



<b>1. Project Data:</b>		<b>Date Posted :</b> 07/20/2004	
PROJ ID: P055738		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b> Sevastopol Heat Supply Improvement Project	<b>Project Costs (US\$M)</b>	35.7	0
<b>Country:</b> Ukraine	<b>Loan/Credit (US\$M)</b>	28.2	0
<b>Sector(s):</b> Board: EMT - District heating and energy efficiency services (100%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L4599			
	<b>Board Approval (FY)</b>		01
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/2006	01/29/2003
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Kavita Mathur	John R. Heath	Alain A. Barbu	OEDST
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
The key development objective of the Project was to increase efficiency, enhance energy conservation and improve the reliability and service levels in the heating system of Sevastopol through introduction of decentralized mini -boilers in the areas of worst heating conditions and in key public buildings . The project would further promote sound cost recovery policies and practices and the development of a new heating enterprise, Sevteploservis, which would operate on a commercial basis.			
<b>b. Components</b>			
1. <b>Sevastopol Heat Supply Improvement Program:</b> the supply and installation of 1,018 decentralized, gas-fired boiler plants with auxiliaries, and the required design and work site management, as well as mobile maintenance units and tools to maintain the boiler plants.			
2. <b>Sevteploservis Institutional Support Program:</b> technical assistance for Sevteploservis for financial management, implementation support, social assistance support and a heat tariff study and would include training, equipment and software.			
3. <b>Sevteploservis Financial Audits:</b> incremental financial audits of Sevteploservis for the 5 year implementation period.			
<b>c. Comments on Project Cost, Financing and Dates</b>			
The project was approved by the Board on March 22, 2001. The Loan Agreement was signed on September 23, 2002, after a lengthy delay due largely to local politics. However, the Loan did not become effective and, at the request of the Borrower (the Ministry of Finance) dated January 22, 2003, the Loan was cancelled.			
<b>3. Achievement of Relevant Objectives:</b>			
This review is for the Project Completion Note (PCN), as the loan was signed but it never became effective. The project was never implemented and an Implementation Completion Report (ICR) was thus not prepared. The project objectives were not achieved.			
<b>4. Significant Outcomes/Impacts:</b>			
None. See section 3 above.			
<b>5. Significant Shortcomings (including non-compliance with safeguard policies):</b>			
1. The new Mayor (who came on board at the end of the preparation process) and City Council decided to use the project as a hostage at that point in time to argue for more subsidies from the central government. This was despite the fact that the City Council previously passed multiple resolutions supporting the project and allocating budgetary funds for it.			
2. The project faced opposition by the Communist Party of Ukraine to the corporatization of Sevteploservis and increase in heat tariffs for residential consumers at the Extraordinary Session of the City Council. The project was rejected by the City Council in September 2001. The City Council failed to consider the project in its December 2001 session.			
3. The project was signed in September 2002 after the local elections. There were delays by the Ministry of Finance in signing of two subsidiary loan agreements. The key issue concerned the general central government/state government fiscal relationship, mainly subsidies. The effectiveness date was extended, but, the problem between the Sevastopol City Council and the Ministry of finance could not be resolved. Subsequently, on January 22, 2003, the First Vice Prime Minister of Ukraine requested the Bank to cancel the loan.			

<b>6. Ratings:</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Not Rated	Not Rated	
<b>Institutional Dev .:</b>	Not Rated	Not Rated	
<b>Sustainability:</b>	Not Rated	Not Applicable	
<b>Bank Performance:</b>	Not Rated	Satisfactory	Rating refers to quality at entry and performance during preparation only. Conditions leading to the failure to move forward were beyond the control of the Bank.
<b>Borrower Perf .:</b>	Not Rated	Unsatisfactory	Rating refers to major unresolved problems during preparation (see section 5 above).
<b>Quality of ICR:</b>		Satisfactory	

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

### **7. Lessons of Broad Applicability:**

The project experience suggests that when working directly with the municipal governments on the development of infrastructure investment projects, the Bank faces a number of difficulties. The problems may relate to issues, such as intergovernmental transfers between the local and central authorities, which may not even be related to the project. The Bank, therefore, needs to explore less risky approaches for supporting improvement of essential municipal services. The Municipal Credit Market Development Project', which is currently under preparation, is helping to develop a legal and regulatory framework for subnational borrowing.

**8. Assessment Recommended?**  Yes  No

### **9. Comments on Quality of ICR:**

The quality of the project completion note is satisfactory.