

**FILE COPY**

DOCUMENT OF INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Not For Public Use

Report No. P-1629-YU

REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED LOAN  
TO  
ELEKTROPRIVREDA  
BOSNE I HERZEGOVINE  
SARAJEVO  
WITH THE GUARANTEE OF  
THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA  
FOR A  
HYDROPOWER PROJECT

May 12, 1975

This report was prepared for official use only by the Bank Group. It may not be published, quoted or cited without Bank Group authorization. The Bank Group does not accept responsibility for the accuracy or completeness of the report.

CURRENCY EQUIVALENTS \*

| Currency Unit  | Yugoslav Dinar (Din.) |
|----------------|-----------------------|
| US\$1          | Din. 16.00            |
| Din. 1         | US\$0.0625            |
| Din. 1,000     | US\$62.50             |
| Din. 1,000,000 | US\$62,500.00         |

---

\* The Yugoslav Dinar has been floating since July 13, 1973. The currency equivalents given above are as of September 30, 1974. The Yugoslav Central Bank established on October 29, 1974 a new intervention rate of US\$1.00 equal to Dinars 17.23.

Fiscal Year

January 1 to December 31

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS ON A  
PROPOSED LOAN TO ELEKTROPRIVREDA,  
BOSNE I HERCEGOVINE-SARAJEVO  
WITH THE GUARANTEE OF  
THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

1. I submit the following report and recommendation on a proposed loan to Elektroprivreda, Bosne i Hercegovine-Sarajevo, with the guarantee of the Socialist Federal Republic of Yugoslavia, for the equivalent of US\$70.0 million to help finance a hydroelectric power project. The loan would have a term of 25 years, including five years of grace, with interest at 8-1/2 percent per annum. A substantial portion of the loan would be made available to Hidroelektrane na Drini-Sarajevo, the organization entrusted with the construction of the power facilities, on the same terms as the Bank loan.

PART I - THE ECONOMY

2. A basic economic mission visited Yugoslavia in November 1972; its report entitled "The Economic Development of Yugoslavia" (R74-1) was distributed to the Executive Directors on January 2, 1974. An economic updating mission visited the country in October 1974 and its findings are reflected in 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 and significant structural change during the past two decades. GDP at constant prices increased by about 5.5 percent per year and per capita GDP by over 4.5 percent per year. Average per capita GDP is estimated at around US\$900 (1973). The number of people engaged in agriculture has decreased both absolutely and as a percentage of the labor force, while the number engaged in industry and services has correspondingly increased. However nearly half of the labor force is still engaged in agriculture, most of it on small private farms. Industry accounts for 23 percent and services for 22 percent of the labor force.

4. Two important features of the economy have been strengthened by the recent constitutional changes. Self-management, whereby the means of production used by different workers' collectives are given to them to manage, has emerged as the fundamental right and obligation of every basic unit of organized labor in whatever sector. Second, the responsibility for most important economic and social policy decisions has been delegated to the Republics and Provinces. Against this background, Yugoslavia has placed increasing reliance on the market mechanism and the opening-up of the economy to international trade.

5. The leading role in economic and social development has been played by the social sector, which includes government, most enterprises and institutions such as libraries, hospitals, theatres and schools, and which accounts for 85 percent of GDP and employs over half of the total labor force. All the enterprises and institutions are under workers' self-management and resources are under social ownership. There is a private sector predominantly comprised of peasant farms (with a 10 hectare limit on land holdings) and small enterprises (with a 5 person limit on the number of non-family workers), mainly in handicrafts, construction, trade, transport and tourism. In the past the private sector has been relatively neglected by government policy. However, the government has lately been devoting more attention to private farmers with a view to accelerating the growth of agricultural production.

6. Despite a policy of fostering accelerated growth in the less-developed regions, major differences persist in the levels of development among Republics. The more-developed regions are located in the north and include 65 percent of the population. But even this area includes sizeable pockets of poverty, particularly in private agriculture. The less-developed regions are in the south and are generally more mountainous and less densely populated. This makes agriculture and transportation more difficult. The southern regions are rich in minerals, coal and hydropower generating potential. The development of these resources has provided the major stimulus for growth.

7. Although the economy of the less-developed regions has been growing at almost the same rate as the more advanced areas, per capita income has lagged behind because of faster population growth (1.6 percent per year as compared with 0.7 percent in the more-developed regions). Consequently, regional inequalities have widened. Average per capita GDP in the less-developed regions now amounts to about 50 percent of that of the rest of the country. Yugoslavia's development policy aims at reducing regional inequalities by transferring investment funds from the more advanced to the less-developed regions. In 1972 these transfers amounted to almost US\$300 million, about one-third of the less-developed regions' total investment expenditure.

8. In addition to significant regional income differences there are substantial sectoral income differences. For example, per capita GDP in private agriculture in Kosovo (by far the poorest region), is just over US\$100 or about one-ninth of the national average. Many private farmers there supplement their incomes by working in the social sector but are, nevertheless, unable to maintain an adequate standard of living. Although incomes in private agriculture are somewhat higher in other parts of the country, they remain far below those obtaining in non-agricultural activities.

9. Thus far, the employment situation in Yugoslavia has remained manageable not least because of the sizeable temporary migration abroad which, since 1972 has stabilized at a level of about 1.1 million. Open unemployment was estimated to be around 3.5 percent of the resident active population in

mid-1974, and in the private agricultural sector there was severe underemployment. There is considerable public concern about the size and composition of the emigrant labor force. The Government expects that the economy has now reached a level and momentum of development which should create an annual increase of domestic employment exceeding the natural increase in the labor force and policies are being introduced to encourage the return of skilled and educated workers and those who have been abroad for some time. However, due to an economic slowdown in major recipient countries, job opportunities abroad may decline and migrant workers may return faster than intended with potentially negative effects on domestic unemployment and on the balance of payments.

### Recent Developments

10. Rapid economic growth since 1968 was accompanied by inflation and balance of payments problems. Many enterprises experienced financial difficulties primarily as a result of over-zealous investment programs and a lack of financial discipline. To counter inflation and improve the external payments position, the Government, in 1972 and 1973, adopted measures aimed at restricting monetary expansion, limiting public expenditure, temporarily strengthening price controls, reducing the growth of personal income, improving the financial structure of enterprises and imposing limitations on external borrowing. In addition, to neutralize the inflationary pressure on the balance of payments, the dinar was devalued by 16.6 percent in January 1971, and again by 18.8 percent in December 1971. The dinar has been floating since July 1973 and on October 29, 1974 the Yugoslav Central Bank established a new intervention rate of US\$1.00 equal to Dinars 17.23, an effective devaluation of 7 percent.

11. As a result of these measures economic growth slowed from 8.8 percent in 1971 to 4.4 percent in 1972 and 5.1 percent in 1973. Exports increased during the same period at significantly higher rates than imports. Aided by a sharp rise in workers' remittances (up 36 percent in 1972) the current account showed a surplus of US\$419 million in 1972, the first surplus since 1965. A current account surplus was again achieved in 1973 (\$464 million). Foreign exchange reserves increased from the equivalent of about one month's merchandise imports in 1971, to nearly 4 months by the end of 1973. There was no slowdown in the rate of inflation, however, and most prices continued to rise at the rate of 15-20 percent per year through 1973.

12. In 1974 economic growth picked up again (reaching an estimated annual rate of 7 percent). This higher growth rate was accompanied by a recurrence of the difficulties associated with rapid growth, further amplified by the changes in the international trade situation. The pace of inflation accelerated and the annual rate of increase in the leading indicator--the overall producer price index--rose to approximately 30 percent. Liquidity problems in enterprises associated with the rapid increase of the investment rate began to reappear. The balance of payments deteriorated due to the coincidence of worsening terms of trade, slow growth of commodity exports to countries in the convertible currency area, and stagnation of real

net exports of invisibles. As a result, a current account deficit of about \$1 billion is estimated for 1974.

13. The Social Development Plan for 1971-75 projected an average GDP growth of 7.5 percent per year in real terms but it is clear that this will not be realized. Even if economic growth in the last two years of the period reached that level, average growth during the five years would amount to around 6.8 percent, due to the slowdown associated with the 1972/73 stabilization measures. Given the slow population increase this would still be rather high, and would compare well with growth during the preceding five-year plan period (4.7 percent per year).

### The Energy Sector

14. On a caloric basis about two-thirds of Yugoslavia's energy needs in 1973 were met from domestic sources. Domestically-mined coal remains an important source of fuel. Practically all thermal power plants are coal-fired. About one-third of the oil consumed is of domestic origin. Yugoslavia generates more than half of its electricity from hydro plants despite the fact that only about 30 percent of its hydropower potential has been developed. The shortages of electricity that are emerging are not due to the lack of hydro generation potential, coal or oil, but rather to insufficient plant capacity and delayed construction. National energy policy emphasizes maximum development of domestic resources to curb the need for imported energy. Federal agencies are preparing studies to coordinate this development for the most efficient use of resources.

15. In spite of Yugoslavia's relatively low dependence on imported oil, increases in the price of oil are bound to affect the government's efforts to improve the external payments position. In 1973 oil imports amounted to US\$259 million, or 6 percent of commodity imports. For 1974 oil import payments were of the order of US\$900 million, at an average c.i.f. price of US\$100 per metric ton - m.t. (US\$13 per barrel), equivalent to about 13 percent of imports of goods and services. The impact on the balance of payments has been to contribute to a substantial current account deficit in 1974, which will continue in later years, instead of the surpluses Yugoslavia has enjoyed recently.

16. The indirect consequences of the world energy crisis are unclear. On the positive side the availability of coal and hydropower resources should improve the country's international competitive position, although their development would require heavy investment with long gestation periods. On the other hand job opportunities for Yugoslavs working abroad may diminish as economic growth in Western Europe slows down. Returning migrant workers would exacerbate unemployment and housing problems and workers' remittances, which have played a dynamic role in the economy, may suffer. Moreover, stagnation in economic activity abroad could affect Yugoslavia's exports. Although the rise in the cost of automobile and air transportation might unfavorably influence tourism, preliminary 1974 data showing foreign tourist visits slightly

below 1973 and foreign exchange earnings equal to 1973 indicate that there has not been a serious decline. These conflicting trends are being watched carefully by the Yugoslav authorities and the Bank.

### Capital Requirements

17. Yugoslavia is dependent to a large degree on imported equipment for its economic development and the country has borrowed substantial amounts abroad. Gross capital inflows have more than tripled during the last five years, reaching US\$1,186 million in 1973, mostly in medium-term commercial credit. However, due to rapidly rising amortization payments, an increase of US\$746 million in gross inflows between 1967 and 1972 resulted in an increase in the net inflow of only US\$224 million. The growing discrepancy between gross and net inflows reflects a shift, following the 1965 Economic Reforms, from long-term official loans to medium-term commercial credits as a result of the limited availability of official capital and the liberalization of foreign trade and borrowing. The United States, the Federal Republic of Germany, Switzerland, Italy and the United Kingdom have provided most of the commercial credits. IBRD, the Federal Republic of Germany, and the USSR have been the principal sources of long-term official capital.

18. Until recently it was thought that much of the foreign exchange needed to finance imports would come from the growth of exports of goods and invisibles. However, the energy crisis and other factors make it doubtful whether this source will continue to expand at its previous high rate and the country will, therefore, need to maintain a high level of foreign borrowing. Its gross medium- and long-term capital requirements are tentatively estimated at between US\$2.0 and 2.5 billion per year during 1974-79. Around US\$500-600 million of this may be provided in the form of official development assistance from bilateral and multilateral sources. The remainder will come mainly from foreign banks and suppliers. Raising such large sums will be a formidable challenge, but Yugoslavia's success in the past in obtaining the funds it requires from the capital markets, and its continued good credit standing, give grounds for confidence that it will be able to obtain the capital inflow required to finance its development efforts.

### Creditworthiness

19. In spite of the present unsettled international conditions, 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 energy sources, its pragmatic approach to economic problems and its readiness to undertake institutional changes, combine to give grounds for a favorable assessment of future prospects.

20. External public and publicly-guaranteed debt outstanding as of December 31, 1973 was US\$1,912 million. In addition there was US\$2,407 million non-public external debt outstanding. Total (public and non-public) debt service payments in 1973 were equivalent to 13.5 percent of foreign exchange earnings including workers' remittances. With external borrowing projected at around US\$2 billion per year during 1974-76 with a rising trend, the debt

service ratio (public and non-public) is expected to gradually increase over the next few 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 foreign exchange earnings, Yugoslavia remains creditworthy for a substantial amount of Bank lending.

21. Many of the high priority projects in Yugoslavia have a low foreign exchange component due to the relatively advanced state of Yugoslav industry and the competitiveness of Yugoslav contractors. Were the Bank to confine its lending to the foreign exchange costs of projects, an adequate contribution to Yugoslavia's external capital needs could be made only by spreading the lending over a large number of projects, including some of lesser priority. Therefore it seems reasonable to provide for some measure of local expenditure financing in the Bank's lending program.

## PART II - BANK GROUP OPERATIONS IN YUGOSLAVIA

22. The Bank has made 32 loans totalling about US\$1,021 million to Yugoslavia. Of this amount approximately 50 percent (US\$531.4 million) has been for 12 loans for the transportation sector - six for highways totalling US\$180 million, four for railways totalling US\$248 million, US\$59.4 million for the Naftagas pipeline and \$44 million for the Port of Bar Project. Bank lending has generally concentrated on infrastructure including, in addition to the transportation loans, power (three loans totalling US\$135 million), telecommunications (one loan for US\$40 million), three multipurpose projects totalling US\$103 million and US\$6 million for the Dubrovnik Water Supply and Wastewater project. Nine loans have also been made for industry, two for tourism and one for agricultural industries. This would be the fourth in the electric power sector (the first two were for hydropower projects in 1961 and 1962, and the third was for a power transmission project in 1972). IFC has made eight investments in Yugoslavia totalling about US\$80 million.

23. In the past few years delays in loan effectiveness have hampered project implementation. To some extent delays are inevitable since the clearance of loan documents involves all the Republics and Provinces in every case. Thus conditions of effectiveness can rarely be met speedily regardless of how well the ground is prepared. Following the adoption of a new constitution last year, the Federal Government is drawing up plans for revised procedures which would simplify the loan ratification process and enable project implementation to get underway more quickly. In the meantime steps have been taken to speed up the existing clearance procedure. All six loans approved in FY74 and the first approved in FY75 have been declared effective and disbursements have started on all of them. Disbursements generally have picked up substantially and have been running at a rate in excess of \$100 million per annum over the past six months. There have been delays in the execution of several projects particularly the Belgrade-Bar Railway project and the Bernardin and Babin Kuk tourism projects. Annex II contains a summary statement of Bank loans and IFC investments as of March 31, 1974 and notes on the execution of on-going projects.

24. The major objectives of Bank lending to Yugoslavia are to accelerate development in the less-developed regions of the country; to promote agricultural development, particularly among the small private farmers by providing basic infrastructure and credit for the financing of farm development, equipment and processing facilities; to promote structural reforms in major sectors of the economy through improved coordination and the strengthening of institutions; and to provide Yugoslavia with long-term external capital and thus help reduce the country's dependence on short-term external borrowings. These objectives are basically the same as those which have guided Bank lending in previous years, but efforts to give special support to the less-developed regions and the small farmers are being strengthened.

25. Over the next two years loans envisaged for less developed areas include the present proposal, urban (air and water) pollution control and two major multipurpose projects. Highway, railway, power transmission and oil pipeline projects will both assist the less-developed regions and promote structural reforms in the transport and energy sectors. A high priority agriculture credit project will assist small private farmers as well as social sector enterprises throughout the country. 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.

26. In addition to substantial assistance given in identifying and preparing projects for Bank financing, the Bank is providing technical assistance in several areas. A series of regional studies of the four less-developed regions of Yugoslavia was initiated two years ago and two studies, covering Kosovo and Bosnia-Herzegovina, have been completed. A third study, of Macedonia, was carried out last month. This series, when completed, will contribute to better assessment of development programs and will assist in formulating development strategies for these regions. Other current activities include assistance with a study on the Yugoslav capital market designed to help improve resource mobilization and allocation, and assistance for a training program for auditors of the Social Accounting Service which audits all enterprises and Government activities, including Bank financed projects. Assistance from EDI, as well as the Bank, has been directed towards the improvement of project evaluation; this objective is also implicit in most Bank loans to Yugoslavia.

27. The level of Bank lending to Yugoslavia has risen substantially and is expected to average about US\$200 million annually during the period FY74 to FY76. Although this represents only a small proportion of the country's need for external finance, it would be equivalent to almost one-third of the annual long-term official capital inflow in convertible currencies. Even assuming that the level of Bank lending rises during the next five years, the outstanding debt to the Bank would remain about 10 percent of Yugoslavia's total external debt. Service on Bank loans as a proportion of total debt service would increase from 3.2 percent in 1973 to 4.8 percent in 1976.

### PART III - THE ELECTRIC POWER SECTOR

28. In recent years the generation of electric power has not kept pace with demand in Yugoslavia. In 1974 the shortfall was estimated to have been about 1.8 billion kilowatt hours (kWh) or about 5-6 percent of total requirements. Shortages of 3-5 percent of energy required are expected to prevail until 1977/78. Industrial consumption accounts for half the total demand and suffers the most from the shortages. There are also regional and seasonal imbalances in the supply and demand due to the organization of the sector. Construction of new generating capacity has lagged because of the shortage of investment funds. Low cost Federal funds which had been available in the 1950s and 1960s permitted low electricity tariffs to prevail. Tariffs have only recently been increased and, along with local legislation providing for power sector investment funds, are now beginning to finance an expanded construction program.

#### Potential for Expansion

29. Yugoslavia has great potential for expanding electric power generation. Hydropower potential is estimated at 64 billion kWh per year. At present only about 30 percent of this is developed. The potential for thermal power production is even greater. Brown coal reserves are estimated at 3.4 billion m.t. and production in 1973 was only 9.1 million m.t. Lignite reserves are estimated at 18.1 billion m.t. (1973 production was 22.7 million m.t.). The lignite reserves are especially attractive for thermal power generation because they are easily strip mined and, due to their low calorific value, their energy is most economically transported through conversion to electric power. Thermal power will be developed more rapidly than hydropower and by 1990 will provide about 76 percent of the nation's total power needs compared with 46 percent in 1972.

30. Installed generating capacity of the country's bulk suppliers, which provide over 90 percent of all power, is expected to grow from 8 million kilowatts (kW) in 1973 to about 19 million kW in 1980. Electricity sales are expected to increase from 29.4 billion kWh in 1973 to 67 billion kWh in 1980 and 100 billion kWh in 1985. Per capita consumption of electricity will grow from 1,600 kWh in 1973 to 4,600 in 1985 (comparable to consumption in the United Kingdom in 1971).

#### Organization

31. The power sector is organized, as are other sectors, on the principles of workers' self-management. Power plants and other independently viable entities are Basic Organizations of Associated Labor (BOALs), the basic level of workers' organization. BOALs commonly, and voluntarily, join together in Work Organizations to better coordinate their activities over a larger geographic area. The power organizations in the country are broadly divided into generation/transmission and distribution subsectors. The generation and transmission enterprises are required to join the Union of Yugoslav Electric Power Industry (JUGEL). JUGEL coordinates the major aspects

of power generation and transmission in the country, but has no executive authority over its members. Some of the major distribution enterprises have joined JUGEL and others are expected to do so.

32. Because of its decentralized organization the power sector has developed on a local and regional basis. The Bank is encouraging integration of the sector through development of a 380-kV transmission system that will provide a country-wide electricity grid (Loan 836-YU, June 23, 1972). The grid will help eliminate imbalances in supply and demand due to consumers and suppliers being geographically remote (population is heaviest in the north, while power generation capacity is concentrated in the south). It will also help smooth out seasonal variations due to differences in the rainfall patterns in major hydropower producing areas.

33. There was little coordinated planning of future investments from 1965 to 1972. Each power enterprise had its own plan and these were aggregated by Republic and Province. In connection with the Power Transmission Loan, JUGEL prepared a study on the "Development of Electric Power Production in Yugoslavia, 1972 to 1980". The study forecast supply and demand and identified needed investments but did not provide priority ranking or identify financial resources; matters which are the responsibility of JUGEL's members rather than JUGEL itself. With Bank encouragement, a least cost development plan identifying the investment priorities is now being prepared.

#### Financing Electric Power Development

34. Until 1962 the Federal Government provided the bulk of electric power development funds through long-term, low-interest loans. In connection with the general decentralization of economic activity, enterprises, republics and local governments provided an increasing share of investment funds for new plant construction between 1962 and 1970. After January 1, 1971, Federal funds for power investments were no longer available. The access to long-term, low-interest credit in the 1950s and 1960s had allowed low tariff rates to prevail and, when such credit was no longer available, power enterprises were unable to finance expansion because of their low rate of internal cash generation. Construction of new power plants fell behind the growing demand for electricity.

35. Since 1972, tariffs rates have been increasing and this situation has been steadily improving. Under Loan 836, it was agreed that tariffs would be set sufficiently high, or other forms of consumer payment (e.g. connection charges) would be arranged, to enable enterprises to generate incomes to provide 35 percent of the funds required for new investment from their own resources. The balance of needed financing was expected to come from foreign loans (development assistance and commercial credits), local bank loans and special resources raised by republic and local governments.

PART IV - THE PROJECT

36. The project is part of a long-range plan for developing the hydro-power resources of the Drina River in Bosnia-Herzegovina, one of the less-developed Republics in Yugoslavia. It was selected for Bank consideration from among 12 high priority power projects submitted by the Federal Government in 1973 (see para. 58). It was appraised in September/October 1974. Negotiations were held in March 1975 in Washington. The Yugoslav Delegation was led by Mr. Miodrag Stojiljkovic, Assistant Federal Secretary for Finance, and included representatives of the Socialist Republic of Bosnia-Herzegovina, Elektroprivreda Bosne i Hercegovine-Sarajevo and Hidroelektrane na Drini-Sarajevo.

Project Description

37. The project is summarized in Annex III and described in detail in the report entitled "Appraisal of the Buk Bijela Hydropower Project," No. 650a-YU and dated April 22, 1975 which is being distributed separately. It would consist of construction of the 450-MW Buk Bijela hydropower station on the Drina River, including a rock fill dam with clay core, spillways, intakes and pressure tunnels, a cavern-type power house with four 11.2-MW turbogenerators, accessory equipment and a switchyard. A compensating reservoir with a concrete dam would be constructed 10 km downstream to regulate discharge waters. Consulting services would be provided for assistance with administration, accounting and training and for special engineering studies.

Project Execution

38. The construction of the power station would be the responsibility of Hidroelektrane na Drini-Sarajevo (Drina). Drina is an organization "under foundation", i.e. one that is in the process of creating assets which will be taken over by a Basic Organization of Associated Labor when they begin earning revenue. Drina's founder is Elektroprivreda and the workers of Drina share its management with representatives of Elektroprivreda. Drina's functions, rights and obligations will be identified in a contract that it will sign with Elektroprivreda. The execution and delivery of the contract, satisfactory to the Bank, would be a condition of effectiveness of the proposed loan (Loan Agreement, Section 7.01 e).

39. Drina has been established not only to construct the Buk Bijela power plant but also to prepare and carry out a program to develop the full hydropower resources of the Drina River in Bosnia-Herzegovina. Upon completion of Buk Bijela, it is expected that a cadre of workers from Drina will form a BOAL to assume the assets and operate the plant, while Drina would move on to the construction of the next plant in the program. It has been agreed that any such transfer of assets shall occur under arrangements satisfactory to the Bank (Project Agreement, Section 5.04).

40. In view of Drina's status as an organization under foundation and because it will probably not operate Buk Bijela, Elektroprivreda has been selected as the Borrower for the proposed Bank loan. Elektroprivreda is a Work Organization composed of the seventeen BOALs responsible for bulk power generation, transmission and supporting services in the Republic of Bosnia-Herzegovina. Elektroprivreda would act in its own behalf and on behalf of its constituent Basic Organizations all of which would collectively be the Borrower. Under its Self-Management Agreement signed December 21, 1973 Elektroprivreda is responsible for power development and operations within Bosnia-Herzegovina including:

- (i) preparation of major power development programs;
- (ii) pooling of capital investment funds;
- (iii) determination of the annual and long-term power balance;
- (iv) collection and distribution of revenues; and
- (v) determination of electricity tariffs (within established legal ceilings) for the purchase and sale of power.

41. Elektroprivreda and Drina have agreed that the proceeds of the Bank Loan (except those allocated for management consultants) would be made available to Drina by Elektroprivreda under arrangements acceptable to the Bank (Loan Agreement, Section 3.01 c). The contract to be signed by Elektroprivreda and Drina will include these arrangements, providing, inter alia, that the proceeds are made available on the same terms and conditions as the Bank Loan and that there is adequate provision for Drina, or any other organization that may assume Buk Bijela's assets, to repay the proceeds, with interest, to the Borrower.

42. Drina has employed consultants satisfactory to the Bank to prepare the final design and bid documents, to evaluate the bids and to supervise construction. Drina has agreed to continue to employ these consultants and, if necessary, employ special consultants to assist with important geologic or hydro problems that may arise during construction (Project Agreement, Section, 2.02). Final design and bid documents are under preparation. Preliminary civil works in preparation for the major dam construction have also begun. Construction of the dam is expected to begin by the end of 1975 and the entire project is expected to be completed by the end of 1979 or early 1980.

#### Project Cost and Financing

43. The project is estimated to cost US\$242.5 million (excluding interest during construction, but including duties and taxes). The direct foreign costs are estimated to be US\$85.9 million or about 35 percent of total project cost. Physical and price contingencies would represent about 37 percent of total cost.

44. A Bank loan of US\$70.0 million is proposed. It would amount to about 29 percent of total project cost (excluding interest during construction) and about 81 percent of foreign costs. The remaining sources of finance for the project would be loans from industries located in the republic and surcharges on electricity consumption provided by special legislation of the Republic of Bosnia-Herzegovina (about 33 percent), the Federal Fund for Credit- ing Accelerated Development in Economically Insufficiently Developed Republics and the Autonomous Province of Kosovo (Federal Fund) (about 3 percent) and Elektroprivreda's internal resources (about 35 percent). The execution of undertakings satisfactory to the Bank for the provision of the financial contributions to be provided by the special Republican legislation and the internal resources of the Borrower would be conditions of effectiveness (Loan Agreement, Recitals C and D, and Section 7.01 (a) and (d)). The availability of the resources from the Federal Fund have been confirmed to the satisfaction of the Bank. The Republic has agreed to arrange, through the provisions of the special legislation, any additional finance that may be required, and a formal undertaking to this effect would be a condition of effectiveness (Loan Agreement, Recital D and Section 7.01 (d)).

45. The Buk Bijela project represents only about 15 percent of Elektroprivreda's investment program for 1973-80. The estimated total cost of the program would be about US\$1.6 billion. During the construction period of the Buk Bijela Project (1974-79), the program is expected to be financed from internal cash generation (33 percent), consumer's contributions (11 percent) and borrowings (56 percent). The internally generated cash of the constituent BOALs would be pooled and lent to those executing projects in the program under the provisions of a special self-management agreement, the execution of which would be a condition of effectiveness (Loan Agreement, Section 7.01 b). The Republic has undertaken to take all such measures as may be required to provide Elektroprivreda with any additional funds that may be required to complete the program as scheduled.

46. In addition to the direct financing, support for the program would be provided by waiving all income tax payable by generation and transmission BOALs between 1974 and 1980 and deferring, until the end of 1980, debt service payments on about 60 percent of the BOALs existing debt (mostly loans from Government Funds).

47. Prior to the creation of Elektroprivreda in December 1973, power generation and transmission in Bosnia-Herzegovina was handled by six enterprises. These have now organized themselves into the 17 BOALs comprising Elektroprivreda. During appraisal, Elektroprivreda prepared financial statements for 1972 and 1973 by consolidating the statements of the six former enterprises. The consolidated income accounts show rates of return of about 5 percent. Electricity sales in 1973 were about 3 percent above 1972 and revenues, because of tariff increases, were 24 percent above 1972.

The revenue increase was sufficient only to meet rising costs due to inflation. Depreciation averaged 3.7 percent of gross fixed assets in operation and interest on debt averaged 3.3 percent. In 1973 gross fixed assets were valued at about US\$400 million and outstanding debt at about US\$160 million (much of which was low-interest, long-term debt). In view of the limited expansion program in 1972 and 1973, and the favorable terms applying to the long-term debt, the 1973 five percent rate of return was satisfactory.

48. During the period of the expansion program, electricity sales are expected to increase about 2.6 times. With expected tariff increases, the corresponding revenues will increase about 7 times. Total expenditure for the construction program will increase the value of gross fixed assets in service to Din 50.5 billion as of December 31, 1980 (adjusted for revaluation to reflect expected increases in the general level of prices). Total borrowing will increase long-term debt to 6 times the 1973 level but the debt/equity ratio is expected to improve from 43/57 in 1973 to 38/62 by the end of 1980.

49. The financial forecasts show a rate of return averaging about 5%. If the revenue surcharges are included as part of operating income the average rate of return is about 7.5%. Further, if an adjustment is made for the accelerated depreciation charged on assets used in two or more shifts the average rate of return is about 9%. This latter figure represents a reasonable rate of return and reflects more adequately than the other calculations the true financial rate of return. The rate of return for the last year of the period is low (6.5%), largely because of the increases in plant expected to become operational at that time, but it should not be regarded with concern in view of the uncertainty about cash needs for future expansion and because the tariff adjustment mechanism (see para 50) is designed to ensure a reasonable level of internal funds will be available to meet future expansion. The forecasts show that Elektroprivreda will finance about 33% of its expansion needs from internal sources during the construction period of the Project and 34% to 1980. If the revenue surcharges are included as part of internal cash generation, the contribution to investment requirements from internal sources will be 47% - a very adequate level.

50. To insure that adequate internal funds for future expansion are generated, the Borrower has agreed (Loan Agreement, Section 5.04) to apply rates for the sale of power at such levels as shall provide revenues sufficient:

- (i) to cover in any given year, all operating expenses including employee compensation, depreciation, and interest on debt;
- (ii) to cover, in any given year, debt amortization insofar as it exceeds depreciation; and
- (iii) to finance, after payment of taxes and other contributions provided by law, if any, an average of not less than 35 percent of the cost of investment in power facilities including interest payable during construction and its working capital requirements, during any social economic development plan period of the Guarantor.

Tariff increases needed to meet these requirements would be about 15 percent p.a. in 1975, 1976 and 1977, and about 7-1/2 percent in 1978, 1979 and 1980. (The need for increased tariffs is well understood in Yugoslavia and, through national coordination, tariffs throughout the country are being increased by up to 30 percent in 1975.) Elektroprivreda has also agreed to use its best efforts to maintain a uniform depreciation policy for its assets consistently applied from year to year (Loan Agreement, Section 5.08).

51. The introduction of new projects or major changes in the 1973-80 construction program would alter these projections and the Borrower has, therefore, agreed to discuss with the Bank any proposals for changes resulting in a variation in cost of the program equivalent to 100 million Dinars (about \$6 million) or more (Loan Agreement, Section 5.06).

52. Elektroprivreda, being a new Work Organization, is still establishing its management system. Procedures for consolidating the financial statements of the constituent BOALs, and management information systems to provide prompt and regular information on operations, financial performance and construction costs are needed. Also training requirements need to be evaluated and, if necessary, programs established. In harmony with management studies being carried out under Loan 836-YU, Elektroprivreda has agreed to engage consultants to assist them in these areas and discuss with the Bank the actions they propose to take (Loan Agreement, Section 3.05).

#### Procurement and Disbursement

53. Contracts for equipment and supplies would be awarded on the basis of international competitive bidding in accordance with the Bank Group's "Guidelines for Procurement". A preference of 15 percent or applicable duties, whichever is less, would be granted to Yugoslav manufacturers who participate. Historically, Yugoslav manufacturers have been successful in similar bidding for hydro plant contracts. Construction equipment and materials for civil works to be financed from the proposed loan would be purchased by Drina, using procedures in accordance with the Bank's guidelines, and then made available to the civil works contractor. JUGEL, having gained experience in applying the Bank guidelines under Loan 836-YU, would help insure bid documents and procedures are in accordance with the guidelines. Contracts for special engineering and management consultants would be awarded under terms-of-reference and on conditions acceptable to the Bank.

54. The proposed loan would finance the foreign cost of part of the construction equipment and materials required for the civil works and the cost of hydro-mechanical and electrical materials and equipment. In the event Yugoslav suppliers win the contracts for equipment and materials on which they are expected to bid, direct foreign exchange expenditures would be reduced and a portion of the Bank loan would be disbursed in respect of local currency expenditures. However, taking into account the estimated indirect foreign costs, principally for civil works, the amount of the proposed loan would still be less than the total foreign cost of the project. Disbursements

would be for the c.i.f. cost of imported items or the ex-factory cost of items supplied under contracts won by Yugoslav manufacturers, and for the cost of related construction and engineering services, management consultants and training. Disbursements would begin in the final quarter of 1975 and be completed in December 1980.

#### Environment

55. The Buk Bijela reservoir and Foca compensating reservoir will displace about 610 persons; cause a road and forest railroad to be relocated; and, flood some agricultural land, a few buildings and a small power plant. Agreements have been reached on fair indemnifications for all these displacements. Ecological effects would be minimal. As there has yet been no study of possible problems for the fishery resources resulting from the series of dams proposed for the Drina basin, Elektroprivreda has agreed to arrange such a study on that portion of the Drina River located within Bosnia-Herzegovina. It would be carried out in the context of a study of the whole river basin by local experts under terms of reference acceptable to the Bank. The results of the study and any actions derived therefrom would be discussed with the Bank (Loan Agreement, Section 3.06).

#### Audit

56. Elektroprivreda's accounts would be audited by the Social Accounting Service (SAS). With Bank encouragement, the SAS started a program in January 1974 under which its staff are being trained by Coopers and Lybrand of the U.K. in auditing methods consistent with modern auditing standards. Elektroprivreda gave the Bank informal assurances that the group of specially trained auditors would be asked to conduct the audit of Elektroprivreda beginning with the accounts for the year ending December 31, 1976. In the event the special group cannot perform an audit satisfactory to the Bank, Elektroprivreda would engage other auditors.

#### Justification

57. Yugoslavia's power requirements have not been met in recent years. Power shortages are currently causing cuts of up to 50 percent of the power supply in at least two republics - street, public and shop lighting is being reduced; heating of business and social premises is being curtailed; voltage is being reduced, and, a 10 percent reduction to all consumers (except where it would jeopardize the work process) is in effect. Power shortages will inevitably continue for the next few years and would continue beyond that period, if large investments in new generation capacity were not made. The country's long-term development strategy calls for the progressive exploitation of hydropower and lignite resources, supplemented by the introduction of nuclear power on a growing scale from 1980 onward. Completion of the interconnected grid is being pursued on a high priority basis and intensive programs for the construction of power generation facilities are being undertaken.

58. In 1973 12 hydro schemes were identified as having priority for development in the various republics and for Bank financing. Buk Bijela was selected for Bank assistance because it was located in a less-developed republic; it would have a high storage capacity (a large reservoir) and high power capacity and energy capability; and, it would have secondary benefits in irrigation (water available for irrigation would increase by 7 percent), flood protection and tourism potential. Buk Bijela would form part of the interconnected power system of Yugoslavia. Its construction is consistent with the country's policy of reducing dependence on imported energy by developing local resources.

59. The economic justification of Buk Bijela was determined by using the discounted cash flow method to evaluate countrywide total system costs with Buk Bijela and with the alternative means of meeting power requirements most likely to be competitive. The program with Buk Bijela had the lowest present value up to a discount rate of at least 13.7 percent. Since the opportunity cost of capital in Yugoslavia is estimated to have a median value of about 9-10 percent, Buk Bijela would represent the least cost means to help meet forecast power consumption in the country.

60. The rate of return is estimated to be 11.2 percent, measuring benefits only by the incremental revenues from power sales attributable to the project plus net secondary benefits. Sensitivity analysis shows the rate would remain above 10 percent in all cases except an assumed 20 percent increase in capital costs (when it would be 9.5 percent).

#### PART V - LEGAL INSTRUMENTS AND AUTHORITY

61. The draft Loan Agreement between the Bank and Elektroprivreda, Bosne i Hercegovine, the draft Project Agreement between the Bank and Hidroelektrane na Drini, 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 above loan, are being distributed to the Executive Directors separately.

62. Provisions of the Loan Agreement of special interest were noted in paragraphs 38, 39, 41, 42, 50, 51, 52 and 55.

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

PART VI - RECOMMENDATIONS

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

Robert S. McNamara  
President

Attachments



COUNTRY DATA - YUGOSLAVIA

| AREA                    | POPULATION               | DENSITY                                |
|-------------------------|--------------------------|--|
| 255,804 km <sup>2</sup> | 20.77 million (mid-1972) | 202 Per km <sup>2</sup> of arable land |

SOCIAL INDICATORS

|   | Yugoslavia  |             | Reference Countries |                  |                             |
|---|-------------|-------------|---------------------|------------------|-----------------------------|
|   | 1960        | 1970        | Portugal<br>1970    | Romania*<br>1970 | Germany, Fed. Rep.*<br>1970 |
| <b>GNP PER CAPITA US\$ (ATLAS BASIS) /1</b>           | 375         | 810 /a      | 780 /a              | 810 /a           | 3,390 /a                    |
| <b>DEMOGRAPHIC</b>                                    |             |             |                     |                  |                             |
| Crude birth rate (per thousand)                       | 24          | 18          | 18                  | 21               | 13.4                        |
| Crude death rate (per thousand)                       | 10          | 9           | 10                  | 10               | 12.1                        |
| Infant mortality rate (per thousand live births)      | 88          | 56          | 58                  | 19               | 23.5                        |
| Life expectancy at birth (years)                      | 62          | 65          | 67 /b               | 69               | 69.1                        |
| Gross reproduction rate /2                            | 1.3         | 1.3         | 1.5 /b              | 1.3              | 1.2                         |
| Population growth rate /3                             | 1.2         | 1.0 /c      | 0.9 /c              | 1.0 /c           | 0.9 /c                      |
| Population growth rate - urban                        | 5 /d        | 3 /d        | ..                  | 3 /e             | ..                          |
| <b>Age structure (percent)</b>                        |             |             |                     |                  |                             |
| 0-14  | 31          | 28          | 28.3 /f             | 26               | 23.0 /f                     |
| 15-64   | 63          | 64          | 62.5 /f             | 65               | 63.6 /f                     |
| 65 and over   | 6           | 8           | 9.2 /f              | 9                | 13.4 /f                     |
| Dependency ratio /4                                   | 0.9 /g      | 0.8 /g      | 1.1                 | 0.7              | 0.8 /f                      |
| Urban population as percent of total                  | 28 /d       | 35 /d       | ..                  | 41 /e            | 38.4 /h,i                   |
| Family planning: No. of acceptors cumulative (thous.) | ..          | ..          | ..                  | ..               | ..                          |
| No. of users (% of married women)                     | ..          | ..          | ..                  | ..               | ..                          |
| <b>EMPLOYMENT</b>                                     |             |             |                     |                  |                             |
| Total labor force (thousands)                         | 8,300       | 8,900 /f    | 3,400 /j            | 9,900 /j         | 26,800 /f,k                 |
| Percentage employed in agriculture                    | 57          | 45 /f       | 36.6 /j             | 49 /j            | 8.2 /f,k                    |
| Percentage unemployed                                 | 7 /l        | 3.3 /f,nd   | ..                  | 0                | 0.8 /f,k                    |
| <b>INCOME DISTRIBUTION</b>                            |             |             |                     |                  |                             |
| Percent of national income received by highest 5%     | 17 /m,n     | 15 /n,o     | ..                  | 6 /p             | ..                          |
| Percent of national income received by highest 20%    | 41 /m,n     | 42 /n,o     | ..                  | ..               | ..                          |
| Percent of national income received by lowest 20%     | 7 /m,n      | 7 /n,o      | ..                  | 24 /g            | ..                          |
| Percent of national income received by lowest 40%     | 19 /m,n     | 19 /n,o     | ..                  | ..               | ..                          |
| <b>DISTRIBUTION OF LAND OWNERSHIP</b>                 |             |             |                     |                  |                             |
| % owned by top 10% of owners                          | ..          | ..          | ..                  | ..               | ..                          |
| % owned by smallest 10% of owners                     | ..          | ..          | ..                  | ..               | ..                          |
| <b>HEALTH AND NUTRITION</b>                           |             |             |                     |                  |                             |
| Population per physician                              | 1,400 /l    | 1,010       | 1,100               | 840 /j           | 580                         |
| Population per nursing person                         | 500 /l,r    | 410         | 900 /a              | 200 /j           | 350                         |
| Population per hospital bed                           | 190 /l      | 180         | 160                 | 120              | 90                          |
| Per capita calorie supply as % of requirements /5     | 119 /t      | 125 /o      | 117                 | 110              | 120 /u                      |
| Per capita protein supply, total (grams per day) /6   | 91 /t       | 92 /o       | 82                  | 82               | 83 /u                       |
| Of which, animal and pulse                            | 27 /t       | 29 /o       | 40                  | 28               | 56 /u                       |
| Death rate 1-4 years /7                               | 4.7 /t      | 2.5 /t      | 3.2 /f              | 2.4              | 0.9 /t                      |
| <b>EDUCATION</b>                                      |             |             |                     |                  |                             |
| Adjusted /8 primary school enrollment ratio           | 91          | 94          | 95                  | 109              | 132                         |
| Adjusted /8 secondary school enrollment ratio         | 34          | 45          | 65                  | 62               | 61                          |
| Years of schooling provided, first and second level   | 12          | 12          | 13                  | 12-14            | 12-15                       |
| Vocational enrollment as % of sec. school enrollment  | 72          | 72          | 32                  | 58 /ac           | 48                          |
| Adult literacy rate %                                 | 77          | 85 /i       | ..                  | ..               | 99 /i,v                     |
| <b>HOUSING</b>  |             |             |                     |                  |                             |
| Average No. of persons per room (urban)               | 1.7 /w      | 1.3 /r      | ..                  | 1.3 /x           | 0.7 /o,z                    |
| Percent of occupied units without piped water         | 58 /w,aa,ab | 66 /r,aa,ab | ..                  | 88 /x,aa,ab      | 0.3 /o,ab                   |
| Access to electricity (as % of total population)      | 55 /w,aa    | 88 /r,aa    | ..                  | 49 /x,aa         | 100 /o                      |
| Percent of rural population connected to electricity  | 36 /w,aa    | 80 /r,aa    | ..                  | 27 /x,aa         | ..                          |
| <b>CONSUMPTION</b>                                    |             |             |                     |                  |                             |
| Radio receivers per 1000 population                   | 84          | 164         | 11.2                | 152              | 318                         |
| Passenger cars per 1000 population                    | 3           | 35          | 60                  | ..               | 220                         |
| Electric power consumption (kwh p.c.)                 | 529 /w      | 1,288       | 768                 | 1,615            | 4,057                       |
| Newsprint consumption p.c. kg per year                | 2.3         | 4.3         | 4.6                 | 2.5              | 17.5                        |

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1966-60 or 1966-70; the latest years in principle to 1960 and 1970.

- /1 The Per Capita GNP estimate is at market prices for years other than 1960, calculated by the same conversion technique as the 1972 World Bank Atlas.
- /2 Average number of daughters per woman of reproductive age.
- /3 Population growth rates are for the decades ending in 1960 and 1970.
- /4 Ratio of under 15 and 65 and over age brackets to those in labor force bracket of ages 15 through 64.
- /5 FAO reference standards represent physiological requirements for normal activity and health, taking

account of environmental temperature, body weights, and distribution by age and sex of national populations.

/6 Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day; and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

/7 Some studies have suggested that crude death rates of children ages 1 through 4 may be used as a first approximation index of malnutrition.

/8 Percentage enrolled of corresponding population of school age as defined for each country.

/a 1972; /b 1965-70, UN estimate; /c 1960-72; /d For the definition of urban, see UN Demographic Yearbook 1972, p. 157; /e Cities, towns and 183 other localities having urban socio-economic characteristics; /f 1971; /g Ratio of population under 15 and 65 and over to total labor force; /h 1969; /i Definition not available; /j Estimate; /k Estimate based on the results of a labor force sample survey; /l 1962; /m 1963; /n Households; /o 1968; /p Percent of salaried workers earning more than 2,500 lei; /q Percent of salaried workers earning less than 1,100 lei; /r Including midwives, assistant nurses and assistant midwives; /s Includes midwives; /t 1960-62; /u 1969-70; /v 15 years and over; /w 1961; /x 1966; /y Urban only; /z Urban and rural; /aa Percentage of dwellings; /ab water piped inside; /ac Full-time education; /ad Ratio of registered job seekers to active population.

\* Selection of the Federal Republic of Germany as an objective country is based on the close economic ties maintained by the two countries, as well as on the fact that the greater part of Yugoslavia's 800,000 workers, who work abroad, have found employment in the Federal Republic of Germany.

Although Romania is in the same per capita GNP group as Yugoslavia, it has been selected since the social development planning policies and population size are similar in both. Moreover, both countries have major trade ties with one another.

IMPORT DETAIL  
(million US\$)

| A. <u>Constant (1972) Prices</u>     | Av.<br>1967-69 | 1972  | 1973  | 1974 <sup>1/</sup> | 1975 <sup>2/</sup> | 1976 <sup>2/</sup> |
|--------------------------------------|----------------|-------|-------|--------------------|--------------------|--------------------|
| 1. Food                              | 131            | 207   | 228   | 259                | 250                | 250                |
| 2. Other consumer goods              | 309            | 296   | 295   | 348                | 345                | 370                |
| 3. Petroleum                         | 83             | 161   | 182   | 205                | 217                | 230                |
| 4. Other intermediate goods          | 1,262          | 1,875 | 2,116 | 2,391              | 2,544              | 2,676              |
| 5. Capital goods                     | 547            | 689   | 833   | 922                | 987                | 1,056              |
| 6. Total goods c.i.f.                | 2,332          | 3,227 | 3,654 | 4,125              | 4,343              | 4,582              |
| 7. Non-factor services               | 299            | 594   | 522   | 602                | 638                | 676                |
| 8. Total goods and NFS               | 2,631          | 3,821 | 4,176 | 4,727              | 4,981              | 5,258              |
| <br>                                 |                |       |       |                    |                    |                    |
| B. <u>Price Indices (1972 = 100)</u> |                |       |       |                    |                    |                    |
| 1. Food                              | 83.9           | 100   | 150.6 | 187.6              | 197.0              | 206.9              |
| 2. Other consumer goods              | 78.9           | 100   | 120.5 | 147.0              | 163.1              | 179.4              |
| 3. Petroleum                         | 81.1           | 100   | 142.5 | 455.5              | 505.5              | 542.5              |
| 4. Other intermediate goods          | 81.4           | 100   | 120.5 | 167.8              | 184.2              | 197.2              |
| 5. Capital goods                     | 78.9           | 100   | 120.5 | 144.6              | 160.4              | 173.5              |
| 6. Non-factor services               | 78.9           | 100   | 123.5 | 154.9              | 169.6              | 183.0              |
| <br>                                 |                |       |       |                    |                    |                    |
| C. <u>Current Prices</u>             |                |       |       |                    |                    |                    |
| 1. Food                              | 110            | 207   | 343   | 486                | 493                | 517                |
| 2. Other consumer goods              | 244            | 296   | 356   | 512                | 563                | 664                |
| 3. Petroleum                         | 68             | 161   | 259   | 934                | 1,097              | 1,246              |
| 4. Other intermediate goods          | 1,027          | 1,875 | 2,550 | 4,013              | 4,686              | 5,278              |
| 5. Capital goods                     | 432            | 689   | 1,004 | 1,333              | 1,583              | 1,832              |
| 6. Total goods                       | 1,880          | 3,227 | 4,511 | 7,278              | 8,422              | 9,538              |
| 7. Non-factor services               | 236            | 594   | 657   | 932                | 1,082              | 1,237              |
| 8. Total goods and NFS               | 2,116          | 3,821 | 5,168 | 8,210              | 9,504              | 10,774             |

<sup>1/</sup> Estimates.

<sup>2/</sup> Projections.

May 1, 1975

EXPORT DETAIL  
(million US\$)

| A.  | <u>Constant (1972) Prices</u>     | Av.<br>1966-69 | 1972  | 1973  | 1974 <sup>1/</sup> | 1975 <sup>2/</sup> | 1976 <sup>2/</sup> |
|-----|-----------------------------------|----------------|-------|-------|--------------------|--------------------|--------------------|
| 1.  | Meat                              | 245            | 247   | 193   | 67                 | 100                | 150                |
| 2.  | Other agricultural products       | 54             | 21    | 34    | 40                 | 60                 | 60                 |
| 3.  | Wood                              | 69             | 83    | 68    | 70                 | 71                 | 72                 |
| 4.  | Steel                             | 65             | 51    | 74    | 76                 | 79                 | 81                 |
| 5.  | Copper                            | 37             | 53    | 33    | 33                 | 33                 | 33                 |
| 6.  | Other primary metals              | 71             | 82    | 80    | 81                 | 83                 | 84                 |
| 7.  | Machinery and equipment           | 375            | 544   | 603   | 664                | 717                | 774                |
| 8.  | Fabrics and clothing              | 203            | 274   | 259   | 261                | 296                | 313                |
| 9.  | All other goods                   | 597            | 1,019 | 918   | 1,085              | 1,150              | 1,253              |
| 10. | Total goods                       | 1,714          | 2,237 | 2,264 | 2,377              | 2,589              | 2,820              |
| 11. | Non-factor services               | 743            | 1,188 | 1,249 | 1,303              | 1,381              | 1,464              |
| 12. | Total goods and NFS               | 2,457          | 3,425 | 3,513 | 3,680              | 3,970              | 4,284              |
| B.  | <u>Price Indices (1972 = 100)</u> |                |       |       |                    |                    |                    |
| 1.  | Meat                              | 62.9           | 100   | 127.7 | 140.9              | 160.4              | 169.2              |
| 2.  | Other agricultural products       | 83.5           | 100   | 150.6 | 186.5              | 205.2              | 215.5              |
| 3.  | Wood                              | 77.9           | 100   | 204.0 | 218.5              | 229.4              | 240.8              |
| 4.  | Steel                             | 51.3           | 100   | 132.0 | 152.2              | 165.5              | 172.2              |
| 5.  | Copper                            | 120.5          | 100   | 168.9 | 229.0              | 218.0              | 221.6              |
| 6.  | Other primary metals              | 103.6          | 100   | 144.7 | 205.3              | 201.0              | 207.2              |
| 7.  | Machinery and equipment           | 78.9           | 100   | 120.5 | 145.6              | 161.1              | 173.5              |
| 8.  | Fabrics and clothing              | 78.9           | 100   | 120.5 | 137.3              | 152.3              | 163.6              |
| 9.  | All other goods                   | 78.9           | 100   | 120.5 | 171.0              | 187.9              | 144.8              |
| 10. | Total goods                       | 77.6           | 100   | 126.0 | 162.5              | 176.9              | 188.1              |
| 11. | Non-factor services               | 78.9           | 100   | 123.8 | 154.9              | 169.6              | 183.0              |
| C.  | <u>Current Prices</u>             |                |       |       |                    |                    |                    |
| 1.  | Meat                              | 154            | 247   | 247   | 94                 | 160                | 254                |
| 2.  | Other agricultural commodities    | 45             | 21    | 52    | 75                 | 123                | 129                |
| 3.  | Wood                              | 53             | 83    | 139   | 152                | 163                | 173                |
| 4.  | Steel                             | 33             | 51    | 98    | 116                | 130                | 139                |
| 5.  | Copper                            | 44             | 53    | 56    | 77                 | 73                 | 74                 |
| 6.  | Other primary metals              | 74             | 82    | 115   | 167                | 166                | 175                |
| 7.  | Machinery and equipment           | 296            | 544   | 727   | 966                | 1,155              | 1,343              |
| 8.  | Fabrics and clothing              | 160            | 274   | 313   | 358                | 450                | 513                |
| 9.  | All other goods                   | 471            | 1,019 | 1,107 | 1,855              | 2,161              | 2,504              |
| 10. | Total goods                       | 1,330          | 2,237 | 2,853 | 3,860              | 4,581              | 5,304              |
| 11. | Non-factor services               | 586            | 1,188 | 1,546 | 2,019              | 2,342              | 2,679              |
| 12. | Total goods and NFS               | 1,916          | 3,425 | 4,399 | 5,879              | 6,923              | 7,983              |

<sup>1/</sup> Estimates.<sup>2/</sup> Projections.

SUMMARY BALANCE OF PAYMENTS  
(million US\$)

|   | Av.<br><u>1967-69</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> <sup>3/</sup> | <u>1975</u> <sup>4/</sup> | <u>1976</u> <sup>4/</sup> |
|---|-----------------------|-------------|-------------|---------------------------|---------------------------|---------------------------|
| 1. Imports (inc. NFS)                                       | 2,116                 | 3,821       | 5,168       | 8,210                     | 9,509                     | 10,774                    |
| 2. Exports (incl. NFS)                                      | 1,916                 | 3,425       | 4,409       | 5,879                     | 6,923                     | 7,983                     |
| 3. Balance of goods and NFS                                 | -200                  | -396        | -759        | -2,331                    | -2,586                    | -2,791                    |
| 4. Interest   | -62                   | -138        | -155        | -264                      | -321                      | -406                      |
| a. On public debt   | -56                   | -63         | -76         | -126                      | -150                      | -169                      |
| b. On other debt  | -6                    | -75         | -79         | -138                      | -171                      | -237                      |
| 5. Workers' remittances                                     | 139                   | 889         | 1,310       | 1,500                     | 1,673                     | 1,837                     |
| 6. Other factor services (net)                              | -17                   | -10         | -19         | -8                        | -14                       | -23                       |
| 7. Current transfers (net)                                  | 38                    | 74          | 87          | 140                       | 140                       | 140                       |
| 8. Balance of current accounts                              | -101                  | 419         | 464         | -963                      | -1,108                    | -1,243                    |
| 9. Official capital grants                                  | -                     | -           | -           | -                         | -                         | -                         |
| 10. Public M & LT loans                                     |                       |             |             |                           |                           |                           |
| a. Disbursements  | 185                   | 538         | 400         | 450                       | 500                       | 600                       |
| b. Repayments   | -172                  | -415        | -293        | -333                      | -369                      | -396                      |
| c. Net Disbursements  | 13                    | 123         | 107         | 117                       | 131                       | 204                       |
| 11. Other M & LT (net) <sup>1/</sup>                        |                       |             |             |                           |                           |                           |
| a. Disbursements <sup>1/</sup>                              | 234                   | 300         | 620         | 949                       | 1,506                     | 1,728                     |
| b. Repayments   | -38                   | -92         | -323        | -494                      | -528                      | -689                      |
| c. Net Disbursements <sup>1/</sup>                          | 196                   | 208         | 297         | 455                       | 977                       | 1,039                     |
| 12. IMF Drawings  | -7                    | 22          | -           | -                         | -                         | -                         |
| 13. Other short term  | -69                   | -350        | -307        | 35                        | -                         | -                         |
| 14. Use of reserves   | -33                   | -422        | -561        | 356                       | -                         | -                         |
| <u>Memo Items</u>   |                       |             |             |                           |                           |                           |
| 15. Reserves (net), end period                              | -120                  | 145         | 689         | 481                       | 481                       | 481                       |
| 16. Debt service ratio: <sup>2/</sup>                       |                       |             |             |                           |                           |                           |
| Public  | 11.1                  | 11.1        | 6.5         | 6.2                       | 6.0                       | 5.8                       |
| Total   | 13.2                  | 15.0        | 13.5        | 14.8                      | 14.2                      | 15.2                      |
| 17. External debt outstanding<br>and disbursed, end period: |                       |             |             |                           |                           |                           |
| Public  | 1,191                 | 1,730       | 1,912       | 2,029                     | 2,160                     | 2,364                     |
| Total   | 1,785                 | 3,552       | 4,319       | 4,816                     | 5,824                     | 6,937                     |
| IBRD  | 212                   | 358         | 430         | 495                       | 574                       | 674                       |
| 18. IBRD service as % of:                                   |                       |             |             |                           |                           |                           |
| Public debt service   | 7.6                   | 14.6        | 9.0         | 9.6                       | 10.9                      | 12.7                      |
| Total debt service  | 6.4                   | 8.4         | 3.2         | 4.0                       | 4.6                       | 4.8                       |

<sup>1/</sup> Includes private direct investment.

<sup>2/</sup> On exports (incl. NFS) plus workers' remittances.

<sup>3/</sup> Estimates.

<sup>4/</sup> Projections.

May 1, 1975

## SELECTED ECONOMIC DEVELOPMENT DATA

|  | Av.     | Actuals |        | Projections |        |        | Growth Rates |         |         | As % of GDY |       |       |
|--|---------|---------|--------|-------------|--------|--------|--------------|---------|---------|-------------|-------|-------|
|  | 1967-69 | 1972    | 1973   | 1974        | 1975   | 1976   | 1965-70      | 1970-73 | 1973-76 | 1972        | 1974  | 1976  |
| <b>National Accounts</b><br>(average 1967-69 prices; million US\$) |         |         |        |             |        |        |              |         |         |             |       |       |
| GDP  | 10,542  | 13,491  | 14,375 | 15,450      | 16,704 | 17,957 | 4.7          | 6.1     | 7.6     | 100.0       | 101.0 | 101.2 |
| Gains from terms of trade  | 1       | -7      | -18    | -155        | -174   | -211   |              |         |         | -           | -1.0  | -1.2  |
| Gross Domestic Income  | 10,543  | 13,484  | 14,357 | 15,295      | 16,530 | 17,746 | 4.7          | 6.1     | 7.3     | 100.0       | 100.0 | 100.0 |
| Imports (incl. NFS)  | 2,116   | 3,270   | 3,377  | 3,681       | 4,005  | 4,500  | 11.5         | 6.4     | 10.0    | 24.3        | 24.1  | 25.4  |
| Exports (import capacity, incl. NFS)                               | 1,918   | 2,647   | 2,810  | 2,829       | 3,022  | 3,346  | 7.7          | 8.3     | 6.0     | 19.6        | 18.5  | 18.8  |
| Resource gap   | 198     | 623     | 567    | 852         | 983    | 1,154  |              |         |         | 4.7         | 5.6   | 6.6   |
| Consumption  | 7,628   | 9,861   | 10,257 | 10,953      | 11,688 | 12,591 | 6.2          | 5.1     | 7.1     | 73.1        | 71.6  | 71.0  |
| Investment (incl. stocks)  | 3,113   | 4,246   | 4,667  | 5,194       | 5,825  | 6,309  | 4.0          | 7.4     | 10.6    | 31.5        | 34.0  | 35.6  |
| National Savings   | 3,013   | 4,364   | 4,887  | 5,279       | 5,758  | 6,161  | 3.0          | 11.4    | 8.0     | 32.4        | 34.5  | 34.7  |
| Domestic Savings   | 2,915   | 3,623   | 4,100  | 4,342       | 4,842  | 5,155  | 1.1          | 8.9     | 7.9     | 26.9        | 28.4  | 29.0  |
| <b>Price Indices (1967-69 = 100)</b>                               |         |         |        |             |        |        |              |         |         |             |       |       |
| Import price index   | 98.3    | 122.4   | 147.0  | 173.0       | 203.6  | 239.7  | 2.8          | 9.7     | 17.7    |             |       |       |
| Export price index   | 98.3    | 121.6   | 146.1  | 163.3       | 182.6  | 204.0  | 2.8          | 15.0    | 11.8    |             |       |       |
| Terms of trade index   | 100.0   | 99.3    | 99.4   | 94.4        | 89.7   | 85.5   | 0.0          | 0.2     | -5.2    |             |       |       |
| <b>Public Finance</b><br>(current prices; million US\$)            |         |         |        |             |        |        |              |         |         |             |       |       |
| Current receipts   |         | 5,206   | 6,560  | 7,819       | 9,320  | 10,624 | .            | 12.5    | 19.2    |             |       |       |
| Current expenditures   |         | 4,382   | 5,521  | 6,581       | 7,344  | 8,942  | .            | 16.3    | 19.2    |             |       |       |
| Budgetary savings  |         | 824     | 1,039  | 1,238       | 1,476  | 1,682  | .            | -1.7    | 19.2    |             |       |       |
| Other public saving  |         | -       | -      | -           | -      | -      | .            | -       | -       |             |       |       |
| Public sector investment   | 848     | 841     | 1,039  | 1,238       | 1,476  | 1,682  | .            | 1.6     | 19.2    |             |       |       |

THE STATUS OF BANK GROUP OPERATIONS IN YUGOSLAVIA

## A. STATEMENT OF BANK LOANS (as at March 31, 1975)

| <u>Number</u>   | <u>Year</u> | <u>Borrower</u>   | <u>Purpose</u>                      | US\$ million |                    |
|---|-------------|---|-------------------------------------|--------------|--------------------|
|   |             |   |                                     | <u>Bank</u>  | <u>Undisbursed</u> |
| Thirteen Loans fully disbursed                        |             |   |                                     | 326.2        |                    |
| 531   | 1968        | Yugoslav Investment Bank                                | Railways                            | 50.0         | 1.0                |
| 657   | 1970        | Yugoslav Investment Bank                                | Telecommuni-<br>cations             | 40.0         | 2.3                |
| 678   | 1970        | SFRY  | Roads                               | 40.0         | 3.6                |
| 751   | 1971        | SFRY  | Roads                               | 35.0         | 7.4                |
| 752   | 1971        | Hotel "Bernardin", Piran                                | Tourism                             | 10.0         | 8.7                |
| 777   | 1971        | SFRY  | Multi-purpose<br>Water              | 45.0         | 39.7               |
| 782   | 1971        | "Babin Kuk" Hotelsko<br>Turisticki Centar,<br>Dubrovnik | Tourism                             | 20.0         | 17.7               |
| 836   | 1972        | Twelve Electric Power<br>Enterprises in Yugoslavia      | Power                               | 75.0         | 54.0               |
| 894   | 1973        | Stopanska Banka, Skopje                                 | Agricultural<br>Industries          | 31.0         | 20.7               |
| 916   | 1973        | Naftagas  | Gas Pipeline                        | 59.4         | 53.1               |
| 947   | 1973        | Kikinda   | Iron Foundry                        | 14.5         | 10.8               |
| 965   | 1974        | IMT   | Tractor Factory                     | 18.5         | 15.8               |
| 966   | 1974        | FOB   | Iron Foundry                        | 15.0         | 12.7               |
| 990   | 1974        | Bosnia-Herzegovina Road Fund                            | Roads                               | 30.0         | 21.2               |
| 1012  | 1974        | Stopanska Banka, Skopje                                 | Industrial<br>Credit                | 28.0         | 28.0               |
| 1013  | 1974        | Privredna Banka Sarajevo                                | Industrial<br>Credit                | 22.0         | 22.0               |
| 1026  | 1974        | Community of Yugoslav<br>Railways                       | Railways                            | 93.0         | 93.0               |
| 1060*   | 1974        | Port of Bar   | Harbor Expansion                    | 44.0         | 44.0               |
| 1066*   | 1974        | Vodovod Dubrovnik                                       | Water Supply<br>and Waste-<br>water | 6.0          | 6.0                |
| Total (less cancellation)<br>of which has been repaid |             |   |                                     | 1021.1       | 461.7              |
| Total now outstanding                                 |             |   |                                     | 116.4        |                    |
| Amount sold   |             |   |                                     | 904.7        |                    |
| of which: Amount repaid                               |             |   |                                     | 7.7          |                    |
| Total now held by Bank                                |             |   |                                     | 6.1          | 1.6                |
| Total undisbursed                                     |             |   |                                     | 903.1        | 461.7              |

\* Not yet effective.

B. STATEMENT OF IFC INVESTMENTS (as at March 31, 1975)

| <u>Year</u>   | <u>Obligor</u>   | <u>Type of Business</u> | <u>Amount in US\$ million</u> |               |              |
|---|--|-------------------------|-------------------------------|---------------|--------------|
|   |  |                         | <u>Loan</u>                   | <u>Equity</u> | <u>Total</u> |
| 1970  | International Investment Corporation for Yugoslavia                              | Investment Corporation  | -                             | 2.0           | 2.0          |
| 1970  | Zavodi Crvena Zastava Fiat S.P.A.  | Automotive Industry     | 5.0                           | 8.0           | 13.0         |
| 1971  | Tovarna Automobilov in Motorjev Maribor (TAM)/Klockner-Humboldt Deutz A.G. (KHD) | Automotive Industry     | 7.5                           | 2.3           | 9.8          |
| 1972  | FAP-FAMOS Belgrade/Daimler Benz A.G.   | Automotive Industry     | 13.0                          | 3.0           | 16.0         |
| 1972  | Sava/Semperit  | Tires                   | 4.0                           | 1.5           | 5.5          |
| 1973  | Belisce/Bell   | Pulp and Paper          | 13.4                          | -             | 13.4         |
| 1974  | Zelezarna Jesenice/ARMCO   | Special Steel           | 10.0                          | -             | 10.0         |
| 1974  | Salonit Anhovo   | Cement Plant            | <u>10.0</u>                   | <u>-</u>      | <u>10.0</u>  |
| Total Gross Commitments                                 |  |                         | 62.9                          | 16.8          | 79.7         |
| less cancellations, terminations<br>repayment and sales |  |                         | <u>9.0</u>                    | <u>2.4</u>    | <u>11.4</u>  |
| Total Commitments held by IFC                           |  |                         | <u>53.9</u>                   | <u>14.4</u>   | <u>68.3</u>  |
| Total Undisbursed                                       |  |                         | <u>23.9</u>                   | <u>6.6</u>    | <u>30.5</u>  |

C. PROJECTS IN EXECUTION 1/

Loan 531 Belgrade-Bar Railway: US\$50.0 million Loan of March 22, 1968;  
Closing Date: December 31, 1975.

The completion of this project was originally scheduled for 1973 but geo-technical and other construction difficulties in mountainous terrain are expected to delay operation of the line at least until 1976. The Closing Date will be adjusted when the final completion date is known.

As a result of inflation and cost overruns, the total project cost has increased from \$225.5 million to \$350.0 million. Supplementary finance authorized under existing legislation was exhausted at the end of 1974. However, a further US\$59 million, approved in principle, is awaiting completion of the legislative process and adequate interim finance is being provided by local banks.

Loan 657 Telecommunications: US\$40.0 million Loan of February 20, 1970;  
Closing Date: June 30, 1975.

Delays in civil works have occurred which will delay completion of the project until late 1975. With the exception of the earth satellite station, only preliminary works have been completed. A cost overrun of US\$5.1 million for orders already placed is expected due to currency revaluations. Following a revision of the disbursement schedule, disbursements are now in line with the revised projections.

Loan 678 Fourth Highway: US\$40.0 million Loan of May 28, 1970;  
Closing Date: December 31, 1975

After an initial delay of about one year in starting work on the Sarajevo-Zenica section because of difficulties in acquiring the right-of-way, and delays due to inclement weather in 1974, work on this section is proceeding satisfactorily and all nine sections are expected to be substantially completed in the fall of 1975. The Closing Date has been postponed from June 30, 1974 to December 31, 1975.

---

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 understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

Loan 751 Fifth Highway: US\$35.0 million Loan of June 18, 1971;  
Closing Date: September 1, 1976.

After a delay of about eight months in fulfilling the conditions for effectiveness of the loan, construction work on all sections is expected to be completed by the end of 1975. A 10 percent increase in the appraisal cost estimate is expected, and the disbursement percentage will be revised when firm construction costs are established later this year. Disbursements under the loan are about one year behind the appraisal estimate.

Loan 752 Bernardin Tourism: US\$10.0 million Loan of June 18, 1971;  
Closing Date; June 30, 1976.

There have been delays in implementation of the project due to delays in making the loan effective, appointing consultants, providing the necessary infrastructure and approvals by local authorities. As a result disbursements are behind schedule. Bids received in July 1974 indicated that the project, if it were to be implemented 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. The total cost would be US\$35.8 million, requiring additional financing of about US\$10 million. Financing for the revised project has been arranged and construction has begun.

Loan 777 Ibar Multipurpose Water: US\$45.0 million Loan of June 30, 1971;  
Closing Date: December 31, 1976.

The start of project work was delayed for one year. However, construction is now well underway with the main dam scheduled for completion in 1976 and the irrigation networks in 1977. Project costs are currently estimated to be about 17 percent above the appraisal estimate. Additional funds are being provided by the Province of Kosovo. Disbursements are proceeding in line with the revised schedule. Arrangements for land consolidation and agricultural extension services have been delayed but proposals are now being studied.

Loan 782 Babin Kuk Tourism: US\$20.0 million Loan of July 21, 1971;  
Closing Date: July 31, 1976.

There have been delays in the implementation of the project due to delays in making the loan effective and in mobilizing consultants. Accordingly disbursements are behind schedule. Although these problems have now been largely resolved, the project is almost two years behind schedule. 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). This increase is largely due to rapid inflation in construction costs. The Bank and the project sponsors have agreed to finance a reduced complex containing

some 2,034 beds. The total cost would be US\$51.5 million requiring additional financing of about US\$1.6 million. Financing for the revised project has been arranged and construction has begun.

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

Project execution began about one year behind schedule mainly because of coordination difficulties and inherent delays in reaching agreement among 12 borrowers. (This is the first attempt at countrywide coordination in the sector). All major contracts have been awarded and construction is proceeding satisfactorily. Action on appointment of Management consultants to help improve planning, operation and management of the interconnected power system is lagging and reporting, especially on financial matters, has been deficient; accordingly, financial performance of some of the borrowers is in doubt. Also, in response to the principles of self-management, certain of the borrowers have reorganized and further reorganizations may be expected, complicating the task of assessing financial performance. Cost overruns of about 50 percent are expected to be met from loans from the Federal Republic of Germany and the borrowers' own resources.

Loan 894 Agricultural Industries (Macedonia): US\$31 million Loan of May 25,  
1973; Closing Date: December 31, 1978.

Forty-two of the expected 43 social sector subloans, and 35 private sector subloans (81% of the amount allocated) have been approved by the lending institution. Private sector demand for subloans already exceeds financing available under the project. Four social sector sub-projects have been completed and twenty-nine are under construction. Progress is being made on the three studies encompassed by the project.

Loan 916 Naftagas Pipeline: US\$59.4 million Loan of June 25, 1973;  
Closing Date: June 30, 1977.

This loan became effective on March 22, 1974, after about four months' delay. Bids received on pipes and equipment exceeded appraisal estimates and civil works costs have increased so that project costs are now about 93 percent above the appraisal estimate. Additional local finance for civil works is being arranged but little additional foreign finance for pipes and equipment is available. Discussions continue with the Borrower to trim the project of its less essential items and to revise the implementation schedule for the reduced project.

Loan 947 Kikinda Loan Foundry: US\$14.5 million Loan of November 30, 1973;  
Closing Date: March 31, 1978.

This loan was declared effective on May 28, 1974 after four months delay, which was primarily due to the extra time required for the ratification of the Guarantee Agreement by the Federal Assembly. Project implementation is proceeding on schedule.

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

This loan became effective on May 28, 1974. Project implementation is proceeding on schedule and disbursements are underway.

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

This loan became effective on June 11, 1974. Project implementation is proceeding on schedule and disbursements are underway.

Loan 990 Sixth Highway: US\$30 million Loan of May 31, 1974;  
Closing Date: December 31, 1977.

This loan was declared effective on December 10, 1974. Project implementation is proceeding on schedule and disbursements have begun.

Loan 1012 Macedonia/Kosovo Industrial Credit: US\$28 million  
Loan of June 21, 1974; Closing date: December 31, 1978.

This loan was declared effective on December 19, 1974 and five subprojects including one below the free limit have been approved for disbursements.

Loan 1013 Bosnia Herzegovina/Montenegro Industrial Credit: US\$22 million  
Loan of June 21, 1974; Closing date: December 31, 1978.

This loan was declared effective on December 19, 1974 and six subprojects (including three below the free limit) have been approved for disbursements.

Loan 1026 Fourth Railway: US\$93 million Loan of July 10, 1974;  
Closing date: December 31, 1977.

This loan was declared effective on February 12, 1975 and disbursements have begun.

YUGOSLAVIA: Elektroprivreda BiHLoan and Project Summary

Borrower: Elektroprivreda Bosne i Hercegovine.

Beneficiary: Hidroelektrane na Drini.

Guarantor: Socialist Federal Republic of Yugoslavia.

Amount: US\$70.0 million, equivalent, in various currencies.

Terms: Amortization in 25 years, including a 5-year grace period, with interest at 8-1/2 percent.

Onlending Terms: Same as for Bank Loan.

ProjectDescription:

The project would comprise construction of the Buk Bijela hydropower station on the Drina River, consisting of a rock fill dam with clay core, spillways, intakes and pressure tunnels, a cavern-type power house with four 112.5-MW turbo-generators and accessory equipment and a switchyard. A compensating reservoir with a concrete dam would be constructed about 10 km downstream to regulate discharge waters. Consulting services would be provided for assistance with administration, accounting and training, and for special engineering studies, if needed.

| <u>Estimated Cost:</u>                             | US\$ million equivalent |                 |              |  |
|--|-------------------------|-----------------|--------------|--|
|  | <u>Local</u>            | <u>Foreign*</u> | <u>Total</u> | <u>Percent</u><br>(of total<br>Proj. cost) |
| I. Land and Relocations                            | 10.59                   | -               | 10.59        | 4.4  |
| II. Civil Works                                    | 55.83                   | 16.11           | 71.94        | 29.7                                       |
| III. Hydro, Mechanical and<br>Electrical Equipment | 14.63                   | 43.39           | 58.02        | 23.9                                       |
| IV. Engineering                                    | 9.51                    | 0.63            | 10.14        | 4.2  |
| V. Studies and Training                            | 2.00                    | 1.00            | 3.00         | 1.2  |
| Sub-Total  | 92.56                   | 61.13           | 153.69       | 63.4                                       |
| VI. Contingencies                                  |                         |                 |              |  |
| a. Physical  | 10.09                   | 5.40            | 15.49        | 6.4  |
| b. Price   | 53.90                   | 19.39           | 73.29        | 30.2                                       |
| <u>TOTAL Project Cost</u>                          | 156.55                  | 85.92           | 242.47       | 100.0                                      |

\* Direct costs assuming international bids are won by foreign firms.

Financing: (for the proposed project including physical and price contingencies)

|                                       | <u>US\$ million<br/>Equivalent</u> | <u>Percent<br/>of Total</u> |
|---------------------------------------|------------------------------------|-----------------------------|
| IBRD Loan                             | 70.0                               | 29                          |
| Elektroprivreda's Own<br>Sources      | 84.9                               | 35                          |
| Loans from Industry and<br>Surcharges | 80.7                               | 33                          |
| Federal Fund                          | <u>6.9</u>                         | <u>3</u>                    |
|                                       | 242.5                              | 100                         |

Expenditures to be  
financed by the Loan: c.i.f cost of imported hydro-mechanical and electrical materials and equipment and of civil works materials and equipment, or ex-factory cost of such items supplied under contracts won by Yugoslav manufacturers, and the cost of related construction and engineering services, consultants and training.

Estimated Disbursements:

| <u>Calendar Year</u> | <u>Amount (US\$ million)</u> |                   |
|----------------------|------------------------------|-------------------|
|                      | <u>Annual</u>                | <u>Cumulative</u> |
| 1975                 | 3                            | 3                 |
| 1976                 | 18                           | 21                |
| 1977                 | 13                           | 34                |
| 1978                 | 13                           | 47                |
| 1979                 | 12                           | 59                |
| 1980                 | 11                           | 70                |

Procurement: Contracts to be awarded on the basis of international competitive bidding (except for consulting services) consistent with the Bank Group's "Guidelines for Procurement". A preference of 15 percent or applicable duties, whichever is less, would be granted to Yugoslav manufacturers who participate.

Consultants: About 13 manyears for assistance with administration, accounting and training; and, about 10 manmonths for special engineering studies, if needed.

Rate of Return: The rate of return of the project is estimated to be at least 11.2 percent.

Estimated Project  
Completion Date:

June 30, 1980

Appraisal Report:

Report Number: 650a-YU  
Date: April 22, 1975  
EMENA Projects Department

