



<b>1. Project Data:</b>		<b>Date Posted :</b> 07/21/2004	
<b>PROJ ID:</b> P074410		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> (PCN) Housing Lil	<b>Project Costs (US\$M)</b>	2.83	0.0
<b>Country:</b> Latvia	<b>Loan/Credit (US\$M)</b>	2.03	0.0
<b>Sector(s):</b> Board: UD - Housing finance and real estate markets (100%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L7114			
	<b>Board Approval (FY)</b>		02
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/2005	08/31/2003
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Roy Gilbert	John R. Heath	Alain A. Barbu	OEDST
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
(a) To introduce households, housing associations, and financial institutions to what, for Latvia, would be new financial mechanisms for housing finance .			
(b) To determine whether qualified households, housing associations, and financial institutions will use the new financial mechanisms to finance high return investments that currently are not funded by private lenders .			
(c) To attempt to determine the least intrusive and lowest-cost way for the government to proceed .			
[This was a Learning and Innovation Loan (LIL)]			
<b>b. Components</b>			
(i) Credit enhancements for first-time home buyers (estimated cost US\$0.76m.); (ii) Guarantees for reverse mortgages to elderly (US\$0.5m.); (iii) Guarantees for common area borrowing (US\$0.75m.); (iv) Institutional strengthening (US\$0.80m.)			
<b>c. Comments on Project Cost, Financing and Dates</b>			
No costs beyond the front-end fee were incurred, since none of the guarantees were called as expected . Even so, four banks did sign master guarantee agreements with the government, thereby making the loan effective on 11/08/02. Rapidly growing confidence in the market meant continued lack of demand for guarantees, leading the government to request cancellation of the loan on 07/27/03. Since the loan account had been made effective --thanks to the disbursement of the front-end fee--the loan had to be formally closed, an act realized on August 31, 2003.			
<b>3. Achievement of Relevant Objectives:</b>			
Not applicable			
<b>4. Significant Outcomes/Impacts:</b>			
Not applicable			
<b>5. Significant Shortcomings (including non-compliance with safeguard policies):</b>			
<ul style="list-style-type: none"> <li>• No evidence of demand for the new financial products proposed by the project . (Increased demand for these products was cited at appraisal as the first key project performance indicator . Other performance indicators appraisal relate to the satisfaction with and efficient use of these products, none of which could be tested .)</li> <li>• According to the borrower, the approval and issuance of guarantees for loans planned under the project was cumbersome due to the legal requirements for guarantees made by the state in Latvia . Loans for homeowner associations, for instance, could not be approved because of the specific legislative requirements for state guarantees. Legal uncertainties over the number of transactions required to execute them, forestalled the implementation of reverse mortgages .</li> <li>• After the failure of this project, a follow-on operation planned by the Bank to keep the momentum of intended reforms (by establishing a housing guarantee fund instead of requiring guarantees to be provided by the state ) also failed to take off.</li> </ul>			

<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	Unsatisfactory	While Bank-provided technical assistance (during preparation) was appreciated by the borrower, it did not lead to the implementation of the project. The assessment of Latvia's legal framework for project implementation and proposals for necessary changes, as well as borrower ownership of the project should have figured more strongly in preparation and project design.
<b>Borrower Perf .:</b>	Not Rated	Unsatisfactory	The borrower signed up to a project that it soon after demonstrated to be infeasible to implement.
<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:

- Even for a LIL, project appraisal needs to incorporate a careful assessment of the legal framework for project implementation to ensure that it will support the kind of instruments that the project intends to apply . Project design should incorporate proposals for necessary changes that can be tested under the learning approach .
- Project preparation should ensure step-by-step that the borrower is fully cognizant with the project design and the implications of project execution .
- The Bank should seek assurances at the highest level from the borrower that there is support for and commitment to the project and that project implementation is feasible following the borrower's own review of the legal, institutional and political constraints that implementation would face .
- When it becomes clear that market conditions and/or the legal framework dispense the need for products/services provided under a project--loan guarantees by the state in this case --prompt cancellation makes more sense that attempting to redefine the Bank role and continue with the loan .
- The Bank's penchant for lending for "productive purposes" seriously constrains Bank support for some policy aspects of housing, such as the neglect of critical consumption needs of the elderly when the proposed reverse mortgage fund was limited to financing only apartment maintenance and rehabilitation .

8. Assessment Recommended?  Yes  No

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

The Project Completion Note with supporting copies of correspondence between the borrower and Bank provides a satisfactory account of why this project was not implemented .