REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

VOJVODJANSKA BANKA

WITH THE GUARANTEE OF

THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

FOR A

SECOND AGRICULTURAL CREDIT PROJECT

June 22, 1977
**CURRENCY EQUIVALENTS***

<table>
<thead>
<tr>
<th>Currency Unit</th>
<th>=</th>
<th>Yugoslav Dinar (Din.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$1</td>
<td>=</td>
<td>Din., 18.00</td>
</tr>
<tr>
<td>Din. 1</td>
<td>=</td>
<td>US$0.0555</td>
</tr>
<tr>
<td>Din. 1,000</td>
<td>=</td>
<td>US$55.55</td>
</tr>
<tr>
<td>Din. 1,000,000</td>
<td>=</td>
<td>US$55,555.55</td>
</tr>
</tbody>
</table>

* The Yugoslav Dinar has been floating since July 13, 1973. The currency equivalents given above are as of December 31, 1976.

**FISCAL YEAR**

January 1 - December 31

**GLOSSARY OF ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOAL</td>
<td>Basic Organization of Associated Labor</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GMP</td>
<td>Gross Material Product</td>
</tr>
<tr>
<td>ICB</td>
<td>International competitive bidding</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Socialist Autonomous Province of Kosovo</td>
</tr>
<tr>
<td>LCB</td>
<td>Local competitive bidding</td>
</tr>
<tr>
<td>LDR</td>
<td>Less-Developed Region (of Yugoslavia)</td>
</tr>
<tr>
<td>PB(s)</td>
<td>Participating Bank(s)</td>
</tr>
<tr>
<td>Provinces</td>
<td>Socialist Autonomous Provinces of Kosovo and Vojvodina</td>
</tr>
<tr>
<td>SDK</td>
<td>Social Accounting Service</td>
</tr>
<tr>
<td>SFRY</td>
<td>Socialist Federal Republic of Yugoslavia</td>
</tr>
<tr>
<td>the Plan</td>
<td>Agricultural Development or 1973 &quot;Green Plan&quot;</td>
</tr>
<tr>
<td>the Unit</td>
<td>Project Operations Department (within Vojvodjanska Banka)</td>
</tr>
<tr>
<td>VB</td>
<td>Vojvodjanska Banka</td>
</tr>
</tbody>
</table>
YUGOSLAVIA: SECOND AGRICULTURAL CREDIT PROJECT

Loan and Project Summary

Borrower: Vojvodjanska Banka (VB).


Amount: US$75.0 million, equivalent, in various currencies.

Loan Distribution: One Participating Bank (PB), including VB, in each Republic and Province, as follows:

<table>
<thead>
<tr>
<th>Republic</th>
<th>Amount (US$ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>10.7</td>
</tr>
<tr>
<td>Serbia</td>
<td>12.8</td>
</tr>
<tr>
<td>Slovenia</td>
<td>3.2</td>
</tr>
<tr>
<td>Vojvodina</td>
<td>10.8</td>
</tr>
<tr>
<td>Kosovo</td>
<td>11.3</td>
</tr>
<tr>
<td>Macedonia</td>
<td>9.0</td>
</tr>
<tr>
<td>Montenegro</td>
<td>4.5</td>
</tr>
<tr>
<td>Bosnia-Herzegovina</td>
<td>12.7</td>
</tr>
<tr>
<td></td>
<td>75.0</td>
</tr>
</tbody>
</table>

Beneficiaries: The proposed project would generate about 10,200 new permanent employment opportunities and reduce underemployment for about 16,800 farmers. An additional 40,000 farmers are expected to benefit from access to agro-industrial facilities constructed under the project. About 60 percent of project beneficiaries will include farmers in the rural target group.

Terms: Amortization in 15 years, including 3 years of grace, with interest at 8.2 percent.

Project Description: The project would provide funds during the three-year period (1977-80) to finance investments in fruit and vegetable growing, and livestock development in the individual farmer sector, and cold storage, grain drying facilities, fruit and vegetable processing plants, dairy and milk collection facilities, and meat and broiler processing plants in the social sector. The less-developed Republics and Province would receive half of the loan which is much larger than their share of the national agricultural product. 57 percent of the proposed loan would be allocated to the individual farmers, and a significant part of that percentage would reach the poorer farmers throughout the country.

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Relending Terms: VB would channel the loan proceeds to a PB in each Republic and Province at the Bank's prevailing rate (8.2 percent) with a repayment period of 15 years, including 3 years of grace. VB would receive a commission of one percent on disbursements. VB would implement directly the proposed project investment in Vojvodina. The interest rate on Bank loan proceeds would be at 11 percent, while minimum rates on local funds would be 5 and 6 percent, respectively, for individual farmers and social sector enterprises.

Estimated Cost: $\begin{array}{c|c|c|c} \text{Primary Production} & \text{Local} & \text{Foreign} & \text{Total} \\ \hline \text{Vegetable} & 11.0 & 4.0 & 15.0 \\ \text{Fruit} & 20.0 & 7.0 & 27.0 \\ \text{Land Development} & 2.0 & 2.0 & 4.0 \\ \text{Livestock} & 54.0 & 21.0 & 75.0 \\ \text{Sub-total} & 87.0 & 34.0 & 121.0 \\ \text{Agro-industries} & & & \\ \text{Cold Stores and Packing Lines} & 6.0 & 4.0 & 10.0 \\ \text{Fruit and Vegetable Processing Plants} & 8.0 & 5.0 & 13.0 \\ \text{Milk Processing Plants} & 12.0 & 11.0 & 23.0 \\ \text{Meat Processing Plants} & 2.0 & 1.0 & 3.0 \\ \text{Broiler Production and Processing Plants} & 2.0 & 2.0 & 4.0 \\ \text{Winery} & 3.0 & 2.0 & 5.0 \\ \text{Grain Driers} & 3.0 & 1.0 & 4.0 \\ \text{Sub-total} & 36.0 & 26.0 & 62.0 \\ \text{Contingency Allowances} & & & \\ \text{Physical (5.0 percent)} & 6.0 & 3.0 & 9.0 \\ \text{Price (21.4 percent)} & 27.0 & 12.0 & 39.0 \\ \text{Sub-total} & 33.0 & 15.0 & 48.0 \\ \text{Total Project Cost} & 156.0 & 75.0 & 231.0 \end{array}$

Financing Plan: $\begin{array}{c|c|c} \text{Sources} & \text{US$ Millions} & \text{Percent of Total Financing} \\ \hline \text{IBRD} & 75.0 & 32 \\ \text{Participating Banks} & 106.0 & 46 \\ \text{Sub-borrowers} & 50.0 & 22 \\ \text{Sub-total} & 231.0 & 100 \end{array}$
Estimated Disbursements:  

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>7,000</td>
<td>7,000</td>
</tr>
<tr>
<td>1979</td>
<td>27,000</td>
<td>34,000</td>
</tr>
<tr>
<td>1980</td>
<td>34,500</td>
<td>68,500</td>
</tr>
<tr>
<td>1981</td>
<td>6,500</td>
<td>75,000</td>
</tr>
</tbody>
</table>

Economic Rate of Return: 22 percent.

Agricultural Credit and Agro-Industries Division  
Projects Department  
EMENA Region
1. I submit the following report and recommendation on a proposed loan to Vojvodjanska Banka (VB), with the guarantee of the Socialist Federal Republic of Yugoslavia, for the equivalent of US$75.0 million to help finance a second agricultural credit project. The loan would have a term of 15 years, including 3 years of grace, with interest at 8.2 percent per annum. US$64.2 million of the proceeds of the loan would be lent to seven other participating banks for 15 years, including 3 years of grace, with interest at 8.2 percent per annum.

PART I - THE ECONOMY

2. A basic economic mission visited Yugoslavia in November 1972; its report entitled "The Economic Development of Yugoslavia" (194a-YU) was distributed to the Executive Directors on January 2, 1974. An economic mission visited Yugoslavia in October 1975; its report entitled "Economic Memorandum--Yugoslavia" (1086b-YU) was distributed to the Executive Directors on September 3, 1976. A special Economic Mission to review the new development plan and the new planning system visited Yugoslavia in October and November 1976, and its report is under preparation. Some of the material gathered by the Mission has been utilized for updating the information contained in the subsequent paragraphs of this report. Basic data on the economy are given in Annex I.

Economic Trends and Development Issues

3. The Yugoslav economy has experienced rapid growth during the last two decades, with total GDP at constant prices having increased by an average rate of 6.3 percent, and per capita GDP at 5.2 percent annually. In 1975, per capita GNP was about US$1,480 (World Bank Atlas methodology). This impressive record of growth was accompanied by some fundamental structural changes in the economy which has moved towards a modern industry/service oriented urban society.

4. The population growth rate averaged 1 percent per year during the last two decades, but with considerable regional variations ranging from an average rate of 1.6 percent for the less developed Republics and Provinces to 0.7 percent for the developed ones. The structural changes in the economy permitted a sizeable transfer of the labor force from agriculture to industry and services. Despite this, however, by 1975, 37 percent of the employed

1/ Part I of this report is identical to that in the Report and Recommendation of the President for a Second Power Transmission Project (Report No. P-2018a-YU) dated June 1, 1977.
resident labor force was still engaged in agriculture and forestry, mostly on small private farms; industry (including mining) accounted for 23 percent, and other sectors for 40 percent.

5. The socio-political framework evolved through several constitutional amendments which were consolidated in the new Constitution of 1974. It strengthens three important features of the socio-political system of Yugoslavia. First, self-management, whereby the use and control of the socially owned means of production are entrusted to the workers' collectives, is the fundamental right and obligation of every Basic Organization of Associated Labor (BOAL—the smallest technologically identifiable unit of operation) in every sector and activity. Second, the responsibility for most important social and policy decisions has been shifted from the Federation down to the Republics and Provinces, and on to the communes. And third, the management and financial responsibility for social activities (health, education, welfare, etc.) is transferred from the realm of the state to Communities of Interest (decision-making bodies which comprise delegates of both suppliers and users of the specific services). Responsibility for certain economic activities affecting large segments of the society (like communal services, power production, highways and water management) can be—and progressively is—similarly organized through Communities of Interest.

6. The social sector, which includes government, most enterprises and public institutions such as libraries, hospitals, theatres and schools, has the leading role in economic and social development; it accounts for 85 percent of GDP and employs over half of the total labor force. The private sector is comprised predominantly of peasant farms (generally with a 10 hectare limit to land holdings) and small enterprises (generally with a 5 person limit on the number of nonfamily workers), mainly in handicrafts, construction, trade, transport and tourism. In the past, the private sector had been relatively neglected by government policy. However, lately increased attention is being devoted to private farmers with a view to accelerating the growth of agricultural production and reducing the rural/urban income disparity.

7. Regional income disparity—with a gradient of per capita income falling generally from North to South—has emerged as one of the most important development issues of the country. Four regions can be distinguished by stage of development. The Republic of Slovenia is the high income region with almost double the national average. The Republics of Serbia, Croatia and the Autonomous Province of Vojvodina make up the middle income regions, ranging from 100 to 125 percent of the national average; however, even within these regions pockets of underdevelopment persist. The Republics of Bosnia-Herzegovina, Montenegro and Macedonia, with per capita income between 67 to 75 percent of the national average, constitute the upper group among the officially designated Less Developed Regions (LDRs). The Socialist Autonomous Province of Kosovo (Kosovo), with an average income of only 33 percent of the national average (about US$490.0 equivalent), is at the bottom of the spread. These inter-regional disparities can be traced back further to intra-regional disparities. Within Republics and Provinces the spread between communes can extend over the range of 10 to 1, and it is the prevalence of stagnating poor rural communes within the LDRs which largely determines the disparity between
the regions. The rate of economic growth of the LDRs as a whole was only slightly below the average for Yugoslavia, but due to the faster population growth (1.6 percent per year versus 0.7 percent in the more developed regions) the income disparity has tended to widen significantly during the last two decades. In order to reverse this trend and to accelerate economic growth and social development in the LDRs, mechanisms have been instituted for sizeable transfers of financial resources. In 1975, net credits on highly favorable terms (containing a grant element of around 50 percent) were made available through the Federal Fund for the Accelerated Development of Less Developed Regions to the LDRs in the amount of US$370 million, equivalent to about 20 percent of their total investment in the social sector. An additional US$197 million were transferred as budgetary grants for social services. The mechanism for both categories assures a growth of transfers in line with the growth in total GDP.

8. Open unemployment has not been a serious problem and is estimated to be only around 4 percent of the resident labor force in 1975. However, this low rate conceals three important aspects of the employment problem. First, an estimated 800,000 out of a total labor force of around 9 million (in 1974) has assumed temporary employment abroad. Second, there is some evidence of growing regional and occupational imbalances, due to low inter-regional mobility of labor and to unmatched skill requirements in a fast changing economy. Third, severe underemployment persists in the private agricultural sector.

Recent Developments

9. In 1974, Yugoslavia recorded a rapid increase of GDP of 9 percent in real terms as compared to 5 percent and 4 percent in 1973 and 1972, respectively. Industry was the leading sector with an estimated growth rate of 11 percent in 1974; however, the growth of agricultural production, enhanced by favorable weather conditions, and of services (with the exception of tourism) also accelerated during the year. This rapid expansion of economic activity permeated the whole economy. Investment outlays grew in nominal terms by almost 40 percent (9 percent in real terms) and total consumption expenditures by about 41 percent (13 percent in real terms). The resulting rapid increase in total demand for goods and services was reflected both in the rise of employment and of imports—both in nominal and real terms—and domestic prices. The gain in total employment amounted to about 5 percent in 1974 and exceeded for the first time the natural increase of the labor force. Industrial producer prices rose by almost 30 percent while the cost of living rose less rapidly by some 21 percent. Since fiscal policy leaves, for institutional reasons, little room for demand management, the major response to the inflationary pressures was in terms of monetary policy and direct controls through prices and income policy, including recent legislation placing greater control on investment expenditures. After an expansionary phase during 1972 and 1973, the money supply increased by only 24 percent as compared to a nominal increase of social product of about 36 percent. The shift to a large deficit in the balance of payments in 1974 also contributed to the increased effectiveness of the monetary policy.
10. The balance of trade deficit increased from US$1.7 billion in 1973 to almost US$3.7 billion in 1974 both on account of an increase in the volume and the rapid rise in the price of imports and the stagnation of real exports (the terms of trade for the country are estimated to have deteriorated by about 11 percent). The recession in Western Europe led to a sharp decline in exports to that area. The traditionally large surplus for invisibles (mostly from workers' remittances and tourism receipts) failed to compensate for the large trade deficit, and the country recorded a current account deficit in excess of US$1 billion in 1974 as compared to a surplus of US$464 million in 1973. In response to the circumstances, the import regime has been gradually tightened since August 1974, affecting a large variety of consumer goods and some capital and intermediate goods. In addition, the National Bank raised the intervention point in the foreign exchange market, in effect devaluing the dinar by about 7 percent against the currencies of Yugoslavia's major trading partners. The large current account deficit led to some loss of foreign exchange reserves; the official reserves fell by US$438 million in 1974 (compared to a gain of US$632 million in 1973). In addition, net foreign borrowing, which averaged US$390 million during 1971-73, increased to around US$650 million in 1974. Commercial import credits from suppliers and credits from financial institutions continued to be the major sources of foreign capital. Long-term funds related to financing of development are being made available mainly by the IBRD and some bilateral sources (particularly the US Export-Import Bank and Federal Republic of Germany). Yugoslavia has also been one of the beneficiaries of the IMF's Special Oil Facility. Yugoslavia's medium- and long-term external debt outstanding as of December 31, 1975 is estimated at US$5,800 million (disbursed only). Debt service payments amounted to about 16.5 percent of foreign exchange earnings (including workers' remittances) in 1974 and 17.7 in 1975.

11. In 1975, the growth rate of the economy receded to 4.5 percent, due mainly to the combined effects of a restrictive monetary policy, stagnating exports and a reduced growth of personal incomes and stagnating consumption; economic investment and housing construction provided the major growth stimulus during 1975. The inflationary pressure, which built up during 1974 and extended into 1975, receded drastically in the second half of the year; the rate of increase of industrial producer prices decreased from 30 percent for 1974 to 11 percent during 1975, and the index of real personal receipts slightly declined for the whole of the year. The good harvest in 1974 had a favorable impact on the balance of payments, although meat exports were severely affected by the European Community ban on meat imports. Exports to oil producing countries and to the non-convertible currency area continued to expand rapidly in 1975, but were insufficient to compensate for the sharp decline in exports to the convertible currency area. As a result, commodity exports declined by 2 percent in real terms. Workers' remittances and receipts from tourism have increased marginally. However, a larger contraction of imports and an improvement in the terms of trade led to a slight decline in the current account deficit to $1,032 million.

12. Further reduction of the balance of payments deficit and of the inflationary pressures in the economy were the major objectives of economic policy during 1976. On both counts, these objectives are successfully being met. Due to the reduction of imports—with sizeable stocks of imported intermediate goods being gradually depleted—and to a lesser extent the increase of exports, a small current account surplus of US$150 million is estimated for the year as a whole. The rate of inflation declined further, with the cumulative index of industrial producer prices dropping to 7 percent. However, the measures and policies leading to this improvement simultaneously halted economic growth during the first half of 1976. By the middle of the year, industrial production started to expand again, mainly as a result of an expansion of investment and exports, and an increase of money supply during the first part of the year. This upsurge, in conjunction with the favorable crop of 1976, is expected to lead to a real increase of GDP by about 4 percent for the year as a whole. For 1977, Yugoslav authorities expect the growth rate to rise to 5.5 percent, accompanied, however, by a reappearance of a moderate current account deficit and a moderate resurgence of the rate of inflation. Employment growth, estimated at 3 to 3.5 percent for 1976 is expected to continue at about the same rate through 1977.

Medium- and Long-Term Objectives and Prospects

13. The surfacing of major economic problems during 1974, such as rapid inflation and balance of payments pressures, has led to a reappraisal of development objectives. In the light of the recent shift of relative prices in favor of raw materials, more emphasis will be given to the development of Yugoslavia's own natural resources. In this connection, the development of the energy sector is given the highest priority. It focuses on electric power, where the generating capacity is falling critically short of the rapidly rising power requirements of the expanding economy. The development of the power sector will be based primarily on the largely unutilized hydro-power potential and soft-coal reserves of the country. Other priority activities are ferrous metallurgy, some segments of non-ferrous metallurgy (notably lead, zinc, copper, nickel and bauxite/aluminum), technologically advanced production equipment, basic chemicals including petroleum refining, agriculture and food processing, interrepublic transportation, multipurpose works, and housing and basic construction material.

14. This emphasis on accelerated development of the raw material basis and of the economic infrastructure requires a more capital-intensive investment pattern, associated with longer time lags between investment and output. To sustain this development path, both continued high borrowing abroad and an increased savings rate will be essential. Since, with the possible exception of private savings, interest rates have not been given a significant role to play in the determination of the level of aggregate savings, the income policy—i.e. the guidelines governing the distribution of enterprise income between workers' income and accumulation—will have a crucial role.
15. The new Five Year Plan (1976-80) focuses on the implementation of these objectives. For growth, an average rate of 7 percent per year is proposed, comparing with a target growth rate of the previous Plan of 7.5 percent and an expected realized growth rate of 6.5 percent. For employment, the average planned growth rate would come to about 3 percent with annual increments exceeding the natural increase of the labor force by growing margins. This would permit more vigorous pursuit of two major social objectives: the reduction of the number of temporary migrants abroad, and an increased absorption of the rural underemployed into the social sector. The economy will continue to be open to the world market, although the composition of foreign trade is expected to change with a reduced share for raw material, semi-finished products and consumer goods on the import side, and an increased share for agricultural products and manufactured goods on the export side. Workers' remittances are not expected to increase in real terms, but rising tourism receipts are expected to compensate for the expected declining importance of workers' remittances.

16. The reduction of regional disparities is another priority objective of the new Five Year Plan. To that end, the transfer of financial resources to the LDRs in the forms of loans at concessionary terms for economic investment and of budgetary grants for social development will be continued and probably increased as a proportion of total GDP. Since most of the natural resources of the country, including hydropower, are to be found in the LDRs, these regions will also benefit from the increased emphasis on the development of power and basic industries which will be financed largely through direct financial contributions from the consuming regions.

17. The new Five Year Plan was prepared according to the self-management principle stipulated in the Constitution of 1974. Self-management planning is perceived as an iterative process of sequential, converging consensus-finding. In the initial stage, broad priorities (as to sectors and activities) and general quantitative targets and constraints (like growth rates of social product and the volume of savings and investment) are determined on the basis of consensus by the Assemblies (Communal, Republican and Provincial, and Federal) of the socio-political communities. Subsequently, the planning process starts at the bottom with individual enterprises and Communities of Interest setting out expectations and targets. The planning process then proceeds through successive and partially overlapping stages of horizontal adjustments within sectors and branches (aimed primarily at eliminating gross duplications), vertical adjustments between closely interdependent sectors and branches (aimed at determining realistic orders of magnitudes of production, conceptually within an input/output framework), and regional adjustments between Republics and Provinces (aimed at both horizontal and vertical consolidation). The socio-political communities participate in this process by ensuring observance of the broad priorities, targets and constraints, and by resolving conflicts which cannot be resolved by the direct participants. The evolving consolidated programs of action, which in their totality constitute the operational portion of the Plan, are codified in the form of "social contracts" or "self-management agreements" which are legally binding for the whole Plan period unless renegotiated in the case of major deviations occurring in the course of Plan implementation. The new Plan differs from the
previous one in strengthening and formalizing the commitments for implementation by enterprises, banks and government institutions.

Creditworthiness

18. In spite of the recent balance of payments problems, the prospects for Yugoslavia's continued economic growth during the next decade are good. The country's endowment of natural and human resources, its relatively low dependence on imported primary energy, its pragmatic approach to economic problems and its readiness to undertake institutional changes, combine to give grounds for a favorable assessment of future prospects. Yugoslavia will need to continue to raise foreign capital on a fairly large scale, mostly from established channels such as the Euro-currency market, suppliers' credits and the World Bank. In addition, greater use may be made of credit lines from COMECON countries and the European Communities, and efforts are being intensified to open up new sources of capital in OPEC countries. The debt service ratio is estimated to have risen in 1976 (around 18 percent), but it is expected to decline slightly in the subsequent years. Taking into account Yugoslavia's debt service record and the measures taken in the past to control balance of payments problems, as well as the prospective growth of production and structural improvement of the balance of trade, Yugoslavia remains creditworthy for a substantial amount of Bank lending.

PART II - BANK GROUP OPERATIONS IN YUGOSLAVIA 1/

19. The Bank has made 44 loans to Yugoslavia totalling about US$1,553 million. Of this amount, approximately 44 percent (US$676.4 million) has been for 15 loans for the transportation sector—8 for highways totalling US$276.0 million, 4 for railways totalling US$248.0 million, US$59.4 million for a natural gas pipeline, US$49.0 million for an oil pipeline, and US$44.0 million for a port project. Bank lending has generally concentrated on infrastructure including, in addition to the transportation loans, power (four loans totalling US$215.0 million), telecommunications (one loan for US$40.0 million), US$51.0 million for two water supply and sewerage projects and five multipurpose projects totalling US$177.0 million which included substantial agricultural components for irrigation and agricultural credit. Four loans totalling US$131.0 million have been made for agriculture and agro-industries. Ten loans have also been made for industry and two for tourism. The first Bank loan for air pollution control was approved May 25, 1976. In addition, IFC has made investments in nine Yugoslav enterprises totalling about US$130.0 million. Annex II contains a summary statement of Bank loans and IFC investments as of May 31, 1977 and notes on the execution of on-going projects.

1/ Part II of this report is substantially identical to that in the Report and Recommendation of the President for a Second Power Transmission Project (Report No. P-2018a-YU) dated June 1, 1977.
20. The basic thrust of the Bank’s activities in Yugoslavia continues to be dictated by the following interrelated, yet distinct objectives:

(a) support of the Yugoslav efforts to accelerate development in the Less Developed Regions (LDRs);

(b) promotion of agricultural development in both the individual farmer and social sectors by providing basic infrastructure and credit;

(c) encouragement of structural reforms in the major sectors through improved coordination, institution-building and technical assistance;

(d) help in the identifying and financing of gaps in basic infrastructure—particularly transport and energy; and

(e) alleviation of critical shortages of convertible foreign exchange by providing part of the required long-term capital, encouraging and promoting Yugoslavia’s efforts to tap other sources of medium- and long-term capital, and supporting projects which generate or conserve foreign exchange.

These objectives have guided Bank lending in previous years. It is obvious that each Bank operation cannot address all these objectives which are not always fully compatible. There has, however, been an evolving change in the relative weights of these objectives with particular emphasis being directed towards the support for the lesser developed regions and the agricultural sector.

21. The Bank’s emphasis on aiding the accelerated development of the LDRs is fully in accord with the Federal Government’s wishes and avowed policy to reverse the widening gap between the richest and the poorest regions (Slovenia and Kosovo, respectively). Over the past two years, more than two-thirds of our lending has been to the lesser developed regions, and we hope to maintain a comparable pattern of distribution over the medium-term, though there will undoubtedly be year to year fluctuations. A loan of US$54.0 million (Loan No. 1360-YU) for the Metohija Multipurpose Project in Kosovo was approved by the Executive Directors on January 11, 1977. Loans of US$24.0 and US$26.0 million for agriculture and agro-industries projects in Macedonia and Montenegro were approved by the Board in February, and a loan of US$56.0 million for an Eighth Highway Project, primarily designed to benefit the economic development and integration of lesser developed regions, was approved March 15, 1977. Over the next two years, operations envisaged for LDRs include the proposed loan for agricultural credit, a third loan for industrial credit, and three loans for irrigation, water supply and sewerage and multipurpose water resource and agriculture development. During the same period, highway and railway projects, as well as the recently approved Second Power Transmission Project, will both assist the LDRs and promote structural reforms in the transport and energy sectors. IFC is currently investigating several new investment opportunities
to encourage joint ventures which would provide technical, management and marketing expertise as well as long-term capital.

22. In recognition of the fact that such an expanded investment program for the LDRs would need to be preceded by a systematic survey of these regions to take stock of development potential and identify constraints, the Bank undertook and completed economic surveys of the four LDRs (Kosovo, Bosnia-Herzegovina, Macedonia and Montenegro). These regional surveys, coupled with intensified Bank assistance in project formulation, should enable the Bank to achieve a high level of participation in the development of these regions.

23. The Bank supported and assisted in the formulation of the 1973 "Green Plan" which, in addition to providing a comprehensive framework for promoting agricultural development, recognized and encouraged the role of the individual, low-income sector which holds almost 85 percent of the cultivated land and employs over 90 percent of the farm population. It is now generally appreciated that the individual farmer sector can--given sufficient support in terms of extension services, credit for inputs and basic infrastructural facilities--generate significant increases in production. The loans for the Ibar Multipurpose Project (Loan No. 777-YU) and the Metohija Multipurpose Project (Loan No. 1360-YU) in Kosovo, the first and second Agro-Industries Projects (Loans Nos. 894-YU and 1371-YU) in Macedonia and the First Agricultural Credit Project (Loan No. 1129-YU) have given special attention to the needs of the individual farmer sector. The proposed second project for agricultural credit, as well as forthcoming projects for irrigation, will support agriculture development in general and in particular the individual farmer sector.

24. Decentralized management, which is the cornerstone of Yugoslavia's socio-economic philosophy, compounds the inherent complexities of coherent sector planning which are evident in any economy. This is of particular relevance to the transport and energy sectors. The Bank's significant involvement in these sectors, both in terms of money and technical assistance, has helped to highlight the critical need for, and to evolve mechanisms to further countrywide coordination of, sectoral investment programs and policies. The limited, yet discernible progress made has been supported by our lending for electric power transmission, railways and highways. Our continuing involvement in the transport and power sectors, though the funds we can make available are limited, will, we hope, have further beneficial impact on fostering coordination. For instance, a recently approved eighth highway project (Loan No. 1377-YU) provides for studies of road-user charges and railway costs which the Government and ourselves believe essential for fostering inter-modal coordination and devising a policy framework for the transport sector, and the very recently approved Second Power Transmission Project, an extension of the interconnected transmission system partly financed by the Bank in 1972 (Loan No. 836-YU), will enable the transfer of power throughout the country and thereby foster power exchange coordination among all republics/provinces.

25. A persistent foreign resource gap looms as the major impediment to Yugoslavia's ability to attain its growth targets. While the Yugoslavs are making concerted efforts to open up and enlarge access to Western financial
markets and institutions (including the European Investment Bank), there is presently no concrete evidence of substantial additional inflows. The Bank, therefore, remains a major source of long-term external capital for the foreseeable future. In our financing of infrastructure projects, we propose to devote particular attention to those which have clear possibilities of attracting co-financing and where our participation, albeit limited, is likely to induce the entry of financing partners.

26. The level of Bank lending has remained constant, averaging about US$218 million annually during the period FY74-77. Although this represents only a small proportion of the country's need for external finance, it is equivalent to almost one-third of the annual long-term official capital inflow in convertible currencies. Yugoslavia's debt to the Bank amounts to about one-fifth of its total public debt outstanding and disbursed. The outstanding debt to the Bank is, however, expected to decline gradually from its current level of less than 10 percent of Yugoslavia's total external debt. Service on Bank loans as a proportion of total debt service was 4 percent in 1974 and is projected to increase to about 6 percent in 1980.

PART III - THE AGRICULTURE SECTOR

Background

27. The agriculture sector, which occupied about one-third of the population and accounted for around 15 percent of the GMP in 1975, has grown at an average annual rate of about three percent during the period 1970-75. Average per capita income in agriculture amounted to about 41 percent of that in the rest of the economy in 1975, a disparity stemming essentially from the pockets of rural poverty which are particularly concentrated in the LDRs (see para 7 of this Report). Anxious to tackle this disparity as well as to utilize better the potential of the individual sector, the country has determined that, while it will continue to provide capital and technology to the social sector as hitherto, increasing emphasis must be given to the individual farmer. Greater weight is therefore being placed upon accelerating agricultural development generally (the new national plan--1976-80--projects an increase in the growth rate for the agriculture sector to four percent annually over the period) and upon strengthening the individual farmer through cooperation with the social sector in particular.

28. The country has three distinct climatic zones and a predominantly mountainous terrain. Agricultural activities are consequently many and varied. Fifty-eight percent of the national territory is recorded as agricultural

\[1/\] GMP (Gross Material Product) corresponds to GDP (Gross Domestic Product) less output of certain services, such as public administration, defense, education, health and social insurance.
land, two-thirds of which is arable and the rest pasture. The soil is better than in other southern European countries, especially in the fertile plain in the northeast which includes Vojvodina and which, while containing only one-sixth of the country's total area, encloses nearly one-third of the arable land and produces more than half of the country's wheat and maize and three-quarters of the sugar beet. In the hilly areas covering much of Serbia, Slovenia and Bosnia, a mixed farm pattern prevails. The mountainous regions to the west and south contain extensive upland pastures suited to livestock rearing. Along the Adriatic coast, in the Mediterranean climatic zone, vineyards and olive and citrus groves flourish while further south, in Macedonia, sub-tropical crops such as tobacco, cotton and rice are grown.

**Institutional Setting**

29. An important feature of Yugoslav agriculture is the co-existence of social and individual farmer sectors. The social sector, which grew out of the postwar collectivization, is made up of a number of different institutions including kombinats (integrated factory farms), cooperatives and research institutions; this sector accounts for about one-third of the total agricultural output, controls 15 percent of agricultural land, and employs about 5 percent of agricultural manpower. In contrast, the individual farmer sector, which consists essentially of privately held family plots not exceeding 10 ha of arable land and which controls 85 percent of the cultivated land and employs about 95 percent of agricultural manpower, is handicapped not only by fragmented, but by poor quality land as well, and has been neglected in terms of provision of basic infrastructure, financing and technology. For the most part, these two sectors are inherently complementary rather than competitive. Labor intensive crops, such as vegetables and tobacco, are almost exclusively produced in the individual sector which in addition has 97 percent of the sheep and 95 percent of cattle herds. The social sector provides most input and extension services as well as cultivation, harvesting, marketing and credit facilities. Cooperation which exists between the two sectors therefore takes the form of trade in input and output and the contracting of joint production.

30. During the past decade, a significant amount of capital and technology has been directed to the social sector, and it is now generally recognized that additional investment in this sector for modernization and expansion would yield marginal increases in productivity and production. A major, new effort is now being directed, therefore, towards the individual farmer sector where, given the current low levels of productivity and production, a major expansion of output could be expected. The Government has accordingly launched programs which embrace the individual sector and give it access to infrastructure facilities, credit, improved technology through extension services and cooperation with the social sector, and also to marketing services.

31. Responsibility for formulating agricultural policy rests with the Republics and Provinces, all of which are represented on the Federal Committee for Agriculture, the President of which is a member of the Federal Executive Council with the rank of Minister. The Committee sets the principles for development, establishes major policies, links the agricultural sector with the
overall national development plan and is responsible for coordination of agrarian policy, legislation and prices and exports. There is also at the Federal level the Federal Chamber of Economy, within which there is a unit dealing with the agricultural sector which includes specialized committees. The responsibilities of these committees are to promote coordination in such specialized areas as research, planning and finance. The Federal Chamber of Economy attempts to ensure overall coordination within the economy. Chambers of Economy also exist at the Republican/Provincial levels; like the Federal Chamber of Economy, they comprise social sector enterprises and, as such, seek to achieve maximum self-management coordination among and serve as intermediaries between enterprises in the negotiation of "social contracts" within their respective Republics/Provinces. They also examine all legislation to be placed before the respective assemblies, forecast markets, provide economic services and scrutinize plans of enterprises. At the local level, the commune is the link between the community and enterprises, and seeks to reconcile the various interests of the enterprises and the community.

32. Due to decentralized decision making, all functions associated with policy implementation rest with autonomous self-governing organizations, such as kombinats and cooperatives, which implement production and investment plans. Even though it accounts for only about 15 percent of total cultivated land, the social sector is the primary medium for policy implementation regarding production and investments, since it has a virtual monopoly of technicians, management skills and production processing and marketing activities outside the small-scale sector.

The Development Plan

33. As noted in para 23 of this report, an "Interrepublican Agreement on the Long-term Development Policy for Agriculture", known also as the "Green Plan" (the Plan), was finalized in July 1973 with the support of the Bank. The Plan was the result of two-to-three years of interrepublican discussion and was drawn up to provide a comprehensive framework for the development of agriculture for the period 1973-85. It was revised in 1976, partly on the basis of experience derived from the First Agricultural Credit Project, to place even greater emphasis upon the importance of developing the potential of the individual sector. Basically, the Plan aims to raise production above the level of domestic requirements by reinforcing the social sector, on the one hand, through the use of modern production techniques and the expansion of processing facilities and, on the other hand, by promoting the development of the individual farmer sector through cooperation with the social sector.

34. As revised in 1976, the Plan emphasizes livestock production, the value of which is projected to increase at 4 percent per year (in constant Dinar terms), and stresses the need for technical and organizational improvements in the collection and processing of milk, particularly for the individual farmer sector; emphasis is also given to increased sheep production in the mountainous and generally poor areas of the country. The production of vegetables, fruits and grapes is planned to increase in line with rising
living standards at home and increasing export possibilities. The Mediterranean climate zone, where winter and early spring vegetables can be grown, should provide the largest share of exports. The Plan also considers the development of efficient food processing industries essential for agricultural development and the improvement of product quality.

35. Expanded cooperation among individual farmers and between individual farmers and social sector organizations is emphasized by the Plan as the major organizational medium to increase productivity in the individual farmer sector. Such cooperation would enhance modernization of private farms and mobilize more resources for investment in the private sector. The Republics and Provinces have agreed to support cooperative arrangements through provision of financing, and interest rate and tax concessions. They have agreed to pass legislation that would allow cooperating private farmers to join the health and social insurance and pension schemes of social sector organizations.

Agricultural Credit

36. The social sector has long-established credit channels with existing banks, special funds operated by Federal, Republican and Provincial authorities, suppliers credits and so forth. Credit to the private farmer is normally provided through a social sector organization with which he has a cooperative agreement, and this mechanism appears to offer considerable scope for increasing rural incomes. Private farmers may, but evidently rarely do, also obtain credit directly from the banks, usually on less favorable terms.

37. In general, official policies favor low interest rates as important for development purposes, particularly in the LDRs and the agricultural sector. The prevailing interest rate structure in Yugoslavia varies from three percent for some investment loans for agriculture, or for investments using resources from the Federal Fund for the Accelerated Development of Less-Developed Regions, to 11-12 percent for short-term loans and 8-12 percent for long-term "commercial" loans from the banks. There has recently been a growing recognition within Yugoslavia that the role of interest rates within the economy needs to be analyzed and a consistent and considered approach adopted. Under the First Agricultural Credit Project, a study on the role of interest rates in the agricultural sector was commissioned. This first study, though it has provided some understanding of the current interest rate structure and a basis for initiating a dialogue with the Government, was too general and did not adequately address the complexity of the issue, which requires considerable empirical work. It was agreed with the Government, therefore, that a further and more exhaustive study on the role of interest rates in the Yugoslav economy is required and will be initiated by the Yugoslav Association of Banks. It was further agreed that on/or before December 1, 1977, the study with terms of reference satisfactory to the Bank, will be undertaken (Loan Agreement Section 3.06; Guarantee Agreement Section 3.04).
Bank Involvement in the Sector

38. It has been part of the Bank's policy in Yugoslavia for some years to find ways of assisting with the development of agriculture, with a special emphasis on helping the individual farmer. The 1973 Plan as revised in 1976, provides a suitable framework for Bank lending, since it aims, by explicitly supporting the individual farmer sector, to promote more even income distribution within the sector.

39. The proposed second agricultural credit project loan would represent the sixth Bank loan for agriculture and agro-industries in Yugoslavia, following the First Agro-industries Project in Macedonia (Loan No. 894-YU) in 1973 (primarily involved with the social sector), the First Agricultural Credit Project (Loan No. 1129-YU) in 1975 (about 47 percent of which is directly involved with the individual sector), the Metohija Multipurpose Project (Loan No. 1360-YU) in 1977 (primarily involved with the individual sector) and the recent Agriculture and Agro-industries Projects for the Republics of Montenegro and Macedonia (Loans Nos. 1370-YU and 1371-YU, respectively), the first primarily involving the social sector and the second having significant involvement in the individual farmer sector. These projects, the progress of which is summarized in Annex II, are proceeding satisfactorily. The mix between involvement in the social and individual agricultural sectors in Bank projects in Yugoslavia has been determined in each particular case by the Federal and Republican/Provincial Governments' own efforts for the social and individual farmer sectors and the high priority attached to the specific agricultural production and processing schemes.

Performance Under the First Agricultural Credit Project

40. Performance under the first project has been generally satisfactory and the pace of implementation has accelerated over its life. The loan was made effective on February 12, 1976, and by the end of the year, 21 percent of the US$50.0 million Bank loan had been committed by the Participating Banks (PBs). The loan is expected to be fully committed in the second half of 1977. Disbursement will probably be substantially completed on schedule by June 30, 1979, the present Closing Date.

41. Notable progress has been achieved towards attaining a number of important objectives defined under the first project. These include the establishment of a nationwide agricultural credit system with uniform appraisal criteria, a particularly notable achievement given the complexity and diversity of the Yugoslav environment. Institution building has also progressed remarkably well. All PBs now have specific units concerned with evaluating sub-project proposals and have trained staff in more effective appraisal and supervision techniques. Vojvodjanska Banka (VB), the lead bank, has exerted considerable influence in the loan approval process by the prior training and briefing of those in borrowing kombinats and in PBs who are directly involved in putting together sub-project proposals. VB's inputs have included training seminars and discussions, and the exchange of information on an informal basis with PBs and sub-borrowers.
PART IV - THE PROJECT

42. The Federal Government has asked the Bank to help finance the proposed project under which credit would be provided for investments in fruit and vegetable growing and livestock development in the individual farmer sector, and fruit and vegetable processing plants, dairy and milk collection facilities and meat processing plants in the social sector. The proposed project, a sequel to the First Agricultural Credit Project (Loan No. 1129-YU), was identified in August 1976 by a Bank mission, and was subsequently prepared, with the assistance of the Bank, by the banks participating in the first project and by the Agricultural Secretariats in the respective Republics and Provinces. The proposed project was appraised in November-December 1976. Negotiations were held May 23-27, 1977 inclusive. The Yugoslav delegation was led by Mr. Dzemal Drace, Undersecretary of the Federal Committee for Agriculture.

43. The proposed loan and project are summarized in the Loan and Project Summary at the beginning of this report and described in detail in the report "Appraisal of a Second Agricultural Credit Project", (No. 1537a-YU). This report, dated June 13, 1977, is being distributed separately to the Executive Directors.

44. The first loan for agricultural credit, which was made in June 1975, represented a significant initiative in terms of our developing with the Yugoslav authorities a nationwide credit vehicle for channelling funds to high priority sub-sectors and to the lesser developed republics and for providing significant investment credit to the small, individual farmers. These farmers had been essentially denied access to institutional credit which was concentrated instead on financing social sector enterprises. This first project has very clearly demonstrated the significant demands for, and ability to absorb, credit in the individual farmer sector. The proposed second project, which is in line with the objectives of the "Green Plan," would allocate an even greater proportion of funds to individual farmers and the less-developed regions (under the proposed project, the individual sector would receive 57 percent of the proposed loan proceeds as compared to 43 percent under the first project) and represents in a sense the growing commitment of the Yugoslav authorities concerned to the importance of meeting the needs of private farmers. The closer links that the project would foster between the individual farmer and social sectors would contribute to increasing the prosperity of private farmers through better access to markets and processing plants and, in particular, make the most of their comparative advantage in livestock production. At least 50 percent of the processing capacities of sub-projects to be financed under the loan would be used to handle individual farmer production (Loan Agreement Schedule 5, 2.(B)(1)(b)).

45. The components financed under the proposed project would be located throughout Yugoslavia, taking into consideration particularly the less-developed Republics and Kosovo as well as the less-developed regions of the
more developed Republics and Vojvodina. The proposed project would provide funds during the three-year investment period (1977-80) to support the long-term objective of self-sufficiency in and increased exports of agricultural products; it would help alleviate major constraints to the further development of livestock and fruit and vegetable production; it would support the objectives of the Plan to improve product quality and to raise productivity and incomes in the individual farmer sector, one-third of which is estimated to be in the relative poverty target group with incomes per family member of less than US$341 per year (see para 65 of this Report).

46. The proposed project comprises the provision of credit for:

(a) mixed vegetable production, development of orchards and vineyards and land development;

(b) livestock farms, including dairy farms, cattle and pig fattening farms; sheep breeding and fattening farms; as well as broiler (chicken) farms;

(c) agricultural industries, focusing mainly on milk, meat and fruits and vegetables and including: milk collecting stations, insulated milk-tank-trucks, construction of three dairy plants and expansion or modernization of eleven existing plants; expansion or modernization of five meat processing plants and financing of an integrated broiler production and processing facility; and fruit and vegetable processing comprising also three cold stores with adjacent fruit grading and packing facilities, and expansion and/or modernization of eleven plants producing frozen and pickled vegetables and fruit juices; and

(d) grain dryers in Vojvodina, the primary cereal producing area of the Federation.

47. As under the First Agricultural Credit Project, livestock related activities, including milk processing plants, will constitute the greater part of investment and are expected to account for over 40 percent of total project costs. Primary production of fruits and vegetables, including land development, and agro-industries oriented to fruit and vegetable processing are expected to account for more than 35 percent of total project costs.

Project Cost and Financing

48. The total cost of the sub-projects, including taxes and duties (about US$17.0 million equivalent), which the Bank loan would help finance, would be approximately US$231.0 million equivalent, the proposed Bank loan of US$75.0 million representing the total estimated foreign exchange cost of the project. This participation represents about 32 percent of total project cost. The loan would be made to Vojvodjanska Banka (VB) for 15 years, including 3 years of
grace. VB would retain $10.8 million of the loan for use in Vojvodina; the balance would be lent to a Participating Bank (PB) in each of the seven remaining Republics and Province. The project cash flow shows that sub-borrowers' and the PBs' repayments would generate sufficient inflow to VB to repay the Bank loan within 15 years and to cover a reasonable degree of slippage in repayment. About 22 percent of the total project cost (US$50.0 million equivalent) would be contributed by sub-borrowers and 46 percent (US$106.0 million equivalent) by the PBs. Fifty-seven percent of the proposed loan would be allocated to the individual farmer sector, in which 20 percent of a sub-project's cost would be furnished by the sub-borrower and 52 percent by the PB. The comparable figures for the social sector would be 25 percent and 34 percent by a sub-borrower and a PB, respectively. For the individual farmer and social sectors, the Bank's contribution to the cost of a sub-project would be 28 and 41 percent respectively.

Project Implementation

49. The organizational framework and institutional structure of the proposed project is identical to that developed and successfully utilized under the First Agricultural Credit Project, and the risks of non-performance and implementational difficulties are negligible. The Federal Coordination Committee, established under the Plan, coordinates agricultural investments in Yugoslavia, but has no "line" responsibilities. Its members are representatives of the Secretariats for Agriculture of the Republics and Provinces and of the Federal Government, with the Deputy Chairman of the Federal Committee for Agriculture as chairman. Assurances have been given that, under the proposed project, the Committee would continue, as under the first project, to perform its coordination role, including the responsibility for policy questions and reallocation of proceeds of the loan between Republics and Provinces and sectors (Guarantee Agreement Section 3.03). The lead bank role would be filled by VB from its head office in Novi Sad, Vojvodina. The other seven PBs include Privredna Banka Sarajevo in Bosnia-Herzegovina, Udruzena Banka Zagreg in Croatia, Kosovska Banka Pristina in Kosovo Province, Stopanska Banka Skopje in Macedonia, Investiciona Banka Titograd in Montenegro, Beogradska Banka in Serbia Proper, and Ljubljanska Banka in Slovenia.

50. VB and the seven Participating Banks together account for nearly 75 percent of the banking activity in Yugoslavia. In general, the PBs enjoy a status in their own Republics/Province comparable with that of VB in Vojvodina, and pursue similar operating policies and procedures. Most of the Participating Banks are known to the Bank as borrowers or disbursement agents; four of them are participants in industrial credit projects financed by the Bank (Loans Nos. 1012-YU, 1013-YU and 1277-YU). The PBs, including VB, would be directly responsible for the execution of the proposed project in their respective Republic or Province and would present appropriate documentation for reimbursement of the Bank portion of the sub-loans to VB for review and submission to the Bank for disbursements. The banks' performance under the first project has been satisfactory.
51. VB, selected by the Yugoslavs as the borrower and apex bank for the first loan because Vojvodina is the most important agricultural area in Yugoslavia and also because a large part of VB's operations cover the agricultural sector, would continue in this function and be responsible for the repayment of the proposed loan, and for the overall implementation of the project by the PBs. VB is a mixed commercial and investment bank comparable to the borrowers selected for the Bank's industrial credit loans. VB employs about 1,000 staff and has 14 branch offices in addition to its head office in Novi Sad. Its management and staff are well-trained and experienced, and under the First Agricultural Credit Project, they have acquired familiarity with the appraisal techniques favored by the Bank. VB, like the other regional banks, operates according to an annual "business policy", which sets out the main objectives, scope of operations and interest rate structure. Its policies are under the general supervision of its founders—the principal enterprises in Vojvodina. VB also acts as a financial agent for the Government of Vojvodina.

52. Under the First Agricultural Credit Project, a special Project Operations Department (the Unit) was set up within VB to implement the project. It has performed satisfactorily. Assurances have been given that the Unit will continue to operate within VB, and that it will remain adequately staffed and responsible for appraisal and supervision of all subloans under the first and the second agricultural credit projects; it was also agreed that the procurement specialist referred to in para 61 of this Report will be added to the Unit (Loan Agreement Section 3.01(a)).

53. A training program for the staff of the PBs was launched in January 1975, including a seminar for appraisal criteria. With respect to its own staff, PB staff and the staff of social sector sub-borrowers, VB would continue this training role under the proposed project.

54. Regional and sectoral allocations of the credit to be provided have been agreed upon by the Republics and Provinces taking into account the agricultural development priorities and regional income and sectoral distribution objectives and will be enforced by VB in Vojvodina and by the PBs in each of the other seven Republics and Province. Assurances have been given that the regional and sectoral distribution of project funds, including the Bank loan, would be executed as agreed between the Republics and Provinces of the Federation (Loan Agreement Schedule 1; Guarantee Agreement Section 3.03).

Relending Terms and Procedures

55. Onlending terms under the proposed project would be identical to those provided under the first except that, as VB's risk on its loans to the PBs is considered minor, the one percent interest spread available to it under the first project would be replaced by a one percent commission on Bank funds disbursed by VB to meet the cost of its operations in project administration. VB would onlend to each PB the amount of the loan allocated to the particular Republic or Province in which it is located. VB's lending rate on its subsidiary loans to PBs out of the proceeds of the Bank loan will be identical to the rate at which it receives funds from the Bank (8.2 percent). The grace
and repayment periods would be such that each repayment date of subsidiary loans to VB would be three months before the corresponding repayment date by VB to the Bank. The commitment fee would be 0.75 percent. These provisions would be covered under the Subsidiary Loan Agreement, to be concluded between each PB and VB. Signing between VB and all seven of the PBs, of the subsidiary agreement, the terms of which must be to the Bank's satisfaction, is a condition of effectiveness of the proposed Bank loan (Loan Agreement Section 7.01(i)).

56. The terms of sub-loans under the project would be related to the cash flow projections of the investments. Assurances have been received (Schedule 5,3.(C) of the Loan Agreement) that specific grace periods ranging from one to five years and repayment periods on the sub-loans ranging from five to ten years, including grace periods, will be enforced except as otherwise justified by projections of sub-project cash flow at the time the loan commitment is undertaken by a PB.

57. As indicated in para 37 of this report, interest rates for investments in agriculture vary between 3 percent and 12 percent, depending upon the Republic or Province, the source of funds and the type of investment. For a number of reasons, the level of interest rates and the variations in interest rates among regions, banks, similar investments and sectors create inefficiencies and inconsistencies in resource allocation. As a condition of effectiveness of the proposed loan, the PBs will apply minimum rates on domestic resources loaned to agriculture and agro-industries under the project. The minimum will be at least 5 percent for lending to the individual sector and at least 6 percent for the social sector (Loan Agreement Sections 3.06 and 7.01(ii)). This is a significant departure from the first project and a step towards unifying agriculture lending rates countrywide. The lending rate to be applied to the Bank portion of sub-project finance is 11 percent. These rates are expected to result in minimum blend rates of approximately 8.75 percent and 7.10 percent for social and individual sector sub-borrowers, respectively. The rate structure would provide the PBs with a spread of about 2.5 to 3.0 percent on the proceeds of the Bank loan and at least 1.2 percent on the local funds portion of the sub-loans; these spreads are considered to be reasonable and not excessive in view of the banks' needs to cover administrative expenses which would be incurred under the proposed project.

58. VB and the PBs would appraise the sub-projects and ensure that they are technically and financially sound. Social sector investment proposals would be submitted by the enterprises concerned to the bank having jurisdiction in the particular Republic or Province. Sub-projects in the individual farmer sector would normally be submitted to the banks by social sector enterprises, kombinats or cooperatives which would aggregate investment proposals of several farmers with whom they would enter into an agreement and which would borrow on the farmers' behalf. As under the first project, a PB would be responsible for approving sub-projects having an investment cost below US$1.0 million. All sub-projects above this level but costing less than US$1.5 million would be referred to VB for review and approval. Sub-projects costing more than US$1.5 million would be submitted by VB to the Bank for
approval. The Bank would also review and approve the appraisal of cattle fattening sub-projects. Assurances have been given that these procedures would be followed (Loan Agreement, Schedule 5, 2(c)).

59. The foreign exchange risk arrangements agreed upon for the first project will continue to apply under the proposed project. Social sector sub-borrowers would carry the full foreign exchange risk with respect to the portion of sub-loans financed out of the proceeds of the Bank loan for their own investments. The foreign exchange risk on sub-loans to private farmers would be carried by the Federal Republic. It is also expected that VB and the PBs would protect themselves against the exchange risk on the foreign exchange accruing to them from sub-loan repayments occurring earlier than amortization payments of the Bank loan. Assurances to this effect were given by the Federal Government and VB (Section 3.05 of Guarantee Agreement; Section 5.05 of Loan Agreement).

**Procurement**

60. Procurement would be by sub-borrowers under the supervision of VB and PBs. The following items relating to project investments in the social sector would be suitable for international competitive bidding (ICB) according to Bank guidelines: grain driers; fruit and vegetable grading and packing equipment; cold storages; milk processing equipment, collecting stations and tank trucks; the integrated broiler facility and the winery. The integrated broiler facility and the cold stores contracts would be let on a turnkey basis. Contract tendering for the equipment and materials agreed upon would be advertised internationally, and Yugoslavian manufacturers would be allowed a 15 percent preference margin or the applicable customs duty, whichever is lower. It is estimated that items to be procured under ICB would total approximately US$50.0 million of which about US$10.0 million would probably be awarded directly to non-Yugoslav suppliers. Bulking of small items for procurement under ICB would be organized by the PBs in their respective Republics/Province and by VB on an inter-Republic/Province basis when such a possibility would appear feasible.

61. Procurement of all items, except as noted in para 60 above, would be handled through existing commercial channels or local competitive bidding (LCB) procedures already determined to be satisfactory to the Bank. Such items, such as minor civil works and equipment for processing facilities involving contracts of an amount not exceeding the equivalent of US$100,000, would not be suitable for bulk purchase and ICB owing to a number of factors including the dispersion of investors throughout the country and, in certain cases of expansion and modernization of processing facilities, the advantages of ensuring compatibility with equipment already in place. Existing commercial channels, which include domestic and international suppliers, maintain generally adequate supplies of spare parts, provide servicing and repair facilities and are suitably competitive. For those contracts procured under LCB and exceeding US$250,000 equivalent, VB would furnish to the Bank promptly after execution, two conformed copies of such contracts together with an analysis of the respective bids received and recommendations for award. For those contracts procured under LCB exceeding US$100,000, but less than US$250,000 equivalent,
VB and the PBs would (i) retain such contracts and make them available for review by the Bank during supervision; and (ii) furnish to the Bank a report containing an analysis of bids and the recommendation and justification for the award, including a certification that local procurement procedures had been followed. For contracts procured under LCB not exceeding US$100,000 equivalent, VB and the PBs would retain such contracts for Bank review during supervision and would furnish to the Bank, along with applications for withdrawals, certification that local procurement procedures had been followed. Assurances have been given by VB that it would appoint the procurement specialist, referred to in para 52 of this Report, to the staff of its Project Operations Department to assist with all aspects of procurement under the project (Section 3.01(a) of Loan Agreement). The Yugoslav authorities will engage local consultants for the interest rate study referred to in para 37 of this Report as well as for preparation of the monitoring procedures referred to in para 64 of this Report. Such consultants will be financed locally.

**Disbursements**

62. Bank disbursements would take about 3 years, although the entire loan is expected to be committed by the end of year 2. The annual disbursement of the proposed loan proceeds is given in the Loan and Project Summary. Disbursement of the Bank loan would be made against 35 percent of the individual sector and 55 percent of the social sector sub-loans made by VB and the PBs to their respective sub-borrowers.

**Project Auditing**

63. As required by Yugoslav law, all banks and enterprises are audited annually by the Social Accounting Service (SDK). Normal audit by SDK, which is limited to verification of cash balances and checking of financial statements for mathematical accuracy and comparisons with previous years, does not conform to internationally accepted standards. SDK has implemented a training program for its staff, with the Bank's support, to undertake internationally accepted audits of Yugoslav banks. Full audits for all PBs will not become available, however, until after the end of the disbursement period of the proposed project, given the number of banks involved in SDK's program and the difficulties in verification posed by the scope of the banks' operations and the absence of conventional auditing by international standards at the founders' level. The Subsidiary Loan Agreement would therefore provide that during the transition period, i.e., before satisfactory audits can be performed, the PBs would submit within six months of the end of the fiscal year and through VB to the Bank, SDK certified financial statements acceptable to the Bank. The subsidiary agreement would also provide that, when satisfactory audits can be performed, financial statements audited in accordance with international standards would be submitted by the PBs through VB to the Bank within six months of the end of each fiscal year.

**Project Monitoring and Evaluation**

64. VB will provide the Bank with quarterly and annual reports covering the progress of the project, sublending operations under the project, financial
data pertaining to the project, the financial statements of VB and the PBs and general data on agriculture and economic policy affecting the implementation of the project. VB would also be responsible for evaluating the project's benefits at the level of social sector sub-borrowers and also at the level of individual farmer sub-borrowers. Evaluation is to involve field surveys as well as examination of data pertaining to the production and financial performance of social sector investments under the project. As a condition of effectiveness, VB will have secured to itself and the PBs all assistance satisfactory to the Bank for the purpose of preparing suitable monitoring procedures to apply to the first as well as to the proposed second agricultural credit project; also, VB and the PBs will take all appropriate action to implement promptly on or before March 31, 1978 such monitoring procedures as agreed upon with the Bank (Loan Agreement Sections 3.03, 3.04(b) and 7.01(iii)).

Justification, Benefits and Risks

65. About US$43.0 million, or 57 percent of the proposed Bank loan, would be directly channelled to an estimated 16,800 small farmers (of which about 50 percent would be located in less-developed regions) to undertake selected onfarm investments. The remaining US$32 million or 43 percent of the proposed Bank loan would affect the income of at least an additional 40,000 individual farmers by enhancing their access to markets and related services through cooperation with the social sector. Approximately 60 percent of all project beneficiaries in the individual farmer sector are in the Yugoslav poverty target group, with pre-project incomes not exceeding US$341 equivalent per family member. Under the proposed project, it is expected that the average annual income of individual farmers would increase by over 100 percent to approximately US$700; income increases would range from about 40 percent for farmers involved in sheep production to above 200 percent for high value crops, i.e., investments in vineyards and other fruit production.

66. The proposed project would also create substantial employment opportunities. An estimated 4,200 incremental manyears would be generated from investments in the social and about 6,000 manyears in the individual farmer sector. For the additional 16,800 farmers referred to in para 65, the proposed project would reduce underemployment. About 8,600 additional manyears would be generated during the 3 year investment period: 4,500 manyears in the social sector for building and construction work and engineering services, and 4,100 manyears in the private sector for expanding buildings, establishing fruit trees and vineyards and digging wells. The additional investments and consumption of inputs, such as fertilizer, pesticides, fuel, via their backward linkages, and the increased production via forward linkages, would generate sizeable indirect employment opportunities, which have not been quantified.

67. The proposed project, by involving eight major banks, would bring about substantial benefits from improved resource allocation, particularly in the less-developed regions. The staff of VB and the PBs, which would be trained under the proposed project, will help social sector as well as individual farmer sub-borrowers in the preparation of sub-projects and are likely to handle most of the credit financed investments in the agricultural sector.
Their experience gained under the proposed project could result in significant savings of investment resources in the agricultural sector. Taking into account foreign exchange savings through import substitution (mainly feed grains and milk products) and direct and indirect import components of investments and operating costs, the total net foreign exchange earnings or savings, over the proposed project’s 20 year lifetime, are estimated at something on the order of US$400 million (at 1977 prices).

68. The overall economic rate of return on the project, including physical contingencies, is estimated at 22 percent. Although the administrative and training costs are included in the proposed project costs, their benefits cannot be quantified. Hired labor has been valued at prevailing wage rates. Family labor has not been costed as operating expenses because there are unused labor capacities on private farms. However, family labor devoted to investment activities has been costed at prevailing wage rates. Wheat, maize, wool, tobacco and beef were projected at world market price levels. Other commodities were valued at January 1977 farmgate prices, adjusted for import duties, taxes and subsidies. A sensitivity analysis was applied to test the proposed project against changes in investment costs, operating expenses and production results. By increasing investment costs and operating expenses alternatively by 10 percent, the rate of return would drop to 20 percent and 15 percent, respectively. By decreasing the value of the benefits by 10 percent, the overall return would drop to 12 percent. The economic rates of return for individual components of fruit and vegetable, livestock development and agro-industries are 25 percent, 23 percent, and 18 percent respectively. Sensitivity analysis applied to the individual benefit and cost streams of these respective components show that they remain acceptable.

69. The risks of implementational difficulties and of non-performance in the project are not great due to the experience gained under the first project and, as noted in para 49 of this Report, the fact that the organizational and institutional structures of the project are identical to those developed and utilized successfully under the first Project.

PART V – LEGAL INSTRUMENTS AND AUTHORITY

70. The draft loan agreement between Vojvodjanska Banka and the Bank, the draft Guarantee Agreement between the Socialist Federal Republic of Yugoslavia and the Bank, the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement and the text of a draft resolution approving the proposed loan, are being distributed to the Executive Directors separately.

71. Special conditions of the project are listed in Annex III of this Report. Special conditions of effectiveness for the proposed loan (Loan Agreement, Section 7.01) are:

(i) VB and each of PBs to conclude between themselves the Subsidiary Loan Agreement (referred to in para 55 of this Report);
(ii) VB and each of the PBs to apply, to their domestic resources made available to investment projects, interest rates differentiated sectorally as follows: a minimum rate of 5 percent for lending to the individual farmer sector and 6 percent for the social sector (referred to in para 57 of this Report); and

(iii) VB to secure for itself appropriate assistance in preparing a set of monitoring procedures acceptable to the Bank (referred to in para 64 of this Report).

72. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

73. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

Attachments
June 22, 1977
## Population and Vital Statistics

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</tr>
</tbody>
</table>

### Population Density
- Total: 201.4
- Per square km: 144
- Agricultural Land: 120

### Vital Statistics
- Crude Birth Rate (per 1,000): 40
- Crude Death Rate (per 1,000): 20
- Infant Mortality Rate (per 1,000): 10
- Life Expectancy at Birth: 60
- Gross Reproduction Rate: 1.5

### Population Growth Rate (as of total)
- Total: 2.5%
- Urban: 4.0%

### Age Structure (Percentage)
- 0 to 15 years: 30.7%
- 15 to 64 years: 60.1%
- 65 years and over: 9.2%

### Age Dependency Ratio
- Economic Dependency Ratio: 1.0

### Family Planning Acceptance
- CUMULATIVE (THOUSANDS)
  - % of Married Women
  - % of Unmarried Women

### Employment
- Total Labor Force (thousands): 6,000
- Labor Force in Agriculture (%): 30%
- Unemployment (% of labor force): 7%

### Income Distribution
- % of private income received by:
  - Highest 5% of households: 18%
  - Highest 50% of households: 41%
  - Lowest 5% of households: 18%
  - Lowest 50% of households: 6%

### Distribution of Land Ownership
- % owned by top 10% of owners: 4.9%
- % owned by smallest 12% owners: 66.9%

### Health and Nutrition
- Population per physician: 1370
- Population per nursing person: 420
- Population per hospital bed: 200
- Per capita supply of:
  - Calories (% of requirements): 115
  - Protein (grams per day): 75
  - Water intake (liters per day): 0.5

### Death Rate (per 1,000)
- Age 0-4: 2.5
- 5-9: 0.8

### Education
- Adjusted Enrollment Ratio
  - Primary school: 96
  - Secondary school: 88
  - Years of schooling provided (first and second level): 12
  - Vocational enrollment (% of secondary): 78
  - Adult literacy rate (%): 77

### Housing
- Persons per room (urban): 1.7
- Occupied dwellings without:
  - Piped water (per cent): 86
  - Access to electricity (%): 89
- Rural dwellings connected to electricity (%): 30

### Consumption
- Televisions (per thousand people): 350
- Refrigerators (per thousand people): 30
- Electricity consumption (kwh per capita): 480

---

**See notes and definitions on reverse**
Land area (thou. ha)
Total = Total surface area comprising land and inland waters.
Arable = percentage of agricultural area used permanently or temporarily for crops, pasture, market gardens or to fallow.

GRF per capita (GDP) = GNP per capita in current market prices, calculated by same convergence method as World Bank series (1973-75 base).

Population and vital statistics
Population density = for square km = Mid-year population per square kilometer.

Vital statistics
Crude birth rate per thousand = Annual live births per thousand of mid-year population.
Crude death rate per thousand = Annual deaths per thousand of mid-year population.
Crude rate per thousand = Annual rate of deaths per thousand of mid-year population.
Crude rate per thousand = Mid-year rate of deaths per thousand of mid-year population.
Annual deaths per thousand of mid-year in the Third World Food Survey.

Infant mortality rate = Mid-year deaths of infants under one year of age per thousand live births.
Life expectancy at birth (yr) = Average number of years of life remaining at birth for males and females.

Economic dependency ratio = Ratio of population under 15 and 65 over to those of ages 15-65.

Family planning = percentage (% of married women). Percentage of married women of child-bearing age (15-64 years) who use birth-control devices in each mid-year population.

Education
Total labor force (thousand) = Economically active persons, including armed forces and unemployed but excluding housewives, students, etc. definitions in various countries are not comparable.
Labor force in agriculture (%) = Agricultural labor force in farming, forestry, fishing, and hunting as percentage of total labor force.

Agriculture
Unemployed (% of labor force) = Unemployed are usually defined as persons who are available and willing to take a job, but are not at work on any given day, remained out of a job, and seeking work for a specified period (period not exceeding 1 month) in the community. Definitions may differ between countries, the definition of unemployed and sources of data. unemployment insurance.

Income distribution
Distribution of income = Percentage of persons below 50% mean income.
Distribution of income = Percentage of persons below 20% mean income.

Health and Nutrition
Population per hospital bed = Population divided by number of practicing physicians qualified from a medical school or university level.
Population per hospital bed = Population divided by number of hospital beds available in public and private general and specialized hospitals.

Notable
1 Agriculture land held by social sector = "Emancipation."
2 Agriculture land held by private small-holders = "10 hectares maximum."
** Selection of Federal Republic of Germany as an Objective country is based on the close economic ties maintained by the two countries and on the fact that the greater part of Yugoslavia's around one million workers temporarily abroad have found employment in the Federal Republic of Germany.

ANNEX I
Page 2 of 4 pages

RED, May 19, 1977

DEFINITIONS OF SOCIAL INDICATORS

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<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Preliminary</th>
<th>Projected</th>
<th>1964-72</th>
<th>1972-75</th>
<th>1974-76</th>
<th>Average Annual Growth Rate</th>
<th>As a Percent of GDP</th>
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<tr>
<td>Gross Domestic Product</td>
<td>21,638</td>
<td>22,720</td>
<td>24,765</td>
<td>25,887</td>
<td>26,922</td>
<td>5.6</td>
<td>6.2</td>
<td>5.8</td>
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<td>Cattle</td>
<td>468</td>
<td>691</td>
<td>922</td>
<td>1,062</td>
<td>1,222</td>
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<td>Gross Domestic Income</td>
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<td>23,501</td>
<td>26,765</td>
<td>28,029</td>
<td>29,319</td>
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<td>2,316</td>
<td>2,216</td>
<td>2,646</td>
<td>4,046</td>
<td>12.6</td>
<td>8.2</td>
<td>2.3</td>
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<td>Exports (incl. NPIs)</td>
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<td>2,316</td>
<td>2,216</td>
<td>2,646</td>
<td>4,046</td>
<td>12.6</td>
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<td>Resource Gap</td>
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<td>2,316</td>
<td>2,216</td>
<td>2,646</td>
<td>4,046</td>
<td>12.6</td>
<td>8.2</td>
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<td>17.5</td>
<td>19.5</td>
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**Notes:**
1/ To be updated upon receipt of latest statistical data.
2/ Budgets of Federation, Republics and Autonomous Provinces, and Communities.
3/ Total resident active labor force, i.e., excluding workers abroad and unemployed.
4/ Active labor force in the private sector (agriculture and other) and, accordingly, total are estimates.
## BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE AND DEBT

### ANNUAL GROWTH RATES

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<td>5694</td>
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<td>Imports (incl. NFS)</td>
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<td>8767</td>
<td>8666</td>
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<td>Other factor services net</td>
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<td>50</td>
<td>93</td>
<td>62</td>
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<td>Current Transfers (net)</td>
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<td>110</td>
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<td>150</td>
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<td>Governments</td>
<td>183.9</td>
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<td>615.4</td>
<td>274.7</td>
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<td>Suppliers</td>
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<td>6.6</td>
<td>-</td>
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<td>Financial Institutions</td>
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<td>73.1</td>
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<td>Bonds</td>
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<td>51.5</td>
<td>-</td>
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<tr>
<td>Total Public M&amp;LT Loans</td>
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<td>287.6</td>
<td>997.2</td>
<td>569.9</td>
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<td>Public Loans n.e.i.</td>
<td>4.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Debt Outstanding on Dec. 31, 1975</td>
<td>521.0</td>
<td>352.6</td>
<td>1094.4</td>
<td>585.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### EXTERNAL DEBT

<table>
<thead>
<tr>
<th>Source</th>
<th>Disbursements only</th>
<th>Percent</th>
<th>Average Terms of Public Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>559.1</td>
<td>24.6</td>
<td>Int. as % Prior Year</td>
</tr>
<tr>
<td>IDA</td>
<td>-</td>
<td>-</td>
<td>Amort. as % Prior Year</td>
</tr>
<tr>
<td>Other Multilateral</td>
<td>5.3</td>
<td>.2</td>
<td>4.7</td>
</tr>
<tr>
<td>Governments</td>
<td>1304.3</td>
<td>57.4</td>
<td>11.5</td>
</tr>
<tr>
<td>Suppliers</td>
<td>115.6</td>
<td>5.1</td>
<td></td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>269.9</td>
<td>11.9</td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>18.1</td>
<td>.8</td>
<td>IBRD Debt Outs. &amp; Disbursed</td>
</tr>
<tr>
<td>Public Debt n.e.i.</td>
<td>-</td>
<td>-</td>
<td>&quot; as % Public Debt 0%0</td>
</tr>
<tr>
<td>Total Public M&amp;LT Loans</td>
<td>2272.5</td>
<td>100.0</td>
<td>&quot; as % Public Debt</td>
</tr>
</tbody>
</table>

### DEBT AND DEBT SERVICE

<table>
<thead>
<tr>
<th>Year</th>
<th>1972</th>
<th>1973</th>
<th>1974</th>
<th>1975</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Debt Out. &amp; Disbursed</td>
<td>1618.0</td>
<td>1859.3</td>
<td>2056.3</td>
<td>2272.5</td>
</tr>
</tbody>
</table>

1/ Includes direct foreign investment.
2/ Includes errors and commissions, short term loans, net export credits, IMF account, National Bank and Commercial Bank Credits.
3/ Estimate.
4/ Figures on debt service do not correspond with balance of payments figures due to differences in coverage.
5/ Includes workers remittances.
## THE STATUS OF BANK GROUP OPERATIONS IN YUGOSLAVIA

### A. STATEMENT OF BANK LOANS (as at May 31, 1977)

<table>
<thead>
<tr>
<th>Number</th>
<th>Year</th>
<th>Borrower(s)</th>
<th>Purpose</th>
<th>Bank</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>751</td>
<td>1971</td>
<td>SFRY</td>
<td>Roads</td>
<td></td>
<td>35.0</td>
</tr>
<tr>
<td>752</td>
<td>1971</td>
<td>Hotel &quot;Bernardin&quot;, Piran</td>
<td>Tourism</td>
<td></td>
<td>10.0</td>
</tr>
<tr>
<td>777</td>
<td>1971</td>
<td>SFRY</td>
<td>Multipurpose Water</td>
<td></td>
<td>45.0</td>
</tr>
<tr>
<td>782</td>
<td>1971</td>
<td>&quot;Babin Kuk&quot; Hotelsko Turisticki Centar, Dubrovnik</td>
<td>Tourism</td>
<td></td>
<td>20.0</td>
</tr>
<tr>
<td>836</td>
<td>1972</td>
<td>Twelve Electric Power Enterprises in Yugoslavia</td>
<td>Power</td>
<td></td>
<td>75.0</td>
</tr>
<tr>
<td>894</td>
<td>1973</td>
<td>Stopanska Banka, Skopje</td>
<td>Agricultural Industries</td>
<td></td>
<td>31.0</td>
</tr>
<tr>
<td>916</td>
<td>1973</td>
<td>Naftagas</td>
<td>Gas Pipeline</td>
<td></td>
<td>59.4</td>
</tr>
<tr>
<td>947</td>
<td>1973</td>
<td>Kikinda</td>
<td>Iron Foundry</td>
<td></td>
<td>14.5</td>
</tr>
<tr>
<td>965</td>
<td>1974</td>
<td>IMT</td>
<td>Tractor Factory</td>
<td></td>
<td>18.5</td>
</tr>
<tr>
<td>966</td>
<td>1974</td>
<td>FOB</td>
<td>Iron Foundry</td>
<td></td>
<td>15.0</td>
</tr>
<tr>
<td>990</td>
<td>1974</td>
<td>Bosnia-Herzegovina Road Funds</td>
<td>Roads</td>
<td></td>
<td>30.0</td>
</tr>
<tr>
<td>1012</td>
<td>1974</td>
<td>Stopanska Banka, Skopje</td>
<td>Industrial Credit</td>
<td></td>
<td>28.0</td>
</tr>
<tr>
<td>1013</td>
<td>1974</td>
<td>Privredna Banka Sarajevo</td>
<td>Industrial Credit</td>
<td></td>
<td>22.0</td>
</tr>
<tr>
<td>1026</td>
<td>1974</td>
<td>Community of Yugoslav Railways</td>
<td>Railways</td>
<td></td>
<td>93.0</td>
</tr>
<tr>
<td>1060</td>
<td>1974</td>
<td>Port of Bar</td>
<td>Harbor Expansion</td>
<td></td>
<td>44.0</td>
</tr>
<tr>
<td>1066</td>
<td>1974</td>
<td>Vodovod Dubrovnik</td>
<td>Water Supply and Wastewater</td>
<td></td>
<td>6.0</td>
</tr>
<tr>
<td>1129</td>
<td>1975</td>
<td>Vojvodjanska Banka</td>
<td>Agricultural Credit</td>
<td></td>
<td>50.0</td>
</tr>
<tr>
<td>1143</td>
<td>1975</td>
<td>Republic Road Organizations in Slovenia, Montenegro and Serbia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1173</td>
<td>1975</td>
<td>Jugoslavenski Naftovod</td>
<td>Roads</td>
<td></td>
<td>40.0</td>
</tr>
<tr>
<td>1262</td>
<td>1976</td>
<td>Republicki Fond Voda</td>
<td>Pipeline</td>
<td></td>
<td>49.0</td>
</tr>
<tr>
<td>1264</td>
<td>1976</td>
<td>Sarajevo Gas Enterprise &amp; Naftagas Gas Unit</td>
<td>Air Pollution Control</td>
<td></td>
<td>38.0</td>
</tr>
<tr>
<td>1277</td>
<td>1976</td>
<td>Privredna Banka Sarajevo, Stopanska Banka Skopje, Investiciona Banka Titograd, Kosovska Banka Pristina</td>
<td>Second Industrial Credit</td>
<td></td>
<td>50.0</td>
</tr>
<tr>
<td>Number</td>
<td>Year</td>
<td>Borrower(s)</td>
<td>Purpose</td>
<td>US$ million</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>------</td>
<td>------------------------------------</td>
<td>--------------------------------------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Amount (less cancellations)</td>
<td>Bank</td>
<td>Undisbursed</td>
</tr>
<tr>
<td>1360/a</td>
<td>1977</td>
<td>Management Organization &quot;Metohija&quot;</td>
<td>Multipurpose Water</td>
<td>54.0</td>
<td>54.0</td>
</tr>
<tr>
<td>1370/a</td>
<td>1977</td>
<td>Investiciona Banka, Titograd</td>
<td>Agriculture Industries</td>
<td>26.0</td>
<td>26.0</td>
</tr>
<tr>
<td>1371/a</td>
<td>1977</td>
<td>Stopanska Banka, Skopje</td>
<td>Agriculture Industries</td>
<td>24.0</td>
<td>24.0</td>
</tr>
<tr>
<td>1377/a</td>
<td>1977</td>
<td>Republic Road Organizations in Bosnia-Herzegovina, Serbia, Macedonia, and Kosovo</td>
<td>Roads</td>
<td>56.0</td>
<td>56.0</td>
</tr>
</tbody>
</table>

Total (less cancellation) 1,473.1*  614.8
of which has been repaid 163.6
Total now outstanding 1,309.5

Amount sold 7.8
of which: Amount repaid 6.3  1.5
Total now held by Bank 1,308.0

Total undisbursed 614.8

/a Not yet effective.

* A loan of US$80.0 million to six electric power organizations for a Second Power Transmission Project was approved subsequent to the above date of Statement A.
### B. STATEMENT OF IFC INVESTMENTS (as at May 31, 1977)

<table>
<thead>
<tr>
<th>Year</th>
<th>Obligor</th>
<th>Type of Business</th>
<th>Amount in US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Loan</td>
</tr>
<tr>
<td>1970</td>
<td>International Investment Corporation for Yugoslavia</td>
<td>Investment Corporation</td>
<td>-</td>
</tr>
<tr>
<td>1970</td>
<td>Zavodi Crvena Zastava Fiat S.P.A.</td>
<td>Automotive Industry</td>
<td>5.0</td>
</tr>
<tr>
<td>1971</td>
<td>Tovarna Automobilov in Motorjev Maribor (TAM)/Klockner-Humboldt Deutz A.G. (KHD)</td>
<td>Automotive Industry</td>
<td>7.5</td>
</tr>
<tr>
<td>1972</td>
<td>FAP-FAMOS Belgrade/Daimler Benz A.G.</td>
<td>Automotive Industry</td>
<td>12.9</td>
</tr>
<tr>
<td>1972</td>
<td>Sava/Semperit</td>
<td>Tires</td>
<td>4.0</td>
</tr>
<tr>
<td>1973</td>
<td>Belisce/Bel</td>
<td>Pulp and Paper</td>
<td>13.3</td>
</tr>
<tr>
<td>1974</td>
<td>Zelezarne Jesenice/ARMCO</td>
<td>Special Steel</td>
<td>10.0</td>
</tr>
<tr>
<td>1974</td>
<td>Salonit Anhovo</td>
<td>Cement Plant</td>
<td>10.0</td>
</tr>
<tr>
<td>1975</td>
<td>Rudarsko Metalurski</td>
<td>Steel</td>
<td>50.0</td>
</tr>
</tbody>
</table>

**Total Gross Commitments**
- 112.7
- 16.7
- 129.4

**Total, less cancellations, terminations, repayment and sales**
- 61.6
- 2.4
- 64.0

**Total commitments held by IFC**
- 51.1
- 14.3
- 65.4

**Total Undisbursed**
- 8.8
- 6.2
- 15.0
C. PROJECTS IN EXECUTION 1/

Loan 751 Fifth Highway: US$35.0 million Loan of June 18, 1971; Effective Date: June 12, 1972; Closing Date: June 30, 1977.

After an initial delay of about eight months in fulfilling the conditions for effectiveness of the loan, construction work on all sections has progressed well. All road sections are open for traffic, although one section in Slovenia is about 92 percent complete. Because of shortage of funds the Republican Road Authority has reprogrammed its completion. The first 44 km was opened at the end of June 1976 and the last 6.5 km will be finished by September 1977.

Loan 752 Bernardin Tourism: US$10.0 million Loan of June 18, 1971; Effective Date: May 31, 1972; Closing Date: June 30, 1977.

Following initial delays in project implementation due to appointing consultants, providing the necessary infrastructure and obtaining approvals by local authorities, bids received in July 1974 indicated that the project, as originally envisaged (2,500 beds), would cost approximately 100 percent above the originally estimated cost of US$25.6 million. This increase was mainly due to rapid inflation in construction costs. The Bank and the project sponsors have agreed to finance a reduced complex containing some 1,616 beds (Amendment to Loan 752-YU, December 16, 1974, R74-258) at an estimated cost of US$39.9 million, requiring additional financing by the sponsors of about US$14.0 million. Following the resolution of the financial problems excellent progress was made and the Port and Village hotels were opened for occupancy on June 4, 1976. Structural problems were encountered with the foundations for the Cliff Hotel, but construction was completed and the hotel opened on April 2, 1977.

Loan 777 Ibar Multipurpose Water: US$45.0 million Loan of June 20, 1971; Effective Date: May 31, 1972; Closing Date: December 31, 1978.

The start of project work was delayed for one year. Construction is now underway, the main dam is completed and the reservoir will be filled soon. A small part of the irrigation network has been completed with the remainder expected to be completed by 1978. Project costs have been above appraisal estimates, but the overrun financing is being provided by the Province of Kosovo and from Federal sources. Delays have been encountered in the arrangements for boundary adjustment. Consultants have been engaged to help find solutions, and the Kosovo Government has enacted appropriate

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.
legislation. A draft law has been prepared by the Kosovo Government and is expected to be enacted in the near future, which will assist in the formation of specialized services, including agricultural extension for the private sector.

Loan 782 Babin Kuk Tourism: US$20.0 million Loan of July 21, 1971; Effective Date: June 12, 1972; Closing Date: July 31, 1977.

There were initial delays in the implementation of the project due to lateness in making the loan effective and in mobilizing consultants. Bids for civil works and estimates for other components indicated that the project would cost at least twice as much as originally estimated (US$49.9 million), largely due to rapid inflation in construction costs. The Bank and the project sponsors agreed to finance a reduced complex containing some 2,034 beds (Amendment to Loan 782-YU, December 16, 1974, R74-259) at a total cost of US$51.5 million, requiring additional financing of about US$1.6 million and a change in sponsorship which has been approved by the Bank (Amendment to Loan 782-YU, October 4, 1976, R76-237). The hotels were inaugurated and opened for occupancy on June 5, 1976.

Loan 836 Power Transmission: US$75.0 million Loan of June 23, 1972; Effective Date: December 29, 1972; Closing Date: June 30, 1977.

The Project construction is progressing slowly and is expected to be completed by December 1977, about one year late. Its cost has increased to about $425 million (up 89 percent) chiefly due to escalation in prices. The resulting cost overrun is being financed from funds received from the Federal Republic of Germany, local loans and from the Borrowers' own internal sources. Appointment of management consultants was delayed until mid 1976 and their report is now expected in June 1978, about 3 years late. The promulgation of the new Constitution in 1974 and the consequent evolution of the legal and financial status of the Borrowers, particularly in regard to the requirement of their policy of pooling resources at the Republican levels requires changes in the legal arrangements including the application of financial covenants. These are being considered along with the proposed second power transmission project.


All loan funds provided under the project have been committed by subloan agreements through Stopanska Banka. Out of 43 subprojects financed under the project, 36 are completed, five are under construction. Status of the two remaining subprojects is as follows: (i) slaughterhouse facility construction contract has been signed but is being amended to incorporate Bank's comments; (ii) wine byproducts facility will either be retendered or not constructed at all because of the high investment costs and resulting low financial viability. In latter case, a substitute subproject will be financed.
Loan 916 Naftagas Pipeline: US$59.4 million Loan of June 25, 1973; Effective Date: March 22, 1974; Closing Date: June 30, 1977.

The costs of equipment and civil works increased so that project costs were about 71 percent above the appraisal estimate. As a result of this and of a reallocation of priorities in the use of natural gas, the project has been redefined (Amendments to Loan 916-YU, May 13, 1976, R76-116). Phase I is a reduced version of the original plan. Phase II provides for a pipeline extension to link up with the pipeline to be constructed under the Sarajevo Air Pollution Control Project, for which additional Bank financing was obtained. Naftagas has obtained additional local currency financing required for Phases I and II. A delay of more than two years in project implementation has occurred as a result of the increased project costs and revision of the project. Construction started in late June 1976, and the project is scheduled for completion by early 1979.

Loan 947 Kikinda Iron Foundry: US$14.5 million Loan of November 30, 1973; Effective Date: May 28, 1974; Closing Date: March 31, 1978.

The Project was inaugurated on September 4, 1976. Total project costs exceeded appraisal estimates by about 12% (about US$4.5 million equivalent) due to increases in local costs resulting largely from design changes. Financing of this overrun was arranged with a local bank.

Loan 965 IMT Tractor Factory Expansion: US$18.5 million Loan of February 22, 1974; Effective Date: June 11, 1974; Closing Date: December 31, 1977.

The factory was officially inaugurated on March 7, 1976. Completion work on minor portions including some equipment procurement, however, is continuing.

Loan 966 FOB Iron Foundry: US$15.0 million Loan of February 22, 1974; Effective Date: May 28, 1974; Closing Date: December 31, 1977.

Project completion is expected to be delayed by four months. The Project cost is expected to exceed appraisal estimates by 45% (about US$20 million equivalent) due to higher than anticipated inflation and some design changes. The cost overrun is entirely in local currency and is being financed by a local bank.

Loan 990 Sixth Highway: US$30.0 million Loan of May 31, 1974; Effective Date: December 10, 1974; Closing Date: December 31, 1977.

Five out of six road sections are complete. The remaining section should be completed by June, 1977. Two requests for changes in road alignments have been agreed in order to provide better service to two communities.
Loan 1012 Macedonia/Kosovo Industrial Credit: US$28.0 million Loan of June 21, 1974; Effective Date: December 19, 1974; Closing Date: December 31, 1978.

Progress has been satisfactory. The loan is almost fully committed, but the final date for submission of sub-projects has been extended by another six months to December 31, 1977 to allow adjustments in individual sub-loans, as needed, and to allow the banks time to submit additional projects for financing from resources freed as a result of such adjustments. Loan disbursements have been accelerating after a slow start and are expected to soon catch up and even surpass appraisal estimates.

Loan 1013 Bosnia-Herzegovina/Montenegro Industrial Credit: US$22.0 million Loan of June 21, 1974; Effective Date: December 19, 1974; Closing Date: December 31, 1978.

The note under Loan 1012 above applies also to this loan.

Loan 1026 Fourth Railway: US$93.0 million Loan of July 10, 1974; Effective Date: February 12, 1975; Closing Date: December 31, 1977.

The project consists of the 1974-76 slice of the Railways’ 1973-77 Investment Plan. After substantial delays in project execution due principally to financial and administrative difficulties, good progress is now being made. Government efforts to combat inflation caused railway tariffs to lag behind inflation, but tariffs have recently been increased to cover current inflation. The Bank is currently reviewing with the Government the form of subsidization being proposed. Good progress continues on investment planning.

Loan 1060 Port of Bar: US$44.0 million Loan of December 11, 1974; Effective Date: June 13, 1975; Closing Date: June 30, 1978.

In general the Project is progressing well, but is now about 8 months behind schedule due to delays in procurement, most recently regarding the grain silos, for which final designs have not yet been completed. Completion of the project is likely to be at least 6 months after the original completion date of December 1977.

Loan 1066 Dubrovnik Water Supply and Wastewater: US$6.0 million Loan of December 24, 1974; Effective Date: June 26, 1975; Closing Date: December 31, 1978.

Delays in preparation of final designs and tender documents have put construction about a year behind schedule. Services to the Bank financed Babin Kuk Hotel Complex (Loan 782-YU) were, however, completed in time for its initial operation. Preliminary calculations indicated the need for a substantial tariff increase to meet the Loan Agreement’s financial covenants, but the commune authorities approved a smaller increase. The Bank is seeking explanations from the communal and federal authorities together with their proposals for resolving the matter.
Loan 1129 Agricultural Credit: US$50.0 million Loan of June 20, 1975; Effective Date: February 12, 1976; Closing Date: December 31, 1979.

The Project Operations Unit of Vojvodjanska Banka, established in March 1976, is working satisfactorily. Project operations have shown encouraging progress with respect to appraisal methodology and related aspects of institution building. Commitments for investments in social sector enterprises are running ahead of those for private farmers, due largely to institutional arrangements in Yugoslavia, but a substantial pipeline of private sector subprojects will ensure the desired balance. As of May, 1977 more than half of the project funds have been committed, following a slow start. Disbursements are behind appraisal projections, given initial organizational and learning curve problems and the time lag between commitments and disbursements.

Loan 1143 Seventh Highway: US$40.0 million Loan of July 18, 1975; Effective Date: March 30, 1976; Closing Date: June 30, 1979.

Construction has started in the Republics of Serbia, Slovenia and Montenegro. Two contracts have still to be awarded in the Republic of Montenegro.

Loan 1173 Naftovod Oil Pipeline: US$49.0 million Loan of November 19, 1975; Effective Date: July 28, 1976; Closing Date: December 31, 1979.

Due to slower than anticipated progress of design and procurement it is estimated that a four-month slippage in the completion of Phase I will occur, though it is expected that the balance of the project will be completed on schedule.


The regional development study is under way. Terms of Reference and selection of consultants have been finalized for the flood control and water quality studies. Final designs and tender documents for the Vrutci Dam are being reviewed, and construction should begin in 1977. Construction is under way on some parts of the Cacak component and tenders are being invited for the principal work in Titovo Uzice. The impetus towards the creation of the Morava Region Water Community of Interest has slowed due to the longer than anticipated process of seeking agreement among all the Yugoslav parties concerned on the structure of the organization. Staffing is being strengthened in the water authorities in Cacak and Titovo Uzice.
Loan 1263 Sarajevo Water Supply and Sewerage: US$45.0 million Loan of June 8, 1976; Effective Date: November 9, 1976; Closing Date: June 30, 1981.

Consultants for final designs and tender documents have been recruited and work on four major tenders is completed. Tendering began in April 1977, a few months behind schedule.

Loan 1264 Sarajevo Air Pollution Control: US$38.0 million Loan of June 8, 1976; Effective Date: May 31, 1977; Closing Date: June 30, 1981.

This loan was declared effective on May 31, 1977.

Loan 1277 Second Industrial Credit: US$50.0 million Loan of June 14, 1976; Effective Date: October 29, 1976; Closing Date: December 31, 1980.

Twenty-five subprojects, including 18 below the free limit, have been approved for disbursements for a total committed amount of US$14.9 million.

Loan 1360 Metohija Multipurpose Water: US$54.0 million Loan of February 3, 1977; Effective Date: July 29, 1977; Closing Date: December 31, 1982.

Terminal date for declaring effectiveness is July 29, 1977.

Loan 1370 Montenegro Agriculture and Agro-Industries: US$26.0 million Loan of March 10, 1977; Effective Date: June 30, 1977; Closing Date: June 30, 1983.

Terminal date for declaring effectiveness is June 30, 1977.

Loan 1371 Macedonia Agriculture and Second Agro-Industries: US$24.0 million Loan of March 10, 1977; Effective Date: June 30, 1977; Closing Date: June 30, 1982.

Terminal date for declaring effectiveness is June 30, 1977.

Loan 1377 Eighth Highway: US$56.0 million Loan of April 13, 1977; Effective Date: July 11, 1977; Closing Date: March 31, 1981.

Terminal date for declaring effectiveness is July 11, 1977.
YUGOSLAVIA: Second Agricultural Credit Project

Supplementary Project Data Sheet

Section I: Timetable of Key Events

(a) Project identified: August 1976.

(b) Project prepared by: Vojvodijanska Banka (VB) with assistance of Participating Banks (PBs) and Provincial and Republican Secretariats of Agriculture

(c) Project first presented to Bank: September 1976

(d) First Bank mission to review project: September/October 1976

(e) Departure of Appraisal Mission: November 15, 1976.

(f) Completion of Negotiations: May 27, 1977.

(g) Planned Date of Effectiveness: November 15, 1977.

Section II: Special Bank Implementation Actions

None.

Section III: Special Conditions

(a) As a condition of effectiveness, VB and each of the PBs to conclude between themselves the Subsidiary Loan Agreement (Loan Agreement Section 7.01(i); para 55 this Report);

(b) As a condition of effectiveness, VB and each of the PBs to apply, to their domestic resources made available to investment projects, interest rates differentiated sectorally as follows: floor rates of 5 percent for lending to individual farmers and 6 percent for the social sector enterprises (Loan Agreement, Sections 3.06 and 7.01(ii); para 57 this Report);

(c) As a condition of effectiveness, VB to secure for itself appropriate assistance in preparing a set of monitoring procedures acceptable to the Bank (Loan Agreement, Sections 3.04(b) and 7.01(iii); para 64 this Report);
(d) The Federal Government to carry the foreign exchange risk on sub-loans made by VB and PBs to individual farmers (Guarantee Agreement, Section 3.05; para 59 this Report);

(e) The Federal Government to ensure that the Federal Coordination Committee for Agriculture continues to perform its coordination role with respect of the proposed and first projects (Guarantee Agreement, Section 3.03; para 49 this Report);

(f) The Federal Government to ensure that the Association of Yugoslav Banks takes all appropriate action to undertake an interest rate study under terms and conditions satisfactory to the Bank (Guarantee Agreement, Section 3.04; para 37 this Report);

(g) At least 50 percent of the processing capacities of sub-projects to be used to handle individual farmer production (Loan Agreement, Schedule 5, 2. (B)(i)(b); para 44 this Report);

(h) The Project Operations Department within VB to continue to operate, remain adequately staffed and receive a procurement specialist (Loan Agreement, Section 3.01(a); para 52 this Report);

(i) Regional and sectoral allocations of the credit to be provided and as agreed by the Republics and Provinces to be enforced by VB in Vojvodina and by the PBs in each of the other seven Republics and Province (Loan Agreement, Section 1; Guarantee Agreement, Section 3.03; para 54 this Report);

(j) Terms of sub-loans to be related to the cash flow projections of the investments (Loan Agreement, Schedule 5, 3.(C); para 56 this Report);

(k) VB and PBs to ensure that sub-projects are technically and financially sound; sub-projects having an investment cost below US$1.0 million to be approved by the appropriate PB; all sub-projects above this level to be referred to VB for review and approval; sub-projects costing more than US$1.5 million to be submitted by VB to the Bank for approval; Bank to review and approve the appraisal of cattle fattening sub-projects (Loan Agreement, Schedule 5, 2.(C); para 58 this Report).