



1. Project Data :		Date Posted : 07/13/2000	
PROJ ID: P008529 OEDID: L3795		Appraisal	Actual
Project Name : Enterprise and financial sector restructuring	Project Costs (US\$M)	113.61	106.44
Country: Latvia	Loan/Credit (US\$M)	35	35.14
Sector, Major Sect .: Financial Sector Development, Finance	Cofinancing (US\$M)	32.11	14.18
L/C Number: L3795; L3796			
	Board Approval (FY)		95
Partners involved : SIDA, CIDA, Denmark	Closing Date	06/30/1998	06/30/1999
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

To support and help accelerate the Government's reforms in the enterprise and financial sectors, focusing in particular on enterprise privatization and bank restructuring and the regulatory framework .

b. Components

The Bank's US\$35 million loan in support of this project originally comprised (a) a credit line for private sector enterprises (US\$29.58 million), including US\$10 million earmarked for newly privatized enterprises further subdivided for use among specific banks and as matching funds for Swedish -financed grants, (b) an Institutional Development Component (US\$3.42 million) further subdivided into an allocation to support the auction track of the Mass Privatization Program (US\$2.5 million), US\$500,000 to finance computer equipment of the Latvian Privatization Agency, and US\$420,000 to strengthen the Project Management Unit (PMU) and a Technical Unit (TU), and (c) a Financial Infrastructure Component (US\$2 million) to assist in the modernization of the domestic payments and clearing system. These components were substantially revised in light of changing circumstances in order to meet the project's original objectives. The credit lines were consolidated (partly because demand for the Swedish-financed grants was weaker than had been envisaged) and a new end-use was added (provision of working capital to existing enterprises in order to meet emerging needs related to a liquidity crisis). The institutional development component was reduced to US\$420,000 for the PMU and TU as donor grant funds became available to the Latvian Privatization Agency with the balance added to the enterprise credit line. The Financial Infrastructure Component was eliminated when the Bank of Latvia decided not to use IBRD funds for upgrading the domestic payments and clearing systems, and funds were reallocated to the enterprise credit line.

c. Comments on Project Cost, Financing and Dates

The total cost of the project as revised was US \$ 106.4 million, of which US \$43.2 were for Credit and Equity funds for enterprises, US \$56.5 for Bank Recapitalization, US \$2 million for Bank restructuring, and US \$4.7 million for technical assistance. Financing was provided by the Bank loan for US \$35 million, The Government of Latvia US\$46 million, participating banks, US \$ 10 million, and cofinancing from EC PHARE (\$3.6 million), Sweden (US\$8.6 million), and other bilaterals (Denmark, Canada, UK) US \$3.2 million. The project was approved by the Board on September 20, 1994, became effective on April 10, 1995, and closed on June 30, 1999, one year behind the original schedule.

3. Achievement of Relevant Objectives :

At this early stage in Latvia's transition to a market economy, and with few alternative sources of financing available, the project was instrumental in providing funds for Latvia's private sector enterprises and for its evolving banking system. The 93 subloans comprising 384 enterprise subprojects financed by project funds are significant, both in volume and in the evaluation standards (including environment aspects) imparted to the banking system. In addition, the 53 subloan applications rejected suggests a discriminating approach. Technical assistance rendered to the PMU and TU was important in achieving these objectives .

4. Significant Outcomes /Impacts :

A direct calculation such as a rate of return is not feasible with such a large number of small subprojects . However, the banking sector experienced an increase in assets from 865 million Lats in 1995 to 1,685 million Lats in 1998 and a further increase to 1,765 million Lats in June, 1999, although this last figure is unaudited (One Lat is equivalent to US\$1.68). This presumably reflects the improved health of the enterprise sector, as supported by the project . Long term lending has increased from 12% of the banking sector portfolio in 1994 to approximately 60 % in 1999 (see the borrower's ICR attached to the ICR).

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	"Substantial" is the highest rating available in the ICR taxonomy, while "High" is the highest rating available in the OED taxonomy.
Sustainability:	Likely	Likely	The ICR gives a rating of "Highly Likely" for sustainability but the highest rating available in the Evaluation Summary is "Likely".
Bank Performance:	Highly Satisfactory	Highly Satisfactory	The Bank was particularly adept in this project in implementing mid-course corrections to address the changing needs of the Latvian economy .
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR:		Exemplary	

7. Lessons of Broad Applicability :

(1) Government ownership of the reforms is the key to a successful project . (2) The Bank needs to be flexible and respond to changing needs during implementation, as was done with the revision of this project . This is an important payoff from good supervision . (3) The Bank should avoid trying to fine-tune projects in terms of over-specifying end uses of funds (which was the case in this project and which led to a number of revisions), and should accept more general categories of activities to be financed, especially for transition economies in the early stages of economic transformation . (4) To be successful, technical assistance needs to be adequately funded to assure high quality inputs, and good management and staff resources are worth the cost . In this case, TA with adequate inputs succeeded with few coordination problems with a number of important bilateral assistance .

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The ICR is extremely user friendly and very well written, providing a clear reading of the components of this project and how they changed in the course of implementation . The Borrower's contribution, and the contributions of CIDA, SIDA, and Denmark are unusually thoughtful and extensive . On this basis, the ICR merits an exemplary rating, although it could have provided a little more evidence on the impact of the project so as to provide a better sense of the project's outcome (especially since this material could have been drawn into the body of the report from the Borrower's and Cofinanciers' contributions). The ICR might also have provided a simple table showing the technical assistance financed by each donor .