included representatives of the employer, trade unions, work councils, and the employees. Each committee had a neutral chair: a person who had some stature in the community and some familiarity with the labor market.

The regional employment counselor described the devastating effects that lay-offs can have on individuals: loss of self-confidence; emotional crises; feelings of rejection, anger, depression; and a rise in alcoholism rates. These negative effects of unemployment in turn affect the family and the larger community. A fundamental task of the RAC was to make personal contact with affected workers, who may be more willing to seek help from a friend or peer than a government official.

The Borsod coal mine RACs conducted needs assessments of dislocated workers, relying on surveys and personal interviews. Of the 1,133 laid-off workers at the Putnok mine, 676 (60%) of them completed surveys. Based on the results, the RAC worked with the CLC and other community groups to put together a program of services. The committee stakeholder organizations included municipalities, chambers of commerce, training centers, NGOs, and family assistance groups. The RAC set up an on-site office with access to job listings and information on training and other services. The CLC made its usual services available, including basic and intensive job search training programs. The committee also worked to identify hidden jobs that were not listed with the employment service. They sought out area entrepreneurs and prepared information for potential investors on local real estate and labor force composition.

Outcomes Borsod County Laid-off Coal Mine Workers October 2006



In surveys, close to 700 people indicated an interest in retraining programs. In the end, 109 participated in training courses paid for by the CLC for welders, computer operators and entrepreneurs.

Of the 1,830 people who lost jobs at the three mines between 1999 and 2000, 873 (48%) registered with the branch office for assistance. A Borsod CLC regional employment counselor reported that – given the situation in the region – the results are good.

Local Economic Deve opment

While working with the ACs, the hre region also undertook Lo l Economic De elopment (LED) efforts. Guided by the C C regiona em oyme t couns y re d on a particip tory model that involved a series of community w kshops desig ed to help conduct ommunity SW T (strengths, weaknesses, opportunities, and threats) analyses to develop strategic blueprints for the future, and identify and implement specific projects. Projects implemented as a result of LED efforts include:

- Establishment of a regional development office
- A bio-farming berry-growing project. The project started on one acre of land and has since expanded to 56 acres and 150 employees. The project received support from the National Employment Foundation and EU PHARE.
- Goat-raising and cheese preparation project
- Development of a bicycle frame manufacturer
- Establishment of a wholesale warehouse for wood and agricultural products

Crises management can only be a success if all the affected organizations and the local population recognize the importance of cooperation.

In addition, two companies were established as spin-offs from the mine: one makes metal parts for buildings and the other excavates coal for residential use.

The Borsod CLC found that in the interest of seeking solutions, community stakeholders must develop and sustain partnerships. This includes inter-ministerial cooperation at the national level, as well as coordination between the national, regional and local levels. The inter-ministerial committee took part in an ongoing way and effectively collaborated in the development of common programs. The RAC helped coordinate efforts at the local level, involving the employer, the trade unions and local stakeholders. Throughout the process, the County Labor Centers assisted in coordination, labor force and regional development, and technical support, such as writing proposals.[104]

[104] Szabóné 2000.

ANNEX B
CASE STUDY: POLAND

OVERVIEW

In the late 1980s, Poland was ranked as the world's seventh largest coal producer. Poland had three major coal basins hosting underground and open-pit coal mines: the Lower Silesian, the Upper Silesian, and the Lublin. The Upper Silesian basin alone, straddling the border of the Czech Republic (referred to as the Ostrava-Karvina basin in the Czech Republic) produced more than 90% of Poland's coal.[105]

At the end of the 1980s, some eighty-four underground lignite mines and four large open-pit lignite mines were in operation.[106] During Poland's socialist era, coal mining was a central component of the Polish economy, accounting for 4% of GDP.[107] More than 400,000 people worked in the Polish coal industry as late as 1989. More people were employed by coal mining in the Upper Silesia basin than were in the entire sector in Western Europe.[108] Coal was considered "black gold" – essential for heating and power – and coal workers (especially miners) enjoyed high wages and entitlements.[109]

Despite high output, coal mine operations in Poland were technically and economically inefficient compared to operations in Western Europe. The average Polish miner extracted 400 tons of coal per year compared to 1,000 tons for the average British miner.[110] This disparity has been attributed to Poland's lag in modernization of mine operations, lack of capital investment to upgrade technical aspects of mining and inattention to efficient mine practices. Prior to the economic transition, commercial viability was igno d Regardles f ts, coal out ut was e d d to t titative targets; all mines (including nefficien min operatio s) wer h avily subsidized by the ate. The costs of mining ultimately prove to be hi er han sim y extr ction costs he extensive e ploitation favored by Poland's earlier entral pla nin result d in wi p env onmental dama e and a high ratio of waste.[111]

SECTOR RESTRUCTURING

Rationale

The sweeping economic reforms of the early 1990s ended the central control of coal sector operations and partially liberalized prices. By 1992, a relatively free market for coal existed, and mines became autonomous state enterprises.[112] Once faced with the new parameters of market operations, the Polish coal industry's serious economic trouble included excessive production capacity, lack of capital,

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[105] United States Environmental Protection Agency (EPA). Poland: Overview: Coal Production and Resources, (Washington: EPA, 4 October 2006), http://epa.gov/coalbed/intl/poland.html.
[106] Glenn E. Curtis, ed., *Poland: A Country Study,* (Washington: Government Printing Office for the Library of Congress, 1992), http://countrystudies.us/poland/55.htm.
[107] World Bank, *Project Information Document (PID) Poland Second Hard Coal Sector Restructuring Loan Project*, Report No. PID9530, (Washington: World Bank, 3 August 2003)
[108] Szczepañski and Cybula 1998.
[109] European Industrial Relations Observatory (EIRO), "Continued Opposition to Coal Mining Reform," EIROnline, (Dublin: European Foundation for the Improvement of Living and Working Conditions, October 2003), http://www.eurofound.europa.eu/eiro/.
[110] EIRO, "Labor Unions and Restructuring Processes in the Hard Coal Sector in Poland" EIROnline, (Dublin: European Foundation for the Improvement of Living and Working Conditions, April 2005), http://www.eurofound.europa.eu/eiro/.
[111] Curtis 1992.
[112] Ibid.

antiquated technology and considerable over-employment. In a market context, the majority of Poland's mines were unprofitable; the hard coal mining industry was generating recorded losses beginning from 1990.[113] By this time, six mines had been liquidated and 56 mines ended 1991 with losses. Only seven mines generated sufficient income to cover their cost of production and other operational obligations.[114]

At this time, as the fuels market opened, domestic demand for Polish coal began to drop as the heating and power generating industries began to find more economically viable options. Natural gas and oil also had environmental benefits. Coal prices decreased in foreign and domestic markets as European export markets increasingly relied on cheaper coal from beyond Europe. Poland's transport prices remained high by comparison to Western Europe and outside Europe.

The Table below shows the reduction of more than 200,000 workers in the coal sector from 1990 to 2000. Most of the reduction occurred through normal retirement or through worker absorption into the formal and informal labor markets.[115]

Major Indicators of Coal Sector Restructuring for Poland[116]

	1990	1993	1995	1997	1998	1999	2000
Poland							
Coal Production, Mt	147	130	135	137	121	109.1	102.2
Number of Mines – 29 Closed in 10 Years	70	68	65	56	53	53	41
Employees (in 1000's)	38	3 9 6	27 5	24 3	207.9	73.6	155
State Subsidies (1990 = 1 0)	10	no e	none	no e	none	none	none
Productivity Growth (19 0=100)	10	109	133	15	160	74.5	198.3

Approach

The approach to restructuring in Poland was primarily based on mandates issued by various national political regimes. In early 1993, the Government of Poland initiated what would become its first Hard Coal Mining Restructuring Program. The program called for closing a number of non-viable mines through legislation that supported the transformation of critical state-owned property[117] (including the coal sector). Under this program, most of Poland's mines were grouped into seven state-owned companies, removing their recently acquired organizational and financial autonomy. A change in government resulted in a modified plan for 1994-1995. While the seven company arrangement remained, the new plan provided for a build-up of coal reserves despite a market glut.[118] Simultaneous reduction in employment levels resulted in reduced coal extraction but promoted more efficient operations. Still, by the time the program was halted in 1995, all seven mining companies were in debt.[119]

In 1996, a new ruling coalition adopted a new program: Hard Coal Mining – State and Sector Policy for the Years 1996-2000: A Program for Adapting Hard Coal Mining to Market Economy Conditions and to International Competition. This program provided a wide range of activities aimed at overall social

[113] World Energy Council 2000.
[114] Curtis 1992.
[115] John Strongman, Mining Advisor, World Bank, Telephone Interview by Maria Heidkamp on August 13, 2006.
[116] UNECE 200.
[117] EIRO 2005.
[118] Ibid.
[119] EIRO, October 2003.

stability.[120] The industry's debt continued to rise and the program was ended following a 1997 Parliamentary election, after which a new cabinet devised its own restructuring program in late 1998.[121]

By the late 1990s, Poland's national economy took a downturn. Despite ongoing labor shedding, the coal industry continued to suffer from over-employment and large-scale debt. Government managed to stay current on the payment of wages, very much due to the strength and voice of the trade unions. Still, payments of local taxes, value added tax, social security, environmental fees, commercial liabilities, and accounts payable went unpaid.[122]

DONOR SUPPORT

The World Bank was the fundamental strategic donor (of funding and planning support) to Poland's restructuring coal sector. As detailed below, a two-phase assistance program was supported. EU PHARE technical assistanceand support from the United States Department of Labor (USDOL) were also useful in facilitating important sector reform actions.

World Bank – Phase I

In partnership with the World Bank, the Government of Poland designed a restructuring program with the primary objectives of writing off the industry's debt, cleaning up its balance sheet, and providing budgetary assistance to the coal companies to cover severance and early retirement payments and the physical aspects of mine closure. The Program of the Reform of Hard Coal Mining Industry in Poland for 1998-2002 was approved by Parliament in late 1998 under a law on Adjustment of the Hard Coal Mining Industry to function in a Market Economy and Special Powers and Tasks of Mining Settlements.[123]

The World Ban consulte wit the Pol h Government on he developmen of a 5-year business and operations plan or the mi e co i to imp ove t chnic f mance a d adequate cash flows. The World Bank sou ht to ens re at req isite accountin and eporting mech nisms were in place to prevent the mis e of fu ds.[124] The plans spe fically ca d f r:

- Liquidation of production at 15 coal mines
- Partial liquidation or merger of 9 coal mines
- Reduction of employment from 243,000 in 1997 to 138,000 by 2002
- Retraining and creation of new workplaces for redundant coal workers

At the time of the 1998 restructuring program, the Polish coal industry was organized into seven joint stock holding companies that operated 54 coal mines, and 10 other coal mines set up as individual limited liability companies (of which two were operational). At that time, the Polish coal industry had a total employment of 243,000.[125]

In 1999, the government modified the program to include the following objectives:

- Coal companies should stop generating losses by 2001 and generate positive net financial results by 2002
- Employment should be down to 128,000 by the end of 2002[126]

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[120] EIRO, October 2003.
[121] EIRO 2005.
[122] Strongman, 13 August 2006.
[123] World Energy Council 2000.
[124] Strongman, 13 August 2006.
[125] World Bank, *PID Poland PSAL I*, 2003.
[126] World Energy Council 2000.

The 1998-2002 Program was successful in reducing employment from 243,000 at the beginning of 1998 to about 140,000 at the end of 2002. Efficiency increased to an annual average production of 700 tons per miner.[127] After huge losses in 1997, 1998 and 1999, the industry generated a small profit in 2001. In 2002, however, as the pace of reform began to slow, losses returned.[128] By this time, production had been terminated at 24 mines, with 42 remaining operational.[129]

The country's macro-economic changes deeply impacted coal sector economics. At the end of 2000, the Polish economy faced a sharp economic downturn, with a return to double-digit inflation and an unemployment rate that soared to 18% (from 6% at the start of the 1998 program). Inflation had returned to under 1% by late 2002, but GDP growth had also dropped to close to 1%.[130] Nevertheless, with EU accession anticipated for Poland (and some accession points including energy and economic benchmarks that were impacted by coal sector operations), Government realized that another multi-year coal restructuring effort was necessary.

World Bank – Phase 2

In 2003, a new coalition government developed the 2003-2006 Hard Coal Sector Reform Program. This phase called for regrouping the existing seven coal companies into three holding groups to facilitate reductions of 19,000 to 27,000 jobs. It also included writing off some of the industry's still massive debt.[131]

Very strong opposition from trade unions in 2003 resulted in an agreement in which the government would suspend program ion until of experts ould com l dditi l l es on the actual market demand fo Polish c al; t s would rovide a b sis for etermining how many mines should be closed. In addition, it as agreed tha employ es from min s sche uled for liquida on would be guaranteed indefinite em oyment ot er min ng oper

At the beginning of the second phase of the restructuring program, the Minister of Finance announced that there would be no more "special deals" for Poland's coal workers. This declaration resulted in a huge one-day miners' strike in 2003. Government relented and decided to continue special packages. The episode soured the relationship between the government and the trade unions for several years.[133]

Despite the program's call for worker reduction, increasing coal demand and favorable coal prices resulted in a stop to downsizing by 2004.

Mining Companies in 2004

	Number of Employees	Number of Mines
Kompania Weglowa (KW)	83,000	23
Katowicki Holding Weglowy (KHW)	25,000	9
Jastrzebska Coking Coal Company (JSW)	20,000	5

As of 2004, the Polish coal sector consisted of three mine holding companies. There were also three individual mines (Budryk, Bogdanka and Jaworzno), which had a total employment of 8,500.

[127] EIRO October 2003.
[128] World Bank, *Project Information Document (PID) Poland Coal Mine Closure Project*, Report No. AB883 (Washington: World Bank, 26 April 2004).
[129] World Bank, *PID Poland PSAL I*, 2003.
[130] Ibid.
[131] EIRO October 2003.
[132] Ibid.
[133] Strongman, 13 August 2006.

Although excess production capacity and surplus employment continued to characterize the sector, Poland's coal mining companies began to turn profits primarily attributed to increased coal prices. In 2004, Koatowki Holding Weglowy (KHW) and Jastrzebska Coking Coal Company (JSW) had become profitable operations.[134] Nevertheless, Kompania Weglowa (KW), the largest coal mining enterprise in Europe, was unable to meet its financial obligations.

On-site service delivery ensures ease of access has long been considered a key aspect of successful dislocated worker programs.

In April 2004, Poland again adjusted its restructuring efforts to create the Restructuring of the Hard Coal Mining Sector during the Period 2004-2006 followed by a restructuring Strategy for the Period 2007-2010, still being implemented.[135] To assist with the implementation of the current program, the World Bank provided two loans in 2004: the Hard Coal Social Mitigation Project ($200 million) and the Coal Mine Closure Project ($100 million). Some assistance was used to finance carryover costs from the 1998-2002 Miners' Leave redundancy packages. As a condition of these loans, the World Bank required that the program design include a hard budget constraint, meaning that each of Poland's coal mine companies would stay current on its financial obligations to all of state (federal) and local government funds.[136] In addition, companies prepared and implemented environmental protection plans, which had traditionally been a weak area of sector operations. While the Polish government had prepared a privatization program for the sector, privatization of coal mines has made little progress; since the installation of the new government in November 2005, little movement in this area has occurred.[137]

The Bank does not anticipate further lending. The Government of Poland has also indicated that it has no plans to fund addi i l restruc i nd that the oal com i ill h subsequent operational cost

The Governmen is developing a new Coal Se on P n for 2007-201 which is expected to complete the re rm pro ess.[1] The cu rent plan inclu es a major redevelo ment effort as a companion piece called the Program of Alleviating Hard Coal Mining Employment Restructuring Effects in the Region of Silesia.[139]

In addition to the World Bank, the European Union and smaller donor programs contributed to Poland's coal sector restructuring.

EU PHARE Initiative I and Initiative II

Between 1999 and 2002, the Polish Agency for Enterprise Development and the Mining Labor Agency (Gorniczej Agencji Pracy – GAP) were responsible for coordinating the implementation of the EU PHARE programs(Initiative I and Initiative II, Alleviation of Social and Regional Costs from Coal and Steel Restructuring in Poland). One goal was to create new jobs in the small and medium-sized enterprise (SME) sector for redundant mining and steel sector employees. (The coal sector supports totaled € 32 million [$40.32 million] and the steel sector support totaled €20 million [$25.2 million]). An additional

[134] World Bank, *PID Poland Coal Mine Closure Project*, 2004.
[135] EIRO 2005.
[136] Strongman, 13 August 2006
[137] Ibid.
[138] Ibid.
[139] A brief description of this plan can be found under the Economic Development section.

objective of Initiative II was to support regional development in Silesia, Malopolska and Lower Silesia regions (€9 million [$11.34 million]).[140]

The Initiative Programs run by GAP supported active labor market programs financed from Polish national budget funds, including vocational training for dislocated workers and co-financing of social benefits. The program also supported job creation in the SME sector through a variety of methods, including:

- Refunding social insurance contributions to employers hiring former coal workers
- Granting loans for former employees or spouses who started new businesses as well as to SMEs that hire redundant workers
- Subsidizing the interest on bank credits to SMEs that plan to employ dislocated coal sector workers
- Supporting institution-building through a "twinning" initiative with partner regions in other countries

The 2004 evaluation of the Initiative program concluded:

- 1,831 people had completed "re-qualifying training" courses.
- 366 loans for the creation of new jobs were granted, of which 224 were for people setting up businesses and 142 were for existing SMEs that were hiring former mining employees. In total, 577 new jobs were created.
- Money subsidized the in rest o credi granted to create n w jobs, resultin in 369 new jobs.
- Co-financing was provided or s cial bene its or seve ance p yments for 475 eople.
- Social insurance ontributio s w inanced or employer who hired for er workers from the mining secto which re ulte in 129 benef iaries a d 20 new jobs.
- Advisory service f 33 entiti were fi anc d, of whic 220 were people s tting up new businesses and 117 were previously established SMEs.[141]

In the end, the Initiative program contributed to creating roughly 1,400 new jobs, but it did not significantly improve the local labor market.[142]

The 2004 evaluation indicated that:

- Projects geared to new job creation were more "durable" than retraining and protective projects. The report found that 75% of beneficiaries of loans for setting up their own businesses were still running their own companies at the time of the evaluation. Of those who took retraining, however, 24% of them found jobs in line with the retraining, but only 25% of those were still employed when the evaluation was written in 2004.
- There was virtually no linkage between vocational services and training. More than half of those who completed training (55%) said in follow-up surveys that the training did not help them find new employment. Among the problems affecting training outcomes were the lack of vocational advisory services and the lack of relevance between training and job placement.[143]
- Program effectiveness could have been improved if program goals had been established based on research and assessments of the needs of the potential beneficiaries, including entrepreneurs and

[140] Polish Agency for Enterprise Development (PARG), *Report on the Condition of the Small and Medium-Size Enterprise Sector in Poland for the Years 1999-2000* (Warsaw: PARG, 2001).
[141] Ibid.
[142] Government of Poland 2004.
[143] Ibid.

employees of plants facing liquidation, and the capacity of the labor market to absorb workers. Further, it concluded that the efficiency of the program was restricted by the "scarce possibility of shifting funds between the instruments." The result was that errors committed at the planning stage could not be corrected. Examples cited include employer loans for hiring new employees, and the overstated number of people expected to benefit from social allowances and/or training contracts.

- It is important to manage expectations. The evaluation emphasized the difficulty and stress related to lay-offs but also warned against promising more benefits than is feasible for the program to deliver, otherwise the result will be "a sense of having been 'cheated.'" [144]

According to a GAP representative, a total of roughly 4,000 workers eventually used training and other supports through EU PHARE Initiatives I and II. The programs had different criteria for training participation, and the differences resulted in significantly different outcomes that must be emphasized. Under Initiative I, workers were eligible to participate in programs as early as six months before expected job loss and up to three months afterwards. Under Initiative II, individuals eligible for training and other supports were those who had been unemployed for more than three months or who had left their jobs after January 1, 1999, including those who left under the Miners' Social Package (defined in next section).

People who access services while still employed have better success rates than those who access services only after having already been unemployed for a considerable length of time.

According to a GAP representative, those who participated under Initiative I (individuals who were still employed or just recently laid-off) faired far better, with 70% finding new jobs. Those who participated under Initiative II had a 35% placement rate. GAP found that the longer people were unemployed, the less active they were when it came to looking for new jobs.[145] There appear to be psychological benefits, both for the individual (who may make an easier transition without a gap of unemployment), and for the employers (who seem more willing to hire people directly from another company than people who are unemployed, even with the same skills). People who are unemployed for some time are harder to get back into the labor market.[146]

With unemployment in Poland running 16 to18% from about 2000 onward, it was difficult for younger surface coal workers leaving the industry to find other employment, even with the high degree of training and counseling that was offered.[147] Responses to the 2004 PHARE evaluation survey indicate that one problem with finding a job after training was that employers wanted experienced workers, not new trainees. The report noted that those who used training opportunities provided by their future employer had more favorable employment prospects.[148]

USDOL/USAID – Workforce Development Project

The Workforce Development Project (WDP) for Poland was an initiative sponsored by the USDOL and funded by USAID. It commenced in 1998 to mitigate the negative effects on workers and their communities and to provide proactive employment systems during restructuring of Poland's coal and steel sectors, primarily in the Silesia region. The project, implemented by US firm Worldwide Strategies, Inc. (WSI), adapted three models to Polish conditions.

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[144] Ibid.
[145] Iza Bara, Mining Labor Agency, Restructuring of Coal Mining Industry in Poland, Written Comments Prepared September 2006.
[146] Palac, Interview, 2006.
[147] Strongman, 20 August 2006.
[148] Government of Poland 2004.

- A pre-lay-off labor-management adjustment team (LMAT) approach, often implemented in combination with peer counseling, which was eventually used in 17 lay-offs, including several coal mines.
- A participatory Local Economic Development model that provided local areas with a blueprint for creating a strategic plan and identifying specific projects to spur employment and SME development for implementation, which was used in 13 local areas.
- Customized training (Quick Start) to promote enterprise competitiveness and job creation by evaluating labor market trends, vocational training, and certification requirements, and incorporating employer demands and needs to create vocational training for specific positions within a specific company.

The projects were implemented in partnership with Polish trade unions (Solidarity and others) and local GAP offices. With a culture of strong trade union influence, the Polish LMATs made good use of peer counselors and the project trained rank-and-file union members to function as a link between the restructuring committees and dislocated workers, ensuring that workers' needs were met.

As a result of the WDP project, 2,327 people received new employment, 1,876 community members took part in LED planning, and 86 locals were trained as trainers. The models are still in active use under the auspices of the Katowice-based NGO, Institute for Local Partnership and Cooperation. As of August 2006, the Institute is coordinating more than 22 Peer Support Clubs in the Silesia region and elsewhere.

KEY STAKEHOLDER

Inter-Ministerial Cooperation

To administer the restru turing pr gram the World B nk help d to acilitate a high vel of inter-ministerial cooperation i Poland This cluded t M nistries o Eco omy (a shareho der in the coal industry), Finance, State, Treasury (which has privatization responsibilities), Environment, and Labor and Social Protection (which in the early years was part of Ministry of Economy).

- **Ministry of Economy (formerly the Ministry of Economy, Labor and Social Policy)** has the state ownership responsibility for coal mine companies. It ensures adequate employment services and public information and outreach.
- **State Treasury Ministry** is responsible for all privatization activities.
- **The Inter-Ministerial Coal Monitoring Committee** established and appointed by the Prime Minister to oversee restructuring program implementation. Related to this work:
    - *The Industrial Development Agency (ARP*) is responsible for processing applications for severance and for monitoring the use of funds.
    - *The human resource departments* of the mining companies and *the Mine Restructuring Company* are responsible for pre-retirement measures, retraining and re-employment initiatives, as they were under the 1998-2002 program.
- **The Mine Restructuring Company** was established in 2000 to oversee and implement the liquidation of coal mine assets and to improve transparency regarding the use of mine closure funds and the disposal of assets.
- **Mining Labor Agency** (Gorniczej Agencji Pracy GAP). The State Coal Mine Agency established GAP in 1993 and it charged with supporting the employment restructuring process in the coal sector and mitigating its impact. Unlike local employment service offices, GAP offices (called "Vocational Aid Offices") were established at operating coal mines and those under liquidation to ensure coal worker access to information and assistance. GAP offices continue to operate in the Silesia, Malopolska and Lower Silesia regions. As of 2004, the Mining Labor Agency had a staff of 70 employees working at 29 Vocational Aid Offices.

The Mining Labor Agency has tried to help coal workers find jobs outside the industry. Workers register with GAP offices to benefit from a range of activities that include:

- vocational counseling
- information about programs to which miners are entitled
- legal and financial counseling for those seeking to become self-employed
- labor market information
- working with employers who receive incentives for hiring former miners

GAP offices offered more than 70,000 job opportunities to clients in 2005-2006, and more than 9,000 people have found new jobs attributed to GAP's work.[149] GAP's vocational counselors provided nearly 90,000 services to registered individuals.[150]

GAP offices work closely with a variety of partners that include the coal companies, the regional and local labor offices, the Upper-Silesian Agency for Regional Development, the Central Mining Institute, the Polish Agency for Enterprise Development and a number of training centers. GAP has also participated in projects supported by the EU PHARE, British Know How Fund, USAID, and the World Bank.

Trade Unions

Poland is the onl try in th C al and East European (CEE) gi i h history of independent trade unions. D ring rest uctu ng, as m ny as 1 tr de unions represented oal miners. The strong union movemen stemmed fro the na onal un on movem nt call for dram tic economic and political reform in the la 1980s. The 98 co l restru g rogr m was a result f a high degree of consultation bet een the gove nment a d th unions. Duri g the course of estructuring, because Poland was relatively stable economically, restructuring packages were attractive.[151] While there was initial opposition at individual mines when mine closures were announced, for the most, the unions did not take strong action to prevent them.

EMPLOYMENT IMPACT OF COAL SECTOR RESTRUCTURING IN POLAND

The employment impact of coal sector restructuring in Poland was, on the whole, conducted in the context of a managed set of initiatives. However, for individuals, the impacts were reportedly more harsh primarily because of ongoing uncertainty that dramatic economic change brought to coal regions and in particular, to coal mines.

Restructuring started in the early 1990s under relatively robust economic conditions. Many employment reductions in the initial years were conducted through normal retirement or via workers voluntarily being absorbed in the newly emerging formal and informal labor markets.[152] Dislocated workers had access to the standard range of active labor market programs through the recently created

[149] Mining Labor Agency (GAP), Official Website, http://www.gap.org.pl/index_en.php?co=zadania_en
[150] Ibid.
[151] Strongman, 13 August 2006.
[152] Ibid.

local labor offices, although there is little information about how many miners took advantage of available programs. According to the GAP, employment in the mining industry decreased by 141,000 employees from 1989 to 1995. Many who lost jobs were in the hardest-hit coal region of lower Silesian. In the Upper Silesia region, some parts of mines were turned into private companies, with employees being transitioned into new company positions.[154] Many of the initial 141,000 redundant workers included administrative support staff, primarily women employed in office jobs.[155]

> Since the start of Poland's process of transformation at the end of the 1980s, the restructuring and rationalization of coal mining has been one of the country's most difficult and complex economic and social problems, matched only by the reform of agriculture.[153]

SOCIAL AND ECONOMIC DEVELOPMENT PACKAGES

Miners Social Package, 1998-2002

The key strategy implemented by government and ultimately supported by the World Bank was to avoid involuntary lay-offs by offering a variety of incentives to induce voluntary departures. Paramount among these was the Miners' Holiday initiative, which was established in some form as early as 1993.[156] The Miners' Holiday was a result of arrangements made between Government and trade unions. Since the 1990s, Poland has had several tripartite coal sector teams consisting of unions, companies and government representatives to address restructuring. The teams were affiliated with the Ministry of the Economy, Labor, and Social Policy and contributed to developing the social benefit packages for coal miners.[157]

One explicit goal of the g vernmen s 1 98 2002 program wa to pr t increas in unemployment.[158] Key pi ces of the pac age inc uded:

- The "Miners' Holiday" program, an early retirement provision that allowed miners who were up to five years short of retirement to leave the mines and collect roughly 75% of their monthly wages up to retirement.[159] Individuals who assumed employment while in the Program remained eligible for 50% of the benefit granted.
- A social allowance (sometimes referred to as the "social benefit" program or "activation package"), granted for a two-year period, equal to 65% of the sum of monthly wages for employees who agreed to leave the coal sector and undergo training for another profession. Individuals who assumed employment or who set up a new business remained eligible for 50% of the allowance granted.
- A lump sum severance payment of 24 months wages granted to surface employees who leave the mining industry voluntarily and resign from all other employee benefits. The plan was based on

[153] EIRO, "Difficult Restructuring of Coal Mining Continues," EIROnline, (Dublin: European Foundation for the Improvement of Living and Working Conditions, September 2003).
[154] Bara 2006.
[155] Szczepañski and Cybula 1998.
[156] Bara 2006.
[157] EIRO, "Operation of Tripartite Sector Teams Examined," EIROnline, (Dublin: European Foundation for the Improvement of Living and Working Conditions, August 2003).
[158] World Energy Council 2000.
[159] The term "Miners Holiday" is preferred in Poland over "early retirement" due to sensitivity surrounding the issue of retirement age. It is sometimes also called a "bridging payment."

the assumption that surface coal workers would have an easier time re-entering the non-coal labor market than would underground coal mine workers.[160]
- Free-of-charge counseling and training programs

In addition to support for workers, the program included financial incentives for non-coal employers to hire former coal mine employees. Intended to stimulate job creation, these measures included:

- Refunding the value of the employers' contribution to the social protection fund
- Preferential terms of credit for expanding enterprises that hire former miners
- Preferential credit for mining communities to use to create new jobs

By far the most attractive option was the Miners Social Package 5-year Miners' Holiday payment, followed by the lump sum severance payment. However, far more workers than anticipated opted for this package and there was insufficient financing available for the unconditional payments to employees leaving the coal sector.[162] Between 1997 and 2002, employment in the coal sector was reduced 42% – from 243,304 workers to 140,717.

Polish Social Packages Accessed by Miners[161]

Social Package	Number of Miners	
	Anticipated	Actually Used
Miners' Holiday	35,000	36,900
Social Allowance	10,000	419
Dismissal payment	30,000	29,700

Hard Coal So al Mi igatio 2003 006

Through 2006, t e World Ban support d the Hard Coal S cial Mitigation ogram, which built on the successes of the 998-200 co reform progr m. T p g am attempted to incorporate coal worker and oth r impacted worker an mana er conc rns aised during a c nsultation process that took place in Katowic in 200 .[163] K y issues clu ed:

- Need for more active labor market interventions
- Lack of adequate funding for regional development
- Need for better social monitoring

Though redundancies in the Polish coal sector have been voluntary and included financially attractive packages, finding new employment remained a challenge. Many fear that Poland's high unemployment rate caused a level of desperation and increased expectations, which affected people's willingness to accept the program.[164]

The project design includes labor re-deployment, retraining and small business assistance. Fast-acting and targeted income support and demand-driven labor re-deployment programs play an important part. In addition, the World Bank stressed the importance of involving capable and relevant implementation agencies and partners, such as the human resource departments of the mines, the Mine Labor Agency, and the local labor offices of the Upper Silesia Region.[165]

[160] Strongman, 13 August 2006.
[161] World Bank, *PAD Poland Hard Coal Social Mitigation Project,* 2004.
[162] World Energy Council 2000.
[163] Consultation participants included representatives from coal mining companies, their workers, the government, the World Bank and the mining communities. Among the participating NGOs were several women's groups, ecological clubs, and the Silesian Entrepreneurship Development Foundation.
[164] World Bank, *PAD Poland Hard Coal Social Mitigation Project,* 2004.
[165] Ibid.

The current government restructuring program (which was funded in part through the World Bank Hard Coal Social Mitigation Project) has three components:[166]

(1) Pre-retirement benefits, set at 75% of the worker's previous wages for up to a three-year period, or until the worker qualifies for a miner's old age pension. If the employee accepts employment outside the mining sector, he is still entitled to 50% of the benefit. Underground workers from mines in liquidation who chose not to take this benefit are entitled to a permanent job offer from an operational mine. The government estimated that 14,130 underground miners would accept this benefit, at an average duration of 22 months.

(2) Older surface workers who are two to three years from retirement,[167] an estimated 2,500 people were eligible for training provided by the employer for up to three years. The employer must make a commitment to retain the employee for up to three years; in return the employer will be reimbursed 100% for up to 18 months of wages (including three months' training wages), or half the time to retirement. Costs of necessary tools and equipment can also be reimbursed up to a fixed amount.

(3) Workers with more than three years from retirement, an estimated 6,100 people were eligible for training, followed by a permanent job offer with a two-year guarantee. Maximum wage reimbursement for the employment period is 50%.

In addition, a small numb rface w ho were i erested g usinesses were eligible for the equ alent of appro imately ne yea s salary as working capital Ongoing commitments from prev us under rou d mine sever nce ackag continued to supported.[168]

The 2003-2006 restructu ng pro am a ded an mpl yment in nt e to the assista e components of the 1998-2002 program. As of late 2004, there had been relatively little interest in creating new jobs outside the mining industry for surface coal workers, about half of whom were women. Factors include: the jobs only guaranteed two-year employment contracts, the wages were lower than the coal mining jobs, and the boom in export coal prices raised expectations that Poland's coal sector would experience a resurgence and resulted in a positive outlook for employment.[169]

[166] Ibid.
[167] Collective agreements prohibit those who are less than 2 years from retirement from being laid off.
[168] World Bank, *PAD Poland Hard Coal Social Mitigation Project,* 2004.
[169] Henk Busz, *Addressing Social Impacts of Mining Sector Restructuring*, Paper Prepared for a Meeting in Bucharest, October 11-12, 2004.

Decrease in Employment in Poland's Coal Mining Industry, 1989-2004*

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Decrease in Employment	28,000	35,000	16,500	1,197	1,631	3,385	3,021	2,695	24,866	24,413	11,915	5,308	524	0	2,613
Other Terminations	28,000	35,000	16,500	0	0	0	0	0	0	0	0	0	0	0	0
Miners Holiday				50	275	1,178	1,137	1,897	15,068	10,252	6,856	4,524	162		
Social Benefit				1,147	1,356	2,207	1,884	798	118	193	61	45	2		
Single Unconditional Severance Pay									9,680	13,968	4,998	739	360		
Grant for Retraining															19
Mining Benefit															2,594

* Status as of December 31 each year 1990-2002, and June 30, 2004

Source: Mining Labor Agency

ECONOMIC DEVELOPMENT IN POLAND AND ITS IMPACT ON COAL SECTOR EMPLOYMENT

Running parallel to (although not always directly coordinated with) coal and other industry restructuring in Silesia has been a process of institution and capacity building for macro and regional economic development. Since 1990, the region has participated in more than 15 EU-funded programs tapping into "pre-EU-accession funds." In 1999, the Silesian Marshall's (Regional Governor) Office created a separate department dedicated to handling development programming and European assistance funds.[170] EU programs emphasized using a process of social consultation, with local stakeholders shaping several important initiatives in the Silesia region. An overview of a few of these economic development programs and their impact follows.

Regional Contract for Katowice and Special Economic Zones

In 1992, the Katowice regional organizations united to establish the Upper Silesian Regional Development Agency (Górnośląska Agencja Rozwoju Regionalnego – GARR) to assist with developing and restructuring the local economy. GARR continues to operate, and was also responsible for managing pre-accession and structural funds targeting the SME sector.[171] In early 1995, a range of regional actors including GARR, local government representatives, the Regional Economic Chamber, the Regional Solidarity Trade Union, the All-Polish Association of Trade Unions and several other entities developed the Regional Contract for Katowice. The first part of the document consisted of a Regional Social Pact that committed stakeholder cooperation to the Program for the Restructuring and Development of the Upper Silesia Region, wh direct p coal wor rs as pr y om g rs for the region.[172]

The Regional Contract le to the e tab hmen of seve **p ial E onomic Zones**. Investors starting an enterprise in the Zon that e ployed at leas 100 people o inve ted a minimum of €2 million ($2.52 million) were exempted from national income tax payments for a period of 10 years.[173] General Motors invested $300 million to construct an Opel automobile factory that employed 2000 people in one such zone.[174] Isuzu Motors and Delphi Automotive Systems have also set up enterprises in Special Economic Zones.

Regional Innovation Strategy for Silesia

In late 2001, GARR helped to create and launch the Regional Innovations Strategy for Silesia (RIS-Silesia), with the objective of developing a climate to engender innovation and strengthen the regional economy's competitiveness.[175] RIS-Silesia is led by a six-member group consisting of the Silesia Regional Board, Upper Silesia Agency for Enterprises Restructuring, GARR, the Institute for Chemical Processing of Coal and two EU regional development agencies.[176] Representatives from more than 160 local governments,

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[170] Elzbieta Bienkowska**,** *Building Administrative Capacity in the Slaskie Region*, chapter in Managing Regional Development Abstract Book, (Brussels: EC, 2004).
[171] European Regional Agencies for Innovation Network (E-RAIN), Official Website, http://www.e-rain.net/.
[172] Szczepañski and Cybula 1998.
[173] Companies otherwise pay 40% income tax.
[174] Szczepañski and Cybula 1998.
[175] E-RAIN.
[176] From the Limburg province in Belgium and the Nord/Pas-de-Calais region of France, both of which have implemented their own Regional Innovation Strategies

businesses, academic institutions and other stakeholders (banks, trade unions, media, high schools, chambers of commerce, etc.) have been involved in RIS-Silesia workshops and other activities.[177]

Small and Medium Enterprise (SME) Development

The Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiębiorczości – PARP), originally the Foundation for Small and Medium-Sized Enterprise Promotion and Development, implements EU programs to support the SME sector. These include the STEP Program to Support Entrepreneurship in Poland and the SME Export Promotion Program, EXPROM. PARP provides advisory services and other assistance to entrepreneurs and has also been involved with bilateral programs with USAID and the Canadian and German governments.[178] The region has a number of technology parks and industrial parks designed to facilitate the exchange of knowledge and technologies between scientific institutes and business entities.

The Silesia Economic Program

The Silesia Economic Program was started in recognition of the deteriorating situation in the regional labor market as a consequence of mine lay-offs and closures. The Program of Alleviating Hard Coal Mining Employment Restructuring Effects in the Region of Silesia has been under way since 2003. A companion to the Government of Poland's coal sector restructuring plan, the Silesia Regional Board consulted with all levels of government, businesses, trade unions and others to design this redevelopment effort. The Silesia Economic Program is the operational plan for the corresponding Strategy of Development of the Silesia Region for the Years 2000-2015, supported by government funds, private resources, the European Social Fund, and the European Regional Development Fund.[179]

The Program addresses job creation and economic recovery for the entire Silesia region, not restricted to those affected by the coal industry. The primary objective was to increase competitiveness by restructuring the regional economy, making it more attractive to private sector investors. It was also geared toward helping area residents adapt to changes in the regional labor market. Priority tasks were the maintenance of existing jobs and the creation of new ones. According to the plan, programs were to be implemented "at least three months before the planned date of passing the mines for liquidation."[180] The program's authors note that economic restructuring is "important to improving the region's competitiveness but has been slower than expected". The primary reasons were cited as "Unfavorable financial situation of restructured enterprises and strong social resistance caused by the threat of redundancies."

The program states that there insufficient job opportunities were made available through the National Employment Service and that of those available in January 2003, one-third of the offers were for subsidized work. In short, existing labor market institutions are "insufficient to cover the influx of people dislocated during coal sector restructuring."[181]

Among many detailed objectives, the program recognized the need to strengthen labor market and education institutions in order to improve vocational training, reduce long-term unemployment, assist at-

[177] Ewa Okon-Horodynska, *Regional Innovations System: The Case of Silesia*, paper for the State Committee for Scientific Research of the Ministry of Science (2003).
[178] Polish Agency for Enterprise Development, *Innovation and Technology Transfer: A Glossary* (Warsaw: Polish Agency for Enterprise Development, 2005).
[179] Board of the Silesia Region, *Program of Alleviating Hard Coal Mining Employment Restructuring Effects in the Region of Silesia* (Katowice, Poland: Board of the Silesia Region, 2003).
[180] Ibid.
[181] Ibid.

risk populations (including people with disabilities, women and youth), increase access to life-long learning, support entrepreneurs, and create jobs. It discusses plans to develop farming, food processing and tourism industries; improve infrastructure; and support industrial parks and incubators, as well as strategies for turning the region into a knowledge-based economy.

The Silesia Economic Program can be credited with creating 1,800 new jobs and securing or retaining 16,000 jobs that would have been lost. The World Bank assessment has found that the Silesia Economic Program had good results compared to other economic development programs in Poland and that entrepreneurs have gained experience in applying for program funds, which has improved their capacity to sustain SMEs and can enhance their chances to access other EU funding that become available. Another positive outcome has been the strengthening of the institutional capacity of local governments, banks and development agencies throughout the region, which has helped prepare Silesian authorities to implement additional and more complex EU programs.[182]

Women in Mining Program

Coal sector restructuring in Poland resulted in significant changes both in the life of the community, with increases in crime and social troubles, and in the life of the family, with traditional breadwinners out of work and increases in domestic violence.[183] In 2004, women accounted for 55% of the 178,000 registered unemployed in Silesia. It has been reported that employers sometimes state a preference for hiring skilled men under 35 instead of women in their 40s who may only have a narrow set of vocational skills.[184] It was estimated that by the end of 2007, another 5,000 women in mining will have lost jobs.[185]

After co-sponsoring a co on W Mining in ne 2004 rld blished a network of local female aders wh co d provid acces to inform ion and suppor programs geared to women in the commu ty. While wo med to e at disad g n the la or market, Roman Palac (the World Bank C untry D ect r for P land) oted that World Bank resear h had found that Polish women had a very high l l of e treprene rsh p and bus ess tart-up acume compared to women from other countries in the region.[186] The World Bank provided support to train 24 women formerly employed in the Polish coal sector in psychology, sociology, management, and writing EU project proposals to prepare them to develop ideas that could help women reach their potential. As of 2005, Silesia has 95 women's NGOs, second only to Warsaw.[187]

[182] Roman Palac, Economist, World Bank, Warsaw, Written Comments, 23 October 2006.
[183] Palac, Interview, 2006.
[184] World Bank, *"Women in Mining" Conference* (June 2004), http://siteresources.worldbank.org/INTOGMC/214576-1094570353951/20305992/polandwomeninmining.pdf.
[185] Dominik 2005.
[186] World Bank, *"Women in Mining" Conference,* 2004.
[187] Dominik 2005.

ANNEX C
CASE STUDY: RUSSIA
COAL SECTOR RESTRUCTURING

OVERVIEW

Russia has achieved with its mine closure program what no other country with a mining sector has achieved before, and has done so in a very condensed time frame.[188]

The Russian coal mine restructuring program has been the largest in history. As the Soviet Union fell apart and Russia emerged as a new and independent state, economic transition quickly took hold starting in 1992. The fall of the Soviet Union is very much attributed to the late 1980s emergence of independent coal trade unions and their increased call for political freedom and market economy. The Russian independent union members led this call. At the time, the Russian coal industry was massive, directly employing more than one million people nation-wide at an estimated 303 coal mines (201underground and 102 open-pit).[189]

The coal regions were scattered across the country. Almost half of Russian coal was produced in Kuzbass, where coal extraction goes back to the end of the 19th century. The Pechora coal basin accounted for 7% of total coal production, Kansko-Achinsk 14.8%, the Far East 11%, the Donbass-Rostov region 3.8% and the Urals 2.7%. Surface mines dominated in the Kuzbass, East Siberia and the Far East; Pechorsky and Donetsky coal was produced in underground mines.[190]

The restructuri ff rt requir d l ar vibrant s t of refo ti s th t h d i mediate impact on Russia's fast-cha ging eco omy but that lso set the course or sound long- rm coal operations in this fuel-rich nation. erhaps m re han any here i the Easter Europe and former Soviet Union region, coal miners wer held in t e h hest r gard as of th state, keeping t e country's people warm and industry fue d.[191] Co l mi rs boas ed the highest wag in the former oviet Union and received an extensive array of employment-related perks that included housing, pensions, clubs, sports, paid vacations, pre-school education, day care, and access to preferential loans.[192] Still, the coal sector was grossly inefficient by market standards, with a single Russian Coal Company (that in 1994 became a corporatized state entity "Rosugol"[193]) managing and operating a sector that included cross-subsidization between viable and non-viable mine operations, as well as non-core activities.[194]

At the beginning of the Russian coal sector reform process, there were no market mechanisms. Under the Soviet system, coal prices were controlled by the State and set at a low, uniform level across the country, without regard to production and transportation costs. Non-viable coal mines were subsidized by profitable ones. Complicating matters was a complete lack of sector, government or public awareness of the need to restructure the industry for functionality in a market economy. Coal company managers, workers, trade and community leaders assumed that industry transition difficulties would be solved by finding new reserves and shifting miners to jobs at new mines. Because they did not anticipate or understand the impending requirements for sector restructuring, managers were completely unprepared to cope with the consequences of mine closures, mass lay-offs and a macro-economic shift away from

[188] World Bank, *Project Performance Assessment Report Russian Federation Coal Sector Adjustment Loan,* 2003.
[189] Vitelli 1998.
[190] Alexander V. Robul, Director General, Reformugol Foundation, *Russian Coal Restructuring* (2001).
[191] Vitelli 1998.
[192] World Bank 1994.
[193] Rosugol refers to Russian language Ros – Russian and Ugol – Coal.
[194] Berney 2002.

coal use. Mines continued to recruit new personnel, and mining company-controlled vocational schools continued to prepare young people primarily for mining-related jobs in 1994.[195]

Because the centrally planned system operated on production quotas rather than profitability, local managers had no basis for understanding and determining coal production outputs and demands, market projections, operating costs, and expenditures.[196] Instead, managers assumed that subsidies and incentives would continue. In the southern coal city of Rostov-on-Don, for example, the General Director of Rostov Coal assured miners that no mines would close. Meanwhile, the Russian Coal Company and others estimated that there would be between 5,400 and 18,000 lay-offs in Rostov.[197]

The prevalence of antiquated equipment and unsafe mining techniques further complicated the restructuring process. More than half of the underground mines had been operational for more than 40 years. Only 18 were relatively new operations, all with a minimum of ten years in operation. New construction was halted in several mines when the 1991 changes occurred. Complicating matters was the fact that mines were spread out across 17 regions and 11 time zones, impacting 164 communities.[198] Following the breakup of the Soviet Union, equipment and facilities were suddenly located in independent republics (such as Kazakhstan, Ukraine and Tajikistan) while management and professional staff remained concentrated in Moscow.[199]

In 1993, the Russian government took a series of bold moves to liberalize coal prices and to eliminate rail transport subsidies, while introducing a policy against cross-subsidizing sectors. It also enacted a decree to transfer all social assets from the coal ministry to local municipalities. Pressure on non-viable mines to become more market-ba d d comm i ll iable incre ed. Afte d f a d i l re, the coal industry of Russia receive the mo t sta e subsidy suppor . S bsidies oared to 1% o GDP in 1993 and 1994, making the coal se or a fisca bu en on t e national b dget. he government began to limit and reduce subsidy payments ncluding vir ual ha to pro g pital xpenditure or provement funds. The loss of state subsidy upport n ab nce of able market c nsumers, and an ina lity of consumers to pay increasing coal and power supply bills, necessitated a dramatic restructuring of Russia's coal sector.[200]

The following shows the major indicators for Sector Restructuring in Russia.

Major Indicators of Coal Sector Restructuring for Russia[201]

	1990	1993	1995	1997	1998	1999	2000
Russia							
Coal Production	395.4	309.5	262.8	244.4	232.3	249.1	257.9
Number of Mines – 76 Closed in 10 Years	238/63	232/65	214/67	174/67	124/105	119/112	106/119
Employees (in 1000's)	559.1	431.2	360.5	315.7	278.8	252.4	242.2
State Subsidies (in %)	n.a.	6.33	5.54	4.48	4.19	1.67	1.12
Productivity Growth (1990=100)	100	70.9	73.7	86.8	94.1	110.2	118.1

[195] World Bank 1994.
[196] Production had been based on a quota system that required 93% of hard rock coal to be mined where pits were opened.
[197] World Bank 1994.
[198] Mining areas included remote Vorkuta, 42 kilometers north of the Arctic Circle, and parts of Siberia. Many of these remote coal settlements were founded as part of the severe state prison system. Vitelli 1998.
[199] Vitelli 1998.
[200] Ibid.

In response to market changes and as a result of severely reduced cash flow, many mines stopped paying wages for months. Some simply stopped production altogether. Social and political crises followed, with miners staging regular and well-attended mass protests in Moscow, Kuzbass and Vorkuta. Unable to survive without being paid, many miners and other industry workers left their jobs. Nearly 100,000 coal workers, about 10% of the sector, voluntarily left the country's coal workforce from 1992 to 1994.[202]

At the end of 1993, coal production was approximately 294.2 million tons. It dropped to a low of 232.2 tons by the end of 1998 and then increased to 269.3 by the end of 2001. During the same period, productivity (measured in tons of coal per production worker per year) went from 788.5 to 1517.2.[204] By 2001, more than half of the coal mines that operated in 1993 had been closed.

> [S]tudies confirm the general picture of labor hoarding, over-manning, low productivity and high costs which results in an acute dependence on continuing high levels of subsidy to maintain employment at anything like current levels.[203]

In many cases, it was less expensive to send miners and their families on paid vacation than to pay salary arrears.[205] Incentives to keep workers on unpaid leave rather than terminating employment perpetuated labor hoarding and overstaffing. Workers kept on the roll books remained eligible for pensions and received unemployment and other benefits equal to the minimum wage level.[206] One mine in the western Siberian region of Kuzbass had 2,100 employees on record during the summer of 1993, but only 400 actually working.[207] The World Bank found that in the mining community of Rostov, employment grew by 38% for surface miners and by 9% for underground workers from 1989 to mid 1993, while productivity fell 20% from 1980 1992. [208]

In 1989, Soviet c al and go ernment off cials re uest d assi ance on health nd safety issues from the United States. T e NPG le th call for a mor p nd democratic societ and the US was eager to provide assistan e. Starti g in 87, the me can Fede atio of Labor-Con deration of International Organizations (AFL-CIO), through its Solidarity Center, provided considerable assistance to establishing NPG offices throughout the former Soviet Union. In 1991, Partners in Economic Reform (PIER) was established as a private non-profit entity with assistance from USAID. PIER's structure was to work with labor, management and government in Russia, and later in Ukraine and Kazakhstan with international counterparts. With respect to Russia, the AFL-CIO, US Department of State, and US National Mine Association were initial US participants working with the Russian Coal Company, NPG, and National and Regional governments throughout Russia. PIER's work quickly expanded from health and safety programs to broader coal sector restructuring and becoming a clearinghouse for other donor programs. PIER continued working in the coal sector, the Russian government, and international donors.[209]

In 1993, World Bank and Russian government analysis of the coal sector culminated in a report (*Restructuring the Coal Industry: Putting People First [*Report 13187-RU December 1994]) based on lessons learned from the PIER network and the PIER program. The report urged that a social safety net be put in place to handle employment restructuring in a socially responsible way. It asserted that community

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[201] UNECE 2001.
[202] Berney, 2002.
[203]World Bank 1994.
[204] World Bank, *Project Performance Assessment Report Russian Federation Coal Sector Adjustment Loan,* 2003.
[205] Vitelli 1998.
[206] World Bank 1994.
[207] Ibid.
[208] Ibid.
[209] Vitelli 1998.

support for mining restructuring programs relied on a sound process of employment reduction and labor redeployment.[210] *Putting People First* served as the basis for a series of discussions with all impacted groups over what shape the restructuring process should take. By 1995, the World Bank had taken the lead role in supporting restructuring; the former PIER director was hired to manage the World Bank program in Russia.

Prior to 1992, the Russian Ministry of Coal was responsible for coal sector operations. As institutional arrangements shifted at the national level of government, the coal sector soon became a division of the Russian Ministry of Fuel and Energy (into which the Ministry of Coal operations were merged). At this time, the state-corporatized entity of Rosugol (a transition from the Russian Coal Company) was established and was in charge of 28 coal companies, which in turn were regional umbrellas for individual mines and support facilities. An additional 10 independent coal companies reported to the Fuel and Energy Ministry.[211]

In 1994, the government established an Inter-Agency Coal Commission (IAC) to address sector restructuring. The IAC was made up of stakeholder agencies and organizations and chaired initially by federal leaders and ultimately by the Deputy Prime Minister Anatoly Chubais. The IAC became powerful as a tool for open exchange of information that was channeled into coal sector policy-making. The Inter-Agency Coal Commission met with the World Bank in 1994 and, after soliciting comments from 25 Russian agencies at various level of government and the sector,[212] developed the *Basic Trends for Coal Restructuring* document, which outlined a strategy for moving resources away from investments in uneconomic mines and towards establishing a social safety net for miners and their communities.[213] The process of stakeholder in l ent res l d i the Russian oal sect ct i li that was supported by the two Ba k Sector Adju tment Loans (SECA s) tota ng $1.3 billion a d a $25 million Coal Sector Restructurin Impleme tat n Assis ance Pr ject

In July 1995, USAID cont buted $ 00,0 0 to the tart up effort of Project Prepar ion Unit (PPU) based in the Russian Ministry of Economy. By December 1995, USAID had contributed $1 million more, with additional funds from the British Know How Fund and Japanese government. In June 1996, the PPU became Russian coal's Project Implementation Unit (PIU) based in the offices of ReformUgol in Moscow.

For the most part, all stakeholders had something to gain from cooperation with the World Bank and the new program. The new program's components included:

- Coal company and asset audits
- Coal management training
- Support to coal trade unions
- Establishment of local oversight councils (LOCs)
- Public information campaigns
- Labor-management relations
- Legal assistance
- Small lending and grants

As part of an unprecedented and laborious effort, the key coal regions were asked to prepare regional economic development strategies. Seven plans were received., All required reworking, but provided

[210] Berney 2002.
[211] Vitelli 1998.
[212] World Bank, *Project Performance Assessment Report Russian Federation Coal Sector Adjustment Loan,* 2003.
[213] Berney 2002.

insight into regional preferences, approaches and priorities.[214] According to the composite IAC strategy, the government would reduce subsidies and restructure the industry in a socially responsible manner. Miners would no longer have to work without wages and could be assured that if their mines were closing, they would receive notice, severance payments, back wages, and employment services. Local governments responsible for maintaining the mines' non-core social assets (such as housing, schools, hospitals, water, electricity and telephone supply) would receive support from the federal government. The program ensured that non-viable mines would receive assistance with closing costs and safe closing advice for meeting their obligations to employees in a timely fashion. Plans for viable mines included a framework for commercializing operations and where possible, privatization.[215] Rosugol (which became Rossugol) would give up its authority over individual mining companies and become a holding company. Regional governments, which had previously benefited from control over the flow of subsidy funds, were ultimately and intentionally bypassed in the new program. In many instances, new treasury channels for funding flows had to be established to ensure that funds were directly received by intended recipients.

Under the new strategy, mines were divided into four categories: viable; not viable; viable and likely to remain viable; and viable and not likely to remain viable. In 1995, Rossugol officials announced that 42 non-viable mines and 66 not likely to remain viable mines would be closed. In spite of the groundwork being done to protect workers, Rossugol began a rapid and harsh mine closing program prior to securing World Bank funds. Throughout that year, coal mines were closed without proper notice (i.e., 3 days) to workers or social safety net provisions in place. In addition, the transfer of social assets to municipalities was fraught with chaos, confusion and corruption. There was a lack of information about the order of closings. Prior to 1997, virtually no legitimate record-keeping of mine closings and laid-off workers existed. A lack of i ment a d f di g resulted i closure ki s l years to complete, instead of the ha a year t at h d been e timated [21

At this time, the Ministry Fu and nergy e d a R ssian Coal Indu try Committee within the Ministry of Fuel nd Ener y; it escribed the structur ng p ocess as having wo phases. The first phase was characterized by rapid mine closures and lagging social security measures. The second phase demonstrated coordination of social support for redundant workers and mine closure activities.[217] This was reflected in how state subsidies were allocated to the sector. In the first phase, less than 10% of allocations supported the closures of unprofitable mines and social protections for laid-off miners. In 1998, social protection and closures measures accounted for 60% of expenditures, and after 1999, about 70%.[218]

In spite of the comparably haphazard nature of this first phase of restructuring, by 1996, government coal sector subsidies were reduced to less than one half of one percent of GDP. Employees were still often three to six months behind in receiving wages, and in some cases up to nine months. Coal managers and local government officials received funds from Rossugol for job creation efforts, but much of the support was being used to cover operating losses or make new investments in non-viable mines. In other cases, city managers sought to create large work programs by restarting non-viable textile, furniture and other factories. Program implementers lacked technical economic development and job creation know-how.[219] In short, to some extent, the subsidy program blocked the restructuring process rather than supported it.[220]

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[214] Vitelli 2007.
[215] World Bank, *Project Performance Assessment Report Russian Federation Coal Sector Adjustment Loan,* 2003.
[216] Vitelli 1998.
[217] World Energy Council 2000.
[218] UNECE 2005.
[219] Vitelli 1998.
[220] Berney 2002.

From 1996 on, federal subsidies for social assets and job-creation programs were disbursed directly to coal regions via newly established federal treasury channels instead of through the coal industry funding channels via coal assets.[221] In response to charges of some misappropriation of SECAL I funds, the government audited fund disbursement and found that about 3% (nearly $60 million) of the 1996 coal subsidies had either been paid to wrong recipients or used for wrong purposes.[222] Consequently, the government, with World Bank help, introduced new strict controls over the use of state support funds, making the subsidy management system a transparent, public system with important checks built-in through the IAC, the Ministry of Finance, and the Federal Treasury Division.

In 1997, the Bank approved a second loan (SECAL II)that continued to support the goals of the first SECAL, while adding a new emphasis on privatization and on ultimately discontinuing all subsidies. However, the non-payment and wage arrears situation worsened and resulted in mass miners' strikes and the "rail wars" of 1999.

By 2000, two-thirds of the coal sector had been restructured, and 160 mines had been closed. In 1996, only 6.5% of all coal came from privatized mines; in 2001, the figure was 65.5%, with 11.2% more coming from mines that had 75% private ownership. Federal subsidy levels had fallen to less than 0.2% of GDP. SECAL II was extended after a change in government in 2000 slowed the restructuring of the last 70 or so mines.[223] By the end of 2001, 183 loss-making mines had ceased production in eight years. All employees other than the liquidation commissions at 158 of the closed mines had been laid-off and received severance payments and back wages.

In 2004, the process of r tructuri g th coal min ng indu try in Rus a was finished, ith the liquidation of 189 unprofitable mine and pits. he were 1 0 und rgro nd mi s and 129 ope -pits in operation, employing 293,000 peop [224]

[221] Vitelli 2007.
[222] World Bank, *Project Performance Assessment Report Russian Federation Coal Sector Adjustment Loan,* 2003.
[223] Berney 2002.
[224] Boris Saneev, Alexandre Sokolov, and Dmitry Sokolov, *Trends and Policy of Coal Industry in Russia* (Irkutsk, Russia: Energy Systems Institute of Russian Academy of Sciences, n.d.)

KEY STAKEHOLDERS

Ministry of Fuel and Energy
In 1992, took responsibility for the coal sector from the former Ministry of Coal.

Inter-Agency Coal Commission (IAC)
Commission made up of representatives from Deputy Prime Minister; the ministries of Labor and Social Protection, Fuel and Energy, Economy, Finance, and Nationalities; Rosugol; coal companies, coal trade unions; academic and research institutions; the Duma; governors of coal regions; and, mayors of coal communities. Media and donors were invited to attend meetings and to participate.

Ministry of Economy
Charged with restructuring the coal sector.

ReformUgol
The PIU for coal sector reform started operations in 1995 and was formally established in 1996. ReformUgol coordinated Russian Government and World Bank project implementation.

Federal Employment Service
Upon transition, Russian needed to create a whole new set of professionals to provide retraining, job counseling, and psychological services associated with industry closure or lay-off. Under the planned economy, Russia had little need for, or experience with, professional retraining.[225] The employment service had a br date e g beyond jo placeme , ing p to address social adaptation and r integrati n. T assist m ners and o hers, S cial Adaptation Centers were set up in employment ser ce office Fo the fir five years, t e emp t service enefited from a special dedicated tax. F lowing t e en of th dedica ed tax, he e ployment serv e became a less powerful player with fewe resou es, b t contin s to provide erv es.

Trade Unions
During the Soviet era, the coal mining industry had one state trade union, which was under official State control and had few rights; strikes were not allowed and managers and workers were members, akin to membership in the political party. In the late 1980s to early 1990s, coal miners realized the power of independent trade unions and played an important role in effecting changes.[226]

In the late 1980s, two trade unions represented the coal sector:

- The State Union was the larger union, representing workers and managers. At the beginning of coal sector reforms, the State Union struggled to redefine itself as independent.
- The Independent Union of Coal Miners (NPG) was established in 1987 and received considerable assistance and support from AFL-CIO. NPG managers led the call for restructuring. Although they did not necessarily understand the full import of their actions, NPG leaders recognized that restructuring could trigger overall economic and political reform not only in Russia but throughout the former Soviet Union.[227] Despite attempts by the State Union and the government to marginalize NPG, the World Bank's strategy included both unions.

Trade unions, led by the NPG, became a constructive and essential partner to Russia's restructuring efforts. This is attributed to the initial work of the AFL-CIO and PIER to build understanding at the trade

[225] Haney 2006.
[226] Ibid.
[227] Vitelli 2006.

union leadership and membership levels that economic and political reform would have serious short-term consequences that had to be managed. The unions proved to be critical partners in the delivery of pre-lay-off counseling, information dissemination and exchange, policy development and consensus-building.[228]

EMPLOYMENT IMPACT OF COAL SECTOR RESTUCTURING IN RUSSIA

Changes in Employment

As restructuring began, there were few policies in place to protect workers. The new federal employment service system had neither adequate funding nor training to address the labor impacts facing coal workers.[230] In addition, labor market information was practically nonexistent.

A significant portion of the initial employment reductions was attributable to the transfer of social assets to municipalities. Overall, coal production workers (miners, mine engineers) accounted for 36% of the total employment reduction in the industry. The Following table shows the change in the size of the total industry workforce, as well as the change in the number of coal productio kers.

> The haphazard manner in which the mine closing process commenced in Russia has never fully recovered to a "planned" or process of more order. Instead, the closings were so rapid and generally without notice, that later assistance from the Russian Government, World Bank and other donors was forced to address the harsh realities of the extreme measures taken. A classic crisis had been created partially out of ignorance, partially out of irresponsible actions, and rescue efforts were commenced.[229]

Coal Sector Workforce Change 1993 2001[2]

	To al Indu try W orce *(at year end in thousands)*	Reducti n in Emp oyment for Total Workforce	Number of Coal Production Workers	Reduction in Employment for Coal Production Workers
1993	877.9		373.1	
1994	819.1	58.8	342.6	30.5
1995	730.5	88.6	307.8	34.8
1996	630.6	99.9	274.3	33.5
1997	519.9	110.7	229.5	44.8
1998	416.9	103.0	193.3	36.2
1999	364.4	52.5	190.1	3.2
2000	340.4	24.0	182.1	8.0
2001	328.4	12.0	177.5	4.6
Total Employment Reduction		549.5		195.6

Under the employment service rules, coal managers were supposed to supply a list of workers to be laid-off to the Local Employment Service (LES) office. Workers were to receive three months' advance written notice of a lay-off. They would then have two weeks to register with the LES office to be eligible

[228] Vitelli 2007.
[229] World Bank 1994.
[230] Vitelli 1998.
[231] Source for Industry and Coal Production Workforce Numbers: World Bank, *Project Performance Assessment Report Russian Federation Coal Sector Adjustment Loan,* 2003.

for benefits. According to a survey done by PIER in 1994, nearly three-quarters of laid-off workers did not know about the LES or about how to receive unemployment benefits.[232]

Working together but led by the NPG, the trade unions negotiated special rules for coal mine workers, including that funding be allocated from the federal budget to facilitate mine closures and provide for job creation. Laid-off workers were entitled to receive 100% reimbursement for forced or voluntary relocation. All workers were guaranteed their basic salary during the job search period for a maximum of two additional months (five months in the Far North or similar hardship areas). Workers who have not found employment at the end of three months can go on unemployment benefits. After one year of unemployment benefits, the unemployed qualified for welfare benefits that were not to last more than six months.[233] Special measures that were to be guaranteed under the joint responsibility of the employment service and the Ministry of Fuel and Energy included:

- Coal companies were to provide notification of lay-offs to employment services one year prior to lay-offs.
- Recruitment of new employees was to be reduced or terminated.
- Short-time working hours were to be available for employees.
- Procedures for transferring workers to other mines were to be established.
- Miners were to be extended an early retirement policy of two years prior to the pension age (55 for women, 60 for men), with the retirement pension to be paid from the funds of the mine during the pre-pension period.
- Special retraining allowances were to improve miners' skill levels and enable them to earn the average miner s age.
- Rights t housing ere to be co tinued
- Rights o miners' c ildr n to se pre-s hool f cilitie until they reac school age were to be continued.[234]

While these provisions may now appear to provide adequate support for laid-off workers, the reality was that in the early years of sector restructuring, they were not actually implemented. Workers were unaware of their legal entitlements and legal processes did not exist in this transition political and economic state. The trade unions and mine companies continued to pursue subsidy claims rather than ensure that services and benefits were provided to laid-off miners.[235] Exacerbating the problem, wage payments fell to 8 to 16 months (on average) behind schedule and frequently took the form of such "in kind" payments as commodities – sugar, shoes, food products, glass and heating coal.[236] In 1996, conditions were so bad that 400,000 of the country's estimated 560,000 coal miners staged a series of strikes, including underground mine-based hunger strikes.[237]

From 1994-2001, the total number employed in the Russian coal mining sector dropped from 859,600 to 339,500.

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[232] Ibid.
[233] World Bank 1994.
[234] Ibid.
[235] Department for International Development (DFID), *Reforming the Russian Coal Sector: Reducing Vulnerability Through Social Protection—Negotiating Social Sustainability* (London: DFID, n.d.).
[236] Deepti Bhatnagar, Parameeta Kanungo, Animesh Rathore and Magui Moreno Torres, *Empowerment Case Studies: Russian Federation – Coal Sector Adjustment Loans* (Washington: World Bank 25 July 2003).
[237] "400,000 Miners Strike in Russia," *The New York Times*, December 4, 1996.

Voluntary Retirement
Almost one quarter of coal miners had reached retirement age by the start of sector restructuring in Russia, and voluntary retirement became one of the primary tools used for downsizing. Retirement-age miners were offered a lifelong supplement to the standard state pension if they voluntarily left their jobs. A separate program provided insurance payments to disabled miners.[239]

Staff Redundancy During the Liquidation of Coal Enterprises (1994-2001)[238]

Fate of Redundant Staff	% of Redundant Staff
Retirement/On pension	13.6%
Redundancy with separation payments, followed by individual job searches	44.4%
Transfer of redundant staff to operational enterprises in the coal and other sectors	23.7%
Other	18.3%
Total	100%

Redundancy
A third of coal workers (nearly 163,100) were made redundant in mine closings or liquidation. While all redundant and retained workers were to receive the social benefits to which they were entitled under existing legislation, the majority of expenditures on social benefits from 1998-2001 instead covered wage arrears, totaling 57.7%. 25 %of expenditures went to the provide free coal for heating to entitled pensioners and others.[240] Severance payment and other compensation accounted for 17.3% of expenditures.

Between 1994 and 2001, miners were rese led from " h p ed" housing. An additional 23,800 fam es were che uled to b resett ed as well [1]

Social Impact Assessment Pro ess
Between 1994 and 1997, he Wo d Ba k conduc ed a series of oci impact assessments and mitigation reviews, surveying 800 households and developing comparative case studies of communities affected by mine closures. A Russian staff member was retained at ReformUgol to work closely with the International Program Manager to carry out ongoing impact assessment work that provided current and important information valuable to policy input. The results indicated that communities were devastated by the effects of mine closures. Miners and their families were not the only people affected; other community members were affected by the loss of housing and education and healthcare services. The surveys also revealed a prevailing deep fear and distrust of government institutions. The assessment found that subsidies were not getting to intended recipients, and that some government policies hampered workers' ability to relocate from the coal basins and find new employment.

The Social Impact Assessment altered how the Russian government used World Bank and other donor funding for coal restructuring programs in the following ways:

- Because non-miners living in coal areas represented the largest group affected, subsidies were reoriented to assist coal communities at large rather than just mine workers.
- Government supported increased local participation in decision-making to better address regional and local problems.

[238] V.N. Popov, *Measures Associated with the Closure of Coal Enterprises in the Russian Federation and Mitigation of the Adverse Social Impacts of Their Liquidation*, ENERGY/GE.1/2002/5, (Moscow: UNECE, 2002).
[239] UNECE 2005.
[240] The UN report noted that in 2002 over 90,000 people were receiving free coal.
[241] Popov 2002.

- The establishment of the Inter-Agency Coal Commission, the Association of Coal Mining Cities, and the Local Oversight Committees was confirmed as essential to mitigating the lack of trust in the government, the coal industry, and existing agencies.
- New approaches to enhance transparency and monitoring were developed to clarify the purpose, beneficiaries and methods for distributing subsidies.
- Measures to improve the ability of workers to move freely in search of employment were favored over job creation schemes, which were expensive and had disputable outcomes.[242]

The ReformUgol-based social monitoring was used on an ongoing basis to collect feedback on programs. By 1999, monitoring efforts revealed the improvements that had been made regarding the timeliness of social payments during lay-offs and the awareness of miners of their rights. In addition, the assessment showed miners' attitudes had changed; they acknowledged that there were no alternatives to coal industry restructuring.[243]

ASSISTANCE ACTIONS

Early Intervention

World Bank recommendations outlined in *Putting People First* called for classic industrial adjustment and dislocated worker strategies based on mechanisms that had been developed in other countries. The emphasis was to promote a comprehensive program to assist workers while they were still at their current places of employment through:

- **Advance Notice** of t e lay-offs to ens re hat affe ted employees ompanies, communities and local au orities a had ation in ufficie t tim w for ea y intervention. The World Bank re ommend d th t such nterve tions be pro ded by an emp yer-employee committee or an in-pla t em l ymen service offic linked to he cal employmen office.

- **Rapid Response** mechanisms relying on a joint consultative approach to facilitate agreements between workers, the enterprise, the employment service and the local community. The World Bank recommended that group registration of workers for benefits and information about services and crisis counseling be arranged as needed; an assessment of each worker's skills, qualifications, experience and interests in retraining or relocation be conducted; job development activities through formal and informal channels be pursued; and that linkages should be made to local economic development activities.

The recommendations targeted managers and non-core sector workers, in addition to coal employees.

In the beginning of restructuring, early intervention was haphazard at best. By the late 1990s, however, a prescribed system for early intervention was put in place.[244] The decision to close a mine and begin the notification process occurred only after an assessment of its viability and an economic cost/benefit analysis. The independent trade unions played a vital role in early intervention activities and counseling.

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[242] Ashraf Ghani, Ayse Kudat, and Anis Dani, *Social Assessments for Better Development: Case Studies in Russia and Central Asia, in Gloria Davis, A History of the Social Development Network in The World Bank, 1973 – 2002*, Paper No. 56 (Washington: World Bank, March 2004).
[243] Robul 2001.
[244] Haney 2006.

Stakeholder Technical Assistance

> Providing more information to people and communities about their rights and resources ultimately enhanced accountability.[245]

The social change in Russia resulted in municipalities being given a role in the political administration for which they were not prepared. Caught off guard by the impacts of restructuring, mining cities struggled with their new responsibilities. At the same time, through ReformUgol and a highly participatory process with and among stakeholders, the World Bank identified the need for a strong local presence in community development and worker adjustment programs. Therefore, the World Bank implemented an unprecedented "sector adjustment loan" (SECAL 1), which was accompanied by a second loan of $25 million for targeted stakeholder technical assistance. This assistance included approximately 14 "line items" that ranged from small grants to local communities and trade unions, to resources for social surveys of laid-off miners, to stakeholder support and local capacity building.[246] A program management unit (PMU) was established in Moscow in 1996 and served as the point of contact for coal sector restructuring for almost ten years.

The loan served as seed money to ensure that local organizations had dedicated resources to address the impacts of restructuring, which went far beyond the narrow confines of the coal sector. Stakeholder organizations receiving this support included the two mining trade unions and the Association of Mining Cities.[247] The trade unions used funds to facilitate pre-lay-off counseling for dislocated workers, as well as for publications and information dissemination. As part of the restructuring exercise, ReformUgol assisted in the establishment of the Association of Mining Cities, which used technical assistance funds to support a small staff and to facilitate regular meetings amongst mayors and community leaders. Local areas used the technical i ce supp buy comput s, set up il d municating with each other. Funds also su ported a nati n-wide p blic inf rmation c mpaign and ma gement training.

Local Development P ogram and the Lo al Ove g Coun ils

A key strategy used to ad ress th soci impacts of r structuri g in ussia was the cal Development Program (LDP), which the Government began financing in areas affected by coal mine closures starting in 1996. Each key coal region was given the mandate to develop a Regional Economic Development Plan in accordance with a format prepared by the World Bank PMU staff in collaboration with regional leaders. Fundamental to PMU work was regionalizing assistance, so that restructuring was not driven by Moscow.[248] The plans forced regions to link communities and to think strategically about regional economic development outside the traditional coal industry. This process of interactive dialogue and review took approximately one year. The LDP funded project in six categories:

- Pre-lay-off counseling
- Retraining
- Public works
- Relocation
- Job creation
- Small business support

Relocation support was reserved for municipalities deemed non-viable due to remote location and lack of opportunities for economic development.[249]

In the first two years, regional administrators were responsible for the programs. Poor administration, a lack of understanding and accountability, and a tendency by regional administrators to siphon LDP funds

[245] Ibid.
[246] Vitelli 2007.
[247] Haney 2006.
[248] Vitelli 2006.
[249] Haney and Shkaratan 2003

for general regional budgets hindered project credibility and implementation. Program design flaws led to a lack of competitive bidding for awards, and to moneys awarded though grants rather than credits to be repaid. Powerful regional coal companies sought to use funds for internal investments projects, defeating the goal of diversification.[250]

In 1998, following World Bank and the Russian Government negotiations, municipalities became responsible for determining the use of LDPs funds based on established guidelines and competitive bidding processes.[251] This change in LDP implementation was meant to spur community consensus for long term community development planning though provisions that ensured transparency in the distribution of state subsidies and local control over their use.[252] With the second SECAL loan, the World Bank provided training in proposal evaluation, economic impact assessment and analysis, and local capacity building, In addition, the PMU linked with the Peace Corps in Rostov, which assisted community members, via the NPG trade union, with drafting business plans.[253] Building the local level capacity took time. Fifteen years later, however, regions (Rostov and central Kuzbass) that received the initial support to change their economic strategies and approach to stakeholder participation have fared better and have stronger economies than those that did not have a strategic basis from which to transition.

Examples of LDP Proposals
- Chicken Factory
- Mushroom cultivation in abandoned mine
- Rabbit farm
- Sewing factory

Local Oversight Councils (LOCs) were developed to provide oversight, promote participation and improve transparency. The LOCs were locally operated and made decisions by consensus. Ultimately, the LOCs became the decision-making ities ov of LDP f ds that g n the municipality. In many communit s, the LOCs came pa t of th lo al gove nment apparat , taking on community development work beyond coa restru uring a tiviti s. The OC included epresentatives of local government, the employm nt s rvice, rade u , GOs oal sector ente prises, commercial, financial and other community or aniza ons. By xpli t design, he ayor was not a owed to chair the LOC in order to give a voice to other local actors.[25]

While national level policy and the World Bank supported broadening the beneficiary base to include the entire community, some municipalities insisted that funds should be used to help miners and their families. These areas tended to have few economic options other than coal. Most localities took a broader view.[255]

LDPs were implemented in 22 coal-producing regions and 66 municipalities in 1998, rising to 24 regions and 78 municipalities in 2001.[257] For 1998-2001, the total expenditure on LDPs was about $116 million. According to ReformUgol, between 1998 and 2000, over $75 million was provided from the federal budget to

Number of People Receiving LDP Assistance[256]

Category	1998-2000
Pre-lay-off Consultations	61,000
Retraining (Former Miners)	7,300
Temporary Public Works	20,000
New Jobs from Job Creation and Small Business Support	24,000
Relocation (families)	3,620

[250] Ibid.
[251] Haney 2006.
[252] Robul 2001.
[253] Vitelli 2006.
[254] Haney 2006; Vitelli 2007.
[255] Haney 2006.
[256] Robul 2001.
[257] Popov 2002.

implement LDP programs. In late 2001, the LDP program was evaluated. The analysis found that 19,115 jobs were created outside of the coal sector by 410 businesses that had received LDP support from the job creation component. Of these, 17% were in food processing; 16% in construction; 13% in wood and timber; 11% in machine building and metal working; 10% in light industry; 9% in chemical and petrochemical; and 6% in agriculture.[258]

As shown in the table below, the assistance categories shifted over time as community needs evolved. In 1998, LDP heavily relied on temporary public works programs because of the large number of coal lay-offs and the poor economic outlook. By 2001, temporary public works had dropped to 9%, reflecting an overall improvement in the employment situation in the coal municipalities.[259]

Percent of Total Funds by Category for Local Development Programs in Russia, 1998-2001[260]

Category	1998	1999	2000	2001	Total[261]
Pre-lay-off Consultations	1%	< 1%	< 1%	< 1%	0.6%
Retraining	4%	2%	1%	< 1%	1.1%
Temporary Public Works	41%	16%	15%	9%	15%
Small Business Support	6%	11%	8%	7%	8.4%
Job Creation	45%	33%	43%	48%	42.6%
Relocation	4%	38%	33%	36%	32.3%
Total	100%	100%	100%	100%	100%

Worker Retraining.
Government and donor pending o re aini for Russ an co workers was minimal. Su veys found lim ted demand fo retraining; workers prefe d i mediat factory or o her mine work.[263] Experience found that even when retraining was of high quality, finding and keeping a new job in the new profession was difficult. Interviews with miners revealed skepticism about the value of learning a new profession, regardless of whether they were in areas with good or bad economies. Laid-off miners preferred jobs in the coal sector[264] to retraining for an alternative occupation.[265] Some of the most useful training was provided by the United Mine Workers[266] (as part of the labor union program), which focused on how to cope with restructuring. In addition, all training provided by visiting equipment manufacturers was welcomed, including training on new sulfur detection equipment, longwall technology, and health and safety equipment, and tools.[267]

> new job impro es not just the life f the worker b also that of the family, and they in turn are able to be consumers, and so forth. The projects are not likely to be a panacea in an area with high unemployment, but it is a policy decision the local areas have to make.[262]

[258] Haney and Shkaratan 2003.
[259] Ibid.
[260] Ibid.
[261] Popov 2002.
[262] Haney 2006.
[263] Partners in Economic Reform, Coal worker survey, 1994.
[264] New, efficient, technologically modern mines are being developed in Eastern Siberia where there are vast coal reserves.
[265] Haney and Shkaratan 2003.
[266] The United Mine Workers was a US-based union that worked with the AFL-CIO and ILO
[267] Vitelli 2007.

Migration/Relocation.
Migration or relocation assistance accounted for roughly a third of the LDP. Research has found that in spite of challenges, there is more labor mobility in transition economies than predicted. In some cases, however, workers leave their families in the original residence and find permanent, temporary or seasonal work elsewhere.[268] In some cases, relocation assistance programs were abused by couples who divorced and then kept housing in two locations.[269]

The World Bank conducted an impact evaluation of the LDP after five years, including calculations of the cost per job, and how many jobs were still in existence. On balance, the results were good. The cost per job was fairly high, but not onerous. Job creation programs have a ripple effect that improves the lives of individuals, families and communities as a whole.

The city of Novoshakhtinsk, in the Eastern Donbass coal basin, had particular success under the LDP. The city was hit hard by the closure of five mines by 2003. Dynamic efforts of the local government and a popular mayor led the area's development of an effective infrastructure for small business support.[270] As part of the EU Technical Aid to the Commonwealth of Independent States (TACIS) program for Municipal, Social and Economic Reform Initiative (MERIT) for mining regions, Novoshakhtinsk developed a support system for job creation. This included establishing a Novoshakhtinsk Business Incubator in 1996 and a Municipal Foundation for the Support of Small Enterprises in 1998. A business park was developed on the site of a closed mine and used for small business training and consulting activities. Industrial space is rented out at subsidized rates for beginning small entrepreneurs for up to three years.[271] However, some local experts have cautioned that small business growth alone may not be enough to solve h i y's probl

[268] Haney and Shkaratan 2003.
[269] Vitelli 1998.
[270] Haney 2006.
[271] Haney and Shkaratan 2003.

Technical Aid to the Commonwealth of Independent States (TACIS) program for Municipal, Social and Economic Reform Initiative (MERIT)

MERIT helped to develop effective strategies and actions to help Russian coal mining towns create new employment and to solve social problems relating to restructuring. MERIT set out with four objectives and in the process of achieving these sought to provide innovative, best practice support to the towns and to demonstrate replication capability in other places and situations.

The project worked intensively with five coal mining towns: Kizel (Perm Oblast), Kopeisk (Chelyabinsk Oblast), Kiselevsk (Kemerovo Oblast), Venev (Tula Oblast) and Novoshakhtinsk (Rostov Oblast). These towns were "pilot projects" in that the strategies and methods developed will be available for dissemination to all mining towns. Merited four specific objectives were to:

1) Develop an integrated strategy that will improve the self-governance of municipalities and encourage appropriate local institution-building.

2) Implement in five coal mining towns locally developed plans for the municipal restructuring, focusing primarily on economic development.

3) Devise specific human resource development programs to improve performance and employment in mining towns.

4) Help develop a cohere t action rog m that ill lead to e onom diversification a stronger private sector and enhanced bus ess deve pm nt.

The establishment of Business Center "Flagship Initiatives" provided the infrastructure for the concrete implementation of local projects. These "Flagship" initiatives provided a physical presence in each town and a delivery mechanism for local training, consultancy and delivery of micro-credit funding. However, the real significance of these "Flagship" initiatives was to demonstrate to the administration and the community that the project was "real" and would deliver tangible results. These projects were considered very important and high-profile "early victories" that were crucial to local commitment.

Source: TACIS-MERIT, Official Website

ANNEX D
LABOR CODE REGULATIONS ON TERMINATION OF EMPLOYMENT

	Hungary[272]	Poland[273]	Russia[274]
Individual Dismissal			
Reasons must be given for dismissal	**Yes**	**Yes**	**Yes**
Right to sue for wrongful dismissal	**Yes**	**Yes**	**Yes**
Rights guaranteed with sale of company	**Yes**		
Protection against dismissal for long-term illness	**No**	**Yes**	**Yes**
Mass Dismissal			
Definition	10 or more dismissals per month. The final number must break out those whose contracts were terminated and those whose have expired.	100 or more workers	Not specified
Notice	3 months in advance	45 days in advance to labor union	2 months written notice
Planning	With work councils and trade unions pr r to dism al	Negotiated with labor union or with ffected employees	Based on individual contract
Workers protect from redundancy	**es** nclud s those ecoveri work- lated inju ies, s ving in the ilitary, preg an or on maternity leave, or serving as representatives of organized labor.)	(Inclu s pregnant wome pers ns within 2 years o re irem nt age and those o sick leave or absent from the workplace at the request of the employer.)	**Yes** (Includes pregnant women, mothers of young children and others)
Compensation	Employees who have worked for the same firm: Severances No. Years Worked / Pay Equivalent 3-5 years / 1 month 5-10 / 2 months 10-15 / 3 months 15-20 / 4 months 20-25 / 5 months 25< / 6 months Social charges must be paid on redundancy payments.	Employees who have worked for the same firm: Severances No. Years Worked / Pay Equivalent >10 / At least 1 month 20< / Up to 3 months Compensation for termination is usually payment during the notice period or cash equivalent in lieu of a notice period and also the cash equivalent of any unused holiday.	Employees may receive up to two to three months' severance pay.

[272] Deloitte, Hungary International Tax and Business Guide, March 2004.
[273] Deloitte, Poland International Tax and Business Guide, May 2005.
[274] Deloitte, Russia International Tax and Business Guide, June 2006.

ANNEX E
TOOL KITS AND OTHER RESOURCES

Noteworthy among the various tool kits and resources devoted to restructuring, lay-offs and labor redeployment are:

- *It's Not Over When It's Over: Mine Closure Around the World* (World Bank and International Finance Corporation. 2002).
- *Labor Issues in Enterprise Restructuring and Infrastructure Reform: A Working Document prepared by Adam Smith International* (Asian Development Bank, 2006).
- *A Guide to Worker Displacement: Some tools for Reducing the Impact on Workers, Communities and Enterprises* by Gary B. Hansen (International Labor Organization (ILO), 2002).
- *Support Measures for Business Creation Following Restructuring* (European Foundation for the Improvement of Living and Working Conditions, 2006).
- *Labor Issues in Infrastructure Reform Tool Kit* (World Bank and Public-Private Infrastructure Advisory Facility).
- *Mitigating the Social Impact of Privatization and Enterprise Restructuring* by David Fretwell (World Bank, 2004).
- *Social Aspects and Financing of Industrial Restructuring* (New York and Geneva, United Nations Economic Commission for Europe, 2005).
- *Small Enterprise Development as a Strategy for Reducing the Social Cost of Restructuring and Privatization, Working Paper IPPRED-6, by* Jacob Levitsky and Clare Tawney, (Geneva: International Labor Organization, 1997).