Energy conservation and substitution project

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Yugoslavia: Energy Conservation and Substitution Project (Loan 2790-YU)

The Implementation Completion Report (ICR) on the Yugoslavia Energy Conservation and Substitution Project (Loan 2790-YU, approved in FY87) was prepared by the Europe and Central Asia Regional Office, and includes the Borrower's comments. The loan, in the amount of US$90 million, was closed on June 30, 1994, after an 18-month extension. Some sub-projects were canceled late in the implementation stage due to changes in the economic environment during Slovenia's transition to a market economy. As a result, US$2.0 million remained undisbursed at project closure and was canceled.

The project's main objectives were to: (i) reduce Yugoslavia's energy import bill and improve the cost competitiveness of export industries, primarily in Slovenia, by promoting energy efficiency investments; (ii) strengthen institutional capacity for implementing energy audits in Slovenia; and (iii) strengthen the financial/institutional capacity of the apex Borrower. The project scope was expanded in June 1990 to include support for environmental conservation and improvement investments. In 1991, when it became clear that as a result of the breakup of Yugoslavia and the subsequent loss of protected domestic markets, there would be very little additional demand for loan funds from the industrial sector, the project focus was shifted to emergency rehabilitation, and US$30 million was reallocated to the rehabilitation of infrastructure damaged by extensive flooding in Slovenia in November 1990.

Overall, despite the external shocks to Slovenia's economy, the project proved to be generally successful. Most subproject investments did provide for significant energy savings. More importantly, the project made funds available for modernization investments that proved to be essential for the survival of enterprises in a highly competitive international environment, following the loss of their internal (Yugoslav) market, although many of the enterprises went through long periods of substantial financial losses during restructuring. In addition, the funds reallocated to emergency infrastructure rehabilitation were used effectively to resolve many serious infrastructure problems, particularly in water and sanitation. Although no progress was made in developing an energy auditing capacity and the apex Borrower's finances have remained weak, the project helped strengthen the Borrower's capacity to appraise and monitor energy conservation, substitution and environmental and flood damage projects. Rates of return were reestimated for some industrial subprojects, but it was often not possible to distinguish the return on the specific subproject from the profitability of the enterprise as a whole.

The Operations Evaluation Department (OED) rates the project outcome as satisfactory because most of the project components were implemented successfully and enhanced the competitiveness of most beneficiary enterprises (only a few enterprises could not make the transition to an open economy). Accordingly, project sustainability is rated as likely, and institutional development as moderate. Bank performance is rated as satisfactory. These ratings are consistent with those in the ICR.

The major lesson of this project is that it is often advisable, and possible, to radically shift the focus of a project when country circumstances are permanently changed.

The quality of the ICR is satisfactory. Details provided on the subloans were useful in confirming the conclusions on the efficacy of the project. The discussion on the plans for continued operation of the project, however, focuses too narrowly on the sub-borrower's financial performance. No audit is planned.