



1. Project Data:		Date Posted : 06/26/2003	
PROJ ID: P008553		Appraisal	Actual
Project Name: Klaipeda Environment	Project Costs (US\$M)	18.8	36.0
Country: Lithuania	Loan/Credit (US\$M)	7.0	6.7
Sector(s): Board: ENV - Water supply (55%), Sewerage (34%), Other industry (11%)	Cofinancing (US\$M)	9.1	17.5
L/C Number: L3816; LP256			
	Board Approval (FY)		94
Partners involved : EU Phare Program, Government of Finland, Swedish International Agency, WWF-Denmark	Closing Date	06/30/1999	06/30/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
Robert C. Varley	Roy Gilbert	Kyle Peters	OEDCR
2. Project Objectives and Components			
a. Objectives			
According to the Staff Appraisal Report (SAR) the objectives were to:-			
<ol style="list-style-type: none"> 1. restore and enhance the surface and groundwater quality in Klaipeda, Kursiu Lagoon, and adjacent recreational beaches on the Baltic Sea; 2. improve quality, reliability and cost efficiency of water supply and sanitation services in Klaipeda; 3. improve the operational efficiency and management system of Klaipeda State Water Supply and Sewerage Enterprise (KSWSE); and 4. promote environmentally sustainable management and development of the Kursiu Lagoon and adjacent coastal areas. 			
The Memorandum to the Board had an additional but overlapping objective - "to improve water supply and sanitation service in Klaipeda."			
b. Components			
Total project costs at appraisal were \$ 23.1 million comprising:-			
<ol style="list-style-type: none"> 1. Project Implementation Unit (2%); 2. Water Supply and Distribution (13%); 3. Sewerage and Wastewater Treatment (55%); 4. Contract Coordination and Supervision (3%); 5. TA and Training (3%); 6. Environmental Management (6%) 7. Physical and price contingencies (18%) 			
c. Comments on Project Cost, Financing and Dates			
The project was 3 years late and 100% over the \$ budget, most of the cost overrun accounted for by the wastewater treatment and water purification plants . Lithuanian contributions supplemented by an EU grant closed the financing gap.			
3. Achievement of Relevant Objectives:			
<ol style="list-style-type: none"> 1. This objective was fully achieved and the quality of ground water, surfacewater and the Kursiu Lagoon improved, exceeding the targeted standards . 2. Wastewater treatment efficiencies have reached the levels expected . Drinking water quality improved and a reliable 24-hour service is in place . 3. KSWSE was transformed into the Klaipeda Water Company (KWC), a shareholder enterprise with a modern management structure. Since 2000, KWC has shown a cash surplus, collection indicators have improved and staff numbers cut. Full cost-recovery is not anticipated until 2007, considerably later than anticipated at appraisal. Cash flow from operations in 2001 was sufficient to service existing debt . 4. The Nemunas Delta Regional Park, encompassing Kursiu Lagoon, is up and running and the activities of the 			

Klaipeda Environment Project have been completed .

4. Significant Outcomes/Impacts:

1. For the first such project in Lithuania, the market-based approaches to water and wastewater management, institutional strengthening of the water utility, and demonstration of a new environmental management approach, were all significant achievements. Although the project was 3 years late at completion, it had suffered from the disruption of 4 different municipal government administrations during implementation .
2. Effluent now meets the rigorous standards required by HELCOM (Baltic Marine Environment Protection Commission, Helsinki) - discharges into the lagoon were reduced dramatically by 99% for suspended solids; 95% for BOD; 65% for total nitrogen; and 77% for total phosphorus.
3. Governance Improved. The Lithuanian Competition Council was extremely proactive and investigated charges of collusive bidding practices by two local contractors who received hefty fines for rigging the bids from the Lithuanian Court.
4. Network losses have been reduced to 7% - a low figure even by developed country standards .

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. The SAR significantly overestimated future demand and the required production of water in 2001 was only 36% of the 1994 level. The design capacity of the water treatment plant was 40,000 m3 while current production is only 16,000 m3. The decline was anticipated by the Bank, but incorporation in the design phase was opposed by the Borrower.
2. Construction costs were significantly underestimated . The wastewater treatment plant eventually cost \$ 22.5 million compared to an anticipated \$ 12.6 million in the ICR, while for the water purification plant the corresponding cost was \$ 5.9 million versus \$ 3 million at appraisal.
3. Full cost-recovery has not been achieved . Tariff increases were not implemented in a timely manner and the revenue-lag and over-investment postponed achievement of full cost-recovery.
4. The Municipality continues to restrict the water tariff with social safety net provisions re affordability instead of giving a direct and transparent subsidy .
5. Government mandated the water company to provide in-house metering but meter tampering and cheating have resulted in significant losses of revenue to the water company . The project design had assumed total apartment block consumption would be measured by a master meter, and block owners /operators be responsible for collection from households.
6. Households in some service extension areas could not afford to pay for connections from the main pipeline, reducing coverage for those areas below that anticipated .
7. Limited financial resources did not allow development of sludge treatment and disposal; these processes continue to be managed under temporary arrangements .
8. Although the communities were consulted they were not part of the final decision making process

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	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:

1. Water demand estimates for transitional countries like Lithuania must consider both changes in the conditions of demand and demand changes due to increased tariffs alone . Closing water-intensive state industries and improving bill-collections (e.g. better enforcement and installation of individual household metering), reduces demand while improved water quality and rising income increase it .
2. Twinning cooperation can be successful on technical aspects , but less so in achieving governance and managerial changes.

8. Assessment Recommended? Yes No

Why? Was already assessed as part of a Baltic Sea cluster audit looking at performance in NIS .

9. Comments on Quality of ICR:

Satisfactory. The report is comprehensive, very informative, and the financial analysis of utility operations and the monitoring and evaluation framework are particularly noteworthy .