REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

PORT OF BAR WORKING ORGANIZATION

WITH THE GUARANTEE OF

THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

FOR A

MONTENEGRO EARTHQUAKE REHABILITATION PROJECT - PORT OF BAR

November 12, 1979
CURRENCY EQUIVALENTS *

<table>
<thead>
<tr>
<th>Currency Unit</th>
<th>Yugoslav Dinar (Din.)</th>
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<tr>
<td>US$1</td>
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<tr>
<td>Din.1</td>
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<tr>
<td>Din.1,000,000</td>
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* The Yugoslav Dinar has been floating since July 13, 1973; as of June 29, 1979 the rate was Din.19.076 = US$1.00.

FISCAL YEAR

January 1 – December 31

GLOSSARY OF ABBREVIATIONS

BOAL = Basic Organization of Associated Labor
COI = Community of Interest
IBT = Investment Bank of Titograd – Associated Bank
ICB = International Competitive Bidding
LDR = Less Developed Region
MCS = Mercalli Intensity Scale
PBWO = Port of Bar Working Organization
RTE = Railway Transport Enterprise
RTO = Railway Transport Organization
SFRY = Socialist Federal Republic of Yugoslavia
SR = Socialist Republic
USAID = United States Agency for International Development
YUGOSLAVIA

MONTENEGRO EARTHQUAKE REHABILITATION PROJECT

PORT OF BAR

Loan and Project Summary

Borrower: Port of Bar Working Organization (PBWO)
Guarantor: Socialist Federal Republic of Yugoslavia (SFRY)
Amount: US$50.0 million equivalent in various currencies.
Terms: Amortization in 15 years, including a three-year grace period, with interest at 7.95 percent per annum.

Project Description: The proposed project will enable PBWO (i) to repair and restore the essential services and facilities of the port that can be repaired economically which were severely damaged or destroyed by the earthquakes of April 15 and May 24, 1979; and (ii) to provide facilities and cargo-handling equipment to partially replace those damaged beyond repair.

Project Objective: To provide the essential services for the industrial and commercial activities in the hinterland.

Economic Benefits: Benefits arise from restoring the movement of traffic and imports through Southern Yugoslavia's major seaport and entrepot for Belgrade and the industrial and agricultural areas surrounding the capital.

Staff Appraisal Report: In view of the need to provide resources to Yugoslavia with minimum delay, no separate Staff Appraisal Report has been prepared to accompany this Report.

Estimated Cost:

<table>
<thead>
<tr>
<th></th>
<th>Local</th>
<th>Foreign (US$ millions)</th>
<th>Total</th>
<th>Bank Participation</th>
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<td>35.3</td>
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<tr>
<td>Extension of facilities and new equipment</td>
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<td>25.6</td>
<td>38.5</td>
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<td>Technical assistance</td>
<td>0.6</td>
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<td>0.6</td>
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<tr>
<td>Total</td>
<td>63.9</td>
<td>60.9</td>
<td>124.8</td>
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### Financial Plan:

<table>
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<th></th>
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<tr>
<td>Republic's contribution</td>
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<td>10.9</td>
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<tr>
<td>Total</td>
<td>63.9</td>
<td>60.9</td>
<td>124.8</td>
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### Estimated Disbursements:

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<th>FY81</th>
<th>FY82</th>
<th>FY83</th>
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<td>20.0</td>
<td>16.0</td>
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<tr>
<td>Cumulative</td>
<td>12.0</td>
<td>32.0</td>
<td>48.0</td>
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1. I submit the following report and recommendation on a proposed loan equivalent to US$50.0 million to Port of Bar Working Organization (PBWO), with the guarantee of the Socialist Federal Republic of Yugoslavia (SFRY), to finance the estimated foreign exchange costs of a project for the rehabilitation of the Port of Bar which were damaged in the earthquakes of April and May 1979. The loan would bear interest at the rate of 7.95 percent per annum and would have a term of 15 years, including a grace period of 3 years.

PART I - THE ECONOMY


Institutional Setting

3. The social sector in Yugoslavia, which includes government, enterprises and public institutions has the leading role in economic and social development. It accounts for 85 percent of GDP and employs over half of the total labor force. The private sector is comprised predominantly of peasant farms and small enterprises, mainly in handicrafts, construction, trade, transport and tourism. Decision making at all levels is governed by the principle of workers self-management bringing with it its own set of unique institutions and instruments of economic policy. The current system has gradually evolved over the years with important new changes introduced in the Constitution of 1974. These changes reaffirm and further extend the decision making power of workers. The federative structure of the state has been strengthened. Responsibility for important social and economic decisions has been shifted from the federation to the republics and provinces and communes. Concurrently, the control of workers, through their workers' collectives, over the socially owned means of production has been potentially increased by a

1/ Part I of this report is substantially unchanged from Part I of the Report and Recommendation of the President for the Montenegro Earthquake Rehabilitation Project—Highways (Report No. P-2622-YU) of August 31, 1979.
Restructuring of all economic organizations. All economic organizations e.g. enterprises, now consist of legally autonomous Basic Organizations of Associated Labor (BOALs) which are the smallest units of production producing a marketable output. The creation of BOALs as the basic decision making cell provides workers with a more wieldy unit to manage particularly as the product of their work becomes more easily identifiable.

4. In addition to strengthening decision-making power of workers at the micro level, recent changes have extended workers' self-management to the macroeconomic sphere. New instruments of macro-economic policy have been introduced which are formulated on the basis of participation of all economic agents. These new measures are expected to strengthen macro-economic management. The impact of these changes is apparent in incomes, prices and employment policy and in the foreign exchange and commercial policy. The most significant development, however, is the introduction of a new system of planning.

5. The new system of planning—self-management planning—is based as in central planning on an ex ante medium-term view of the development of the economy. Similarly, it is based on legally binding undertakings, in the form of medium term contractual arrangements between all economic units, thus reflecting a strong commitment to plan implementation. However, in sharp contrast to central planning, plan formulation is based on participation of all economic units, including government planning bodies, on a non-hierarchical basis. Following an exhaustive exchange of information, the planning process involves a series of iterations to achieve consistency amongst the plans of economic units. Once an acceptable degree of consistency is achieved, economic units enter into legally binding medium-term agreements on supply and demand. In case agreements cannot be reached by the prescribed date the state can impose a temporary injunction.

Economic Trends and Development Issues

6. The economic development of Yugoslavia over the past two decades has been impressive, characterized by rapid economic growth and structural transformation. GDP between 1954-75 grew at an average annual rate of about 7 percent in real terms. The share of investment in GDP has been high throughout the period, averaging 30 percent of GDP in recent years. Since population grew at only 1 percent per annum, real per capita income more than tripled during the period to an estimated $1,960 at 1977 market prices. 1/ The social sector, in particular industry, was the driving force of the economy. The share of industry in GDP has increased to 47 percent while agriculture has declined to 16 percent, paving the way for development of a modern industry/service oriented urban society. The past two decades have also been associated with a growing integration of Yugoslavia into the world economy. Between 1954-76 exports and imports of goods and non-factor services have grown by around 8.8 percent and 9.5 percent per annum in real terms, respectively; much of this in the convertible currency areas.

1/ According to the 1978 World Bank Atlas.
7. Although Yugoslavia's overall performance has been impressive, Yugoslavia has been characterized by large regional income disparities. Four of the regions, namely Bosnia-Herzegovina, Macedonia and Montenegro, with two-thirds of the national average per capita income, and Kosovo, with one-third, are officially designated as less developed regions (LDRs). The difference between the most developed region, Slovenia, and the least developed, Kosovo, is 6 to 1. Parallel to these inter-regional disparities there are large intraregional per capita disparities ranging 10 to 1 between communes. These differences are a product of diverse factors notably differing shares of the low productivity agricultural sector and unfavorable demographic conditions e.g. higher dependency ratios and population growth rates. Until recently regional income disparities tended to widen. Since 1971 sizeable concessionary credits (with about 50 percent grant element), equal to about 9.3 percent of the GDP of the LDRs in 1974, have been transferred to the LDRs through the Federal Fund for the Accelerated Development of the Less Developed Regions.

8. Linked to the issue of regional income disparities has been the problem of providing adequate employment opportunities in the expanding modern sector. Between 1954-76 employment in the modern social sector increased by around 4 percent per annum facilitating rapid outflows from the agricultural sector. Despite this impressive record, considerable imbalances exist. Large productivity and income differentials exist between the modern (mainly social) and the traditional (private agricultural) sectors. Large numbers of Yugoslavs have sought temporary employment abroad since the late 1960s. At its peak in 1973 Yugoslavia had about 1,100,000 external migrants. However, since 1973, with changes in policy and the slower growth in the host countries, this trend has been reversed, accentuating domestic imbalances and placing considerable pressure on the social sector to create new work places. Unemployment rates have risen rapidly from about 7 percent in 1971 to nearly 13 percent in 1976. This problem has taken an added urgency as the incidence of unemployment has been highly regionalized. In 1975 unemployment rates ranged from 23.5 percent in Kosovo to 1.5 percent in Slovenia.

Recent Developments

9. Yugoslavia's economic development in recent years has been characterized by stop-go policies and cyclical behavior. Periods of rapid economic growth and inflationary pressure have resulted in balance of payments difficulties, leading to measures restricting the level of economic activity. This has been followed by periods of relatively modest growth and improvements in the balance of payments situation. In 1974, rapid domestic economic growth,

1/ These rates are not strictly comparable to those in other countries. They represent the ratio of registered unemployment to social sector labor force. The ratio of registered unemployment to total resident labor force would have been about 7.5 percent in 1976.
recession in Western Europe and higher oil prices resulted in a sharp deterioration of the balance of payments situation and a $1.2 billion current account deficit. In the same year domestic inflation (retail prices) fueled by external price rises, accelerated to 26 percent. Both 1975 and 1976 were marked by policies aimed at stabilizing the economy through moderating the rate of growth, improving the balance of payments situation and reducing inflation. GDP grew by 3.6 percent per annum in 1975 and 3.9 percent in 1976, well below the historical trend rate. Weak domestic demand reduced import requirements and placed pressure on enterprises to export. This, and the recovery of activity in the OECD, led to a 15 percent real increase in merchandise exports in 1976. Merchandise imports during the same period fell by 7 percent. As a result, the current account deficit was transformed to a surplus of $165 million. Inflation also dropped perceptibly to 9 percent.

10. A strong upturn in economic activity driven by a revival in investment activity began in mid-1976 and has continued since. There was a rapid increase in money supply in 1976. Enterprises began to adjust to the new financial and accounting system introduced early in 1976 which, through increasing financial accountability of enterprises, had been an important factor in dampening the level of economic activity in early 1976. GDP is estimated to have grown by 8.1 percent and the industrial sector by 9.6 percent in 1977. This upturn led to a revival of inflationary pressure and a sharp deterioration in the balance of payments situation. Inflation increased to 13 percent, exports declined in real terms by 4 percent and imports rose by 15 percent. The current account recorded a deficit of $1.6 billion. There was some slackening in the level of economic activity in 1978. GDP is estimated to have increased by 6.6 percent despite a drop in agricultural production of 5 percent due to adverse weather conditions. The current account deficit is estimated to have fallen to around $1.0 billion. The rate of inflation is estimated to be 13 percent. Policies for 1979 aim at maintaining a 6 percent growth in GDP, a 5 percent growth of exports, a 2 percent growth in imports and a current account deficit of around $1.2 billion. Preliminary trends in 1979 indicate that although the economy has continued to grow rapidly, growth has been associated with a rapidly deteriorating balance-of-payments situation. This has been a consequence of a sharp revival in demand for imports following a year in which import volume declined and has been exacerbated by the rise in the price of oil and less favorable prospects for tourism following the devastating earthquake of April 15 in the coastal areas of Montenegro. Oil price increases are likely to add a further $0.5 billion to the import bill in 1979. This, and the anticipated more rapid growth of imports than exports, is likely to lead to a sharp deterioration in the current account deficit to over $2 billion in 1979. Furthermore, the rate of inflation has risen sharply. Producer prices rose by 17 percent on an annual basis during the first eight months of 1979. As a result a price freeze was introduced in August 1979. This, and the anticipated slow growth of the economy should lead to a reversal of the rising inflationary trend.

11. Despite the uneven growth rate of GDP since 1974, employment has expanded steadily and rapidly. An important factor in this has been the social pressure on enterprises to create additional work places. Employment
grew by 4.5 percent per annum between 1974 and 1978. Labor productivity has, as a result, grown little during this period. Since real personal incomes have continued to rise, unit labor costs have risen.

Medium- and Long-Term Objectives and Prospects

12. The external events of 1973 and 1974 had an important impact on Yugoslavia's medium-term outlook, particularly in two areas. The first was the balance of payments. The sharp increase in the price of oil led to a sudden increase in the country's import bill. More importantly, the decline in the number of Yugoslav workers abroad inhibited the growth of workers' remittances, which account for about one fifth of Yugoslavia's foreign exchange earnings. The prospects for growth of merchandise exports also deteriorated because of the slower growth in Western Europe. The balance of payments consequently became a more binding constraint on economic growth. The second area was employment. External migration was a key factor in allowing the low-productivity, private agricultural labor force to decline rapidly between 1965-73. Return of Yugoslav workers placed considerable pressure on the labor market and in particular the social sector, which is the main source of new jobs.

13. The policy response to these issues was the 1976-80 Five Year Plan which foresaw important structural changes to deal with the new external circumstances. On the question of the balance of payments, Yugoslavia, by and large, opted for the import substitution route. To ensure greater self-sufficiency the Plan called for a major restructuring of the economy with emphasis on raw materials and intermediate goods, and particularly the power sector. Included in the priority sectors were basic chemicals, ferrous metallurgy, parts of non-ferrous metallurgy, agriculture, food processing and inter-republic transportation. These were areas where production had lagged and where import dependency had increased most after 1965, despite considerable possibilities for local production. Rapid expansion of employment opportunities remained one of the key objectives of the plan. To compensate for the generally more capital-intensive investments involved in developing raw materials and intermediate goods, a number of measures were introduced to ensure a sufficiently rapid growth of employment opportunities. Emphasis was placed on development of labor-intensive activities and small scale industry. An employment policy was adopted to facilitate an orderly growth of work opportunities in existing enterprises. New incentives were also provided to the private sector to encourage investment in productive activities. These measures were expected to lead to a 3-4 percent growth in modern sector work places. Such a growth would be sufficient to absorb returning migrants and some outflow of workers from the agricultural sector albeit at a slower pace than in the past decade.

14. To achieve these objectives the plan foresaw a growth in GDP of 7.0 percent. Exports were projected to rise by 8.5 percent in constant dollars. However, imports were projected to rise by only 4.5 percent reflecting the significant degree of import substitution anticipated. Such a sharp fall in import growth, however, appeared somewhat excessive and not likely to be attainable during the plan period. Consequently, if Yugoslavia adhered to the ceiling it set in the plan on the level of indebtedness and debt service ratio, a somewhat more modest overall economic growth rate of 5-6 percent was likely to be achieved.
15. Developments in the first three years of the plan period have been mixed. The economy has grown rapidly as planned (average annual growth of GDP of 6.2 percent) and modern sector employment opportunities have also increased significantly. However, merchandise export growth at 2.6 percent per annum has been very disappointing. The current account deficit has been kept in check by limiting merchandise import growth to 1.8 percent per annum since 1976. Despite this, external indebtedness has increased significantly and will be further exacerbated with the anticipated deterioration in the balance-of-payments situation in 1979. Thus, although the economy is likely to achieve a 5-6 percent overall economic growth rate for the period 1976-80, the balance-of-payments situation is worse than anticipated. Consequently to deal with the deteriorating balance-of-payments situation Yugoslavia will need to accept a more moderate medium-term growth target and instigate policies designed to improve the country's export performance. Based on the recent trends in external borrowing and our balance-of-payments projections, Yugoslavia is expected, even with slower growth, to experience gradually rising debt service ratios in the early 1980s. The Yugoslavs, aware of the balance-of-payments situation, are presently introducing stabilization measures to curb the rate of economic growth. They are also in the process of reassessing the economy's medium-term growth targets.

16. Finally, the reduction of regional disparities is also a priority objective of the plan. The previous financial transfer mechanism continues as the principal instrument for regional development. However, in addition to this, provisions have been made for direct joint venture investment by enterprises in the developed, into the less developed regions. This measure is expected to facilitate a transfer of managerial and technological know-how in addition to the financial transfers of the past few years. The regional problem, however, is expected to remain as one of the least tractable issues facing the Yugoslav economy and one that will only be resolved in the longer run.

Creditworthiness

17. In the period 1974-77 gross capital inflows averaged just over $2.0 billion per annum increasing the total level of medium- and long-term debt outstanding and disbursed to $8.9 billion by the end of 1977. About 75 percent of Yugoslavia's debt contracted during this period was contracted from commercial sources in convertible currencies. The bulk of this has been suppliers credits though financial credits in the Euro-currency market have become increasingly important in financing the economy's residual external capital needs. The World Bank is the principal source of non-commercial long-term credit to Yugoslavia. Yugoslavia will continue to need substantial credits in the commercial markets to achieve its medium-term economic objectives. The debt service ratio averaged 17 between 1974-78. The debt service ratio is expected to increase to over 20 in the early 1980s in spite of lower anticipated growth rates of GDP. Given Yugoslavia's past debt service record, pragmatism and demonstrable control over the balance of payments, Yugoslavia remains creditworthy for a substantial amount of Bank lending.
18. The Bank has made 57 loans to Yugoslavia totalling about $2,337 million. Of this amount, approximately 44 percent ($1,025.4 million) has been for 19 loans for the transportation sector—11 for highways, 5 for railways, and one each for a natural gas pipeline, an oil pipeline, and a port project. Bank lending has generally concentrated on infrastructure including, in addition to the transportation loans, four power loans, one telecommunications loan, two water supply and sewerage, a drainage and five multipurpose loans (two of which include substantial irrigation components). Seven loans totalling $394 million (about 17 percent of the total amount lent to Yugoslavia) have been made for agriculture (including two for irrigation and one for drainage) and agro-industries. Fourteen loans amounting to $300 million (about 13 percent of the total) have also been made for industry and two for tourism amounting to $30 million. The $27 million first Bank loan for air pollution control was approved May 25, 1976. In addition, IFC has made investments in twelve Yugoslav enterprises totalling about $172 million. Annex II contains a summary statement of Bank Loans and IFC investments as of September 30, 1979 and notes on the execution of ongoing projects.

19. The interrelated objectives which the Bank has pursued in its lending to Yugoslavia remain essentially unchanged. These objectives are:

(i) to support Yugoslav efforts to address the critical issues of regional disparities and unemployment;

(ii) to promote agricultural development in both the individual farmer and social sectors by providing basic infrastructure and credit facilities;

(iii) to encourage structural reforms in the major sectors through improved coordination, institution-building and technical assistance;

(iv) to help in identifying and financing gaps in basic infrastructure—particularly transport and energy; and

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

It is obvious that each and every Bank operation cannot address all these objectives nor be entirely oriented towards the welfare of the LDRs, but the

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1/ Part II of this report is substantially unchanged from Part II of the Report and Recommendation of the President for the Montenegro Earthquake Rehabilitation Project—Highways (Report No. P-2622-YU) of August 31, 1979.
basic thrust of the Bank's activities in Yugoslavia has increasingly been
towards the development of the LDRs and the agricultural sector in particular.

20. The Bank's emphasis on assuring the accelerated development of the
LDRs is fully in accord with the Federal Government's avowed policy to narrow
the gap between the richest and the poorest regions. The new development Plan
assigns even higher priority to redressing such disparity, and to that end the
Federal Government has now obtained consensus of its constituents, not only on
the channeling of domestic resources to the LDRs through the Federal Fund
mechanism (see para. 7 of this Report) but also on the distribution of external
resources including Bank lending. The Bank has actively cooperated with the
Government in evolving a distribution pattern for Bank lending which gives
weight to the income levels and population size of particular regions and has
on this basis over the last three years effectively directed more than two-
thirds of its lending to the LDRs. Moreover, lending to regions other than
the LDRs frequently has had as its basis the alleviation of disparities be-
tween the urban and rural areas. While the Bank's ability to achieve such a
distribution is clearly influenced by the ability of the regions to generate
viable projects, recent experience in bringing forward well designed and eco-
nomically sound projects for the LDRs is cause for confidence in our ability
to maintain the level of Bank activity in the LDRs, though there will undoubt-
edly be year-to-year fluctuations.

21. In recognition of the fact that such an expanded investment program
for the LDRs would need to be preceded by a systematic survey of these regions
to take stock of development potential and identify constraints, the Bank
undertook and completed economic surveys of the four LDRs (Kosovo, Bosnia-
HZerzegovina, Macedonia and Montenegro). These regional surveys, coupled with
intensified Bank assistance in project formulation and ongoing economic and
sector analysis, reinforce the impact of the Bank's participation in the
development of these regions.

22. Over the past several years, more than two-thirds of our lending, as
noted in paragraph 20 above, has been to the LDRs. Operations, such as the
Tenth Highway Project (approved March 27, 1979), the Bosanska-Krajina Agricul-
ture and Agro-Industries Project (approved October 5, 1978), the Macedonia
Strzevo Irrigation Project (approved August 8, 1978) and the Third and Fourth
Industrial Credit Projects (approved July 11, 1978), as well as operations
envisioned for LDRs over the next two years, including loans for water supply
and sewerage and multipurpose water resource and agricultural development,
emphasize our continuing orientation to the needs of the LDRs. Previously
approved loans for a Ninth Highway Project and a Fifth Railway Project (Fiscal
Year 1978) and a Middle Neretva Hydro Power project (also Fiscal Year 1978),
as well as the Second Power Transmission Project approved in Fiscal Year 1977,
will both assist the LDRs and promote structural reforms in the transport and
energy sectors. A recently approved (September 4, 1979) Croatia Sava Drainage
Project will increase incomes of the disadvantaged rural population in a
relatively well developed region and reduce the disparities in incomes between
the rural and urban population. 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.
23. The Bank helped formulate the 1973 "Green Plan", a comprehensive framework for agricultural development, which recognized the need to encourage the role of the individual, low-income sector (which holds almost 85 percent of the cultivated land and employs over 90 percent of the farm population). As a follow-up, the 1976 "Green Plan" calls for even greater attention to agriculture and clearly recognizes that the impetus for accelerated growth must necessarily be derived from the underexploited resources of the individual farming sector. It is now generally appreciated that the individual farmer sector can generate significant increases in production if provided with sufficient support in terms of extension services, credit for inputs and basic infrastructural facilities.

24. The agricultural sector deserves attention for a number of developmental considerations. It is the obvious vehicle for addressing the problems of rural poverty which underlies regional disparity; it can provide opportunities for productively employing the rural population, thus reducing the pressure for creating non-agricultural employment; and it contributes to reducing reliance on imports and improving the prospects for exports of food and other agricultural products. Forthcoming projects for agricultural credits, irrigation and rural development will support agriculture development in general and in particular, the individual farmer sector.

25. Decentralized management, which is the cornerstone of Yugoslavia's socio-economic philosophy, adds to the inherent difficulties involved in formulating coherent sector plans. One of the principal features of the 1974 constitutional changes and subsequent legislation, however, has been to revamp the institutional framework and to introduce mechanisms for coordination. The new system of self-management planning requires that the programs of all enterprises are discussed, negotiated and reflected in legally binding agreements. In order to support these efforts for improved coordination, the Bank intends to pursue vigorously the initiatives it has sponsored in terms of establishing the basis for evolving coherent sector policies.

26. Given the complexity of the Yugoslav system, which requires reaching a consensus of all parties affected by any substantive decision, the process of dealing with problems and of evolving acceptable solutions is cumbersome. The Bank sees it important, however, to continue exerting its influence in shaping the policy framework and having a further beneficial impact on fostering coordination, particularly in the power and transport sectors where significant progress has already been achieved. For instance, the Eighth Highway Project (Loan No. 1377-YU) approved March 15, 1977, provides for studies of road-user charges and railway costs which the Government and we believe essential for developing intermodal coordination and devising a policy framework for the transport sector. The Second Power Transmission Project (Loan No. 1469-YU approved June 28, 1977), an extension of the interconnected transmission system, partly financed by the Bank in 1972 (Loan No. 836-YU), will enable the supply of power throughout the country and thereby encourage power exchange coordination among all Republics/Provinces.
27. A persistent foreign resource gap looms as the major impediment to Yugoslavia's ability to maintain its growth momentum and ability to address the critical issues of unemployment and regional disparities. While the Yugoslavs are making concerted efforts to open up and enlarge access to Western financial markets and institutions (including the European Investment Bank), there is no concrete evidence of substantial additional inflows. The Bank, therefore, remains a major source of long-term external capital for the foreseeable future, and its significant level of operations in Yugoslavia not only constitutes the largest source of long-term external capital but, equally important, is regarded by international financing institutions as evidence of international confidence in Yugoslavia's economic performance, policies and prospects. In financing of infrastructure as well as industrial and agro-industrial projects, we continue to devote particular attention to possibilities for attracting co-financing. In our support of projects in the directly productive sectors, we have and will continue to devote attention to those which generate or conserve foreign exchange.

28. Yugoslavia's debt to the Bank amounted to 8.5 percent of Yugoslavia's total debt, outstanding and disbursed in 1979. The outstanding debt to the Bank is expected to remain a fairly stable ratio of Yugoslavia's total debt outstanding and disbursed. Service on Bank loans as a proportion of total debt service was 5.3 percent and is projected to be about 6 percent by 1980.

PART III - THE 1979 EARTHQUAKE 1/

Background

29. On April 15, 1979 at 7:19 a.m. local time a devastating earthquake measuring IX on the modified Mercalli Intensity Scale (MCS) with an epicenter on the Adriatic coastline of Montenegro near Kotor, hit Yugoslavia. Five more earthquakes of over VII MCS, as well as hundreds of lesser after-shocks, struck the same area thereafter, with the last quake, an VIII MCS, on May 24, 1979. During this period earth tremors of strong intensity were felt in most of the area of Montenegro, the southeastern parts of S.R. Croatia, the S.R. Bosnia-Herzegovina, as well as the northern part of Albania (see Map IBRD 14637).

1/ Part III of this report is substantially unchanged from Part III of the Report and Recommendation of the President for the Montenegro Earthquake Rehabilitation Project—Highways (Report No. P-2622-YU of August 31, 1979. Some updating has been provided in those paragraphs related to the railways and ports sector to take account of updated information.
Earthquake Damage, General

30. The physical consequences of the earthquake were most evident along the total length of the Montenegrin coastline in a belt 10 to 12 km wide. In this area over one hundred people lost their lives and about 500 people were injured as a result of the earth tremors. The casualties could well have been much higher except for the fact that the major shock was preceded by one of lesser intensity which served as a warning, that April 15 was not a business day (it was a Sunday) and that the major tourist season was not yet underway.

31. The earthquake seriously damaged the basic infrastructure of the area. The basic transport system, schools, hospitals, houses, hotels, industrial plants, apartment buildings, cultural-historical monuments, the water supply system, and the electric and telegraph-telephone grid were all extensively and heavily damaged. The full extent of this damage has not, even now, been ascertained. However over 12,500 of the approximately 60,000 housing units in the area were destroyed, and a further 12,000 heavily damaged. Over 4,000 industrial buildings, schools, hospitals, hotels, etc., were completely destroyed and about 3,000 more severely damaged. The total area of these 7,000 structures amounts to about 1.25 million square meters. About one-quarter of Montenegro’s primary and secondary road system, which totals some 3,500 km of roads, was heavily damaged, including almost the entire length of the Adriatic Highway situated in Montenegro and almost all the other main roads (about 600 km total) in the area. The Republic’s main rail line, its main port and the area’s airport were also heavily damaged. The ancient cities of Kotor, Budva and Herceg-Nov, which are important cultural and tourist attractions were all heavily damaged and much of this historical area may be beyond repair.

32. The earthquake dealt a devastating blow to the tourist industry, coming just before the season was to start in an area which contained more than 90 percent of the Republic’s 125,000 tourist beds. The damage to the road network and the railway from Titograd to Bar as well as to the airport at Tivat resulted in a situation immediately after April 15 in which the only possible communication between the Montenegrin coast and the rest of the country was by radio railway’s communications system, and helicopters. Although land communication was partially restored within a few days, and largely maintained even after subsequent earth shocks, economic activity has been severely curtailed. More than 5,000 people who would ordinarily be employed in the tourist industry are now unemployed.

33. Overall the economic consequences of the earthquakes are critical to Montenegro which is one of the least developed regions in Yugoslavia. This lag in development has been due in large measure to the topography which not only makes communication to and within the region difficult and costly to build and maintain but which also dictated the historical development of the main terrestrial transport links to the north and east of the region. However, during the last two decades the Government has made major efforts to improve transportation to and within Montenegro through the construction of four major transport projects, including the Adriatic Highway along the coast, a major highway linking the Adriatic Highway and the Port of Bar with Titograd,
the capital of S.R. Montenegro, and eastern Yugoslavia, the Belgrade-Bar railway and a modern port at Bar. All but the highway from Titograd to the coast, which was built with the financial assistance of USAID were components of Bank financed projects. All were heavily damaged in the April 15 and subsequent earthquakes. Specific damage to the terrestrial transport modes and the Port of Bar are briefly detailed below.

**Earthquake Damage, Highways**

34. Although the road maintenance services and civil engineering contractors of Montenegro, aided by the Yugoslav army, were able to get limited traffic movement along most highway links within a few days after the first earthquake, the further earthquakes between April 15 and May 24, 1979 brought additional damage to infrastructure generally and the road network specifically, again closing major sections of coastal and inland routes for various time periods. However, traffic-blocking debris has now been cleared on the main roads and some temporary detours have been constructed around those areas too badly damaged to handle any roadway traffic, with the result that most roads have been opened to at least limited traffic (passage by truck trailers is still widely restricted).

35. Many damaged road sections are extremely vulnerable to further damage where the earthquakes have disrupted drainage systems and/or did other structural damage leaving the sections open to water intrusion. Although Montenegro (and the rest of Yugoslavia) had an extremely dry summer, it was imperative that certain remedial work be undertaken before the rainy season started in the fall.

36. Of all the roads damaged by the earthquakes the most important is the Adriatic Highway, which is the main national and international route and which services the major tourist area in Montenegro. Also heavily damaged were the major east-west road from Titograd, the Republic’s capital, to the Port of Bar on the coast and from Cetinje, the cultural center and ancient capital of Montenegro, to Budva, a tourist center on the coast. In addition many of the regional as well as local and access roads, particularly around Kotar and Ulcinj, were heavily damaged.

**Earthquake Damage, Railroad**

37. The April 15 earthquake severely damaged about 40 km of the Lutovo-Titograd-Bar section of the Belgrade-Bar line and about 10 km of the Titograd-Niksic branch line. The five major earth tremors that followed did further damage so that some 33 km of the main line was corrugated, with irregularities up to 65 cm. About 6 km of track had to be renewed completely because of damage caused by falling rocks on the line. These rocks made renewal of 3 km and repairs of 20 km of the overhead contact line system necessary. The signalling system on the Titograd-Bar section and the Ostiog and Bare Sumanovica tunnels near Niksic also suffered considerable damage. In 6 km of the Sozina tunnel the basic geometry has been distorted and water seepage stopped temporarily the use of electrical traction. At the 200 m long Skadar Lake
bridge a lateral movement downward of one side of 12 cm has been noted, and at
the 80 m long Moraca River bridge a similar movement of both sides of 2 and 9
cm and a transversal movement of 4 to 6 cm has occurred. The total extent
of the damage to the bridges is still under investigation, and underwater
inspection of the foundation is being carried out to verify the extent of
the damage. Emergency repairs enabled train traffic to be restored after
13 days but with speed restrictions on bridges (10 km/h) and in areas with
unstable slopes (20 km/h). These restrictions are now raised to 20 and 30
km/h awaiting final investigations and repair of the damage. Building of
galleries, anchoring of rocks, installing steel nets with signalling devices
and repair of drainage systems are major works still to be done to protect the
line in unstable areas. A number of railroad stations have suffered damage,
in particular those at Zeta, Virpazan and Sutomore; the last one is so badly
damaged that it has to be rebuilt. The locomotive depot at Bar was destroyed;
other railway buildings are heavily damaged but can be repaired. RTO Titograd
has apartment buildings for its workers in Titograd, Sutomore and Bar. The
buildings in Sutomore with 36 apartments are badly damaged but can be repaired.
Three buildings in Bar with 70 apartments have to be demolished and rebuilt.
One locomotive and 13 freight wagons are so heavily damaged that repair is not
economical.

Earthquake Damage, Port of Bar

38. As a consequence of the earthquake, all structures - breakwaters,
quay walls, transit sheds, storage areas and administrative buildings in the
Port of Bar were damaged in varying degrees from minor cracks to total destruc-
tion. Both breakwaters and all quay walls sustained extensive damage partic-
ularly to underwater sections. The quay walls of the older Pier II area have
been so extensively damaged and buckled as to be inoperable and only safe for
reduced and restricted operations. The newer, Bank-financed, quays of the
Pier I area sustained considerable damage but can be rehabilitated without
major demolition and rebuilding. The non-mineral oil tanks, under construc-
tion, received only minor damage. A heave of the access channel in the port
left some 450,000 m3 of spoil above the previous bed level thereby reducing
the operational depth of the port by 0.5 meters. Mechanical equipment such as
portal quay cranes, and the Bank-financed container and bulk-handling equip-
ment all "jumped the tracks" with consequent excessive stress and deformation
of structural members. One 8 ton crane was completely destroyed. All port
services - water, electricity, drainage, telephones, etc. were put out of
operation. The Volujica Hill, next to the bulk-cargo berths, produced several
rock-slides which covered roads, railway sidings and part of the adjacent
storage area.

Economic Implications of Earthquake Damage

39. The direct economic implications of the earthquakes are obvious.
A great deal of expensive infrastructure has been damaged and destroyed and
will have to be repaired or replaced in one form or another. In addition,
esential economic activity has been interrupted and slowed. To the extent
that a return to normal activity depends on the restoration of the damaged
and destroyed infrastructure, there are further, time-related, economic costs
(losses). A case in point, which also serves to illustrate the interdependence of the necessary remedial works, is the international tourist industry which is basic to Montenegro's economy. 1978 was a record year for tourism in Yugoslavia and since, prior to the earthquakes, advance bookings for 1979 were about 15 percent ahead of equivalent 1978 advance bookings, Yugoslavia generally and Montenegro, in particular, were expecting a substantially improved tourist season and contribution to foreign exchange earnings. The earthquakes damaged a considerable amount of the direct tourist superstructure in Montenegro (hotels, restaurants, historical buildings, etc.). Although a good deal of this superstructure suffered only repairable damage, the operation of these hotels, restaurants, etc., depends on the rehabilitation of the damaged water supply systems and electric grid system. But even when remedial work on these items of infrastructure is made, the tourists will still have to get to the hotels, restaurants, etc., and this will depend on remedial work on the damaged transport system. Further, the repairs to the water systems, electric grid, etc., will, themselves, depend in large measure on an adequately functioning transport system. As a result the tourism industry is virtually at a standstill and can only be expected to recover gradually as repairs are made in all the related sectors.

40. Obviously, then, there is a basic interrelationship among the various classes of infrastructure and the minimization of time-related economic loss depends on prompt remedial action in many sectors. However, equally obvious, the restoration of the basic land transport network is the sine qua non of economic recovery. In this context another example both of interdependence and the critical need to restore the land transport network involves the Port of Bar. This port, severely damaged by the earthquake, not only is the major seaport for all of southern Yugoslavia, but is also a major entrepot for Belgrade and the industrial and agricultural area surrounding the capital. Prompt restoration of effective port operations is not only critical to the economy of Montenegro but to that of southern Yugoslavia as a whole. Yet the restoration of the port in large part depends on reestablishment of the rail and highway links to the port from Titograd and thence to the rest of the country, both in terms of mobilizing the necessary materials and labor for repairs and in the movement of goods into and out of the port.

Request for Special Bank Lending

41. The Government of Yugoslavia has requested the Bank to provide financial assistance for the rehabilitation of the earthquake damage in S.R. Montenegro, one of the four LDRs in Yugoslavia. Assessment of the cost of physical damage is well advanced but still proceeding. Present indications are that the final estimate may well be as high as $3.5 billion. In addition the economy of the Republic will suffer a severe loss of earning capacity, both currently and for several years to come, as a result of the damage to the tourist facilities and the industries in the region of Bar.

42. A law providing funds for reconstruction was published in the Official Gazette of SFRY on July 27, 1979. This legislation specifies interim contributions to be deposited by each of the Republics and Autonomous Provinces into a Reconstruction Fund (Fund) to be established by S.R. Montenegro. These interim contributions amounting to Din 5 billion (US$267.4 million) will
be paid into the Fund in equal installments at the end of August, October and December 1979. The law also provides that the total contributions to be eventually made will be determined, on the basis of final damage estimates, and enacted into law by December 15, 1979. Provision is also made for equal contributions to be provided monthly in 1980 and that these, and any further contributions which may subsequently be provided, will be increased by an amount equal to the increase in the consumer price index for the preceding year. S.R. Montenegro has passed legislation establishing the Fund on July 31, 1979 and has thereafter earmarked funds for specific sectors of rehabilitation. A large proportion of the interim contributions are being earmarked for housing and rehabilitation of the transport sector. Additional contributions received and being sought from other domestic and international sources will also be channelled through the Fund. Both SFRY and S.R. Montenegro are convinced that financial assistance provided by the Bank would serve as a catalyst for obtaining other external assistance. Discussions with a number of countries and agencies who have expressed interest are underway.

43. In addition to its direct financial contribution, SFRY has undertaken to service the domestic and foreign debt of enterprises struck by the earthquake and will provide supplementary financing for social services.

44. In view of the Bank's past substantial financial assistance to and depth of knowledge of the transport sector in Montenegro, it is proposed that loans totalling $85 million should be made for specific projects for the rehabilitation of highways, the Titograd-Bar railroad and the Port of Bar. These proposals will cover specifically identified works in an effort to ensure that the loans can be used effectively and quickly.

45. Several Bank transportation missions have visited the area and have reviewed the damage and the Republic's rehabilitation plans. The detailed assessment of damage and the reconstruction plans have already been made for the highways, the railways and the Port of Bar. Because the damage at the Port of Bar is severe, the design and layout of the original facilities are being reviewed with a view to ensuring that the reconstruction will provide the optimal means of handling present and future traffic.

46. Highway rehabilitation being urgent both to permit restoration of normal economic activity and to prevent further damage which would have occurred during the next rainy season if essential repairs were not completed promptly, a loan of US$21 million for highways rehabilitation was approved by the Board on September 18, 1979 and signed on September 21, 1979. This represented the first part of the total rehabilitation loans of US$85 million for the transport sector. Specific projects suitable for Bank financing in railways and the Port of Bar are now recommended for US$14 million and US$50 million respectively.
Background

47. As described earlier, the series of earthquakes had a devastating effect on the Southern Adriatic coastal area (see Map, IBRD 14637). Because of their proximity to the epicenter, the town and port at Bar were extensively damaged. Out of a total population in the area of 32,000, some 22,000 were rendered homeless when about 48 percent of the housing was destroyed or rendered unsafe for habitation.

48. In the Port of Bar (see Map, IBRD 10916-R), all structures (breakwaters, quay walls, transit sheds, storage areas and administration building) were damaged in varying degrees from minor cracks to total destruction. Both breakwaters and all quay walls sustained extensive damage, particularly underwater. The quay walls at the old Pier II were so heavily damaged as to be inoperable. The newer Bank-financed Pier I sustained considerable damage, but can be restored without major demolition and rebuilding. The operational depth of the port has been reduced by 0.5 meters, and mechanical equipment—such as quay cranes, container crane and bulk handling equipment—suffered stress and deformation. All port services were put out of operation and the Volujica hill, next to the bulk cargo berths, produced rock slides which covered roads, railway sidings and adjacent storage areas. Virtually all container and general cargo traffic has ceased because of non-availability of equipment and working areas. This traffic is being handled through the ports of Rijeka and Koper, both longer and less economical routes for serving Bar’s hinterland.

Immediate Action Program

49. After the first earthquake, all ships were ordered from the port, and the port was closed to shipping for three days. Safety and salvage security measures were carried out: fires were extinguished, services temporarily restored, buildings made secure, cargo protected from the weather and dangerous areas roped off. Efforts were directed to clearing rocks and debris from working areas and to removing quay cranes from damaged areas for inspection. Experts from technical institutes and specialist engineers were engaged to undertake land and underwater surveys of the port. The provision of such "first aid" measures cost about Din 270 million (US$14.4 million) which is not covered by insurance because of "force majeure."

Short-Term Remedial Measures

50. The objective of the Port of Bar Working Organization (PBWO) is to restore efficient services in the Port of Bar as quickly and economically as possible. This is to be done with sufficient flexibility so as not to inhibit the port’s future development. The hinterland of the port is closely linked with Yugoslavia’s industrial expansion, and PBWO sees the present disaster as an opportunity to improve the facilities to ensure that the reconstruction will provide the optimal means of handling present and future traffic.
By the beginning of July 1979, PBWO had repaired and made available a berth on the south side of Pier II for the import of scrap iron. Grain, coal, phosphates, non-ferrous ores and iron ore continue to be handled to a limited extent at the bulk cargo berths; work on building the grain silos (Loan 1060-YU) is about to resume. Vehicular and passenger ferries to Greece and Italy continue to ply from the damaged passenger berth on the lee breakwater. These examples indicate the energetic and commendable efforts to get the port working, albeit to a limited extent due to lack of equipment and working areas and resultant low productivity and inefficient services.

The Project

The proposed project was appraised by the mission that visited Yugoslavia in August 1979. Negotiations were held in Washington with a Yugoslav delegation led by Mr. Veselin Djuranovic, President of Republican Committee for Transport, S.R. Montenegro, from October 24-29, 1979. The project scope, dimensions and cost estimates are based on the "Report on Earthquake Effects and Possible Ways of Port of Bar Rehabilitation," prepared by PBWO with the assistance of local experts, as reviewed and modified by the Bank.

Objectives

The objective of the project is to rehabilitate and restore port capacity to enable the port to handle bulk and general cargo traffic generated by industrial development within the port’s hinterland. To achieve this objective the project consists mainly of:

(a) Repair and restoration of port facilities and equipment that can be repaired economically;

(b) Provision of new facilities and equipment both to partially replace those which are damaged beyond repair and handle short-term requirements; and

(c) Technical assistance required to assist PBWO in the implementation of the project.

Scope and Dimensions of the Project

As the present project covers only short-term development to enable the port to handle current and short-term projected traffic, berthing capacity requirements were analyzed as follows:

(a) Before the earthquake, the port was able to accommodate about 18 ships; at present, berthing capacity is reduced to 12 berths, some of them operating under hazardous conditions. With the project the port will have 14 berths fully operational.

(b) Before the earthquake the 18 berths were used as follows: nine for general cargo, two for bulk cargo, two for cement, four for passenger and car ferry traffic and one for petroleum products.
(c) At present, the nine berths for traffic other than general cargo continue to operate as formerly, but some to a limited extent; only three of the original nine general cargo berths are currently in service; the other six were so severely damaged that only one of them can be repaired economically;

(d) The proposed project includes the restoration of 13 berths, breakwaters and Volujica hill and repair of services and working areas, the construction of one general cargo berth, and the extension of about 100 m that, added to the existing 391 m of bulk cargo berths, will ensure that two 65,000 dwt bulk carriers can be accommodated simultaneously, the repair of cargo-handling equipment and acquisition of additional port equipment.

55. Berthing capacity analysis shows also that the two existing specialized cement berths are underutilized. Having a narrow quay apron and no back-up areas, the possibility of utilization to handle other kinds of traffic is unlikely.

56. A summary of available berths and use is given below:

<table>
<thead>
<tr>
<th>Berth per type of commodity</th>
<th>Before the earth-quake</th>
<th>Present</th>
<th>With Proposed Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger ships and car ferries</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>General cargo</td>
<td>9</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Bulk cargo</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Cement</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Tankers</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>12</td>
<td>14</td>
</tr>
</tbody>
</table>

A detailed description of the project (see Map, IBRD 14630) is contained in Annex IV. It is expected that the project would be completed by June 30, 1982.

57. A further review of national port capacity requirements is being undertaken in the ongoing national port sector planning study, in which the Bank is involved. An agreement has been obtained from the Borrower to ensure that any study for the future development of the Port of Bar will be carried out in coordination with this national port sector planning study and that the results of future development studies for the Port of Bar would be reviewed with the Bank before undertaking other major investments in the Port of Bar (Loan Agreement, Section 4.07).

Cost Estimates and Financing Plan

58. The estimated cost of the port rehabilitation project is Din 2,334 million (US$124.8 million equivalent) excluding customs duties on imported
goods which amount to 20-30 percent ad valorem. The foreign exchange cost component is estimated to be US$60.9 million, or about 49 percent of total cost. The project cost estimates are summarized in the Loan and Project Summary and Annex V presents them in the standard appraisal format. The estimate includes provision for physical contingencies, which amount to 10-25 percent due to the nature of the works, and provision for price escalation on the basis of 12 percent annually for local costs over the next two years and 7 percent for foreign costs.

59. The Bank loan of US$50.0 million equivalent would finance 82 percent of the foreign exchange component, and the SR Montenegro Reconstruction Fund would provide the balance of US$10.9 million equivalent and the local costs of US$63.9 million equivalent.

**Procurement and Disbursement**

60. Project content and description (see Annex IV) show that some of the project items are either limited in scope, involve a diversity of detailed works, and/or the exact nature of the works and consequently the unit prices cannot be defined until construction is under way. Under this category, the following items have been identified as not being suitable for Bank financing and consequently have been excluded from the loan: dredging; repair of buildings, of port workers' houses and of transit sheds.

61. The extension of Pier I and of Volujica wharf (bulk cargo berth) will be financed by the Bank. These works may be procured under an extension of an existing contract after negotiations on the basis of updated unit prices of that contract and on terms and conditions, all satisfactory to the Bank (Loan Agreement, Schedule 4 C(a)).

62. Trimming back the Volujica hill to a safe profile involves removal of about 450,000 cubic meters of rocks, part of which will be used to repair the breakwaters and the rest to reclaim the backup area of the Pier 1 extension. Since these works are closely related to each other and in view of the urgent need to start the works as soon as possible, the corresponding contract would be awarded by an extension of the existing contract with the resident Yugoslav contractor through negotiations on terms and conditions acceptable to the Bank.

63. All other contracts for civil works should be awarded following ICB procedures, but contracts for civil works under US$1 million can be awarded on the basis of competitive bidding advertised locally and in accordance with PBWO's procurement procedures, which are satisfactory to the Bank.

64. The various items of equipment, damaged and able to be repaired in the port, could be entrusted to the original suppliers through negotiated contracts satisfactory to the Bank (Loan Agreement, Schedule 4(c)), in order that compatibility is assured and responsibility for satisfactory performance remains with the original contractor.

65. Procurement of bulk-handling equipment consistent with the characteristics of existing equipment procured under the present Bank loan should follow ICB procedures.
66. Other cargo-handling equipment and tugboats, if new, should be procured under ICB. However, due to the emergency conditions PBWO should be allowed to canvass the international market to seek suitable second-hand tugboats and cranes that can be delivered on short notice. In that case direct purchases should be accepted by the Bank provided prices are favorable and technical evaluation of the equipment offered is satisfactory to the Bank (Loan Agreement, Schedule 4C(d)).

67. Disbursements from the loan account will be on the basis of the foreign exchange component of the various items as follows:

(a) for civil works: 41 percent of total expenditures;
(b) for equipment: 100 percent of foreign expenditures for imported equipment (C.I.F. prices) and
     100 percent of local expenditures for locally manufactured equipment (ex-factory prices);
(c) for equipment repairs: 100 percent of total expenditures.

It is expected that the loan would be fully disbursed by December 31, 1982.

The Loan and Project Execution

68. The loan would be made to the Port of Bar Working Organization (PBWO) in an amount of US$50.0 million on standard Bank terms and would be guaranteed by the Socialist Federal Republic of Yugoslavia (SFRY). A condition of loan effectiveness would be that the Republic of Montenegro will have adopted decisions or given assurances satisfactory to the Bank for the financing for the rehabilitation program, including a guarantee to cover possible cost overruns (Section 7.01 (a) of the Loan Agreement). Supervision of the repair and rehabilitation works would be effected by the Borrower, who has agreed to expand its present engineering and support staff, who will be assisted by Yugoslav specialists and by consultants (Loan Agreement, Section 3.02). The Investment Bank of Titograd (IBT) would act as fiscal agent for the Bank loan and the Fund proceeds, and the signing of an agreement to this effect between PBWO and IBT would be a condition of effectiveness of the proposed loan (Loan Agreement, Section 7.01(b)).

Retroactive Financing

69. In order that the Bank may assist as fully as possible PBWO's earthquake rehabilitation efforts, expenditures as determined in agreement with the Bank incurred for the emergency works, on or after April 15, 1979 up to the time of loan signature, not expected to exceed US$2.0 million, will be eligible for financing under the loan (Loan Agreement, Schedule 1, para. 4).

Project Risk and Environment

70. Since the project is designed to restore the Port of Bar, no additional environmental hazard is involved. A potential risk, the magnitude of
which cannot be foreseen, is that further subsidence of quay walls and breakwaters may occur. But the project contingency element would provide to a reasonable extent for additional works to reduce the potential for damage resulting from future earthquakes. PBWO and its consultants will ensure that structural designs will be in accordance with appropriate seismic design criteria, in conformity with Montenegrin legislation in effect (Loan Agreement, Section 3.02(a)).

Economic Assessment

71. The hinterland of the Port of Bar covers about half the territory of Yugoslavia, and half its population. It includes two of the less-developed regions in the country (SR Montenegro and SAP Kosovo) and also most of Serbia (including Belgrade) and Macedonia. A large part of Yugoslavian industry is located within the port's hinterland, particularly steel and fertilizer plants and other mineral industries which depend on the port for both imports and exports. The main traffic centers within the hinterland are about 200-500 kms closer, by overland routes, to the port of Bar compared to alternative Adriatic ports like Rijeka and Ploce.

72. The Port of Bar and the Belgrade-Bar railway cannot be treated in isolation; they are interdependent. They were planned and constructed over the past two decades or so, mainly with a view to opening up and developing the less-developed regions like Montenegro and to boost the economy of eastern Yugoslavia. Unless both are repaired and restored the initial investment in these facilities of about US$800 million (1979 prices) and the benefits stemming therefrom will largely be lost. The cost of repairing and restoring the port and the railway is estimated to be approximately US$180 million. The economic benefits from the rehabilitation investment would consist of increased production and income in the region from their present depressed levels. Given the large investment in existing facilities they may be assumed to be high.

73. In the absence of the proposed port investments in Bar, it is conservatively estimated that a minimum of 1.5 million tons of traffic would have to be diverted from the port of Bar through other ports (mainly Rijeka and Ploce) by about 1985. Such traffic would have to be carried overland over a much longer route into Bar's hinterland (average additional distance, 300 km or more per ton of cargo) involving higher transport costs. In addition, such diversion would render superfluous a good part of the railway and road capacity built up at high cost from Bar to its hinterland. A more compelling fact is that to handle such extra traffic, additional capacity would have to be created in the alternative ports as well as in the overland rail routes (in view of the absence of any spare capacity), which together would require a much higher investment than now proposed for rehabilitating the port of Bar and its railway links. Moreover, use of a more distant port on a regular basis would hinder the further growth of the industries in the immediate hinterland of the port of Bar. The initial development of the port of Bar facilities financed by the Bank was precisely to avoid such a costly diversion of potential traffic. These factors underline the basic justification for the proposed port rehabilitation.
74. It should be added that the proposed project does not seek to restore all the facilities damaged or destroyed by the earthquake, the objective being to restore only what is most essential for the near future (up to about 1985). For example, of the five general cargo berths destroyed on Pier II, the reconstruction at a new location of only one berth is sought under the project; at the same time the bulk-handling facilities would be further improved over the pre-earthquake situation, mainly to accommodate the larger bulk carriers now expected to come to the port and to handle bulk cargos more efficiently. These changes are proposed because, judging from recent traffic trends and short-term traffic prospects, it is clear that the port’s facilities should place more emphasis on bulk cargo than on general cargo which has increased only slowly.

75. The long delay in completing the Belgrade-Bar railway line (completed in 1978 as against the earlier schedule of 1972) has adversely affected the build-up of traffic in the port of Bar, and therefore the port’s traffic has not so far reached the levels earlier projected for the Port of Bar Project (Loan No. 1060-YU). The present rehabilitation is designed to meet a modest growth projection starting from the levels reached in 1978 and 1979. In 1978, the port’s traffic was about 1.3 million tons, consisting of 0.4 million tons of general cargo, 0.6 million tons of dry bulk cargo, and 0.3 million tons of liquid bulk (mainly petroleum traffic). Traffic handled in the first seven months in 1979, in spite of the dislocation due to the earthquake, has been about 30 percent more than in the corresponding period in 1978. Indeed, this volume of traffic in 1979 has been handled under great strain by stretching all available resources and working on a round-the-clock basis and also working under some physical risks to the cargo and workers—all these because of the emergency situation. The above increase in traffic in 1979 reflects the gathering pace of traffic development through the port, which is expected to continue.

76. The proposed project is designed to handle an expected traffic of about 0.5-0.6 million tons of general cargo, and about 1.5 million tons of dry bulk cargo by 1985. While the dry bulk cargo facilities, with the proposed modest improvements, are essential to handle this volume of traffic in view of a variety of items involved, the port will have sufficient reserve capacity to absorb a larger volume if needed.

**Borrower’s Finances**

77. While PBWO has been able to cover operating expenses including depreciation, there is serious concern in PBWO, IBT and the Secretariat of Finance and Economy of SR Montenegro regarding PBWO’s cash flow situation in 1979 and subsequent years. Delays in completing the railway marshalling yards at the port previously imposed constraints on port capacity and on its earnings. This situation has now been exacerbated by the earthquake and on present estimates the port’s own resources would be insufficient to meet existing debt service commitments. These problems will continue to be addressed as part of the Bank’s supervision of Loan 1060-YU. However, as stated in para. 43, SFRY has undertaken to service both the foreign and domestic loans of enterprises affected by the earthquakes to the extent that this may be necessary.
PART V – LEGAL INSTRUMENTS AND AUTHORITY

78. The draft Loan Agreement between the Bank and the Port of Bar Working Organization (PBWO); and the draft Guarantee Agreement between the Socialist Federal Republic of Yugoslavia and the Bank, and the Report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement are being distributed to Executive Directors separately.

79. Provisions in the agreements of special interest are noted in paragraphs 57 through 70 of this Report and the most important provisions are listed in Section III of Annex III. Special conditions of loan effectiveness are described in paragraph 68 of the Report and set forth in Section 7.01 of the draft Loan Agreement. These conditions specify that:

(i) the Republic of Montenegro has adopted decisions or given guarantees in form and substance satisfactory to the Bank to cover the financing of the Project including cost overruns; and

(ii) the agreements between Investiciona Banka Titograd (IBT) and the Port of Bar Working Organization under which IBT is to act as fiscal agent for the Project are in full force and effect.

PART VI – RECOMMENDATIONS

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

Robert S. McNamara
President
by Ernest Stern

Attachments
November 12, 1979
Washington, D.C.
<table>
<thead>
<tr>
<th>Index of Food Production</th>
<th>Per Capita Supply of Calories (Percent of Requirements)</th>
<th>Per Capita Supply of Proteins (Grams Per Day)</th>
<th>Infant Mortality Rate (Per Thousand)</th>
<th>Access to Safe Water (Percent of Population)</th>
<th>Access to Excreta Disposal (Percent of Population)</th>
<th>Average Size of Household</th>
<th>Average Number of Persons Per Room</th>
<th>Access to Electricity (Percent of Dwellings)</th>
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</thead>
<tbody>
<tr>
<td>Per capita</td>
<td>82.6</td>
<td>111.0</td>
<td>92.0</td>
<td>88.0</td>
<td>88.0</td>
<td>6.0</td>
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<td>55.6</td>
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<tr>
<td>Per capita</td>
<td>2.0</td>
<td>3.0</td>
<td>69.0</td>
<td>69.0</td>
<td>69.0</td>
<td>4.0</td>
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<tr>
<td>Acreage</td>
<td>140.0</td>
<td>120.0</td>
<td>69.0</td>
<td>69.0</td>
<td>69.0</td>
<td>17.0</td>
<td>17.0</td>
<td>87.9</td>
</tr>
<tr>
<td>Per capita</td>
<td>150.0</td>
<td>120.0</td>
<td>69.0</td>
<td>69.0</td>
<td>69.0</td>
<td>17.0</td>
<td>17.0</td>
<td>87.9</td>
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</table>

**NOTE:**
- All calculations and data are based on the latest available statistics as of 1969.
- The data covers various socio-economic indicators such as population, food and nutrition, health, and living conditions.
- The table provides a comprehensive view of the social indicators for the region, including averages and estimates for different groups and regions.
### ANNEX 1

#### TABLE 3A

<table>
<thead>
<tr>
<th>YUGOSLAVIA</th>
<th>SOCIAL INDICATORS DATA SHEET</th>
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<tr>
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<td></td>
<td>MOST RECENT ESTIMATE</td>
</tr>
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<td>MOST recent estimate</td>
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#### EDUCATION

<table>
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<th>EDUCATION</th>
<th>ADJUSTED ENROLLMENT RATIOS</th>
<th>PRIMARY</th>
<th>TOTAL</th>
<th>1960 (%)</th>
<th>1970 (%)</th>
<th>ESTIMATE (%)</th>
<th>105.7</th>
<th>101.7</th>
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#### CONSUMPTION

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<tr>
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<th>PASSENGER CARS PER THOUSAND POPULATION</th>
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<td>83.0</td>
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#### LABOR FORCE

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<th>TOTAL LABOR FORCE (THOUSANDS)</th>
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#### PARTICIPATION RATE (PERCENT)

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<th>45.4</th>
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#### ECONOMIC DEPENDENCY RATES

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#### INCOME DISTRIBUTION

<table>
<thead>
<tr>
<th>INCOME DISTRIBUTION</th>
<th>PERCENT OF PRIVATE INCOME RECEIVED BY</th>
<th>HIGHEST 5 PERCENT OF HOUSEHOLDS</th>
<th>16.4%</th>
<th>15.1%</th>
<th>12.6%</th>
<th>15.1%</th>
<th>12.6%</th>
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<th>12.6%</th>
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<td>STANDARDS OF LIVING (PERCENT)</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
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<td>RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
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<table>
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<th>POVERTY TARGET GROUPS</th>
<th>ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA)</th>
<th>1.0</th>
<th>1.0</th>
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<tbody>
<tr>
<td></td>
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<td>RURAL</td>
<td>URBAN</td>
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</table>

#### NOTES

- The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform.
- For 1963: /A; for 1968: /B; for 1962: /C; including migrant workers working abroad: /D; for 1963: /E; /F; /G; /H; /I; most recent estimate of CPI per capita is for 1978.

August, 1979
### Economic Development Data Sheets

#### National Accounts /2

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual 1975</th>
<th>1976</th>
<th>1977/1 Estimate</th>
<th>1978</th>
<th>1979 Projected</th>
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<tr>
<td>GDP</td>
<td>22,519.9</td>
<td>30,931.9</td>
<td>32,138.2</td>
<td>34,612.6</td>
<td>36,897.2</td>
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<tr>
<td>Exports</td>
<td>6,519.8</td>
<td>8,832.0</td>
<td>8,493.2</td>
<td>9,636.6</td>
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<td>Imports</td>
<td>5,022.7</td>
<td>-6,426.0</td>
<td>-7,026.9</td>
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<td>-6,461.7</td>
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<td>Net Domestic Product (GNP)</td>
<td>14.9</td>
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<td>69.1</td>
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<tr>
<td>Gross Domestic Income</td>
<td>22,668.8</td>
<td>30,931.9</td>
<td>32,207.3</td>
<td>34,612.6</td>
<td>37,229.8</td>
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<tr>
<td>Gross Domestic Savings</td>
<td>6,993.2</td>
<td>9,211.4</td>
<td>10,992.2</td>
<td>10,429.1</td>
<td>10,817.0</td>
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<tr>
<td>GDP at Current Prices</td>
<td>13,766.4</td>
<td>30,931.9</td>
<td>42,336.6</td>
<td>50,154.9</td>
<td>58,480.6</td>
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</table>

#### Sector Output

<table>
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<th>Sector</th>
<th>Share of GDP at 1975 Prices</th>
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<tr>
<td>Agriculture</td>
<td>.152</td>
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<tr>
<td>Industry</td>
<td>.410</td>
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<tr>
<td>Services</td>
<td>.408</td>
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</table>

#### Prices (1975 = 100)

<table>
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<tr>
<th>Index</th>
<th>1976</th>
<th>1977</th>
<th>1978</th>
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<tr>
<td>Exports Index</td>
<td>52</td>
<td>100</td>
<td>104</td>
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<td>Imports Index</td>
<td>50</td>
<td>100</td>
<td>103</td>
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<td>Terms of Trade Index</td>
<td>106</td>
<td>100</td>
<td>101</td>
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<td>GDP Deflator</td>
<td>61</td>
<td>100</td>
<td>122</td>
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<td>Annual Average Exchange Rate</td>
<td>12.50</td>
<td>17.39</td>
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#### Selected Indicators

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<th>Indicator</th>
<th>1976-78</th>
<th>1978-79</th>
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<tr>
<td>Import Elasticity</td>
<td>.71</td>
<td>.88</td>
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<tr>
<td>Average National Savings Rate</td>
<td>.33</td>
<td>.32</td>
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<tr>
<td>Marginal National Savings Rate</td>
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<td>.27</td>
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<tr>
<td>Imports/GDP</td>
<td>.35</td>
<td>.27</td>
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<tr>
<td>Investment/GDP /3</td>
<td>.07</td>
<td>.06</td>
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---

/1 Preliminary.

/2 Components may not add up because of rounding.

/3 Including all statistical discrepancies. In 1976, 1977, and 1978 large statistical discrepancies exist as a result of which components of final demand exceed total resources. Since, in the above table, consumption has been reduced by this discrepancy and investment has not been changed although it too is likely to account for part of the discrepancy, the share of investment is likely to be an overestimate.

EIDDC
July 25, 1979
# Balance of Payments and External Assistance

(US$ Million)

<table>
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<tr>
<th></th>
<th></th>
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<tbody>
<tr>
<td><strong>Exports (f.o.b.)</strong></td>
<td>3,805</td>
<td>4,072</td>
<td>4,878</td>
<td>5,254</td>
<td>5,671</td>
<td>6,900</td>
<td>15,000</td>
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<tr>
<td><strong>Imports (c.i.f.)</strong></td>
<td>7,520</td>
<td>7,697</td>
<td>7,367</td>
<td>9,634</td>
<td>9,988</td>
<td>12,500</td>
<td>21,000</td>
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<tr>
<td><strong>Trade Balance</strong></td>
<td>-3,715</td>
<td>-3,625</td>
<td>-2,489</td>
<td>-4,380</td>
<td>-4,317</td>
<td>-5,600</td>
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<tr>
<td><strong>Non-Factor Services Receipts</strong></td>
<td>1,891</td>
<td>2,354</td>
<td>2,430</td>
<td>2,600</td>
<td>2,984</td>
<td>3,100</td>
<td>8,000</td>
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<tr>
<td><strong>Non-Factor Services Payments</strong></td>
<td>795</td>
<td>1,135</td>
<td>1,381</td>
<td>1,641</td>
<td>2,259</td>
<td>2,500</td>
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<tr>
<td><strong>Non-Factor Services Net Balance</strong></td>
<td>1,096</td>
<td>1,219</td>
<td>1,049</td>
<td>959</td>
<td>725</td>
<td>600</td>
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<tr>
<td><strong>Factor Services Receipts</strong></td>
<td>1,714</td>
<td>1,746</td>
<td>1,974</td>
<td>2,220</td>
<td>3,030</td>
<td>3,200</td>
<td>4,500</td>
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<tr>
<td><strong>Factor Services Payments</strong></td>
<td>285</td>
<td>343</td>
<td>364</td>
<td>381</td>
<td>455</td>
<td>500</td>
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<tr>
<td><strong>Factor Services Net Balance</strong></td>
<td>1,429</td>
<td>1,403</td>
<td>1,610</td>
<td>1,839</td>
<td>2,575</td>
<td>2,700</td>
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<td><strong>Current Account Balance</strong></td>
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<td>165</td>
<td>-1,582</td>
<td>-1,017</td>
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<td><strong>Capital Account-Medium and Long-Term (net)</strong></td>
<td>612</td>
<td>1,156</td>
<td>1,193</td>
<td>1,615</td>
<td>1,300</td>
<td>1,700</td>
<td>2,000</td>
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<tr>
<td><strong>Disbursements</strong></td>
<td>1,426</td>
<td>2,171</td>
<td>2,096</td>
<td>2,563</td>
<td>2,700</td>
<td>3,400</td>
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<td><strong>Amortization</strong></td>
<td>-814</td>
<td>-1,015</td>
<td>-903</td>
<td>-1,050</td>
<td>-1,400</td>
<td>-1,700</td>
<td>-5,000</td>
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<tr>
<td><strong>Exports Credit Extended Net Disbursements</strong></td>
<td>-130</td>
<td>-80</td>
<td>-100</td>
<td>-213</td>
<td>-150</td>
<td>-200</td>
<td>-300</td>
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<tr>
<td><strong>Amortization</strong></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Total Medium and Long-Term (net)</strong></td>
<td>482</td>
<td>1,076</td>
<td>1,093</td>
<td>1,402</td>
<td>1,150</td>
<td>1,500</td>
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<td><strong>Short Term (net)</strong></td>
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<td>127</td>
<td>-47</td>
<td>-19</td>
<td>182</td>
<td>-</td>
<td>-</td>
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<td><strong>Allocation of SDR's</strong></td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td><strong>Change in Reserves (=-Increase)</strong></td>
<td>438</td>
<td>-200</td>
<td>-1,211</td>
<td>-199</td>
<td>-315</td>
<td>800</td>
<td>-400</td>
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<td><strong>Gold, Foreign Exchange, SDR</strong></td>
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<td>-63</td>
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<td>38</td>
<td>-250</td>
<td>-</td>
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<tr>
<td><strong>Bilateral Balances</strong></td>
<td>195</td>
<td>-137</td>
<td>-146</td>
<td>161</td>
<td>-65</td>
<td>-</td>
<td>-</td>
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</tbody>
</table>

1/ Preliminary
2/ External borrowing reported in the balance of payments is not consistent with external debt data.
3/ Including capital transactions, n.e.i and errors and omissions.

EMENA CPIC
November 2, 1979
### DEBT AND CREDITWORTHINESS

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<tr>
<td><strong>Medium- &amp; Long-Term Debt (Disbursed only) - US $ million</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Debt Outstanding (DOD) (end of period)</td>
<td>4287.0</td>
<td>4925.9</td>
<td>5820.0</td>
<td>7145.1</td>
<td>8946.1</td>
</tr>
<tr>
<td>Including Undisbursed (end of period)</td>
<td>5548.7</td>
<td>7709.7</td>
<td>8807.9</td>
<td>9696.6</td>
<td>12157.8</td>
</tr>
<tr>
<td>Public Debt Services (during period)</td>
<td>-306.5</td>
<td>-364.2</td>
<td>-447.0</td>
<td>-305.2</td>
<td>-379.0</td>
</tr>
<tr>
<td>Interest</td>
<td>-98.4</td>
<td>-105.3</td>
<td>-127.9</td>
<td>-143.0</td>
<td>-157.3</td>
</tr>
<tr>
<td>Other Medium- and Long-Term Debt Services (during pd.)</td>
<td>-746.4</td>
<td>-822.7</td>
<td>-989.7</td>
<td>-1134.8</td>
<td>-1235.3</td>
</tr>
<tr>
<td>Total Debt Service (during period)</td>
<td>-1052.9</td>
<td>-1214.9</td>
<td>-1436.7</td>
<td>-1440.0</td>
<td>-1612.3</td>
</tr>
<tr>
<td><strong>Debt Burden</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Service Ratio</td>
<td>23.9</td>
<td>21.4</td>
<td>22.4</td>
<td>19.7</td>
<td>20.2</td>
</tr>
<tr>
<td>Debt Service Ratio/1</td>
<td>18.4</td>
<td>16.9</td>
<td>17.3</td>
<td>15.7</td>
<td>15.9</td>
</tr>
<tr>
<td><strong>Terms</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on Total DOD/Total DOD</td>
<td>4.9</td>
<td>5.0</td>
<td>4.9</td>
<td>4.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Total Debt Service/Total DOD</td>
<td>24.4</td>
<td>24.7</td>
<td>24.7</td>
<td>20.2</td>
<td>18.0</td>
</tr>
<tr>
<td><strong>Dependency Ratios for Medium- &amp; Long-Term Debt</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Disbursements/Imports</td>
<td>37.0</td>
<td>20.6</td>
<td>27.3</td>
<td>32.8</td>
<td>30.7</td>
</tr>
<tr>
<td>Net Transfers/Imports</td>
<td>13.7</td>
<td>4.5</td>
<td>8.7</td>
<td>13.3</td>
<td>24.0</td>
</tr>
<tr>
<td>Net Transfers/Gross Disbursements</td>
<td>36.9</td>
<td>21.8</td>
<td>31.1</td>
<td>40.5</td>
<td>45.6</td>
</tr>
<tr>
<td><strong>Exposure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank Disbursements/Gross Total Disbursements</td>
<td>3.0</td>
<td>5.8</td>
<td>7.3</td>
<td>4.9</td>
<td>4.5</td>
</tr>
<tr>
<td>World Bank &amp; IDA Disbursements/Gross Total Disbursements</td>
<td>3.0</td>
<td>5.8</td>
<td>7.3</td>
<td>4.9</td>
<td>4.5</td>
</tr>
<tr>
<td>World Bank DOD/Total DOD</td>
<td>8.2</td>
<td>8.6</td>
<td>9.6</td>
<td>9.2</td>
<td>8.5</td>
</tr>
<tr>
<td>World Bank &amp; IDA DOD/Total DOD</td>
<td>8.2</td>
<td>8.6</td>
<td>9.6</td>
<td>9.2</td>
<td>8.5</td>
</tr>
<tr>
<td>World Bank Debt Service/Total Debt Service</td>
<td>3.6</td>
<td>3.6</td>
<td>3.9</td>
<td>4.7</td>
<td>5.3</td>
</tr>
<tr>
<td>World Bank &amp; IDA Debt Service/Total Debt Service</td>
<td>3.6</td>
<td>3.6</td>
<td>3.9</td>
<td>4.7</td>
<td>5.3</td>
</tr>
</tbody>
</table>

1 Including workers' remittances.
### A. STATEMENT OF BANK LOANS (as of September 30, 1979)

<table>
<thead>
<tr>
<th>Number</th>
<th>Year</th>
<th>Borrower(s)</th>
<th>Purpose</th>
<th>Bank</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>777</td>
<td>1971</td>
<td>SFRY</td>
<td>Multipurpose Water</td>
<td>45.0</td>
<td>9.1</td>
</tr>
<tr>
<td>782</td>
<td>1971</td>
<td>&quot;Babin Kuk&quot; Hotelsko Turisticki Centar, Dubrovnik</td>
<td>Tourism</td>
<td>20.0</td>
<td>0.3</td>
</tr>
<tr>
<td>836</td>
<td>1972</td>
<td>Twelve Electric Power Enterprises in Yugoslavia</td>
<td>Power</td>
<td>75.0</td>
<td>0.2</td>
</tr>
<tr>
<td>894</td>
<td>1973</td>
<td>Stopanska Banka, Skopje</td>
<td>Agricultural Industries</td>
<td>31.0</td>
<td>1.3</td>
</tr>
<tr>
<td>916</td>
<td>1973</td>
<td>Naftagas</td>
<td>Gas Pipeline</td>
<td>59.4</td>
<td>20.3</td>
</tr>
<tr>
<td>1012</td>
<td>1974</td>
<td>Stopanska Banka, Skopje</td>
<td>Industrial Credit</td>
<td>28.0</td>
<td>0.3</td>
</tr>
<tr>
<td>1013</td>
<td>1974</td>
<td>Privredna Banka Sarajevo</td>
<td>Industrial Credit</td>
<td>22.0</td>
<td>0.5</td>
</tr>
<tr>
<td>1026</td>
<td>1974</td>
<td>Community of Yugoslav Railways</td>
<td>Railways</td>
<td>93.0</td>
<td>17.7</td>
</tr>
<tr>
<td>1060</td>
<td>1974</td>
<td>Port of Bar</td>
<td>Harbor Expansion</td>
<td>44.0</td>
<td>10.0</td>
</tr>
<tr>
<td>1066</td>
<td>1974</td>
<td>Vodovod Dubrovnik</td>
<td>Water Supply and Wastewater</td>
<td>6.0</td>
<td>3.0</td>
</tr>
<tr>
<td>1129</td>
<td>1975</td>
<td>Vojvodjanska Banka</td>
<td>Agricultural Credit</td>
<td>50.0</td>
<td>10.8</td>
</tr>
<tr>
<td>1143</td>
<td>1975</td>
<td>Republic Road Organizations in Slovenia, Montenegro and Serbia</td>
<td>Roads</td>
<td>40.0</td>
<td>3.4</td>
</tr>
<tr>
<td>1173</td>
<td>1975</td>
<td>Jugoslavenski Naftovod</td>
<td>Pipeline</td>
<td>48.4</td>
<td>3.5</td>
</tr>
<tr>
<td>1262</td>
<td>1976</td>
<td>Republicki Fond Voda</td>
<td>Water Supply, Sewerage &amp; Water Resources</td>
<td>20.0</td>
<td>11.3</td>
</tr>
<tr>
<td>1263</td>
<td>1976</td>
<td>Sarajevo Water Supply &amp; Sewerage Enterprise</td>
<td>Water Supply &amp; Sewerage</td>
<td>45.0</td>
<td>32.6</td>
</tr>
<tr>
<td>1264</td>
<td>1976</td>
<td>Sarajevo Gas Enterprise &amp; Naftagas Gas Unit</td>
<td>Air Pollution Control</td>
<td>38.0</td>
<td>20.4</td>
</tr>
<tr>
<td>1277</td>
<td>1976</td>
<td>Privredna Banka Sarajevo, Stopanska Banka Skopje, Investiciona Banka Titograd, Kosovska Banka Pristina</td>
<td>Second Industrial Credit</td>
<td>50.0</td>
<td>15.9</td>
</tr>
<tr>
<td>1360</td>
<td>1977</td>
<td>Management Organization &quot;Metohija&quot;</td>
<td>Multipurpose Water</td>
<td>54.0</td>
<td>51.6</td>
</tr>
<tr>
<td>1370</td>
<td>1977</td>
<td>Investiciona Banka, Titograd</td>
<td>Agriculture Industries</td>
<td>26.0</td>
<td>20.5</td>
</tr>
<tr>
<td>Number</td>
<td>Year</td>
<td>Borrower(s)</td>
<td>Purpose</td>
<td>Bank</td>
<td>Undisbursed</td>
</tr>
<tr>
<td>--------</td>
<td>------</td>
<td>-------------</td>
<td>---------</td>
<td>------</td>
<td>-------------</td>
</tr>
<tr>
<td>1371</td>
<td>1977</td>
<td>Stopanska Banka, Skopje</td>
<td>Agriculture Industries</td>
<td>24.0</td>
<td>21.6</td>
</tr>
<tr>
<td>1377</td>
<td>1977</td>
<td>Republic Road Organizations in Bosnia-Herzegovina, Serbia, Macedonia, and Kosovo</td>
<td>Roads</td>
<td>56.0</td>
<td>11.5</td>
</tr>
<tr>
<td>1469</td>
<td>1977</td>
<td>JUGEL and six Electric Power Organizations in each Republic</td>
<td>Second Power Transmission</td>
<td>80.0</td>
<td>59.9</td>
</tr>
<tr>
<td>1477</td>
<td>1977</td>
<td>Vojvodjanska Banka</td>
<td>Second Agricultural Credit</td>
<td>75.0</td>
<td>69.4</td>
</tr>
<tr>
<td>1534</td>
<td>1978</td>
<td>Community of Yugoslav Railways</td>
<td>Railways</td>
<td>100.0</td>
<td>73.9</td>
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<tr>
<td>1535</td>
<td>1978</td>
<td>Republic Road Organizations of Slovenia, Croatia and Serbia</td>
<td>Roads</td>
<td>80.0</td>
<td>49.8</td>
</tr>
<tr>
<td>1561</td>
<td>1978</td>
<td>Elektroprivreda Bosne i Hercegovine</td>
<td>Hydro Power</td>
<td>73.0</td>
<td>64.1</td>
</tr>
<tr>
<td>1611</td>
<td>1978</td>
<td>Kosovska Banka Pristina</td>
<td>Third Industrial Credit</td>
<td>40.0</td>
<td>35.8</td>
</tr>
<tr>
<td>1612</td>
<td>1978</td>
<td>Privredna Banka Sarajevo</td>
<td>Fourth Industrial Credit</td>
<td>20.0</td>
<td>17.4</td>
</tr>
<tr>
<td>1613</td>
<td>1978</td>
<td>Stopanska Banka Skopje</td>
<td>Fourth Industrial Credit</td>
<td>20.0</td>
<td>17.2</td>
</tr>
<tr>
<td>1614</td>
<td>1978</td>
<td>Investicijona Banka Titograd</td>
<td>Fourth Industrial Credit</td>
<td>20.0</td>
<td>12.7</td>
</tr>
<tr>
<td>1616</td>
<td>1978</td>
<td>Stopanska Banka Skopje</td>
<td>Macedonia Strezevo Irrigation</td>
<td>82.0</td>
<td>79.1</td>
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<tr>
<td>1621</td>
<td>1978</td>
<td>Privredna Banka, Sarajevo</td>
<td>Bosanska Krajina Agriculture and Agro-Industries</td>
<td>55.0</td>
<td>55.0</td>
</tr>
<tr>
<td>1678</td>
<td>1979</td>
<td>Road Organizations of Kosovo, Montenegro, Vojvodina and Herzegovina and the Socialist Republic of Macedonia</td>
<td>Roads</td>
<td>148.0</td>
<td>148.0</td>
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<tr>
<td>1756</td>
<td>1979</td>
<td>Zagrebacka Banka</td>
<td>Croatia Sava Drainage</td>
<td>51.0</td>
<td>51.0</td>
</tr>
<tr>
<td>1759</td>
<td>1979</td>
<td>Republic of Montenegro</td>
<td>Earthquake Rehabilitation - Highways</td>
<td>21.0</td>
<td>21.0</td>
</tr>
</tbody>
</table>

Total (less cancellation) | 2,337.5 | 1,019.7 |
Total now outstanding | 2,082.8 |
Amount sold | 8.5 |
Total now held by Bank | 2,082.0 |
Total undisbursed | 1,019.7 |

/a Not yet effective.
B. STATEMENT OF IFC INVESTMENTS (as at September 30, 1979)

<table>
<thead>
<tr>
<th>Year</th>
<th>Obligor</th>
<th>Type of Business</th>
<th>Amount in US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Loan</td>
</tr>
<tr>
<td>1970</td>
<td>International Investment Corporation for Yugoslavia</td>
<td>Investment Corporation</td>
<td>-</td>
</tr>
<tr>
<td>1970</td>
<td>Zavodi Crvena Zastava Fiat S.p.A.</td>
<td>Automotive Industry</td>
<td>5.0</td>
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<tr>
<td>1971</td>
<td>Tovarna Automobilov in Motorjev Maribor (TAM)/Klockner-Humboldt Deutz A.G. (KHD)</td>
<td>Automotive Industry</td>
<td>7.5</td>
</tr>
<tr>
<td>1972</td>
<td>FAP-FAMOS Belgrade/Daimler-Benz A.G.</td>
<td>Automotive Industry</td>
<td>13.7</td>
</tr>
<tr>
<td>1972</td>
<td>Sava Semperit</td>
<td>Tires</td>
<td>11.3</td>
</tr>
<tr>
<td>1973</td>
<td>Belisce-Bel Tovornica Papira</td>
<td>Pulp and Paper</td>
<td>13.3</td>
</tr>
<tr>
<td>1974</td>
<td>Zelezarna Jesenice/ARMCO</td>
<td>Special Steel</td>
<td>10.0</td>
</tr>
<tr>
<td>1974</td>
<td>Salonit Anhovo</td>
<td>Cement Plant</td>
<td>10.0</td>
</tr>
<tr>
<td>1975</td>
<td>RMK Zenica</td>
<td>Steel</td>
<td>50.0</td>
</tr>
<tr>
<td>1977</td>
<td>Frikom RO Industrija Smrznute Hrane/Unilever</td>
<td>Food and Food Processing</td>
<td>4.0</td>
</tr>
<tr>
<td>1977</td>
<td>Tvornica Kartona i Ambalaze Cazin</td>
<td>Pulp and Paper Products</td>
<td>15.6</td>
</tr>
<tr>
<td>1978</td>
<td>Soko-Mostar</td>
<td>Hermetic Compressors</td>
<td>7.0</td>
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</tbody>
</table>

Total Gross Commitments
less cancellations, terminations, exchange adjustment, repayment and sales

<table>
<thead>
<tr>
<th>Amount in US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>147.4</td>
</tr>
</tbody>
</table>

Total commitments held by IFC

<table>
<thead>
<tr>
<th>Amount in US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>66.4</td>
</tr>
</tbody>
</table>

Total Undisbursed

<table>
<thead>
<tr>
<th>Amount in US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.2</td>
</tr>
</tbody>
</table>
C. PROJECTS IN EXECUTION 1/

Loan 777 Ibar Multipurpose Water: US$45.0 million Loan of June 30, 1971; Effective Date: May 31, 1972; Closing Date: December 31, 1979.

The start of project work was delayed for one year. The main dam is completed and the reservoir is being filled. A small part of the irrigation network has been completed with the remainder expected to be completed by 1980 and 1981. Project costs have been above appraisal estimates, but the overrun financing is being provided by the Province of Kosovo and from Federal sources. Delays have been encountered in the arrangements for boundary adjustment. Consultants have been engaged to help find solutions, and the Kosovo Government has enacted appropriate legislation. After a delay of about five years, a law has been enacted by the Kosovo Government which will assist in the provision of agricultural extension services to the individual sector.

Loan 782 Babin Kuk Tourism: US$20.0 million Loan of July 21, 1971; Effective Date: June 12, 1972; Closing Date: December 31, 1979.

There were initial delays in the implementation of the project due to lateness in making the loan effective and in mobilizing consultants. Bids for civil works and estimates for other components indicated that the project would cost at least twice as much as originally estimated ($49.9 million), largely due to rapid inflation in construction costs. The Bank and the project sponsors agreed to finance a reduced complex containing some 2,000 beds (Amendment to Loan 782-YU, December 16, 1974, R74-259) at a total cost of $51.5 million, requiring additional financing of about $1.6 million and a change in sponsorship which has been approved by the Bank (Amendment to Loan 782-YU, October 4, 1976, R76-237). The hotels were inaugurated and opened for occupancy in June 1976. Occupancy rate for 1977 was below expectations notwithstanding 100 percent occupancy during high season. This gave rise to financial liquidity problems which were overcome with the assistance of the sponsoring Yugoslav banks, but another change in sponsorship is required and is currently being discussed with the participating parties. The 1978 season was good. A further extension of the Closing Date to December 31, 1979 has been necessary to permit disbursement of the small balance of the loan (approximately $300,000) earmarked for the final payment against a computer installation scheduled for mid 1979.

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.
Loan 836 Power Transmission: US$75.0 million Loan of June 23, 1972; Effective Date: December 29, 1972; Closing Date: June 30, 1980.

The Project construction has progressed slowly, but has virtually been completed, about two years late. Its cost has increased to about $428 million (up 90 percent) chiefly due to escalation in prices. The resulting cost overrun is being financed from funds received from the Federal Republic of Germany, local loans and from the Borrowers' own internal sources. Appointment of management consultants was delayed until mid-1976, but their recommendations have now been made and are being discussed with JUGEL and the Borrowers and implementation of many of the recommendations is underway.

Loan 894 Agricultural Industries (Macedonia): US$31.0 million Loan of May 25, 1973; Effective Date: November 28, 1973; Closing Date: June 30, 1980.

All loan funds provided under the project have been committed by subloan agreements through Stopanska Banka. Out of 43 subprojects financed under the project, 42 are completed, one is under construction. Progress on the latter is satisfactory. The Closing Date of the loan, originally December 31, 1978, has been postponed to October 31, 1979, to permit completion on disbursements to suppliers of equipment.

Loan 916 Naftagas Pipeline: US$59.4 million Loan of June 25, 1973; Effective Date: March 22, 1974; Closing Date: December 31, 1979.

The costs of equipment and civil works increased so that project costs were about 71 percent above the appraisal estimate. As a result of this and of a reallocation of priorities in the use of natural gas, the project has been redefined (Amendments to Loan 916-YU, May 13, 1976, R76-116). Phase I is a reduced version of the original plan. Phase II provides for a pipeline extension to link up with the pipeline to be constructed under the Sarajevo Air Pollution Control Project, for which additional Bank financing was obtained. Naftagas has obtained additional local currency financing required for Phases I and II. A delay of more than three years in project implementation has occurred as a result of the increased project costs and revision of the project. Construction started in late June 1976, and the project is scheduled for completion by mid to late 1980.

Loan 1012 Macedonia/Kosovo Industrial Credit: US$28.0 million Loan of June 21, 1974; Effective Date: December 19, 1974; Closing Date: December 31, 1979.

Progress has been satisfactory. The loan is fully committed. Loan disbursements accelerated after a slow start. The Closing Date of the loan, originally December 31, 1978, was postponed twice to December 31, 1979 to allow full utilization of project funds and completion of disbursements to equipment suppliers.
Loan 1013 Bosnia-Herzegovina/Montenegro Industrial Credit: US$22.0 million
Loan of June 21, 1974; Effective Date: December 19, 1974; Closing Date: December 31, 1979.

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

Loan 1026 Fourth Railway: US$93.0 million Loan of July 10, 1974; Effective Date: February 12, 1975; Closing Date: December 31, 1980.

The project consists of the 1974-76 slice of the Railways' 1973-77 Investment Plan. Government efforts to combat inflation caused railway tariffs to lag behind inflation and gave rise to financial and administrative difficulties which, in turn caused substantial delays in project implementation. Tariff increases approved in 1977 and 1978 and institutional developments, including improved investment planning and management, the formation of COIs and the signing of Social Agreements on railway and transport policies have resolved the major problems. Rate of disbursement, initially behind schedule, is now improving. Undisbursed balance of $20.8 million is fully committed. Closing date has been postponed from June 30, 1979 to December 31, 1980 to allow full utilization of project funds and completion of disbursements on contracts.

Loan 1060 Port of Bar: US$44.0 million Loan of December 11, 1974; Effective Date: June 13, 1975; Closing Date: June 30, 1980.

All major port civil works are completed except the grain silo facility, edible oil reservoirs and the railway marshalling yard. Final completion of these items was expected by end 1979. The port authority has been experiencing serious cash flow problems arising from delays in completing the project and in traffic build-up. Most recently, the earthquake in Yugoslavia resulted in severe damage to port installations particularly in the older parts of the port causing further delays and will require a reassessment of the financial situation.

Loan 1066 Dubrovnik Water Supply and Wastewater: US$6.0 million Loan of December 24, 1974; Effective Date: June 26, 1975; Closing Date: December 31, 1980.

Delays in preparation of final designs and tender documents have put construction about a year behind schedule. Services to the Bank financed Babin Kuk Hotel Complex (Loan 782-YU) were, however, completed in time for its initial operation and the remaining water supply component has now been completed. Construction is progressing satisfactorily on the sewerage component.

Loan 1129 Agricultural Credit: US$50.0 million Loan of June 20, 1975; Effective Date: February 12, 1976; Closing Date: December 31, 1979.

The Project Operations Unit of Vojvodjanska Banka, established in March 1976, is working satisfactorily. Project operations have shown encouraging progress with respect to appraisal methodology and related aspects of
institution building. Ninety-seven percent of the loan has been committed. Disbursements are behind appraisal projections, given initial organizational and learning curve problems, delays in procurement, unfamiliarity of participating banks with withdrawal applications, timetaking translations and the time lag between commitments and disbursements. However, disbursements have accelerated during the year and, as of June 30, 1979, 75 percent of the loan proceeds were disbursed.

Loan 1143 Seventh Highway: US$40.0 million Loan of July 18, 1975; Effective Date: March 30, 1976; Closing Date: December 31, 1979.

With the award of the last two contracts in Montenegro, work is now in progress on all the project roads of Serbia, Slovenia and Montenegro. The Serbian road sections have been substantially completed and are open to traffic. Work in Slovenia and Montenegro is on schedule. All road works should be completed by the loan closing date.

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

Due to slower than anticipated progress of design and procurement it is estimated that a one year slippage in the completion will occur. The revised cost estimates of the project indicate that there will be a cost overrun of about 45 percent because of required changes from original project components and increases in local costs. The Borrower has taken steps to obtain supplementary financing from various sources both foreign and local. The economic viability of the project remains sound. Upon review of the award of a site preparation contract in one case, and the procurement procedures regarding a telemetry supervision control system in another case, the Bank concluded that the procurement procedures were not in accordance with the Bank's Guidelines for Procurement and the relevant portion ($470,000 and $112,000, respectively) that would have otherwise been eligible for disbursement were cancelled from the Loan.


The regional development study is finished, has been reviewed by the Bank and discussed with the relevant Yugoslav authorities. The flood control and water quality studies are underway after initial delays in selecting consultants. Construction of the Vrutci Dam has begun. Construction is completed on the principal parts of the Cacak component, the remainder is well advanced. Construction is also underway in Titovo Uzice. Designs of sewage treatment plants in Cacak and Titovo Uzice are underway. The pilot irrigation components which were delayed pending the establishment of suitable monitoring arrangements, are expected to get underway shortly. The creation of the Morava Region Water Community of Interest was delayed due to the longer than anticipated process of seeking agreement among all the Yugoslav parties concerned on the structure of the organization. Staffing has been strengthened in the water authorities in Cacak and Titovo Uzice and in the Morava Region Water Community of Interest.
Loan 1263 Sarajevo Water Supply and Sewerage: US$45.0 million Loan of June 8, 1976; Effective Date: November 9, 1976; Closing Date: June 30, 1981.

Major contracts for supply and installation of water pipes and sewers have been awarded and construction is underway. Tendering for the sewage treatment plant is completed and award is expected shortly.

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

Gas is scheduled to be available in Sarajevo by end 1979, one year later than originally planned. Difficulties in finalizing contracts for the supply of gas were the major cause of delay. All contracts for supply and installation of gas distribution network and high pressure loop-line, as well as for gas transmission line, have been awarded and construction is underway.

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

Progress has been satisfactory. The loan is fully committed except for a small part of the Kosovan bank’s portion for which a project has been submitted to the Bank. Disbursements are, however, somewhat behind appraisal estimates.

Loan 1360 Metohija Multipurpose Water: US$54.0 million Loan of February 3, 1977; Effective Date: July 27, 1977; Closing Date: December 31, 1982.

Local consultants, with the assistance of foreign consultants, have been retained as project consultants and are proceeding with final designs on the project components and preparation of bidding documents. Two local construction contracts have been awarded as well as the major contract for the construction of the dam. Overall project progress is about one year behind schedule.

Loan 1370 Montenegro Agriculture and Agro-Industries: US$26.0 million Loan of March 10, 1977; Effective Date: July 27, 1977; Closing Date: June 30, 1983.

Institutional arrangements have been completed, and the implementation of the project is proceeding on schedule. ICB procurement for the winery and the cold stores is completed.

Loan 1371 Macedonia Agriculture and Second Agro-Industries: US$24.0 million Loan of March 10, 1977; Effective Date: July 27, 1977; Closing Date: June 30, 1982.

Sub-loans for all agro-industrial sub-projects have been approved by the Borrower. Twenty two sub-projects in the individual sector have been
approved committing 60 percent of loan proceeds. Slower than expected imple-
mentation (contract award for construction agro-industries facilities) due
primarily to lack of employment of agro-industries specialist by Borrower.

Loan 1377 Eighth Highway: US$56.0 million Loan of April 13, 1977; Effective
  Date: September 7, 1977; Closing Date: March 31, 1981.

  All road contracts have been awarded and work is satisfactorily in
  progress. The contract for the Highway Master Plan for Kosovo has been
  completed by the consultant awarded. The studies on Road-User Charges and
  Rail Costs are substantially complete. Disbursement rate is satisfactory.

Loan 1469 Second Power Transmission: US$80.0 million Loan of July 11, 1977;
  Effective Date: January 31, 1978; Closing Date: December 31, 1982.

  Contracts totalling about 84 percent of the loan amount have been
  let and physical execution has started with the most critical sub-stations and
  lines. The least cost development study and tariff study have been submitted
  to the Bank and are being translated.

Loan 1477 Second Agricultural Credit: US$75.0 million Loan of July 29, 1977;
  Effective Date: January 30, 1978; Closing Date: June 30, 1981.

  All participating banks have identified the main investors and
  indicated that funds will be committed faster than under the first project,
  although behind appraisal estimates.

Loan 1534 Fifth Railway: US$100 million Loan of April 13, 1978; Effective
  Date: September 28, 1978; Closing Date: June 30, 1982.

  Contracting has progressed as expected and most of the loan has
  already been committed.

Loan 1535 Ninth Highway: US$80 million Loan of April 13, 1978; Effective
  Date: August 10, 1978; Closing Date: December 31, 1981.

  Contractor prequalification for all project road sections has been
  approved, and the construction contracts have been awarded for road sections
  in Croatia and Serbia. Slovenia has delayed construction due to protest by
  residents in the area of the Celovska Interchange that some measures must be
  taken to abate noise pollution. Resident agreement to abatement solutions is
  expected shortly.

Loan 1561 Middle Neretva Hydro Power: US$73 million Loan of May 31, 1978;
  Effective Date: November 15, 1978; Closing Date: June 30, 1982.

  Contracts for equipment totalling about 80 percent of the loan
  amount have been let. Physical progress is satisfactory and relatively
  problem free.
Loan 1611 Third Industrial Credit: $40.0 million Loan of July 26, 1978; Effective Date: November 16, 1978; Closing Date: December 31, 1982.

The loan became effective November 16, 1978.

Loans 1612, 1613 and 1614 Fourth Industrial Credit: $20.0 million each Loans of July 26, 1978; Effective Dates: November 16, 1978; Closing Dates: December 31, 1982.

The loans became effective November 16, 1978.

Loan 1616 Macedonia Strezevo Irrigation: US$82 million Loan of August 23, 1978; Effective Date: February 14, 1979; Closing Date: September 30, 1982.

Major contracts for construction of the dam, alimentation canal and main canal have been awarded. Consultants have been awarded contracts for preparation of three irrigation studies.

Loan 1621 Bosanska-Krajina Agriculture and Agro-Industries: US$55 million Loan of November 6, 1978; Effective Date: March 28, 1979; Closing Date: June 30, 1983.

The loan became effective March 28, 1979.

Loan 1678 Tenth Highway: US$148 million Loan of April 9, 1979; Effective Date: August 14, 1979; Closing Date: June 30, 1983.

All five participating Republics/Provinces have completed prequalification of contractors and have established monitoring and evaluation units.

Loan 1756 Croatia Sava Drainage: US$51 million Loan of October 11, 1979; Effective Date: ; Closing Date: June 30, 1985.

Terminal date for declaring effectiveness is January 31, 1980.

Loan 1759 Montenegro Earthquake Rehabilitation Project - Highways: US$21 million Loan of September 21, 1979; Effective Date: ; Closing Date: December 31, 1982.

Terminal date for declaring effectiveness is December 20, 1979.
YUGOSLAVIA
MONTENEGRO EARTHQUAKE REHABILITATION PROJECT
PORT OF BAR

Supplemental Project Data Sheet

Section I: Timetable of Key Events

(a) Time taken by Port of Bar Working Organization (PBWO) to prepare project: From April 15 to July 25, 1979
(b) Agency which prepared project: PBWO with the assistance of Yugoslav consultants
(c) First presentation to Bank: July 31, 1979
(d) Bank appraisal mission: August 1979
(e) Negotiations substantially completed: October 1979
(f) Loan effectiveness planned: February 1980

Section II: Special Bank Implementation Actions

The Bank will maintain close cooperation with the Borrower to ensure that procurement procedures cause no delays in the urgent work of repairing, restoring and rehabilitating the port.

Section III: Special Conditions

(a) The Borrower will be required: (i) to increase its technical and support staff, and to obtain the assistance of consultants as and when required, to ensure proper programming of the works and adequate supervision (para. 68 and draft Loan Agreement, Section 3.02); and (ii) to review results of studies for the future development of the port with the Bank and in the context of an ongoing national port sector planning study, before undertaking other major investments (para. 57 and draft Loan Agreement, Section 4.07).

(b) As conditions of loan effectiveness: (i) the Republic of Montenegro will have adopted decisions or given guarantees to cover the financing of the rehabilitation program, including possible cost overruns (para. 68 and draft Loan Agreement, Section 7.01 (a)); and (ii) agreements between the Borrower and Investment Bank of Titograd (IBT) under which IBT is to act as fiscal agent for the project are in full force and effect (para 68 and draft Loan Agreement, Section 7.01(b)).
YUGOSLAVIA

MONTENEGRO EARTHQUAKE REHABILITATION PROJECT - PORT OF BAR

Repair and Rehabilitation

Estimated Cost in Dinars (million)

1. Restoration of berths

Berths and Cargo-Handling Areas (Pier I) Din. 39.2 m.
Berths and Cargo-Handling Areas (Other than Piers I & II) Din. 43.0 m.
Passenger Berth Din. 21.0 m.
Breakwater Berth Din. 9.0 m.
South Berth of Pier II Din. 30.0 m. 142.2

2. Restoration of Breakwaters

The surveys of the breakwater indicate extensive displacements and settlement of sections of both the main and secondary breakwaters. It is estimated that the repair of the main breakwater will require 172,000 cu.m. of new stone and the secondary breakwater some 27,000 cu.m. Most of the stone required will be available from the trimming of the Volujica Hill. The project entails the selection of stone, its transport and placing by floating crane in order to provide breakwaters that, while not conforming to the original profiles, will provide the necessary calm water conditions required in the port area. Certain sections of the concrete top of the breakwaters will have to be replaced ........................................ 170.0

3. Volujica Hill

The earthquakes caused extensive slippage of rock masses on the northern slopes of the Volujica Hill. The landslides made the roads and rail sidings behind the bulk berths inoperable. The working areas have to be further cleared and the hill trimmed back to a safe profile according to recommendations to be made by geologists and quarrying experts retained for this work. It is estimated that a total of 450,000 cu.m of rock will have to be removed - most of which will be useful for the breakwater repair items ................. 145.0
4. **Dredging**

The earthquakes caused upheavals in the underwater area of the port. These reduced the working depth by some 0.5 m. and, in order to achieve the original published depth, some 450,000 cu. m. of material will have to be removed .......................... 30.0

5. **Repair of Transit Sheds**

All buildings were damaged to a lesser or greater degree. Some, in fact, were totally demolished. In general, storage capacity in the Bar area is insufficient as no private enterprise companies exists which might be willing to erect and operate warehouses. Consequently, there is a continued demand for the port to provide longer term storage that would be expected in normal port operations .......................... 163.0

6. **Repair of Other Buildings**

The Bank-financed project for the construction of grain silos at the bulk-handling berths has only reached ground level. The contract was delayed because the contractor was not allowed to proceed with concrete work during periods of earth tremors and extra costs have consequently been incurred. The edible oil tanks were only slightly damaged. The main administrative building of PBWO was severely damaged and requires major rehabilitation. Other buildings such as stores and workshops are included in this item .......................... 63.0

7. **Repair of Services and Working Areas**

- Water supply: Din. 32.5 m.
- Drainage and sewerage system: Din. 38.0 m.
- Road connections; Making up and resurfacing working areas: Din. 130.8 m.
- Railway System (near Pier II): Din. 30.0 m.
- Electrical Power and Lighting System: Din. 80.0 m. 311.3

8. **Repair of Equipment**

All damaged equipment will be repaired and restored to original working capabilities wherever practical. This work will include the remedial measures required by the Bank-financed container crane and bulk-handling equipment. Equipment that is old and beyond its economic
life (e.g. the Hungarian quay cranes) will be can-
nibalized in order to obtain a few more years of
service from the resulting units. The suppliers of
the original equipment will be approached to under-
take this work wherever possible. Various Yugoslav
technical organizations are involved with determining
the best remedial measures for the various items of
equipment. Spare parts have already been utilized in
going the equipment into a condition of partial
operation and replacement spare parts for the equip-
ment are included ...........................................

9. Accommodation for Workers

1,440 people work in the port of whom 220 are
temporary workers. Fifty percent of the port
workers' houses require repair and 320 workers
presently have no permanent accommodation. As the
port's traffic grows, more workers will be hired but
they will not be offered port accommodation. Each
worker is given 65 sq. m. of space and 300 such
apartments are urgently required ....................... 235.0

10. Technical Assistance

In order to provide the technical assistance required
in the design of remedial measures for the civil works
of the port and in the testing and analysis of damaged
mechanical equipment, the port will engage consultants
to assist its own technical experts ..................... 10.0

1. Volujica Area - Bulk Cargo Berth

The original 312 m. berth was built from 1970-74 and
about a 100 m extension was financed by the Bank in 1974.
The contract for the latter was awarded, after inter-
national competitive bidding to Gradis and Hydro-
electra, who are still under contract and on the job.
The current proposal is to expand the bulk-handling
berths by about 100 m. This will provide a bulk-
handling facility for grain, iron ore and other
minerals .................................................... 105.0

12. Pier No. I

For the next few years at least, Pier No. I will be
the main provider of general-cargo handling capacity.
This was originally provided by the berths in the
Pier II area. The damaged berths will be repaired
and an additional 140 m. of new quay wall plus a 20 m. return wall will be constructed. The exact alignment of the new quay has yet to be determined. Soil analysis is about to be started .......................... 143.0

13. New Transit Sheds

Two reinforced concrete transit sheds providing 16,800 sq. m of covered area will be provided. These will be standard PBE type sheds .......................... 100.3

14. Completion of Bulk-Handling Equipment

Because of lack of funds, the bulk-loading berths were only provided with vertical lift-on and lift-off equipment. The present operation is severely handicapped for lack of conveyor belts and hopper capable of providing horizontal movement of the bulk commodities being handled. Hoppers, conveyor belts, reclaimers, etc. are essential to an efficient operation and are urgently required. The estimated cost includes 12-1/2 percent for spare parts .......................... 90.0

15. Mechanical Equipment (excluding bulk handling)

Cranes (fixed)

13 portal cranes were seriously damaged. Ten were very old and manufactured in Hungary, two were of Yugoslav manufacture and one financed under the IBRD loan. The cranes have been surveyed and a decision made to cannibalize the old Hungarian cranes because of the difficulty of obtaining replacement parts and in the meantime proceed with the repair of the other three cranes. In order to make good the shortage, it is intended to purchase three 5-10 ton cranes and two 15-ton cranes (complete with magnetic rings and grabs for handling scrap iron). These five cranes comprise this item .......................... Din. 82.0 m.

Cranes (mobile)

Three 12-ton mobile cranes
One 40-45-ton crane

Din. 7.5 m.
Din. 7.0 m.
In addition to handling heavy individual loads, the 45-ton heavy lift crane will be useful for container handling when any of the port's container handling equipment is under repair. It would also be available for future maintenance of the breakwaters. PBE is willing to purchase second hand cranes if suitable equipment can be found.

Fork Lift Trucks

Thirty 2-7-ton fork lift trucks .......... Din. 18.0 m.

Tow-Master

This equipment will be used for maneuvering trailers in the port's roll-on/roll-off facility ......................... Din. 2.0 m.

Fire Fighting Equipment

The port's fire-fighting equipment is old and not worth repairing and the local fire-fighting services are not dependable.

Two mobile fire-fighting units
Six sea-water pumps and hoses .......... Din. 8.0 m. 124.5

The port has trained 115 workers in fire-fighting and first aid.

16. Tug Boats (2)

The port depends on an old, hired tug boat for the maneuvering of all ships in the port. In order to provide a better and safer service to vessels, two tug boats (secondhand if available) are to be purchased. Vessels with the following characteristics are being sought:

Length: Up to 30 m. Bollard pull: 15-ton
Draft: 3 m. Horsepower: 12-1600
Speed: 1-12 knots

One tug boat will be provided with foam and regular fire-fighting equipment. The estimated cost is for new vessels .......................... 64.0

1999.8
### APPENDIX V

**YUGOSLAVIA**  
**MONTENEGRO EARTHQUAKE REHABILITATION PROJECT – PORT OF BAR**

**REPAIR AND REHABILITATION**

**SUMMARY OF COST ESTIMATE**

<table>
<thead>
<tr>
<th>Item</th>
<th>Local Currency</th>
<th>Foreign Exchange</th>
<th>Total</th>
<th>Local Currency</th>
<th>Foreign Exchange</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Restoration of Berths</td>
<td>83.9</td>
<td>58.3</td>
<td>142.2</td>
<td>4.5</td>
<td>3.1</td>
<td>7.6</td>
</tr>
<tr>
<td>2. Restoration of Breakwaters</td>
<td>100.3</td>
<td>69.7</td>
<td>170.0</td>
<td>5.4</td>
<td>3.7</td>
<td>9.1</td>
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<td>3. Restoration of Volujica Hill</td>
<td>85.5</td>
<td>59.5</td>
<td>145.0</td>
<td>4.5</td>
<td>3.2</td>
<td>7.7</td>
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<tr>
<td>4. Dredging</td>
<td>17.7</td>
<td>12.3</td>
<td>30.0</td>
<td>1.0</td>
<td>0.6</td>
<td>1.6</td>
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<tr>
<td>5. Repair of Transit Sheds</td>
<td>81.5</td>
<td>81.5</td>
<td>163.0</td>
<td>4.4</td>
<td>4.4</td>
<td>8.8</td>
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<tr>
<td>6. Repair of Other Buildings</td>
<td>33.3</td>
<td>29.7</td>
<td>63.0</td>
<td>1.8</td>
<td>1.6</td>
<td>3.4</td>
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<tr>
<td>7. Repair of Services and Working Areas</td>
<td>189.9</td>
<td>121.4</td>
<td>311.3</td>
<td>10.2</td>
<td>6.5</td>
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<tr>
<td>8. Repair of Equipment</td>
<td>-</td>
<td>103.0</td>
<td>103.0</td>
<td>-</td>
<td>5.5</td>
<td>5.5</td>
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<tr>
<td>9. Accommodation for Workers</td>
<td>176.3</td>
<td>58.7</td>
<td>235.0</td>
<td>9.4</td>
<td>3.1</td>
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<td>10. Technical Assistance</td>
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<td>-</td>
<td>10.0</td>
<td>0.5</td>
<td>-</td>
<td>0.5</td>
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<tr>
<td>11. Volujica Wharf Extension</td>
<td>61.9</td>
<td>43.1</td>
<td>105.0</td>
<td>3.3</td>
<td>2.3</td>
<td>5.6</td>
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<tr>
<td>12. Pier No. 1 Extension</td>
<td>84.4</td>
<td>58.6</td>
<td>143.0</td>
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<td>3.1</td>
<td>7.6</td>
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<td>13. New Transit Sheds (2)</td>
<td>50.4</td>
<td>50.4</td>
<td>100.8</td>
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<td>2.7</td>
<td>5.4</td>
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<td>14. Bulk-Handling Equipment</td>
<td>-</td>
<td>90.0</td>
<td>90.0</td>
<td>-</td>
<td>4.8</td>
<td>4.8</td>
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<tr>
<td>15. Mechanical Equipment</td>
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<td>124.5</td>
<td>-</td>
<td>6.7</td>
<td>6.7</td>
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<tr>
<td>16. Tug Boats (2)</td>
<td>-</td>
<td>64.0</td>
<td>64.0</td>
<td>-</td>
<td>3.4</td>
<td>3.4</td>
</tr>
</tbody>
</table>

**Sub Total** | 975.1 | 1,024.7 | 1,999.8 | 52.2 | 54.7 | 106.9 | 45.0 |

Contingencies, Physical – 10-25% included in actual items.

**Price**

(12% per year local currency, 7% per year foreign exchange)

<table>
<thead>
<tr>
<th>Item</th>
<th>Local Currency</th>
<th>Foreign Exchange</th>
<th>Total</th>
</tr>
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<tr>
<td>17. TOTAL PROJECT COST</td>
<td>1,194.4</td>
<td>1,140.0</td>
<td>2,334.4</td>
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</table>

1/ US$1 = Din. 18.70.
Montenegro

EARTHQUAKE REHABILITATION PROJECT
SEISMIC IMPACT OF APRIL 15, 1979 EARTHQUAKE

- Paved roads
- Gravel roads
- Railway
- Autonomous province boundary
- Republic boundaries
- International boundary
- MCS (Modified Mercalli Scale)

Legend:

- Local
- Regional
- Interregional

Notable locations:
- Kosovska Mitrovica
- Pristina
- army barracks
- other

Map includes:
- Paved roads
- Gravel roads
- Railway
- Autonomous province boundary
- Republic boundaries
- International boundary
- MCS (Modified Mercalli Scale)

Additional details:
- Local
- Regional
- Interregional

Note: The map provides a visual representation of the seismic impact of the 1979 earthquake in Yugoslavia, highlighting areas affected by the earthquake. The map includes various symbols and lines to denote paved roads, gravel roads, railway lines, and boundaries.
YUGOSLAVIA
PORT OF BAR
EARTHQUAKE REHABILITATION PROJECT

Severely Damaged, Temporarily Abandoned
To be Restored
GREEN Previous Project
BLACK Existing Project
RED
International Boundaries

Depth in Meters below L.W.O.S.T.