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Report No.: 16394

PROJECT COMPLETION NOTE

FORMER SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

EXPORT INDUSTRIES PROJECT
(LOAN 2980-02 YU)

December 26, 1996

Country Operations
Country Department II
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

Currency Unit = Yugoslav Dinar (Din)
Exchange US\$1.00 = 1,276 Din (1988)

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR OF THE FORMER SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

January 1 - December 31

ABBREVIATIONS

PCN - Project Completion Note
SFRY - Socialist Federal Republic of Yugoslavia

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PROJECT COMPLETION NOTE
FORMER SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA
EXPORT INDUSTRIES PROJECT
(LOAN 2980-02 YU)

1. This Project Completion Note (PCN) is in lieu of a Project Completion Report for an Export Industries Project. It is based on file documents including internal Bank memoranda and correspondence.

A. BACKGROUND

2. The Project was appraised in October 1987 with a view to assisting the Government increase efficiency, mobility and competition in the economy and to improving resource mobilization and allocation. It was designed to complement and help facilitate efforts of the former Socialist Federal Republic of Yugoslavia (SFRY) to stabilize the economy, to strengthen the financial sector, and to achieve growth through improved factor productivity and export competitiveness. It followed up on support provided through the first Structural Adjustment Loan and was to complement the program to be supported through the second Structural Adjustment Operation, which was under preparation at the time this project was approved. The Export Industries Project was an integral part of the Bank's development strategy for the industrial and banking sectors.

B. PROJECT OBJECTIVES AND DESCRIPTION

3. The objectives of the Project were to: (a) expedite growth of efficient exporting from the SFRY; and (b) strengthen the banks to enhance their effectiveness in resource allocation and in promoting financing discipline in the economy. The project aimed to achieve these goals through: (a) improvements in the export administration and export finance systems and in export marketing; (b) the strengthening of key financial institutions; and (c) the careful selection and financing of high return export projects in sound enterprises.

4. The overall loan totaling US\$120 million comprised of three loans of US\$40 million each to each of the three following banks: Jugobanka-United Bank Beograd, Ljubljanska Banka and Associated Bank-Udruzena Beogradska Banka Beograd. It was guaranteed by the SFRY.

5. The Project included: (a) a line of credit (US\$119.2 million) for on-lending to export-oriented manufacturing industries to improve product quality and international competitiveness, and to expand or develop new competitive capacity. The funds were to be used to finance capital investments and incremental foreign exchange working capital

for sub-projects in over fifteen industrial subsectors; and (b) technical assistance (US\$0.8 million) to support the institutional development of the banks by providing assistance and training for sub-project appraisal, supervision and portfolio management; and for strengthening financial management.

C. MAJOR FACTORS

6. The Loan was approved by the Board on June 29, 1988, but was never signed. Following an exchange of correspondence with the proposed borrowers and the guarantor, the Bank notified them, by telex dated August 25, 1989, that it had withdrawn its offer to enter into the respective loans. The delay in signing and the eventual withdrawal of this offer was linked to the evolution of economic policies and circumstances in the former SFRY. High interest rates (in the context of the stabilization program) and expected changes in the structure of the banking and enterprise sectors led to a marked slackening in demand for investment credits. In these circumstances, the banks, although they maintained a strong interest in the project, were not prepared to enter into further commitments.

D. LESSONS LEARNED

7. The evolution of economic policies and circumstances in the former SFRY, which led to the decision by the borrowers not to proceed with the project, could not have been anticipated at the time of project approval.

IMAGING

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