ICR Review

Operations Evaluation Department

Report Number : ICRR10950

1. Project Data:		Date Posted : 07/02/2001		
PROJ ID :	P008532		Appraisal	Actual
Project Name :	Highway	Project Costs (US$M)	56.9	54.4
Country :	Latvia	Loan/Credit (US$M)	20.0	20.0
Sector(s):	Board: TR - Roads and highways (99%), Central government administration (1%)	Cofinancing (US$M)	5.8	5.1
L/C Number :	L4145			
		Board Approval (FY)		97
Partners involved :	European Union--PHARE	Closing Date	12/31/2000	12/31/2000

Prepared by :	Reviewed by :	Group Manager :	Group :	
John R. Heath	Ridley Nelson	Alain A. Barbu	OEDST	

2. Project Objectives and Components

a. Objectives

"The project would have the overall objective of preserving the Latvian road network and minimizing total road transport costs....The specific objectives of the project are to :
(i) expand the level of periodic maintenance where it is economically justified;
(ii) improve the efficiency and quality of the road maintenance by introducing improved technology and quality control and by increasing the Latvian Road Administration's cost consciousness and economic justification capabilities;
(iii) support the development of the private road construction and engineering industries;
(iv) improve road safety conditions in Latvia; and
(v) establish the mechanism and level of funding required to achieve the minimum total road transport cost " (SAR, p. 14).

b. Components

Components and actual costs are listed in the ICR, Annex 2, as:
(i) Periodic highway maintenance (US$34.9 million);
(ii) Bridge repairs and reconstruction (US$10.7 million);
(iii) Road safety improvement (US$7.4 million);
(iv) Gravel road maintenance and low-cost bitumenization techniques (US$0.3 million);
(v) Equipment for laboratory (US$0.2 million); and
(vi) Institutional strengthening and training (US$0.8 million).

c. Comments on Project Cost, Financing and Dates

"During preparation there were firm indications that the Kuwait Fund would provide US$ 15.0 million in co-financing for the project. However, the government preferred to minimize its foreign borrowing, and decided to finance the US$15.0 million from its own resources, which was facilitated by the World Bank Structural Adjustment Loan that was available at that time" (ICR, p. 11).

3. Achievement of Relevant Objectives:

The following refers to the specific objectives outlined in section 2a above, all of which were highly relevant :
(i) Creation of a Road Fund, fed by road user charges, boosted maintenance funds from US$ 25.5 million in 1996 to US$60.0 million in 2000. At project close, budget allocation for periodic maintenance was 60 percent of the optimal allocation, compared to 30 percent at project startup.
(ii) Unit costs for road maintenance fell by 37 percent, compared to the 24 percent forecast at appraisal. Cost-benefit analysis was used to decide which roads to target for maintenance in 85 percent of cases, compared to the 90 percent expected at appraisal.
(iii) Road construction companies were all privatized before the project began; the project helped raise their efficiency by injecting more competition into the tendering process.
(iv) There was a significant reduction in the rate of fatalities and accidents during the project period, with the fatalities per 1,000 vehicles falling from 16.6 in 1995 to 8.4 in 2000.
(v) Introduction of the Road Fund enabled maintenance to be financed from road user fees rather than from general

taxation, creating the right incentive framework for lowering congestion, thereby reducing the total road transport cost.

4. Significant Outcomes/Impacts:
For periodic highway maintenance, the economic rate of return was 57 percent at completion, compared to an appraisal estimate of 35 percent; for bridge repairs and construction the figures were respectively 289 percent and 227 percent. The Latvian Road Administration replaced national bidding procedures by international competitive bidding, resulting in bids that were about 30 percent lower than estimates based on the cost of previous contracted works. According to the ICR (p. 7), the design of the Road Fund "stands out as an example of global best practice". Apart from maintenance, the Fund helps to finance municipal streets, as well as subsidizing railways and buses; this broadens the Fund's constituency of support. The project's monitoring system (well designed from the outset) is also best practice.

5. Significant Shortcomings (including non-compliance with safeguard policies):
None.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Highly Satisfactory	Highly Satisfactory	
Institutional Dev .:	Substantial	High	ID is rated high in Annex 5 of the ICR but substantial in the Principal Performance Ratings; improvements to the capacity of the road agency and the contracting process suggest a rating of high is warranted.
Sustainability:	Highly Likely	Highly Likely	
Bank Performance:	Highly Satisfactory	Highly Satisfactory	
Borrower Perf .:	Highly Satisfactory	Highly Satisfactory	
Quality of ICR:		Exemplary	

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 ICR contains the following broadly-applicable lessons: (i) Where borrower counterparts are competent, there is a good probability that projects will succeed; (ii) A maximum degree of competition is necessary to achieve efficiency of contracted works; (iii) Simplicity of project design pays off; (iv) Road funds of the type introduced by Latvia are effective. Essential conditions for its success were transparency, a broad-based, independent, oversight board, sharing of proceeds with local and municipal governments, and honoring the principle that road user charges not substitute for general tax revenues.

8. Assessment Recommended? ● Yes ○ No

Why? Not an audit but an **impact evaluation**, five or so years from now. As part of a civil service reform, the Latvian Road Administration will change from being a state-owned joint-stock company to an agency of the government reporting to the Ministry of Transport. The ICR says (p. 12) that "this change should not have any adverse effect on its operations or the sustainability of the project objectives". Will this be so? Assuming it is maintained, the excellent monitoring system should allow for a sound evaluation of the sustainability of this project's outcomes.

9. Comments on Quality of ICR:
Complete in all respects; the **exemplary monitoring system** greatly facilitated assessment of the project's efficacy and efficiency.