



1. Project Data:		Date Posted : 08/22/2002	
PROJ ID: P008530		Appraisal	Actual
Project Name: Riga District Heating	Project Costs (US\$M)	US\$137.6 million	US\$17.2 million
Country: Latvia	Loan/Credit (US\$M)	US\$36.16 million	0
Sector(s): Board: EMT - District heating and energy efficiency services (100%)	Cofinancing (US\$M)	US\$96.7 million	N/A
L/C Number: L7031			
	Board Approval (FY)		00
Partners involved : Sweden, Finland, AB Svensk Exportkredit	Closing Date	06/30/2005	04/17/2001
Prepared by : Angela Crooks			
Reviewed by : Roy Gilbert		Group Manager : Alain A. Barbu	Group: OEDST
2. Project Objectives and Components			
a. Objectives			
Optimize DH system performance, increase the efficiency of heat supply, distribution and consumption, improve the reliability of service delivery, enhance energy conservation and improve environmental conditions of Riga's district heating system through transmission and distribution network rehabilitation, substation modernization and new technologies, while promoting sound pricing policies and commercial practices to allow for the competitive development of Rigas Siltums (RS) and its possible eventual privatization. Provide institutional support to RS.			
b. Components			
1) Improve physical component (US\$135.2 million): install automated consumer substations for all buildings to allow variable flow; replace corroded DH pipe sections; construct pipeline interconnection to allow heat demand to be served from CHP plants; convert Imanta boiler house to peak load and reserve plant; and eliminate a number of small coal and mazut-fired boilers by connecting the heat load into the main DH network. 2) Institutional support (US\$ 2.4 million): advisory services to RS in procurement, project financial reporting, and disbursement; assistance to RS in evaluating two-tier tariffs with fixed and variable components, with emphasis on raising public awareness on the suitability of this structure; advisory services to the Riga Municipality on improving its social assistance program; and consultancy services to evaluate ownership options and to develop an action plan for selected institutional arrangements for RS.			
c. Comments on Project Cost, Financing and Dates			
Financing was to be provided by the following sources : Rigas Siltums US\$50.5 million, Riga Municipality US\$5.2 million, World Bank US\$36.2 million, AB Svensk Exportkredit US\$26.6 million, Swedish Government Grant US\$2.1 million, Finnish Government and other grants US\$US 0.3 million, and Commercial Banks' loans US\$ 17.2 million. All loans were cancelled except those of the commercial banks (the exact final amount is not known.)			
3. Achievement of Relevant Objectives:			
Due to the loan cancellation, the project did not achieve most of its objectives. The objective of improving efficiency through reduced heat losses and better regulation of indoor temperatures was achieved in part through the liquidation of central heat block substations and replacement with individual building -level heat substation equipment and modern control equipment that was financed by commercial banks. Only limited documentation is available regarding the extent to which Component 1 was implemented by Rigas Siltums.			
4. Significant Outcomes/Impacts:			
The WB loans and cofinancing were cancelled.			
5. Significant Shortcomings (including non-compliance with safeguard policies):			
<ul style="list-style-type: none"> The loan was cancelled because of the Latvian government's concerns regarding possible disconnections from the DH system. After the Riga City Council passed a resolution removing restrictions against alternative heating systems, it was thought that lower cost gas fired mini-boilers would potentially take customers away from the Rigas Siltums district heating system. Inadequate attention was given in the project design to the fact that gas tariffs were underpriced, giving the mini-boilers a cost advantage. The gas pricing issue is being pursued through the more appropriate PSAL 			

instrument.

- The Bank insisted with the Ministry of Finance on tariff restructuring, but to no avail . The agency responsible for oversight of these tariffs was the Energy Regulatory Board, which had independence from the Guarantor (the Ministry of Finance).

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Not Rated	Not Rated	
Institutional Dev .:	Not Rated	Not Rated	
Sustainability :	Not Rated	Not Applicable	
Bank Performance :	Not Rated	Satisfactory	
Borrower Perf .:	Not Rated	Satisfactory	
Quality of ICR :		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:

- No lessons from implementation, as the project was cancelled .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

Due to the fact that the loan was cancelled, a Project Completion Note (PCN) was prepared instead of an ICR. The PCN served as the basis for the rating in section 6 above.