



1. Project Data:		Date Posted : 06/21/2001	
PROJ ID: P008533		Appraisal	Actual
Project Name: Liepaja Environment	Project Costs (US\$M)	21.2	22.4
Country: Latvia	Loan/Credit (US\$M)	4.0	4.0
Sector(s): Board: ENV - Sewerage (42%), Water supply (40%), Other industry (13%), Sub-national government administration (5%)	Cofinancing (US\$M)	11.9	12.8
L/C Number: L3814; LP253			
	Board Approval (FY)		94
Partners involved : Sweden, Nordic Environment Finance Co, Finland, European Union, Denmark, Worldwide Fund for Nature, Netherlands	Closing Date	03/31/2000	03/31/2000

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2. Project Objectives and Components

a. Objectives

The objectives of the project were to :

- (i) reduce the discharge of partially treated and untreated wastewater into the Baltic Sea;
- (ii) restore and enhance water quality in Liepaja, Lake Liepaja and adjacent beaches in the Baltic Sea;
- (iii) improve the quality, reliability and cost efficiency of water and wastewater services in Liepaja;
- (iv) improve the operational efficiency and management system of the Liepaja Water and Wastewater Enterprise (LWWE); and
- (v) promote environmentally sustainable management and development of the coastal zone, tourism and protected areas in and around Liepaja and Ventspils .

b. Components

The project had two components :

- (i) Water and Wastewater Improvement Component : the rehabilitation and expansion of the Liepaja water supply and wastewater system, including technical assistance to support the transformation of LWWE into an autonomous and financially independent utility; and
- (ii) Environmental Management Component: the development and implementation of management plans for (a) recreational and nature based tourism in the Liepaja region, and (b) adjacent coastal and protected areas .

c. Comments on Project Cost, Financing and Dates

The project was co-financed by a \$2 million loan from the Nordic Environment Finance Corporation, a \$6.5 million grant from the Swedish Board for Investment and Technical Support, a \$2 million grant from the Finnish Ministry of Environment, a \$0.5 million grant from the Danish Ministry of Environment, and \$0.6 million grant from the European Union, technical support from the Worldwide Fund for Nature - Denmark, and supplementary assistance by the Government of Netherlands.

3. Achievement of Relevant Objectives:

- (i) the discharge of pollutants from the Liepaja wastewater treatment plant into the Baltic Sea has been substantially reduced and the rehabilitated wastewater plant meets regional and national environmental standards;
- (ii) the water quality of Liepaja beaches has been certified to be clean enough for recreational tourism;
- (iii) the efficiency of water supply was improved, with the level of unaccounted for water (losses) declining from 34% of sales before the project to 17% after the project, the bill collection rate improving from 76% in 1994 to 95% in 1999.

(iv) Leakages of 800,000m³/year were eliminated, corresponding to 17% of 1999 sales and the wastewater plant achieved savings of 1.6 million Kwh, valued at \$90,000/annum for an investment of \$510,000;

(v) the LWWE was transformed into a shareholding company with a modern management structure - the operating margin increased from -49% to +25% over the project period and tariffs were increased more than five-fold (from \$0.12/m³ in 1994 to \$0.63/m³ in 1999), in line with the recommendations of a tariff study;

(vi) an integrated coastal zone management plan and an eco-tourism development plan were prepared, with a number of proposed activities being considered for implementation with financing from national and external sources.

4. Significant Outcomes/Impacts:

(i) As the first environmental hot spot project in the Baltic countries its success has enabled it to function as a model for others;

(ii) awareness at the community/parish level has led to a proactive and demand based approach to government subsidies;

(iii) the project introduced reforms which have also had an impact on the ownership and management of other municipal companies;

(iv) project management and procurement were so efficient (savings of \$.6 million) that additional investments in sewers and pumping stations could be financed;

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

(i) The design capacity was too high, leading to high costs per m³ supplied and failure to meet cost recovery targets/covenants (domestic water consumption declined from 171 liters/day to 133 liters/day, with the result that volume sold and revenues were about 20% lower than expected.) This overestimate of price-constrained demand and subsequent overengineering is characteristic of many Bank -supported projects - it is only the high quality of the project which makes this aspect stick out as a shortcoming .

(ii) the ICR ERR of 6.5% is below 10% but not all economic benefits were included and this was the first project of its kind in Latvia;

(iii) one co-financier observed that coordination between local prioritization of immediate investments and the larger exercise of parallel initiation of other coastal projects could have been better .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Highly Satisfactory	The project addressed a "critical hotspot" and the success will make other interventions in the region much less challenging.
Institutional Dev .:	High	High	
Sustainability :	Likely	Likely	Even though the overestimated capacity has created financial problems these will be surmounted with the strong municipal commitment.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Highly Satisfactory	The Borrower had to absorb and make use of what must have sometimes been an overwhelming quantity and variation of advice from the many supporting stakeholders.
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:

(i) Using approximations for the elasticity of demand, and disaggregating use sectors, is a better basis for estimating design capacity than "affordability analysis" with linear projections of existing demand levels - the reduction of demand from closing down uneconomic industries and substantial increases in tariffs/metering is very substantial in transition economies (for instance in Gdansk Poland between 1993 and 1997 consumption fell from 205 to 128 lcd.)

(ii) investments in training for project planning, management, procurement and disbursement, although expensive, can have a high return if the Borrower is well motivated;

(iii) successful participative planning and management for environmental purposes has a spin-off benefit in other sectors;

(iv) cooperative planning and implementation, based on mutual trust between Bank and Borrower, can "change the way cooperating parties think about environment and development issues ";

(v) twinning arrangements for water utilities are most effective for technical issues - significant cultural and political differences reduce the scope for management changes .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

While being eloquent and comprehensive the ICR is too long (a deficiency shared by the SAR.) On the other hand it makes for an accessible and comprehensive project record . There is no clear presentation of pre and post project environmental indicators .