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REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON TWO

PROPOSED LOANS

IN AN AMOUNT EQUIVALENT TO US $70 MILLION

TO

UDRUZENA KOSOVSKA BANKA PRISTINA AND

INVESTICIONA BANKA TITOGRAD - UDRUZENA BANKA

WITH THE GUARANTEE OF

THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

FOR A

SEVENTH INDUSTRIAL CREDIT PROJECT

June 29, 1983

CURRENCY EQUIVALENTS

Currency Unit 1/	Calendar 1982 2/	June 15, 1983
US$1	Dinar 51.32	Dinar 86.82
Dinar 1	US$0.019	US$0.012
Dinar 1,000,000	US$19,485.58	US$11,518.08

YUGOSLAVIA: FISCAL YEAR

January 1 - December 31

GLOSSARY OF ABBREVIATIONS

BOAL	Basic Organization of Associated Labor
IBT	Investiciona Banka Titograd Udruzena Banka
IC	Industrial Credit
KBP	Udruzena Kosovska Banka Pristina
LDR	Less Developed Regions
MDk	More Developed Regions
PBS	Privredna Banka Sarajevo
SBS	Stopanska Banka Skopje
SDK	Social Accounting Service
GMP	Gross Material Product

1/ The dinar has not been maintained within announced margins since July 12, 1973. Its parity is reviewed frequently to ensure maintenance of external competitiveness.

2/ Period Average.

YUGOSLAVIA

SEVENTH INDUSTRIAL CREDIT PROJECT

Loans and Project Summary

Borrowers: Udruzena Kosovska Banka Pristina
Investiciona Banka Titograd - Udruzena Banka

(Each Borrower being a party to a separate Loan Agreement with the Bank).

Guarantor: Socialist Federal Republic of Yugoslavia

Amounts:

	US$ million equivalent	
KBP	45	(both including capitalized
IBT	25	front end fee)
	70	

Terms: The loans will bear interest at the standard variable rate. Repayment would be according to schedules reflecting the composite amortization schedules of the subloans financed. Allowing up to three years for commitment of individual subloans and a maximum repayment period of 15 years, the two Bank loans would thus be repaid in 18 years. The technical assistance component ($670,000) will be repaid in 18 years including three years' grace period.

Project Description: The project is designed to assist labor intensive and export oriented industries through the provision of foreign exchange. Besides, the project involves preparation of studies to identify and develop projects in labor intensive and export oriented industries in order to help KBP and IBT increase their future role in the promotion of such industries. The aggregate direct employment creation is expected to be about 10,000 jobs. Other objectives of the project are to contribute to the institution building of the borrowing banks, and to encourage joint ventures and cofinancing. The project also includes a technical assistance component of $670,000 ($400,000 for KBP and $270,000 for IBT), for preparation of above-mentioned

studies, staff training, and procurement of office equipment. The risks associated with the loans relate to meeting the employment and export targets by beneficiary enterprises. However, provisions included under the loans and Yugoslavia's policies to foster industrial exports should reduce the risk to within acceptable limits.

Estimated Disbursements: (Bank FY)	1984	1985	1986	1987	1988	1989
			(US$ million)			
KBP Loan						
Annual	1.4	11.2	15.6	10.3	4.9	1.6
Cumulative	1.4	12.6	28.2	38.5	43.4	45.0
IBT Loan						
Annual	0.8	6.3	8.8	5.8	2.8	0.5
Cumulative	0.8	7.1	15.9	21.7	24.5	25.0

Rate of Return: Not applicable

Staff Appraisal Report: Report Number 4301-YU, dated May 23, 1983
EMENA Projects Department

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE IBRD
TO THE EXECUTIVE DIRECTORS ON TWO PROPOSED LOANS
ONE EACH TO UDRUZENA KOSOVSKA BANKA PRISTINA
AND INVESTICIONA BANKA TITOGRAD - UDRUZENA BANKA
WITH THE GUARANTEE OF THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA
FOR A SEVENTH INDUSTRIAL CREDIT PROJECT

1. I submit the following report and recommendation on two proposed loans for the equivalent of US$70 million (including capitalized front-end fee), to Udruzena Kosovska Banka Pristina (KBP) ($45 million) and Investiciona Banka Titograd - Udruzena Banka (IBT) ($25 million) to help finance the foreign exchange cost of investments in labor intensive and export oriented industries. The loans also include a technical assistance component for the preparation of studies to identify projects in labor intensive and export oriented industries as well as for training and procurement of office equipment. The loans would bear interest at the standard variable rate. Repayment would be according to schedules reflecting the composite amortization schedules of the sub-loans financed. Allowing three years for commitment of individual sub-loans and a maximum repayment period of 15 years, the two Bank loans would thus be repaid in 18 years. The technical assistance component ($670,000) will be repaid in 18 years including three years' grace period.

PART I - THE ECONOMY 1/

2. An economic mission visited Yugoslavia in June 1981 and its report Yugoslavia: Adjustment Policies and Development Perspectives (3954-YU) was distributed to the Executive Directors on November 2, 1982. Basic data on the economy are given in Annex I.

A. Institutional Setting

3. The social sector in Yugoslavia, which includes government, enterprises and public institutions, plays the leading role in economic and social development. It accounts for 85% of GDP and employs over half the total labor force. The private sector predominantly consists of peasant farms and small enterprises. Decision making at all levels is governed by the principle of workers' self-management, involving a unique set of institutions and instruments of economic policy. Responsibility for important social and economic decisions has increasingly shifted from the federal level to the republics, autonomous provinces and communes. Concurrently, the control of workers' collectives over production decisions has been increased by a restructuring of all economic organizations into legally autonomous Basic Organizations of Associated Labor (BOALs) which are the smallest units producing a marketable output.

1/ Part I of this report is substantially unchanged from Part I of the President's Report for the Sixth Railway Project scheduled for consideration by the Executive Directors on July 19, 1983.

4. In addition to this strengthening of workers' participation at the microeconomic level, the concept of workers' management has been extended to encompass macroeconomic decisions. A set of instruments, called social compacts and self-management agreements, enable the participation of all economic agents in the formulation of macroeconomic policy, while maintaining decentralized responsibility for policy implementation. These instruments are used to supplement more conventional monetary and fiscal policy measures, particularly in the areas of prices, incomes, and employment.

5. The 1974 Constitution also introduced a new framework for economic and social planning, designed to reconcile decentralized decision-making with consistent and coordinated action. The system of planning first seeks to establish, through a set of social compacts, a national consensus on the major medium-term goals for the economy. Thereafter, plan formulation is based on participation of all economic and social units, including government bodies. Once consistency is achieved, economic units enter into medium-term agreements on supply, demand and investment intentions. In case agreements cannot be reached by the prescribed date, state bodies at the relevant level are permitted to intervene, but only on a temporary basis.

B. 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. Between 1960 and 1981, GDP grew at an average annual rate of about 6% in real terms. The share of investment in GDP has been high throughout the period, above 30% in recent years. As population growth has been only 1% per annum, real per capita income has more than doubled during the period. Per capita GNP in 1981 is estimated to be US$2,790 at 1981 market prices. 1/ The past three decades have also witnessed the growing integration of Yugoslavia into the world economy. Between 1960 and 1981 merchandise exports and imports grew by around 6% and 8% per annum in real terms, respectively. However, Yugoslavia's export performance to the industrial market economies has showed increasing weakness over the past decade, particularly since 1973.

7. While overall growth performance has been impressive, large regional disparities persist. The Republics of Bosnia-Herzegovina, Macedonia and Montenegro, each with two-thirds of the national average per capita output, and the Autonomous Province of Kosovo, with one-third, are officially designated as less developed regions (LDR). The difference in per capita output between the most developed region in the country, Slovenia, and the least developed, Kosovo, is 6 to 1. These disparities reflect several factors, notably the greater incidence of low productivity agriculture in the LDR, their higher dependency ratios and their higher population growth rates, which averaged 1.2% annually during 1971-81.

1/ According to World Bank Atlas methodology.

Since 1965 concessionary investment credits have been granted to the LDR through the Federal Fund for the Accelerated Development of the Less Developed Regions. In addition, the Federal budget provides supplementary resources for social sector expenditures in the LDR. Together, these resources account for about 10% of the social product of the LDR.

8. Since 1954, employment in the modern social sector has increased by around 4% per annum, facilitating rapid outflows from the agricultural sector. Despite this impressive record, substantial productivity and income differentials remain between the modern (mainly social) and the traditional (predominantly private) agricultural sectors. These differentials have resulted in high demand for modern sector employment on the part of the rural labor force. Large numbers of Yugoslavs have sought temporary employment abroad since the late 1960s. At its peak in 1973 there were about 1.1 million external migrants. Since 1973, however, this trend has been reversed, and returning migrants have added to the pressure on the social sector to create new work places. Unemployment rates have risen rapidly from about 7% in 1971 to over 12% in 1982. 1/ The incidence of unemployment is highly regionalized; in 1982 unemployment rates ranged from 29% in Kosovo to 2% in Slovenia.

C. Recent Economic Developments

9. Despite an impressive record of economic and social development since World War II, Yugoslavia today faces perhaps its most difficult economic situation since the upheavals which accompanied economic liberalization in 1965. In many respects the difficulties facing Yugoslavia are similar to those facing most middle income developing countries: higher oil prices and interest rates, sluggish world trade and more difficult access to international commercial bank credit. The severity of Yugoslavia's economic problems, however, also reflects structural deficiencies in the pattern of Yugoslav development which became increasingly apparent in the seventies. In response the Government has introduced a series of stabilization measures since 1980. The main elements of the stabilization program introduced thus far have been restrictive monetary and fiscal policies to curb investment and reduce inflationary pressure, and the more active use of exchange rate policies to encourage exports. At the same time, imports have been scaled back in line with the revenues accruing from export earnings and more limited foreign borrowing. Yugoslavia's stabilization efforts are being supported by the IMF in the form a three-year SDR 1,662 million standby arrangement in effect since January 1981.

1/ These rates are not directly comparable to those in other countries. They represent the ratio of registered job-seekers (including some currently employed) to the social sector labor force. The ratio of registered job seekers to the total resident labor force was about 9% in 1982.

10. As a result of its stabilization program, Yugoslavia succeeded in reducing its current account deficit from $3.7 billion in 1979 to $0.9 billion in 1981. Underlying this improvement was a strong surge in merchandise exports which increased in volume by 11% in 1980 and 8% in 1981. At the same time, merchandise import volumes were reduced by 14% in 1980 and 12% in 1981. In 1982, however, exports increased by less then one percent in value over the previous year, indicating negative real growth. Performance of invisibles in 1982 was also below expectations. The Yugoslav authorities responded by devaluing the dinar (by 49% against the dollar during 1982) and by further cuts in imports (the value of merchandise imports in 1982 declined by 8.2%). As a result of these efforts the current account deficit was further reduced, to an estimated $0.5 billion. While every effort is being made to isolate important domestic producers (and exporters in particular) from the effects of the import restrictions, the import squeeze is continuing to cause difficulties for Yugoslav enterprises.

11. Yugoslavia's economic growth has slowed markedly since 1979, when GDP grew by 4.2%. In both 1980 and 1981 GDP growth is estimated at 2.2%. The latest available estimates indicate that GDP growth declined by 1% in 1982. This reduction in growth is partly a result of the stabilization measures, but is also due to shortages of imported inputs. Mining and manufacturing output has been particularly affected. There have been marked fluctuations in agricultural output mainly due to climatic factors. After stagnating in 1980 and 1981, agricultural output increased by 5% in 1982. Fixed investment has also fallen markedly in the past three years. Whereas fixed investment increased at an average rate of 9.5% between 1975 and 1979, it declined by 6.0% per year in 1979-82. Despite these slowdowns in investment and economic growth, Yugoslavia has been remarkably successful in maintaining a fast pace of job creation in the social sector. Social sector employment increased by 3.2% in 1980, 2.9% in 1981 and 2.3% in 1982. Generally speaking, employment growth has been fastest in the LDR where the incidence of unemployment is more severe.

12. One of the major aims of the stabilization program has been to reduce the rate of inflation, which increased from 13% in 1978 to 22% in 1979. However, despite significant declines in investment and real domestic demand, inflationary pressures have continued. In 1980 and 1981 inflation accelerated to 30% and 38% respectively. In an effort to bring inflation under control, the authorities introduced temporary price ceilings on a wide range of goods on July 31, 1982. This policy met with only limited success, however, and inflation during 1982 was 32%. The persistence of inflation has been due to a combination of factors. The efforts of the authorities to restructure the pattern of relative prices to promote more efficient resource allocation, stimulate agricultural production and rationalize energy use have all put upward pressure on the price level. The increase in international prices since 1979 and the cumulative effects of the substantial depreciation of the dinar considerably increased domestic production costs. Nominal personal income

growth has also proved difficult to control. The Government's intention is to reduce the rate of inflation to 20% during 1983. Given the likely inflationary effects of the depreciation of the dinar and mounting pressure from workers to reverse the decline in real wages (which have fallen by 17% in real terms since 1979), any reduction in the inflation rate below the 1982 level should be considered a significant achievement.

13. Yugoslavia's adjustment efforts have been complicated by adverse developments in the international capital markets. Increases in international interest rates since 1979 helped push interest payments from $0.8 billion in 1979 to an estimated $1.9 billion in 1982. Principal repayments on medium- and long-term debt were an estimated $1.9 billion in 1982. While there is recognition of the magnitude of Yugoslavia's adjustment efforts, the commercial banks have tended to adopt a cautious position toward increasing their exposure. This has partly been due to adverse developments in other parts of the world and partly to liquidity problems experienced by some Yugoslav banks.

Medium Term Prospects

14. The Federal Five Year Plan for 1981-85 was adopted in March 1981, but in view of the external constraints on economic growth, particularly the constraints on external borrowing, the plan is being significantly revised. The main goal of economic policy is to put the balance of payments on a secure footing and to ensure stable and sustained growth during the 1986-90 plan period. For the next few years, however, the authorities expect to see continued slow growth in social product and even slower growth in domestic expenditure to allow resources to be released for exports, with the aim of achieving a current account surplus before the end of the plan period. This strategy also implies continued reductions in the rate of fixed capital formation. Within the reduced investment program, the priorities stressed are export promotion, the development of domestic energy sources and raw materials. The plan also stresses agricultural development in order to reduce food imports and to expand food exports. Nonproductive investment is to be cut back sharply.

15. Since slower growth will make it more difficult for the social sector to generate additional employment at the pace of the past, emphasis is being laid on the development of labor intensive activities, including small-scale enterprises and the increased use of shift work. Finally, the reduction of regional disparities remains a major objective of Yugoslavia's economic planning. Financial transfers between regions will play an important role in this process, with particular stress on encouraging social sector enterprises in the more developed regions (MDR) to make direct investments in the LDR. The initial experience with such joint ventures is encouraging and a substantial number of such projects have been launched. They could make a significant contribution to the overall efficiency of production within the LDR by facilitating the transfer of technological and managerial know-how within Yugoslavia.

Creditworthiness

16. Commercial financial credits to Yugoslavia have declined significantly and most recent credits have been organized on a bilateral intergovernmental basis. Gross medium- and long-term capital inflows declined from $4.2 billion in 1980 to an estimated $2.0 billion in 1982. Total medium- and long-term debt, outstanding and disbursed, is estimated at about $16.3 billion at the end of 1982 while short-term debt at the end of December 1982 stood at about $1.8 billion. While Yugoslavia was able to increase its short-term borrowing by about $1 billion during the 1979-81 period, it was unable to roll all of this debt over during 1982 and outstanding short-term debt declined by approximately $500 million over the course of the year. During 1982 there was a substantial decline in foreign exchange reserves which at the end of that year amounted to $1.7 billion, or roughly one month of imports of goods and services.

17. About three-quarters of the debt contracted by Yugoslavia in past years has been provided in convertible currencies through commercial sources. The bulk of this commercial credit has been in the form of suppliers' credits. The World Bank is the principal source of non-commercial long-term credit to Yugoslavia. Yugoslavia will continue to require a substantial inflow of foreign lending if it is to achieve its medium-term objectives. Taking account of workers' remittances, the debt service ratio averaged 16% between 1976 and 1981, while the debt service ratio in convertible currencies averaged 19% over the same period. In 1982 the estimated aggregate debt service ratio climbed to 22 percent reflecting the increase in interest payments on floating rate debts and the decline in the value of exports. Similarly the estimated debt service ratio on convertible currency debts rose to 27 percent. A major effort, involving some OECD countries, international commercial banks and the IMF, has been initiated to assist Yugoslavia in maintaining an orderly debt repayment. Agreement has now been reached in principle on a total foreign assistance package amounting to approximately $6 billion. The Yugoslav authorities have also requested Bank consideration of a structural adjustment loan to complement this effort. Although Yugoslavia's liquidity situation may remain difficult in the near term, the aggregate debt service ratio is expected to decline somewhat over the next few years. Given it's past debt service record, pragmatism, and demonstrated capacity to implement firm stabilization policies when these are called for, Yugoslavia remains creditworthy for a substantial level of Bank lending.

PART II - BANK GROUP OPERATIONS IN YUGOSLAVIA[1/]

18. The proposed project would be the 81st loan by the Bank to Yugoslavia totalling about $3,884.46 million.[2/] Of this, approximately 36 percent ($1,358.4 million) has been for 24 operations in the transportation sector -- 12 for highways, 8 for railways, and one each for a natural gas pipeline and an oil pipeline, and two for a port project. Historically, Bank lending has concentrated on infrastructure including, in addition to the transportation loans, six power loans, one telecommunications loan, three water supply and sewerage and three multipurpose loans (two of which include substantial irrigation components). In recent years, Bank lending has increasingly focussed on the agriculture sector for which fifteen operations, totalling $945.6 million (about 27 percent of the total) have been made. Twenty-one loans amounting to $475 million (about 14 percent of the total) have also been made for industry. Two loans have been made for tourism and a first Bank loan for air pollution control was approved in 1976.

19. Yugoslavia's disbursement performance deteriorated somewhat in 1981 largely due to a shortage of local funds arising from financial constraints. Following an implementation review of the whole loan portfolio with Borrowers in the fall of 1981, performance has markedly improved in 1982. Yugoslavia's performance now, as traditionally, compares most favorably with Bank-wide and regional averages and with most other countries of a similar per capita income. Annex II contains a summary statement of Bank loans and IFC investments as of March 31, 1983, and notes on the execution of ongoing projects.

20. The interrelated objectives which the Bank has pursued recently in its lending to Yugoslavia are to: (i) increase exports and improve the efficiency of import substitution; (ii) increase the efficiency of domestic investment with a view to increasing production with the more limited investment resources available; (iii) improve access to capital markets; and (iv) reduce unemployment, particularly in the LDR. Not every Bank operation can address all these objectives nor be entirely oriented towards the LDR, but the basic thrust of the Bank's activities in Yugoslavia continues to be toward the development of the LDR. Underpinning this orientation are economic surveys of the four LDRs undertaken by the Bank, intensified Bank assistance in project formulation, and ongoing economic and sector analysis.

1/ Part II of this report is substantially unchanged from Part II of the President's Report for the Sixth Railway Project scheduled for consideration by the Executive Directors on July 19, 1983.

2/ The 79th loan would be the Structural Adjustment Loan (US$275 million) approved by the Executive Directors on June 28, 1983. The 80th loan would be the Sixth Railway Project (US$110 million) which is scheduled for consideration by the Executive Directors on July 19, 1983.

21. Given the complexity of the Yugoslav system, the process of evolving acceptable solutions to problems in cumbersome. The Bank has therefore put increased emphasis on forstering coordination, particularly in the transport and energy sectors where significant progress has been achieved. Through its future operations the Bank will seek to consolidate past successes in institutional reform. further development of the project preparation, appraisal and supervisory capabilities of the regional banks through which a large amount of Bank funds are channelled will remain a major objective. The Bank will concentrate its lending operations in areas where its incremental institutional and/or policy coordination impact has most potential.

22. A persistent foreign resource gap looms as the major impediment to Yugoslavia's ability to maintain its growth momentum and to address the critical issues of unemployment and regional disparities. The Bank has helped to attract additional sources of credit through co-financing arrangements and through assisting in the establishment of new banking relationships for Yugoslavia. The Bank, however, is the major source of long-term external capital and is expected to remain so in the near future. In its future lending to Yugoslavia, the Bank intends to put increased emphasis on co-financing, recognizing, however, commercial market constraints that Yugoslavia is facing.

23. Yugoslavia's debt to the Bank in 1981 amounted to about 9.0 percent of its total debt outstanding and disbursed and this ratio is expected to remain fairly stable. Service on Bank loans as a proportion of total debt service was 5.4 percent in 1981 and is projected to be about 6 percent by 1986.

24. IFC started its involvement in Yugoslavia in 1970; since then, IFC has made 19 investments in the country and, as of March 31, 1983, IFC's portfolio amounted to $327.5 million gross and $178.7 million net of participation and repayments. The basic objectives of IFC in Yugoslavia are to: (a) assist priority subsectors in industry and natural resources development; (b) encourage foreign investment on a joint venture basis; (c) foster technological transfers; and (d) mobilize other financial resources in addition to IFC's own funds. Also, IFC continues to give special, although not exclusive, emphasis to the LDRs.

PART III - THE INDUSTRIAL AND FINANCIAL SECTOR

A. The Industrial Sector

A. Industry-Structure and Performance

25. The industrial sector of Yugoslavia has been the leading sector of the country's economic growth since the early 1950's and plays a central role in its foreign trade. In 1980, industry 1/ accounted for over 36 percent of Yugoslavia's GMP 2/ (27 percent in 1960), employed one fifth of the total labor force (13 percent in 1960) and accounted for 95 percent of merchandise exports (75 percent in 1960). The industrial structure is quite diversified with a number of basic industries based on the country's sizeable natural resources and a well-developed manufacturing sector which produces a wide range of capital, intermediate and consumer goods. Large, and generally capital intensive enterprises are predominant. Yugoslavia became an important exporter of industrial goods in the 1950s. Although the share of exports in total industrial output declined somewhat in the 1970s, it still represented more than 9 percent by 1980. The bulk of industrial exports is generated by the MDR, although Bosnia-Herzegovina and Macedonia in LDR are also making some contributions (14 percent and 5 percent of total commodity exports in 1980).

26. On the whole, performance of industry during the 1970's was characterized by relatively rapid average growth of output (one point higher than the average growth of the economy), high rates of investment, and significant reduction in the growth of industrial imports, due to both import protection and successful import-substitution, but also sluggish industrial exports growth, particularly in the developed countries market. At the same time, the capital intensity of industrial investment increased, and there was only a modest growth in total factor productivity. Industrial employment increased from 1.4 million to 2.2 million between 1971 and 1980; there was, however, a decline in the elasticity of employment creation to industrial output. Distortions in sub-sectoral investment allocations led to lagging development of the designated priority sectors.

Industry in the LDR

27. Over the past 30 years, the share of industry in GMP in the four LDR grew faster than in other regions. Although the LDR started with a considerably lower level of industrial development after Second World War, by 1980 industry's share in the GMP of the LDR (38 percent) exceeded that of the more developed regions (MDR) (37 percent). However, the value added in industry in the MDR is twice that in the LDR on a per capita basis.

1/ Including manufacturing and mining, and excluding electrical power generation and construction.

2/ Gross Material Product

Because of the LDRs' substantial wealth of mineral and energy resources, basic industries have played a very important role in their economies, implying a more capital intensive industrial structure than for the MDR. Among the LDR, Montenegro and Kosovo continue to have the most capital intensive industrial structures, with basic industries making up nearly 40 percent of industrial value added. In Kosovo, basic industries have been developed in mining and energy (coal, electricity and gas based on lignite). The manufacturing industry is limited to about fifty medium and large enterprises in a few sub-sectors. Commodity exports were of the order of $200 million in 1981, 50 percent of which are lead and zinc. The current Social Plan emphasizes the completion of ongoing projects and the creation of small and medium scale labor intensive industries for the processing of local raw materials to serve the domestic market in Kosovo and other republics. The high rate of unemployment (17 percent of the labor force) is the single most important issue that Kosovo has to address and the Plan aims at the creation of 65,000 new jobs in the social sector, largely in industry. In Montenegro, industrial development is even less advanced than in Kosovo. Large capacities have been established for the production of steel and aluminum which are mainly used by other republics. Beyond that, there are few processing industries. Commodity exports are small -- about $150 million in 1981 -- and include mainly aluminum and steel. Unemployment (12 percent of the labor force) and, to a larger extent, availability of the skills needed by industry are major issues in the republic although less acute than in Kosovo. In industry, the Social Plan gives a marked priority to the development of processing industries for export, based on locally produced raw materials (aluminum, steel, wood, leather and textiles, and agriculture), and emphasizes rapid income generation and efficiency, regional development within the republic, and employment creation.

Industrial Development Issues

28. After three decades of rapid development Yugoslav industry is facing a number of problems. The stress placed on import-substitution resulted in a bias against exports and distortions in the industrial structure. The growth rate of Yugoslav exports slackened to 6.5 percent during 1965-72 and 3.8 percent during 1973-80 from the 11.4 percent achieved in the period 1953-65. Except in certain sub-sectors, the structure of Yugoslav industrial exports has become highly diversified. Exports have often been of a spill over nature and implied a high domestic resource cost. As a result of this, as well as the rapidly rising costs of imported energy and deteriorating terms of trade since 1973, the trade deficit has substantially widened. In view of the constrained foreign exchange position, it is becoming vital for Yugoslavia to give its industry a strong drive toward export for the long term, to optimize the utilization of domestic resources and to specialize in areas of comparative advantage.

29. Raising labor productivity, as well as capital productivity is a key issue for the external adjustment of Yugoslav industry, particularly in the LDR. The system of investment planning has a number of weaknesses which, when combined with inappropriate policies and market signals have created the conditions for low factor productivity in Yugoslav industry. The economic analysis underlying investment selection does not always take into account such issues as the comparative advantage of Yugoslav industry and minimization of domestic resource costs. The subsidized interest rates and the preference to modern technology have not responded adequately to the Yugoslav situation of lower labor costs, scarcity of foreign exchange, and high levels of unemployment in the LDR. Because of the predominance of local and regional interests, the fragmentation of the capital market among regional lines and difficulties in pooling resources among enterprises and across regions, there is little incentive and no well-defined mechanism to analyze alternative location or scale of projects and coordinate industrial development on a country-wide basis. The export drive of Yugoslav industry may result in improvements in these areas in the long run. Greater responsiveness to international competition would necessitate optimizing resource allocation, increasing capacity utilization, seeking economies of scale, and improving technology and productivity. A sustained export orientation would also require a rationalization of industrial incentives which, in turn, would stimulate industries serving the domestic market to make more efficient and rational use of resources and to increase their productivity. Ultimately, certain sub-sectors would have to be restructured and enterprises among regions would have to coordinate their development and associate themselves through domestic joint ventures to achieve economies of scale and specialization, and penetrate foreign markets.

30. Policy-makers at both the Federal and regional levels have recognized the need to tackle these issues in preparing the Social Plan for 1981-85 and the industrial sector is expected to play a central role in Yugoslavia's external adjustment. The new industrial policy provides for a pronounced shift from import substitution towards export-led growth. There is to be a stress on rationalization and greater efficiency of investment planning, implementation and use, and the completion of ongoing projects. Emphasis is placed on the modernization of existing industries, backward and forward linkages among industries and removal of bottlenecks, and productivity increases to save on the use of scarce investment resources, and to achieve competitiveness in exports and more efficient import substitution. The stabilization program introduced since 1982 (para. 9) includes a reduction of the rate of fixed investment, although to a lesser extent in industry than in other sectors.Within the reduced investment total the share going to the designated priority sectors (energy, basic metals, minerals and basic chemicals, capital goods and exports) is higher than in the past. Employment creation is a continued objective of industrial policy, particularly in the LDR, and is to be fostered through the development of labor-intensive processing industries and the encouragement of small and medium scale enterprises. There is also a continued desire to industrialize all regions and communes of the country, a goal which has been pursued with considerable success so far.

Attempts have been made to improve inter-regional industrial coordination through the conclusion of social compacts among regions on the development of industrial capacities, particularly in basic industries. Progress in this area should also result from the "pooling" of resources among enterprises and joint ventures between MDR and LDR enterprises, which are stimulated by more active measures. Joint ventures between LDR and MDR enterprises are seen as a major mechanism for raising LDR productivity and adjust their productive structure, improve industrial coordination and know how transfer among regions, and provide access to domestic and foreign markets for LDR enterprises.

31. There is an active policy dialogue between the Government and the Bank on employment and industrial development issues. Bank reports on export performance and policies, raising productivity in Yugoslav industry, small scale industry and employment strategy and manpower policies for the 1980s dealt extensively with the country's industrial policy framework and paid particular attention to the need to improve the incentives for industrial exports and employment creation.1/ The proposed project builds on the lessons drawn from the economic policy dialogue in a variety of ways. Specifically, in line with the Bank's overall policy recommendations, it focusses on labor-intensive and export-oriented sub-projects and encourages joint ventures in the two LDR with the less advanced industrial sector.

B. The Financial Sector

32. Multipurpose banks (whose founders are their depositors and borrowers), are the dominant form of financial intermediaries carrying out all commercial and investment banking functions for all sectors of the economy. The two proposed borrowers Udruzena Kosovska Banka Pristina (KBP) and Investiciona Banka Titograd Udruzena Banka (IBT), together with their member basic banks, handle the bulk of investment and commercial banking in their respective regions. In addition to the multipurpose banks, the financial sector includes the National Banks, which essentially perform the role of central banks at the Federal and Regional levels, the Post Office Saving Bank and other savings institutions, investment loan funds and insurance institutions. A Federal Credit and Banking Law, effective January 1978, changed the banks to a three-tier organizational commercial banking structure consisting of internal, basic and associated banks. An internal bank is essentially a service organization established by BOALs (see para 3) within a Kombinat. A basic bank may carry out all kinds of credit and banking operations in Yugoslavia, within the framework of its own resources, and as such forms the core of the restructured banking system. It can be founded by any social legal entity. An

1/ Recent Bank reports on Yugoslavia's industrial sector include special studies on Export Performances and Policies (No. 2972-YU), on Productivity in Yugoslav Industry (No. 3383a-YU) and on Small Scale Industry and Industrial Policy (No. 3452-YU), Chapter VI of the report: Yugoslavia - Adjustment Policies and Development Perspectives (No. 3954-YU).

associated bank is established as a legal entity through a self-management agreement of two or more basic banks, its main function being to concentrate resources for financing major investments and to carry on foreign business transactions on behalf of its member basic banks. It also administers the Federal Fund (see para. 7) allocations in its region. Both KBP and IBT are associated banks.

33. Resource Mobilization and Allocation. The resources of banks are made up of mainly intermediated funds, i.e. sight and term deposits of social and private sector enterprises, households and other organizations, borrowings from other banks in Yugoslavia, and foreign borrowing. In the case of banks in the LDR, such as KBP and IBT, non-intermediated funds such as Federal and Regional funds are another major resource. As to foreign commercial borrowings, the National Bank of Yugoslavia has recently replaced the regional banks as the principal borrower. In drawing up their Five Year Plan and allocating their funds, regional banks follow decisions reached at enterprise, regional and federal levels. This is in line with Yugoslavia's extensive planning system which culminates in the conclusion of social compacts and self-management agreements which have the force of law (see para. 4). At the stage of investment decisions the banks have a key role to play in ensuring that the projects presented by the enterprises are consistent with the plan priorities in terms of sectors, locations, markets, technology, employment effects etc., correspond to the investment proposals initially agreed in the planning process and are economically and financially viable.

Past Bank Industrial Credit Lending

34. The Bank has thus far made six loans to associated banks in the LDR, totalling $376 million. The first five loans were aimed primarily at (i) providing foreign currency resources mainly for the development of small and medium sized industries and supporting Yugoslavia's industrial development; (ii) supporting rapid development and employment creation in the LDR, particularly by encouraging labor intensive projects; (iii) promoting greater inter-regional cooperation and coordination through joint-ventures between enterprises in the LDR and MDR; (iv) helping access to external commercial sources of finance for Yugoslav enterprises by encouraging co-financing; and (v) contributing to rational allocation of investment resources and institution-building of participating banks in the industrial sector. The sixth loan, made to Privredna Banka Sarajevo (PBS) and Stopanska Banka Skopje (SBS) in 1982, aims to assist mainly export-oriented industrial projects, besides meeting the above general objectives.

35. Out of the past loans, commitments and disbursements under the first and second industrial credit lines (IC I and II), (Loans Nos. 1012 - 1013 and 1277 YU), totalling $100 million, have been completed and a completion report on the first loan has been prepared; an evaluation of this loan by OED is currently underway. IC III and IV (Loans Nos. 1611 - 1614 YU) of $40 million and $60 million respectively are also fully committed and expected to be disbursed by December 31, 1983. In line with their partial objective, the

first four loans have contributed to employment creation at a reasonable cost per job. Also, the estimated financial rate of return (FRR) and economic rate of return (ERR) of the sub-projects financed were in most cases well above the agreed minimum of 11 percent. Finally, under IC III and IV, 26 sub-projects financed by KBP and IBT have attracted foreign currency co-financing totalling $16.5 million. IC V (Loans Nos. 1909 - 1912 YU) which became effective on August 17, 1981 allocated $50 million to KBP and $20 million to IBT. Funds are expected to be fully committed by September 1983, ahead of the February 1984 target date. To date, 26 sub-projects have been approved by KBP and IBT under IC V but they have attracted co-financing of only $3.2 million because of recent difficulties in mobilizing new external loans.

36. A review of sub-projects of KBP and IBT shows that their results are generally satisfactory. A few projects are facing problems mainly due to cost overruns or difficulties in the import of raw materials due to foreign exchange constraints. Efforts are being made by concerned enterprises, with the help of their banks, to obtain foreign exchange from other enterprises with a surplus of such funds and to borrow additional funds for financing cost overruns.

PART IV - THE PROJECT

37. The proposed loans and project are summarized in the Loans and Project Summary at the beginning of this report and described in detail in the "Staff Appraisal Report on a Seventh Industrial Credit Project" No. 4301-YU dated May 23, 1983. This report is being distributed separately to the Executive Directors. The project was appraised by a mission which visited Yugoslavia in October/November 1982. Negotiations were held in Washington from April 25 to May 4, 1983. The Yugoslav delegation was led by Mr. A. Ilic, Assistant to the President of the Federal Committee for Energy and Industry; KBP was represented by Mr. H. Zahiti, President, and IBT by Mr. I. Culjkovic, President.

Objectives of the Proposed Loans

38. The last industrial credit --IC VI-- to Yugoslavia represented a new orientation by addressing more specifically the priorities for industrial development for the country and the two beneficiary LDR (Bosnia Herzegovina and Macedonia) and taking into account the institutional situation of their banks (PBS and SBS). A similar approach has been taken in developing the proposed project for the other two LDR (Kosovo and Montenegro) and their banks (KBP and IBT). Specifically, the proposed loans are designed to (i) help alleviate the unemployment problem of Kosovo and Montenegro by assisting labor-intensive industries; (ii) support Yugoslavia's more general objective of industrial export growth by assisting export-oriented industries; (iii) encourage joint ventures between different republics and provinces of Yugoslavia; (iv) help the borrowing banks to increase their role in the identification of projects in priority areas through specific studies; and

(v) strengthen the institutional capability of the borrowing banks. Subject to improvement in the external resource mobilization situation for Yugoslavia, the loans would also encourage co-financing in sub-projects financed under them. The above objectives are in line with the Federal and Regional plans and the Bank's lending strategy vis-a-vis Yugoslavia as elaborated in Part II above.

The Borrowing Banks

39. Institutional Aspects. The two borrowers, KBP and IBT, are associated banks (see para 37). Each bank has its own self-management agreement and statutes; its operations are regulated by the National Bank at the Federal level and various Federal directives, and supervised by the Social Accounting Service (SDK). The Assembly of a bank is its highest governing body; in the case of an associated bank it is made up of delegates elected by the members of the basic banks. The Assembly appoints, for a four-year term, each bank's President who is the chief executive. In late 1982, the number of employees was 288 at KBP and 205 at IBT. Both banks have almost similar organizations, divided into functional departments.

40. Like all other Yugoslav banks, KBP and IBT do not have formal financial policies per se concerning their operations such as exposure limits and maximum debt to equity ratio. Nevertheless, they generally follow prudent practices. Any substantial allocation of funds to a particular project has to be in accordance with the Regional Plan. The banks use similar procedures for project appraisal. All projects are first examined and approved by member basic banks, and projects which exceed their resources, and/or involve Federal or Regional Funds, or foreign exchange, are forwarded to the associated banks for further detailed appraisal and approval; these include all Bank-financed sub-projects.

41. The progress on institution building of KBP and IBT has been limited. Consequently, under the proposed project, a special emphasis will be given to the institutional improvement aspect of the two borrowers. A plan of action has been prepared in consultation with KBP to improve staff capability of project appraisal and supervision, managerial capabilities and overall coordination and review of work with particular emphasis on the work related to the Bank's industrial credit projects. KBP has already started implementing the plan and a timetable for implementing the plan has been agreed upon during negotiations (KBP Loan Agreement, Schedule 4). The appointment of a development banking advisor acceptable to the Bank will be a condition of effectiveness of the proposed loan to KBP (KBP Loan Agreement, Section 6.01). IBT initiated a study on strengthening its institutional structure and loan portfolio by hiring local experts in these fields. IBT and the Republican Government of Montenegro have started implementing recommendations contained in the study. IBT has also initiated implementation of the Bank's recommendations which emphasize, inter alia, the importance of strengthening the IBRD unit within IBT and improvement in staff capability in project appraisal and supervision. After review of progress so far made, a timetable has been agreed for carrying out remaining measures

contained in the recommendations of local experts and the Bank (IBT Loan Agreement, Schedule 4). As a measure to strengthen staff capability in both banks, the project will provide $100,000 of technical assistance for the training of two staff members of each bank in project identification, appraisal, and supervision work outside Yugoslavia, mainly with a well established development bank. In view of the current foreign exchange constraints, the proposed loans provide $150,000 for the importation of essential office equipment for KBP and IBT.

42. Financial Position. The banks plan their operations on a disbursement rather than a commitment basis. As a result, each bank has substantial overcommitments vis-a-vis available resources at any point in time which it expects to cover by transfers from the Federal and Regional funds for priority projects and other sources. The banks maintain a tight liquidity position which is regulated by the National Bank of Yugoslavia together with regional National banks and supervised by SDK. Debt/equity ratios (exclusive of the Federal and Republican/Provincial Funds) reached 2.7:1 at the end of 1981 in the case of KBP and 13.6:1 in the case of IBT but are not to be conventionally interpreted in the Yugoslav context. The solvency of Yugoslav banks is a function of the solvency of their basic member banks and, in turn, their founder members (each assuming unlimited liability for the bank's debts). The banks are only expected to earn an income which is adequate to cover their expenses and to make required allocations to a Joint Liability Fund and a Reserve Fund. However, annual allocations made by KBP and IBT to these reserve funds have not fully met Yugoslav regulations. During negotiations, understandings were reached with the banks that they would increase the Joint Liability Fund to the required level of 3% of total investments by 1987. As regards the Reserve Fund, the banks will meet the requirement of transferring out of their net annual income a sum equal to at least 0.3% of total investment.

43. The long-term loans in arrears of over three months as a percentage of long-term loans portfolio were 3.9 percent and 5.3 percent respectively for KBP and IBT at the end of 1981. KBP's arrears are considered to be within acceptable limits. Also, as a result of legal restrictions on additional financial assistance to delinquent enterprises and the strengthening of the project supervision system further improvements should become visible in the coming months. IBT's arrears are relatively more serious although confined largely to a small number of borrowers. IBT's management is concerned with the arrear situation and, in 1982, it appointed local consultants to review this matter. Their recommendations for improvement of operations of concerned enterprises and loan recovery have been largely accepted. Improvements in IBT's overall loan recovery have already occured, arrears over three months as a percentage of long-term loan portfolio declined from 5.3% at the end of 1981 to 3.3% at the end of 1982. Further progress on implementation of the consultants' recommendations and IBT's loan recovery position will be closely monitored by the Bank. A few basic member banks of KBP and IBT have suffered foreign exchange losses on foreign currency savings accounts due to currency fluctuations. While these losses are manageable and will be amortized against future annual income, KBP

and IBT agreed to make appopriate arrangements to protect themselves in the future against the foreign exchange risk in their lending and borrowing operations (Loan Agreements, Section 4.05).

44. Both banks are audited by SDK following generally accepted international accounting standards, to the extent consistent with Yugoslav law. Over the past several years, SDK has expanded the scope of its international standard audits and, in 1979, as part of its annual audit, it started a detailed portfolio analysis of all four banks having been recipients of previous Bank lines of credit.

45. Both banks are considered credit-worthy for Bank lending. This assessment is based on the fact that: (a) there have been no significant loan losses in the past, (b) management of resources and selection of projects are generally satisfactory, and (c) the basic member banks and, in turn, their founder members have unlimited liability for the associated banks' obligations.

46. Operations. The main areas of operation of the two banks are loans and guarantees. Long-term loan commitments have shown an overall growth over the past several years, reflecting the increase in investment in the regions the banks serve. In 1981, long-term loan commitments of KBP amounted to $473 million, with manufacturing accounting for 61.7 percent of the total. IBT's long-term commitments amounted to $363 million of which manufacturing accounted for 61.1 percent. Guarantees in favor of enterprises, primarily in the industrial sector, have also shown a generally increasing trend, amounting to $132 million for KBP and $183 million for IBT in 1981.

47. Forecast of Operations. Operational and financial projections of KBP and IBT are based on their medium-term plans for the 1981-85 period and linked to the regional plans for Kosovo and Montenegro. The banks' forecast of operations indicate that each expects long-term loan commitments to continue to expand. Their long-term resource mobilization plans appear reasonable, with Federal and Regional funds allocations expected to be the most important source for KBP. The loans would meet about 21 percent of the banks' total foreign currency requirements for industrial lending from mid-1983 to end 1985 on a commitment basis. The final date of sub-project submission under the loans would be December 31, 1985 and the Closing Date December 31, 1988 (Loan Agreements, Sections 2.03 (c) and 2.04).

Features of the Proposed Loan

48. Allocation: KBP and IBT will receive $45 million and $25 million respectively out of the total loan amount of IC VII. Sub-loans can only be provided for labor-intensive and/or export-oriented sub-projects.

49. Labor-Intensive Projects. The main beneficiary under the proposed loan will be labor-intensive projects. Eligible labor-intensive projects under the proposed project would have a more restrictive criterion of a total capital cost per job not exceeding $25,000 in 1982 prices, as compared with

$31,000 equivalent under IC V. The new criteria are based on the actual cost per job observed in six relatively more labor-intensive industrial subsectors in Yugoslavia.

50. Export-oriented Projects. In order to ensure viable exports based on comparative advantage under the project, new sub-projects would export directly at least 30 percent of their production, and balancing, modernization, and/or expansion sub-projects would export at least 40 percent of their incremental production. The eligible export oriented sub-projects would also include those sub-projects whose output is further processed by another project for direct export. To ensure their overall positive contribution to the balance of payments of the country and optimum use of domestic resources including raw materials, labor and technology, eligible sub-projects would have to recover their foreign exchange cost through net foreign exchange earnings within a six year period commencing six months after their completion (Loan Agreements, Schedule 3, Part A, paragraph 1(a)). The borrowing banks will closely supervise and review the export performance of sub-borrowers to ensure compliance with export targets and periodically report their findings to the Bank. In case sub-borrowers fail to comply with the export targets and the banks should conclude that such failure is due to negligence or lack of sufficient effort by the enterprises, the borrowing banks would take any of the following measures against the enterprises: (i) a penalty interest of up to 4 percent per annum; (ii) restrictions on future credits (both long-term and short-term) to the enterprise; and/or (iii) call back of sub-loan or shortening of sub-loan maturity (Loan Agreements, Section 3.02 (a)(vii)).

51. Joint Ventures. Joint ventures are seen as a major mechanism for increasing transfer of resources, industrial know-how and managerial capability, achieving better industrial integration and coordination among regions, and raising LDR productivity. Joint venture projects will include an investment by one or several enterprises of republics and provinces of at least 20 percent of the total project cost and provide for a technical and management assistance agreement with the investing enterprise(s). To facilitate the conclusion of joint ventures in the two regions under the project, at least one third of the proceeds of the loan will be earmarked for joint venture projects which would meet the labor intensity and/or export orientation criteria (Loan Agreements, Section 2.03 (a)).

52. KBP and IBT have received feasibility reports for 32 labor-intensive and 18 export-oriented projects which are expected to meet the proposed eligibility criteria and would require a total of about $146 million in foreign currency financing. Also, it is anticipated that, on the basis of agreements signed and ongoing negotiations on specific projects between Kosovo and Montenegro and other regions, the two banks should be able to use at least one-third of the loan amounts for joint ventures.

53. Technical Assistance for Studies and Institution Building. In order to prepare more diversified project pipelines in the area in which the two regions have comparative advantages, KBP will undertake studies for the identification of labor-intensive and export-oriented sub-sectors and projects in Kosovo; IBT will undertake the study of export-oriented sub-sectors and projects. A study of labor-intensive industries has already been completed by the Economic Institute of Montenegro. Although certain Yugoslav institutes have the general expertise to prepare these types of studies, short-term foreign experts will be needed to assist in the preparation of export studies and assessment of foreign markets. Due to financial constraints, the entire cost of studies will be financed under the Bank's loans. The selection of consultants will be made following the Bank's guidelines. Studies of export-oriented industries would require about 50 man-months each ($3,000/man-months 1/) and would cost about $170,000 for each bank. The study of labor-intensive industries would require about 40 man-months ($1,800/man-months 1/) and would cost about $80,000 for each bank. Studies of labor-intensive and export-oriented industries are expected to be completed by March 1984 and June 1984 respectively (Loan Agreements, Section 3.06). As noted above, the project also aims at substantial institution-building of the two banks, particularly better management control and improved project appraisal and supervision. The project includes plans to finance components of the institution building program (paras. 39 to 41).

54. Sub-project and Sub-loan Size: The maximum size for labor-intensive sub-projects will be $20 million and the maximum sub-loan amount for such sub-projects will be $4 million. There will be no limit on the maximum size of export-oriented sub-projects (since they may need to be fairly large to achieve economies of scale and be competitive internationally) but their maximum sub-loan amount will be $5 million. A review of the banks' pipeline of sub-projects indicates that, except for one, all sub-projects would be within the maximum limit of $20 million.

55. Free Limit: In order to give the Bank a continuing role in the institutional improvement of the two banks, the free limit for individual sub-loans under the proposed loans will be set at $1.5 million. The aggregate free limit will be maintained at 60 percent of the total loan amount for each bank. The first five sub-loans in the export oriented category will be submitted for the Bank's detailed review and approval to provide guidance and enable the banks to improve their sub-project appraisal. It is expected that the above arrangement would ensure the Bank's review of about 80 percent of the loan amount and about 40 percent of sub-projects.

1/ The average man-month cost of export study is higher because of engaging short-term foreign consultants.

56. Terms of Sub-loans: The repayment period of individual sub-loans will not exceed 15 years including a maximum grace period of three years. As an incentive for (i) joint ventures with enterprises in other republics and provinces, and (ii) co-financing with other foreign exchange resources, the maximum grace period will be extended up to five years, provided the need for such a longer grace period can be demonstrated. The $670,000 technical assistance component will be repayable by the banks over 18 years including three years of grace.

57. Economic and Financial Evaluation: As under previous industrial credits, the borrowing banks will prepare a satisfactory economic and financial evaluation of sub-projects including the calculations of ERR and FRR. As provided in IC VI, the minimum ERR of sub-projects will be 12 percent and the minimum FRR will be increased in line with long-term interest rates in Yugoslavia (para 58). Sub-projects should be financially viable even when financed by loans from specially earmarked funds at subsidized interest rates. The sub-projects will, therefore, have a minimum FRR which will be not less than the borrowing banks' interest rates on long term loans made from their own local currency resources at the time of approval of a sub-project (minimum of 18 percent).

Interest Rates and On-Lending Rates

58. Despite a prevalent view in Yugoslavia that the role of interest rates in investment allocation is subordinate to that played by social planning and group consensus, a more active use of interest rate policy has increasingly become the object of government policy. Indeed, the new Federal Social Plan and the National Assembly have resolved that interest rates should play a more important role in resource mobilization and allocation. The medium-term objective is to introduce over time a structure of positive real interest rates by gradually adjusting nominal rates upwards and concurrently reducing inflation. In this respect, Government anti-inflationary measures, applied in accordance with agreements reached with the IMF, have succeeded in bringing inflation down from an annual rate of over 50% in the first half of 1981 to 32% in 1982. Inflation in 1983 is expected to be about 30%, with a further deceleration expected in 1984 to about 25%. Recently, in consultation with the IMF, the Yugoslav Banks Association conducted a review of the interest rate structure. In May and in October 1982 and again in February 1983, significant increases in the structure of deposit rates and rediscount rates were implemented. The Government has over the past three years more than doubled lending rates for consumer credits, most recently in October 1982 raising from 16 to 18% the costs of long-term consumer credit while raising interest rates on time deposits. The three year time deposits are now at a level of 28%.

59. In the context of the proposed loan it has been agreed that KBP and IBT will charge a minimum of 18 percent on loans made from their own local currency resources for Bank supported sub-projects (Loan Agreements, Section 3.05). However the actual minimum interest rate charged on sub-projects approved after January 1, 1984 would increase in accordance with the understandings reached under the Structural Adjustment Loan to Yugoslavia.

Thus a floor lending rate will be introduced on local currency resources of 18 percent plus one third of the difference between 18 percent and the rate of inflation (as measured by the producer price index). Further adjustments will be made with the intention of achieving positive real rates by 1986 (as measured by the higher of producer price or retail price inflation). Certain high priority industrial sector investments to be defined in the revised 1981-85 plan will be subject to a lower floor rate initially with the intention of moving to positive real rates by 1989. However, this lower floor rate will not apply to Bank subprojects financed under the proposed project.

60. The banks also provide long-term local currency loans from the Federal and Regional funds. Most of these funds are obligatory contributions imposed on enterprises in Yugoslavia to meet specific social objectives and, therefore, they are of a quasi-equity nature. In line with what was agreed under earlier industrial credits and the Structural Adjustment Loan, no floor rates should apply to banks' lending from these resources and the rates currently applicable to such funds should continue.

61. Like the Sixth Industrial Credit, the proposed Bank loans will be onlent by the borrowing banks to sub-borrowers after adding a minimum spread of 1.25 percent on the Bank's applicable interest rate. This spread would be sufficient to cover administrative expenses and other related costs/provisions of the borrowing banks. As sub-borrowers will carry the foreign exchange risk on the proposed loans, the real cost of the Bank's funds to sub-borrowers would be very close to that of international commercial sources taking into account the currency pooling system and current international lending rates. The banks will relend the loan proceeds at variable interest rates to avoid interest risk.

62. Procurement and Disbursement. International competitive bidding (ICB) procedures will normally be required for contracts estimated to exceed $2 million equivalent. The Bank will undertake a full review, prior to contract award, of all procurement documents and procedures for contracts expected to cost $5 million equivalent, or more. For contracts of $2 - $5 million equivalent responsibility for ICB will be delegated to KBP and IBT; however, the Bank would review the bid evaluation report, award and final contract prior to the first disbursement. Procurement for contracts below $2 million will continue to be in accordance with appropriate commercial practices (Loan Agreements, Schedule 3, Part C, para. 2). Disbursements of funds by the Bank will be made against standard evidence of expenditures with supporting documents.

Project Benefits and Risks

63. Kosovo and Montenegro, two of the less developed regions of Yugoslavia and beneficiaries under the proposed loans are facing significant unemployment problems. The situation is more severe in Kosovo. They are also experiencing major foreign exchange constraints which is a serious economic problem of the whole country. The proposed project would help

develop labor-intensive and export-oriented industries to alleviate these problems and would also have demonstrative effects on KBP and IBT for implementation of the Plan objectives through systematic identification and development, methodical appraisal, and effective supervision of priority projects. The balancing, modernization, and expansion of industries under the project would result in better utilization of existing facilities and creation of economies of scale which are a prerequisite for successful industrial exports. The project would also contribute to improving the industrial structure in the two regions concerned, and, in Yugoslavia as a whole, by encouraging/ stimulating joint ventures. It would also contribute to the correction of development disparities among regions in Yugoslavia. The proposed loan is estimated to finance about 35 sub-projects with total investment of about $200 million equivalent. Assuming that one third of the sub-projects would be export-oriented, the aggregate net foreign exchange earnings of the sub-projects would be about $15-20 million per annum upon the commencement of their normal commercial operations. The aggregate direct employment creation should be of the order of 10,000 jobs.

64. The project envisages a comprehensive program for the institution building of the two borrowing banks and it should result, inter alia, in more intensive promotional work by banks, channelling of funds to high priority industrial projects based on more efficient project appraisal, effective project supervision and better management control particularly on project processing and monitoring. The technical assistance component in the project would help in the identification and development of labor-intensive and export-oriented projects for the banks' future assistance (beyond IC VII) and the institution-building through staff training.

65. The risks under the proposed project mainly relate to meeting the employment/export targets by beneficiary enterprises. These targets may not be met due to problems in implementation and operations of sub-projects. However, this risk will be minimized through more effective project appraisal and supervision by the banks and involvement of the Bank staff in project review. Also, the actual exports of sub-projects may fall short of targets for two main reasons. First, the conditions in export markets may change to the disadvantage of Yugoslav producers due to development of more economical substitutes, enhanced competition from other developing countries, or creation of production capacity within the importing countries. Second, beneficiary enterprises may concentrate on the domestic market, which has been generally more profitable due to protection policies, and make only "spill-over" exports in line with their past practice. Provisions have been made to minimize these risks through (i) a careful and indepth evaluation of marketing viability and prospects of all export oriented sub-project by the borrowing banks and their subsequent review by the Bank staff before the sub-project approval even in free limit cases (para 55); (ii) close supervision and monitoring of export performance of assisted enterprises by borrowing banks and submission of periodical information to the Bank in this regard; and (iii) exercise of remedies on beneficiary enterprises which fail to meet the export target due to negligence or insufficient efforts (para 50). It is expected that the above arrangements, as well as the new policy framework to encourage exports, would help to keep the risk within acceptable limits.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

66. Each of the draft Loan Agreements between the Bank on the one hand and Udruzena Kosovska Bank Pristina and Investiciona Banka Titograd - Udruzena Banka respectively on the other hand, the draft Guarantee Agreement between the Socialist Federal Republic of Yugoslavia and the Bank, and the Reports of the Committee provided for in Article III, Section 4 (iii), of the Articles of Agreement of the Bank, are being distributed to the Executive Directors separately.

67. Special conditions of the loans are listed in Section III of Annex III.

68. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATIONS

69. I recommend that the Executive Directors approve the proposed loans.

A. W. Clausen
President

June 29, 1983
Washington, D.C.

TABLE 3A
YUGOSLAVIA - SOCIAL INDICATORS DATA SHEET

	YUGOSLAVIA			REFERENCE GROUPS (WEIGHTED AVERAGES - MOST RECENT ESTIMATE)[a]	
AREA (THOUSAND SQ. KM.)					
TOTAL 255.8					
AGRICULTURAL 142.4	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	MIDDLE INCOME EUROPE	INDUSTRIALIZED MARKET ECONOMIES
GNP PER CAPITA (US$)	380.0	840.0	2620.0	2323.9	10328.2
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	932.1	1604.5	2414.9	2107.4	7277.7
POPULATION AND VITAL STATISTICS					
POPULATION, MID-YEAR (THOUSANDS)	18402.0	20371.0	22328.0	.	.
URBAN POPULATION (PERCENT OF TOTAL)	27.9	34.8	42.3	47.9	78.0
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILLIONS)			25.8	.	.
STATIONARY POPULATION (MILLIONS)			28.5	.	.
YEAR STATIONARY POPULATION IS REACHED			2065	.	.
POPULATION DENSITY					
PER SQ. KM.	[illegible]	79.6	86.5	83.3	138.6
PER SQ. KM. AGRICULTURAL LAND	124.2	139.6	155.5	155.4	509.7
POPULATION AGE STRUCTURE (PERCENT)					
0-14 YRS.	30.5	27.4	24.6	31.1	22.7
15-64 YRS.	63.2	64.8	66.5	61.2	65.7
65 YRS. AND ABOVE	6.3	7.8	8.9	7.7	11.6
POPULATION GROWTH RATE (PERCENT)					
TOTAL	1.2	1.0	0.9	1.6	0.8
URBAN	3.6	3.2	2.9	3.5	1.4
CRUDE BIRTH RATE (PER THOUSAND)	23.5	19.0	17.0	23.6	14.5
CRUDE DEATH RATE (PER THOUSAND)	10.0	9.0	9.0	9.2	9.3
GROSS REPRODUCTION RATE	1.4	1.3	1.1	1.6	0.9
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUSANDS)	..	..	..	.	.
USERS (PERCENT OF MARRIED WOMEN)	..	59.0	..	..	..
FOOD AND NUTRITION					
INDEX OF FOOD PRODUCTION PER CAPITA (1969-71=100)	85.0	93.0	117.0	116.0	111.1
PER CAPITA SUPPLY OF					
CALORIES (PERCENT OF REQUIREMENTS)	128.1	130.0	135.5/c	125.1	130.8
PROTEINS (GRAMS PER DAY)	95.5	93.3	100.9/c	92.7	97.1
OF WHICH ANIMAL AND PULSE	28.6	31.7	39.2/c	35.9	61.3
CHILD (AGES 1-4) MORTALITY RATE	11.2	4.3	2.0	9.2	0.5
HEALTH					
LIFE EXPECTANCY AT BIRTH (YEARS)	63.2	66.7	70.5	67.6	73.8
INFANT MORTALITY RATE (PER THOUSAND)	92.0	53.1	32.5	65.1	11.3
ACCESS TO SAFE WATER (PERCENT OF POPULATION)					
TOTAL	..	33.6	..	..	..
URBAN	42.4	62.0	..	..	..
RURAL	..	12.3	..	..	..
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)					
TOTAL	..	..	..	..	..
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..
POPULATION PER PHYSICIAN	1616.2	1000.1	762.4/c	1105.4	620.7
POPULATION PER NURSING PERSON	632.6/d	406.4	361.9/c	634.4	246.9
POPULATION PER HOSPITAL BED					
TOTAL	185.5/d	177.1	165.8/e	286.8	122.0
URBAN	91.4/d	95.7	101.7/e	192.0	140.6
RURAL	1035.5/d	1603.9	1835.3/e	..	..
ADMISSIONS PER HOSPITAL BED	..	17.3	18.2/e	20.0	17.7
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	4.0	3.8	3.8/e	..	..
URBAN	3.3	3.2	3.3/e	..	..
RURAL	4.4	4.3	4.1/e	..	..
AVERAGE NUMBER OF PERSONS PER ROOM					
TOTAL	1.6	1.4	..	..	..
URBAN	1.7	1.3	..	..	..
RURAL	1.5	1.5	..	..	..
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)					
TOTAL	54.5	87.9	..	..	..
URBAN	92.7	98.4	..	..	..
RURAL	36.1	80.1	..	..	..

YUGOSLAVIA - SOCIAL INDICATORS DATA SHEET

	YUGOSLAVIA			REFERENCE GROUPS (WEIGHTED AVERAGES - MOST RECENT ESTIMATE)/a	
	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	MIDDLE INCOME EUROPE	INDUSTRIALIZED MARKET ECONOMIES
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	111.0	106.0	99.0	102.4	101.7
MALE	113.0	108.0	99.0	107.1	103.9
FEMALE	108.0	103.0	98.0	99.0	103.6
SECONDARY: TOTAL	58.0	69.0	82.0	60.2	88.4
MALE	63.0	78.0	86.0	66.4	83.4
FEMALE	53.0	58.0	78.0	54.0	84.2
VOCATIONAL ENROL. (% OF SECONDARY)	..	26.4	20.5	31.6	18.2
PUPIL-TEACHER RATIO					
PRIMARY	33.0	27.1	24.9	25.8	20.3
SECONDARY	13.0	22.4	18.9	22.2	16.1
ADULT LITERACY RATE (PERCENT)	77.0	83.5	85.0/f	75.9	98.9
CONSUMPTION					
PASSENGER CARS PER THOUSAND POPULATION	3.0	35.4	88.5/c	51.0	338.4
RADIO RECEIVERS PER THOUSAND POPULATION	84.9	165.9	209.3	157.2	1021.7
TV RECEIVERS PER THOUSAND POPULATION	1.4	88.3	189.2	123.7	403.6
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	70.3	85.3	103.1	112.3	331.2
CINEMA ANNUAL ATTENDANCE PER CAPITA	7.0	4.5	3.3	4.0	3.6
LABOR FORCE					
TOTAL LABOR FORCE (THOUSANDS)	8302.0	8837.7/g	9422.2/g	.	.
FEMALE (PERCENT)	35.0	35.9	36.0	36.6	36.0
AGRICULTURE (PERCENT)	63.0	51.0	29.0	38.7	6.2
INDUSTRY (PERCENT)	18.0	23.0	35.0	25.9	37.8
PARTICIPATION RATE (PERCENT)					
TOTAL	45.1	43.4	42.2	44.5	45.4
MALE	60.0	56.6	54.8	56.3	58.9
FEMALE	30.9	30.6	30.0	32.8	32.4
ECONOMIC DEPENDENCY RATIO	0.8	0.8	0.8	0.9	0.8
INCOME DISTRIBUTION					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5 PERCENT OF HOUSEHOLDS	16.4/h	15.1/i	13.1	..	..
HIGHEST 20 PERCENT OF HOUSEHOLDS	41.5/h	41.4/i	38.7	..	43.0
LOWEST 20 PERCENT OF HOUSEHOLDS	6.9/h	6.6/i	6.6	..	5.5
LOWEST 40 PERCENT OF HOUSEHOLDS	19.0/h	18.4/i	18.7	..	16.5
POVERTY TARGET GROUPS					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	..	..	..
RURAL	..	..	530.0	406.6	..
ESTIMATED POPULATION BELOW ABSOLUTE POVERTY INCOME LEVEL (PERCENT)					
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..

.. Not available
. Not applicable.

NOTES

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1978 and 1980.

/c 1977; /d 1962; /e 1976; /f 1975; /g Including migrants workers abroad; /h 1963; /i 1968.

May, 1982

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income" Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data two averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups.

AREA (thousand sq.km.)

- Total - Total surface area comprising land area and inland waters; 1960, 1970 and 1980 data.
- Agricultural - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1960, 1970 and 1980 data.

GNP PER CAPITA (US$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1979-81 basis); 1960, 1970, and 1981 data.

ENERGY CONSUMPTION PER CAPITA - Annual apparent consumption of commercial primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita; 1960, 1970, and 1980 data.

POPULATION AND VITAL STATISTICS

- Total Population, Mid-Year (thousands) - As of July 1; 1960, 1970, and 1981 data.
- Urban Population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1981 data.
- Population Projections
  - Population in year 2000 - Current population projections are based on 1980 total population by age and sex and their mortality and fertility rates. Projection parameters for mortality rates comprise of three levels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rate also have three levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of these nine combinations of mortality and fertility trends for projection purposes.
  - Stationary population - In a stationary population there is no growth since the birth rate is equal to the death rate, and also the age structure remains constant. This is achieved only after fertility rates decline to the replacement level of unit net reproduction rate, when each generation of women replaces itself exactly. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.
  - Year stationary population is reached - The year when stationary population size will be reached.
- Population Density
  - Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1980 data.
  - Per sq. km. agricultural land - Computed as above for agricultural land only; 1960, 1970 and 1980 data.
- Population Age Structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population; 1960, 1970, and 1981 data.
- Population Growth Rate (percent) - total - Annual growth rates of total mid-year populations for 1950-60, 1960-70, and 1970-81.
- Population Growth Rate (percent) - urban - Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-81.
- Crude Birth Rate (per thousand) - Annual live births per thousand of mid-year population; 1960, 1970, and 1981 data.
- Crude Death Rate (per thousand) - Annual deaths per thousand of mid-year population; 1960, 1970, and 1981 data.
- Gross Reproduction Rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1981.
- Family Planning - Acceptors, Annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.
- Family Planning - Users (percent of married women) - Percentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION

- Index of Food Production per Capita (1969-71=100) - Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1961-63, 1970, and 1981 data.
- Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961-63, 1970 and 1980 data.
- Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 40 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey; 1961-63, 1970 and 1980 data.
- Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day; 1961-63, 1970 and 1977 data.
- Child (ages 1-4) Death Rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group; for most developing countries data derived from life tables; 1960, 1970 and 1981 data.

HEALTH

- Life Expectancy at Birth (years) - Average number of years of life remaining at birth; 1960, 1970 and 1981 data.
- Infant Mortality Rate (per thousand) - Annual deaths of infants under one year of age per thousand live births; 1960, 1970 and 1981 data.
- Access of Safe Water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.
- Access to Excreta Disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.
- Population per Physician - Population divided by number of practicing physicians qualified from a medical school at university level.
- Population per Nursing Person - Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.
- Population per Hospital Bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities. For statistical purposes urban hospitals include WHO: principal/general hospitals, and rural hospitals, local or rural hospitals and medical and maternity centers. Specialized hospitals are included only under total.
- Admissions per Hospital Bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

- Average Size of Household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.
- Average number of persons per room - total, urban, and rural average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.
- Access to Electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

- Adjusted Enrollment Ratios
  - Primary school - total, male and female - Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.
  - Secondary school - total, male and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.
- Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.
- Pupil-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.
- Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

- Passenger Cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles
- Radio Receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.
- TV Receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.
- Newspaper Circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.
- Cinema Annual Attendance per Capita per Year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

LABOR FORCE

- Total Labor Force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1981 data.
- Female (percent) - Female labor force as percentage of total labor force.
- Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1981 data.
- Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1981 data.
- Participation Rate (percent) - total, male, and female - Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1981 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.
- Economic Dependency Ratio - Ratio of population under 15 and 65 and over to the total labor force.

INCOME DISTRIBUTION

- Percentage of Private Income (both in cash and kind) - Received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.

- Estimated Absolute Poverty Income Level (US$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.
- Estimated Relative Poverty Income Level (US$ per capita) - urban and rural - Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.
- Estimated Population Below Absolute Poverty Income level (percent) - urban and rural - Percent of population (urban and rural) who are "absolute poor".

Economic and Social Data Division
Economic Analysis and Projections Department
May 1983

Population: 22.3 million (mid-1981)
GNP Per Capita: US$2,790 (1981)

YUGOSLAVIA - ECONOMIC INDICATORS

Indicator	Amount (million US$ at current prices) 1980 c/	Annual Growth Rates (%) (at constant 1972 prices) Actual 1975	1976	1977	1978	1979	1980	1981	1982 c/	Projected 1983	1984	1985	1990
NATIONAL ACCOUNTS													
Gross domestic product a/	69,232	0.9	5.2	8.4	8.5	4.2	2.2	2.2	-1.0	-1.7	2.0	2.7	4.3
Agriculture	8,516	-2.6	6.4	5.7	-5.4	5.4	0.0	1.0	5.6	0.0	2.0	2.0	2.0
Industry	28,801	7.4	4.1	9.5	9.3	8.5	3.6	1.4	-2.7	-2.0	3.0	4.0	6.0
Services	24,993	1.4	5.3	7.1	13.1	-2.0	-2.2	3.4	-1.0	-2.0	1.0	1.5	3.0
Consumption	48,760	-3.3	0.0	9.8	13.0	3.8	0.6	-1.1	-0.7	-1.7	2.5	2.4	3.9
Gross investment	23,218	10.1	3.6	17.4	-3.2	12.0	-3.2	-1.2	-6.0	0.0	3.0	3.2	4.0
Exports of GNFS	14,053	1.1	10.4	-2.0	4.8	2.6	12.6	9.5	[illegible]	-2.0	[illegible]	6.0	6.8
Imports of GNFS	16,799	-1.3	-8.6	16.1	2.5	12.0	-9.7	-2.6	-10.8	-2.0	8.7	6.0	5.6
Gross national savings	19,619	14.7	20.6	5.6	-3.1	3.4	5.8	-	-	-	-	-	-
PRICES													
GDP deflator (1972 =100)	411	170	204	232	260	313	411	575	731	-	-	-	-
Exchange rate	24.9	17.4	18.2	18.3	18.6	19.0	24.9	35.5	51.3	-	-	-	-

	Share of GDP at Market Prices (%) (at current prices) b/ 1960	1970	1975	1980	1985	1990	Average Annual Increase (%) (at constant 1972 prices) 1960-70	1970-75	1975-80	1980-85	1985-90
Gross Domestic Product a/	100.0	100.0	100.0	100.0	100.0	100.0	5.9	6.5	5.7	0.5	4.2
Agriculture	22.5	16.1	13.8	12.3	13.1	11.8	3.3	2.9	2.4	2.0	2.0
Industry	42.2	37.4	44.3	41.6	41.4	44.7	6.3	8.3	7.0	0.3	5.9
Services	29.0	38.1	33.1	36.1	35.7	33.6	6.9	4.7	4.3	0.2	2.9
Consumption	67.2	72.8	74.3	70.4	69.2	68.6	6.5	6.9	5.4	-0.2	4.0
Gross investment	36.5	32.3	33.5	30.5	29.0	29.0	4.7	5.5	5.3	-0.9	4.1
Exports GNFS	13.9	18.5	20.2	27.7	29.3	33.0	10.2	6.7	5.7	1.5	4.1
Imports GNFS	17.5	23.5	28.0	31.4	27.5	30.7	9.8	6.7	2.5	-1.5	6.5
Gross national savings	32.6	29.6	25.6	28.3	29.5	29.9	5.3	6.2	6.5	-	-

	As % of GDP 1960	1970	1975	1980	1981
PUBLIC FINANCE					
Total revenues	27.9	33.1	36.8	34.0	32.3
Total expenditures	24.1	33.2	37.2	34.6	31.6
Surplus (+) or deficit (-)	3.3	0.1	-0.4	0.6	0.6
Foreign financing	0.0	0.0	-0.4	0.0	0.0

	1960-70	1970-75	1975-80	1980-85	1985-90
OTHER INDICATORS					
GNP growth rate (%)	6.1	6.7	5.7	0.1	4.2
GNP per capita growth rate	5.0	6.6	4.7	-0.8	3.3
ICOR	5.4	4.6	5.8	35.3	7.0
Import elasticity	1.6	1.0	0.5	-3.0	1.5

a/ At market prices; components are expressed at factor cost and will not add up to total due to exclusion of net indirect taxes and subsidies.
b/ Projected years at constant 1972 prices.
c/ Estimate.

EMENA 1C
April 19, 1983

Population: 22.3 million (mid-1981)
GNP Per Capita: US$2,790 (1981)

YUGOSLAVIA - EXTERNAL TRADE

Indicator	Amount (million US$ at current prices) (1981)	Annual Growth Rates (%) (at constant 1972 prices) Actual 1975	1976	1977	1978	1979	1980	1981	1982	e/ 1983	1984	Projected 1985	1990
EXTERNAL TRADE													
Merchandise exports	10,204	0.0	14.5	-5.3	1.0	1.6	11.0	11.7	-6.2	0.5	6.0	6.0	7.0
Primary a/	1,709	-3.1	16.6	3.9	1.5	2.0	2.5	-14.6	1.9	0.5	6.0	6.0	7.0
Manufactures b/	8,495	0.4	13.9	-8.8	0.8	1.5	13.8	19.0	-7.8	0.5	6.0	6.0	7.0
Merchandise Imports	14,528	-2.8	-6.5	18.5	3.8	12.9	-10.5	-4.9	-10.0	-0.3	8.6	6.0	5.5
Food	888	-40.9	45.8	4.3	-24.2	35.6	-2.3	-7.4	-13.1	0.0	5.0	6.0	4.5
Petroleum c/	3,762	-5.0	10.1	12.0	11.6	7.3	-6.2	-1.4	-14.2	3.0	5.0	6.0	7.0
Machinery and equipment	3,756	22.3	-8.8	17.8	7.1	15.4	-17.4	-15.6	-12.7	-5.4	9.4	6.0	6.0
Others	6,123	-11.9	-12.7	22.1	4.4	8.8	-7.0	0.0	-14.1	2.0	9.4	6.0	5.1
PRICES (1972 = 100)													
Export price index	316	172	180	202	220	259	308	314	336	354	383	411	550
Import price index	352	184	189	216	226	281	337	342	349	363	384	407	560
Terms of trade index	89.7	93.5	95.2	93.5	97.3	92.2	91.4	91.8	96.3	97.6	99.6	101.0	98.3

	Composition of Merchandise Trade (%) (at current prices) d/ 1960	1970	1975	1980	1985	1990	Average Annual Increase (%) (at constant 1972 prices) 1960-70	1970-75	1975-80	1980-85	1985-90
Exports	100.0	100.0	100.0	100.0	100.0	100.0	8.1	5.7	5.1	2.5	6.8
Primary a/	49.6	29.4	19.5	22.0	21.0	21.0	-	-1.3	6.0	2.7	6.8
Manufactures b/	50.4	70.6	80.5	78.0	79.0	79.0	-	8.1	4.7	2.6	6.8
Imports	100.0	100.0	100.0	100.0	100.0	100.0	9.0	7.4	4.1	-1.6	6.5
Food	9.1	7.2	5.5	7.2	8.5	8.0	-	5.0	14.9	-4.0	5.4
Petroleum c/	5.4	4.8	12.3	23.6	8.7	8.6	-	8.2	7.2	1.3	6.1
Machinery and equipment	36.8	33.2	33.9	28.0	29.2	29.7	-	9.4	3.1	-3.6	6.9
Others	48.7	54.8	48.3	41.2	53.6	53.6	-	6.0	3.5	-0.7	6.5

	Share of Trade with Industrial Countries (%) 1965	1970	1975	1981	Share of Trade with Developing Countries (%) 1965	1970	1975	1981	Share of Trade with Capital Surplus Oil Exporters (%) 1965	1970	1975	1981	Share of Trade with Centrally Planned Economies (%) 1965	1970	1975	1981
DIRECTION OF TRADE																
Exports	40.1	53.3	34.0	31.0	17.4	13.6	16.8	18.3	0.4	0.7	2.1	11.8	42.1	32.4	47.1	48.9
Primary	61.0	70.2	54.0	-	9.1	8.2	8.9	-	0.2	0.2	1.9	-	29.7	21.4	35.2	-
Manufactures	24.0	41.9	26.0	-	23.8	17.2	20.0	-	0.6	1.0	2.1	-	51.6	39.9	51.9	-
Imports	55.3	66.1	59.1	50.1	16.0	12.7	15.7	15.3	0.1	0.1	0.6	9.1	28.6	21.1	24.6	30.7

a/ SITC 0-4
b/ SITC 5-8
c/ SITC 3; includes lubricants, coal and electricity.
d/ Projected years at constant 1972 prices.
e/ Estimates.

EMENA 1C
May 24, 1983

YUGOSLAVIA - BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT
(US$ millions)

Population: 22.3 million (mid-1981)
GNP Per Capita: US$2,790 (1981)

Indicator	Actual 1970	1975	1976	1977	1978	1979	1980	1981	1982 a/	Projected 1983	1984	1985	1990
BALANCE OF PAYMENTS													
Exports of goods and services	3,037	8,012	9,142	10,586	12,069	14,276	18,300	20,007	19,677	20,976	23,585	26,640	45,777
of which: Merchandise f.o.b.	1,679	4,073	4,893	5,191	5,809	6,794	8,978	10,204	10,247	11,019	12,615	14,376	24,728
Imports of goods and services	3,385	9,013	8,977	11,932	13,352	17,937	20,592	20,954	20,140	20,924	23,780	26,119	45,191
of which: Merchandise c.i.f.	2,874	7,697	7,367	9,789	10,639	14,019	15,065	14,528	13,336	13,397	15,397	17,295	32,515
Net transfers	-	-	-	-	-	-	-	-	-	-	-	-	-
Current account balance	-348	-1,001	165	-1,346	-1,283	-3,661	-2,292	-947	-463	52	-195	541	586
Private direct investment	-	-	-	-	-		-	-	-	-	-	-	-
MLT loans (net)	196	951	1,094	1,432	1,396	1,009	2,410	838	130	1,429	662	-269	854
Official	18	246	213	61	128	131	59	1,383	1,050	1,549	2,698	1,956	891
Private	178	705	881	1,371	1,268	878	2,351	-545	-920	-120	-2,036	-2,225	-37
Other capital b/	38	135	119	45	541	1,487	657	347	-679	97	10	119	-690
Change in reserves	114	85	-1,378	-131	-652	1,165	-775	-238	1,012	-1,000	-477	-390	-751
International reserves c/	276	1,302	2,880	3,011	3,663	2,498	3,273	2,687	1,675	2,675	3,152	3,562	6,728
Of which: Gold (official valuation)	51	62	62	64	69	73	78	78	78	78	78	78	78
Reserves as months imports	1.0	2.0	3.8	3.0	3.3	1.7	1.9	1.5	1.8	1.5	1.6	1.6	1.8
EXTERNAL CAPITAL AND DEBT													
Gross disbursements	611	1,667	2,096	2,665	2,800	2,638	4,156	2,770	2,044	4,116	3,089	2,678	3,626
Official grants	-	-	-	-	-	-	-	-	-	-	-	-	-
Concessional loans	67	134	134	159	29	13	20	12	-	-	-	-	-
DAC	0	71	62	66	11	11	15	8	-	-	-	-	-
OPEC	-	-	-	-	-	-	-	-	-	-	-	-	-
IDA	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	675	63	72	93	18	2	5	4	-	-	-	-	-
Non-concessional loans	573	2,037	1,962	2,506	2,671	2,625	4,136	2,758	2,044	4,116	3,089	2,678	3,626
Official export credits	39	203	283	75	74	60	85	1,375	1,076	1,350	511	341	440
IBRD	37	154	119	133	180	294	258	238	283	565	577	338	186
Other multilateral	-	-	-	-	8	24	36	18	-	-	-	-	-
Private	497	1,680	1,560	2,298	2,409	2,047	3,757	1,089	685	2,200	2,000	2,000	3,000
Yugoslav export credit (net)	(-37)	(-82)	(-100)	(-183)	(-106)	(-125)	(-300)	(-193)	(-200)	(-220)	(-240)	(-131)	(-390)
External debt													
Debt outstanding and disbursed d/	2,053	5,820	7,172	8,956	11,117	13,608	15,466	16,156	16,287	17,716	18,378	18,108	22,952
Official	854	2,327	2,792	3,085	3,410	3,662	4,552	5,019	6,069	7,618	10,315	12,272	23,158
Private	1,199	3,493	4,380	5,871	7,707	9,946	10,894	11,138	10,218	10,098	8,062	5,837	-205
Undisbursed debt	948	2,971	2,525	4,438	3,713	3,817	2,542	1,947	1,538	1,515	1,481	1,408	801
Debt service e/													
Total service payments	503	1,441	1,440	1,595	1,886	2,125	2,441	3,690	3,807	4,396	4,368	5,033	5,599
Interest f/	128	289	302	367	578	821	995	1,757	1,893	1,710	1,941	2,085	2,827
Payments as % exports	16.6	18.0	15.8	15.6	14.9	14.9	13.3	18.6	19.3	21.0	18.5	18.9	12.2
Average interest rate on new loans (%)	7.1	8.1	7.1	7.4	7.7	8.0	8.4	12.7	11.9	11.8	12.9	12.9	14.0
Official	7.0	8.3	7.0	7.3	7.7	-	-	-	-	-	-	-	-
Private	7.5	7.5	8.6	9.3	8.7	9.5	-	-	-	-	-	-	-
Average maturity of new loans (years)	16.5	15.2	18.3	15.4	15.1	10.8	10.1	10.1	11.2	7.4	10.3	10.3	9.0
Official	18.5	16.5	10.0	15.9	15.1	-	-						
Private	10.9	10.9	5.7	7.5	-	-	-	-	-	-	-	-	-

a/ Estimates.
b/ Includes net use of IMF credit (drawings less repurchases), net use of short-term credit and changes in bilateral balances.
c/ Including gross foreign assets of commercial banks.
d/ External borrowing reported in the historical balance of payments is not consistent with external debt data.
e/ Debt service excludes amortization and interest on export credit extended by Yugoslavia.
f/ After 1981, includes interest payments on use of IMF resources.

EMENA IC
April 19, 1983

THE STATUS OF BANK GROUP OPERATIONS IN YUGOSLAVIA 1/

A. STATEMENT OF BANK LOANS (as of March 31, 1983)

Number	Year	Borrower(s)	Purpose	US$ million Amount (less cancellations) Bank	Undisbursed
Forty Loans fully disbursed				1,339.46	
916	1973	Naftagas	Gas Pipeline	59.4	8.05
1262	1976	Republicki Fond Voda	Water Supply, Sewerage & Water Resources	20.0	0.22
1263	1976	Sarajevo Water Supply & Sewerage Enterprise	Water Supply & Sewerage	45.0	0.07
1360	1977	Management Organization "Metohija"	Multipurpose Water	54.0	31.73
1370	1977	Investiciona Banka Titograd	Agriculture Industries	26.0	2.60
1371	1977	Stopanska Banka Skopje	Agriculture Industries	24.0	3.11
1469	1977	JUGEL and six Electric Power Organizations in each Republic	Second Power Transmission	80.0	11.06
1477	1977	Vojvodjanska Banka	Second Agricultural Credit	75.0	7.74
1534	1978	Community of Yugoslav Railways	Railways	100.0	3.01
1561	1978	Elektroprivreda Bosnia Herzegovina	Hydro Power	73.0	11.48
1611	1978	Kosovska Banka Pristina	Third Industrial Credit	40.0	7.90
1612	1978	Privredna Banka Sarajevo	Fourth Industrial Credit	20.0	1.44

Number	Year	Borrower(s)	Purpose	US$ million Amount (less cancellations) Bank	Undisbursed
1613	1978	Stopanska Banka Skopje	Fourth Industrial Credit	20.0	3.90
1614	1978	Investiciona Banka Titograd	Fourth Industrial Credit	20.0	1.53
1616	1978	Stopanska Banka Skopje	Macedonia Strezevo Irrigation	82.0	0.71
1621	1978	Privredna Banka Sarajevo	Bosanska Krajina Agriculture and Agro-Industries	55.0	31.20
1678	1979	Road Organizations of Kosovo, Montenegro, Vojvodina and Hezegovina and Macedonia	Roads	148.0	41.95
1756	1979	Zagrebacka Banka	Croatia Sava Drainage	51.0	33.14
1768	1979	Port of Bar	Earthquake Rehabilitation-Port of Bar	50.0	33.63
1769	1979	Railway Organization of Montenegro	Earthquake Rehabilitation-Railways	14.0	7.61
1801	1980	Vojvodjanska Banka	Third Agricultural Credit	86.0	56.11
1819	1980	Road Organizations of Slovenia, Croatia, Serbia and Vojvodina	Roads	125.0	76.42
1909	1980	Kosovska Banka Pristina	Fifth Industrial Credit	50.0	46.55
1910	1980	Privredna Banka Sarajevo	Fifth Industrial Credit	30.0	11.14
1911	1980	Investiciona Banka Titograd	Fifth Industrial Credit	20.0	19.31
1912	1980	Stopanska Banka Skopje	Fifth Industrial Credit	10.0	2.80

Number	Year	Borrower(s)	Purpose	US$ million Amount (less cancellations) Bank	Undisbursed
1951	1980	Investbanka	Agriculture & Agro-Industries	87.0	74.63
1977	1980	Pristina Railway Transport Organization	Railways	34.0	26.22
1993	1980	Kosovska Banka Pristina	Agriculture & Agro-Industries	90.0	83.22
2039	1981	Stopanska Banka Skopje	Agriculture	80.0	67.04
2055	1981	Radna Org. Regional Vodovod	Kosovo Water Supply	41.0	29.22
2132	1982	Privredna Banka Sarajevo	Sixth Industrial Credit	33.0	32.51
2133	1982	Stopanska Banka Skopje	Sixth Industrial Credit	33.0	32.51
2136	1982	Privredna Banka Sarajevo	Agriculture	35.0	34.48
2161 1/	1982	Privredna Banka Sarajevo	Semberija Drainage	34.6	34.60
2233 1/	1983	Regional Work Organization KOMPRED	Tuzla Water Supply and Environment	30.0	30.00
		Total (less cancellation)		3,214.46	898.84
		of which has been repaid		597.21	
		Total now outstanding		2,617.25	
		Amount sold	9.2		
		of which: Amount repaid	9.2		
		Total now held by Bank		2,617.25	
		Total undisbursed			898.84

1/ Signed but not yet effective.

B. STATEMENT OF IFC INVESTMENTS (as of March 31, 1983)

Fiscal Year	Obligor	Type of Business	Amount in US$ million Loan	Equity	Total
1970	International Investment Corporation for Yugoslavia	Investment Corporation	-	2.0	2.0
1970/ 1972/ 1980	Zavodi Crvena Zastava Fiat S.p.A.	Automotive Industry	12.4	0.6	13.0
1971/ 1980	Tovarna Automobilov in Motoriev Maribor (TAM)/Klockner-Humboldt Deutz A.G. (KHD)	Automotive Industry	9.2	0.9	10.1
1972/ 1980	FAP-FAMOS Belgrade/Daimler-Benz A.G.	Automotive Industry	16.3	0.8	17.1
1972/ 1978/ 1980	Sava Semperit	Tires	12.5	2.5	15.0
1973	Belisce-Bel Tvornica Papira	Pulp and Paper	70.9	-	70.9
1974	Zelezarna Jesenice/ARMCO	Special Steel	10.0	-	10.0
1974	Salonit Anhovo	Cement Plant	10.0	-	10.0
1975	KMK Zenica	Steel	50.0	-	50.0
1977	Frikom RO Industrija Smrznute Hrane/Unilever	Food and Food Processing	4.0	2.4	6.4
1977	Tvornica Kartona i Ambalaze Cazin	Pulp and Paper Products	15.6	2.6	18.2
1978	Soko-Mostar	Hermetic Compressors	7.0	-	7.0
1980	Investiciona Banka Titograd-Udruzena Banka	Tourism	21.0	-	21.0
1980	Radoje Dakic	Machinery	18.7	-	18.7
1980	Eight Republican/Provincial Banks	Small-Scale Enterprises	30.3	-	30.3
1982	Igalo	Physical Medicine Center	16.5	-	16.5
1982	Industrija za automobilski Delovi I Traktori (Ruen Auto)	Motor Vehicles & Accessories	11.3	-	11.3
	Total Gross Commitments		315.7	11.8	327.5
	less cancellations, terminations, exchange adjustment, repayment and sales		173.5	5.2	178.7
	Total commitments held by IFC		142.2	6.6	148.8
	Total Undisbursed held by IFC		38.7	0.8	39.5

C. PROJECTS IN EXECUTION 1/ (As of March 31, 1983)

Loan 916 Naftagas Pipeline: US$59.4 Million Loan of June 25, 1973; Effective Date: March 22, 1974; Closing Date: June 30, 1983.

For a variety of reasons substantial delays occurred during the implementation of this project (cost overruns, administrative hurdles, organizational change, etc.). In December 1979, the Government requested and the Bank eventually agreed to divide the loan into two tranches, Naftagas Gas Unit (NGU) being in charge of the pipeline in Vojvodina, and Butangas of the pipeline in Serbia. The amendment of the loan was approved by the Bank in November 1980, and became effective in May 1981. The pipelines in Vojvodina and Serbia are now under construction. The only outstanding major contract still to be awarded before the current closing date concerns Butangas' telecommunications and supervisory control and data acquisition (SCADA) systems. Depending upon early contracting of the SCADA system a further and final extension of the closing date is under consideration.

Loan 1262 Morava Regional Development Project - Water Supply, Sewerage and Water Resources: US$20.0 Million Loan of June 14, 1976; Effective Date: November 3, 1976; Closing Date: December 31, 1982; (account left open).

After some initial delays, the project is progressing satisfactorily. Major works still to be executed are the Vrutci dam and water supply distribution and sewerage network in Titovo Uzice. The loan was closed on December 31, 1982 (after two extensions) but the account remains open to allow disbursement in respect of expenditures under contracts signed before the closing date.

Loan 1263 Sarajevo Water Supply and Sewerage: US$45.0 Million Loan of June 8, 1976; Effective Date: November 9, 1976; Closing Date: December 31, 1982; (account left open).

Construction works are proceeding well and the project is substantially completed. The loan was closed on 12/31/82 but account remains open to allow final disbursements.

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 1360 Metohija Multipurpose Water: US$54.0 Million Loan of February 3, 1977; Effective Date: July 27, 1977; Closing Date: December 31, 1983.

Radovic Dam, intake weir and feeder canal to the reservoir are completed. Overall project progress is about three years behind schedule and the Closing Date has been postponed initially by one year to December 31, 1983. Contract for ICB procurement of G.R.P. pipes was signed on January 22, 1983; however, it was necessary to reduce the scope of supply to conform to the tender. Modified contract is expected to be validated on April 8, 1983. The single remaining ICB contract for automatic regulation equipment is expected by mid-May, 1983. Based on current progress, all LCB contracts should be awarded by July 31, 1983. Irrigation system for about 1,200 ha will be ready by 1984. Completion of the total system is now planned for December 31, 1984, which will fit in with current plans for land consolidation.

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.

The project is substantially completed. The winery operations are completed and operational. Farm center construction is complete and farm roads are nearing completion. The completed irrigation system is supplying 2,014 ha under vineyards and orchards. The loan is 90% disbursed. Due to high rates of local inflation costs have exceeded appraisal estimates by about 60%.

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, 1983.

Due to delays in implementation of social sector sub-projects the loan Closing Date has been postponed by 12 months to June 1983. Recently, progress in project implementation has shown improvement as all contracts for construction of agro-industry facilities have now come into force and four of the seven sub-projects are completed. Contracts have been signed and approved for the remaining sub-projects. All individual sector funds have been completed and disbursed. The loan is 87% disbursed.

Loan 1469 Second Power Transmission: US$80.0 Million Loan of July 11, 1977; Effective Date: January 31, 1978; Closing Date: June 30, 1983.

The project is expected to be completed with a delay of about two years and the closing date has been extended by six months to 6/30/83, in

order to allow full loan disbursement. The loan is practically fully committed. The Borrowers have been advised that there would be no further extension of the closing date.

Loan 1477 Second Agricultural Credit: US$75.0 Million Loan of July 29, 1977; Effective Date: January 30, 1978; Closing Date: August 31, 1983.

The loan is fully committed and all agro-industry investments are in the implementation phase. Implementation of the project is about one and a half years behind appraisal estimates. About 90% of the loan has been disbursed. As a result of the Government's recent stabilization measures however, exceptional delays in contracts coming into force have resulted and consequently the closing date has been extended a second time, to August 31, 1983 so as to be able to disburse against purchases of equipment for the agro-industry component only.

Loan 1534 Fifth Railway: US$100 Million Loan of April 13, 1978; Effective Date: September 28, 1978; Closing Date: June 30, 1983.

Bank financed investments have progressed well and disbursements total US$ 97.0 million. The level of compensation payments has however increased and substantial tariff increases have failed to keep pace with inflation. Remedial actions will be agreed upon in the context of the proposed loan for a Sixth Railway Project.

Loan 1561 Middle Neretva Hydro Power: US$73 Million Loan of May 31, 1978; Effective Date: November 15, 1978; Closing Date: June 30, 1983.

Part A of the project (construction of the Grabovica and Salakovac Dams and power plants) has been completed and both Grabovica and Salakovac have been in operation since December 1982. Part B, originally not financed by the Bank (Mostar Dam), however, has been delayed by problems with the site geology and funding. The technical problems have been solved and the detailed designs of the Mostar dam and power plant are now available. Regarding the funding, a supplemental Bank loan is now under consideration. If action on this loan is taken before June 30, 1983, Part B of the Project could be completed by December 1987, assuming that funding for the local costs is forthcoming.

Loan 1611 Third Industrial Credit: $40.0 Million Loan of July 26, 1978; Effective Date: November 16, 1978; Closing Date: April 30, 1983.

The loan is fully committed. Disbursements are behind appraisal estimates due to late approval of two large "special subprojects" and changes in the originally approved equipment lists and often incomplete

withdrawal applications. The Industrial Credit Department of the borrower Kosovska Banka Pristina (KBP) continues to be weak, especially in terms of proper project appraisal and supervision. This matter is being focussed upon through frequent supervision. Also, institutional improvements will be a major component of a proposed new loan to KBP.

Loans 1612, 1613 and 1614 Fourth Industrial Credit: $20.0 Million each Loans of July 26, 1978; Effective Date: November 16, 1978; Closing Dates: December 31, 1983.

The loans are fully committed. Disbursements for Loans 1612 and 1614 are well ahead of the disbursements expected at appraisal, while Loan 1613 is somewhat behind appraisal estimates. The closing dates for all three Loans have been extended from December 31, 1982 to December 31, 1983.

Loan 1616 Macedonia Strezevo Irrigation: US$82 Million Loan of August 23, 1978; Effective Date: February 14, 1979; Closing Date: September 30, 1982; (account left open).

Project construction has been substantially completed. The loan account has been kept open in order to enable disbursements against contracts for which commitments have been made prior to September 30, 1982. $81.29 million disbursed as of March 31, 1983.

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.

Project implementation has been delayed by about two years and an extension of the closing date will be necessary. Cost overruns have necessitated a reduction in scope of the project. Recently, the implementing agencies have taken actions which will improve performance. The financing problem and inadequate progress in the individual sector has been resolved and specific action programs have been agreed with the borrower and the implementing agency. As of March 31, 1983 about 93 percent of the loan has been committed and 45 percent disbursed. Given the stage of overall project implementation, the most likely completion date would be December 1984.

Loan 1678 Tenth Highway: US$148 Million Loan of April 9, 1979; Effective Date: August 14, 1979; Closing Date: September 30, 1984.

Project now faces delays of about 15 months because of reduced road expenditures now planned by Government. Revised investment plans prepared by all participants. All links are now committed. Works will now

extend to early 1984 in Kosovo, Vojvodina, Bosnia and Macedonia. Only Montenegro has completed its program according to the original schedule. Loan closing date has been postponed to September 30, 1984.

Loan 1756 Croatia Sava Drainage: US$51 Million Loan of October 11, 1979; Effective Date: April 17, 1980; Closing Date: June 30, 1985.

Decisions to award contracts for supply of equipment and construction of civil works have been finalized. Project management problems and inadequate funds together with import restrictions had caused procurement delays. Revised financing plan with assurance of funds has now been prepared and import restrictions for the project have eased. Studies on sub-surface drainage had a delayed start. Progress on civil works, although somewhat behind schedule, is satisfactory. Land consolidation is progressing on schedule. Farm development works are progressing. The loan is 35% disbursed.

Loan 1768 Montenegro Earthquake Rehabilitation - Port of Bar: US$50 Million Loan of November 30, 1979; Effective Date: April 29, 1980; Closing Date: June 30, 1984.

The project is currently about two years behind schedule, primarily due to delays in preparation of designs and contract documents for civil works stemming from more rigid design criteria to withstand earthquakes and from the lack of adequately experienced project and support staff. Bank missions have repeatedly emphasized need to strengthen staff, and port management has recently taken remedial action. Contracts for civil works are in progress and should be completed by about May/June 1983 or shortly thereafter. Bids for workshop equipment and for new tugboats have been received and some contracts awarded by PBWO. Deliveries of equipment and tugboats in early 1984 appears likely. The original closing date of December 31, 1982 has been postponed until June 30, 1984 to allow for longer than anticipated delivery period for remaining Bank financed items.

Loan 1769 Montenegro Earthquake Rehabilitation - Railways: US$14 Million Loan of November 30, 1979; Effective Date: April 29, 1980; Closing Date: June 30, 1983.

Disbursements of about $6.39 million for urgent reconstruction works have been made. Contracting procedures for remaining works have been slower than expected largely as a result of complicated engineering design for repairs to a badly damaged tunnel. The Borrower's request for an extension of the closing date is under consideration.

Loan 1801 Third Agricultural Credit: US$86 Million Loan of February 29, 1980 Effective Date: August 25, 1980; Closing Date: March 31, 1985.

Progress in commitments in the social sector is very slow. In the individual sector, 93% of funds are committed, while in the social sector only 41% is committed. The agroindustry subprojects have still to be identified in some Republics; and a few approved processing facilities are behind schedule. The progress in physical implementation in the individual sector is good. The loan is about 35% disbursed.

Loan 1819 Eleventh Highway: US$125 Million Loan of April 23, 1980; Effective Date: August 7, 1980; Closing Date: June 30, 1984.

All contracts relating to the participating Republics/Provinces have been approved by the Bank. The Toll Study Draft Final Report has been reviewed. Cofinancing was obtained for an amount of US$ 110 million in October 1980. Due to implementation delays arising from shortage of local funds, project completion will be about 18 months behind schedule. The closing date has been postponed by one year to June 30, 1984. Further extension of one year might be necessary and would be considered on the basis of project implementation in accordance with a revised schedule.

Loans 1909, 1910, 1911 and 1912 Fifth Industrial Credit: $50.0, $30.0, $20.0 and $10.0 Million, respectively, Loans of February 9, 1981; Effective Date: August 17, 1981; Closing Dates: October 31, 1984.

Loans 1910 (PBS) and 1912 (SBS) are being committed rapidly, while commitments under Loans 1909 (KBP) and 1911 (IBT) are behind schedule. Commitments by KBP and IBT started late due to external factors, but have picked up rapidly and is expected to be completed within the currently stipulated commitment period.

Loan 1951 Morava Regional Development II: $87 Million Loan of April 13, 1981; Effective Date: August 28, 1981; Closing Date: December 31, 1986.

Eighty-five percent of the loan proceeds are committed. Withdrawals have commenced but are behind appraisal estimates. The delay is due to procedural problems in withdrawing Bank funds. This has been taken up with the Government in order to resolve the issue. As for the physical implementation of the Project, progress is very good. In the individual sector, about 800 livestock farms, 1,150 ha orchards and 140 ha vineyards are expected to be completed by the end of 1982, while 11 out of 14

agro-industrial facilities are under construction, of which 5 are likely to become operational in the Spring 1983. Progress under the irrigation component continues to be unsatisfactory. Action plans for support services approved by the Bank and implementation is underway.

Loan 1977 Kosovo Railway: $34.0 Million Loan of May 15, 1981; Effective Date: November 16, 1981; Closing Date: December 31, 1984.

After a slight delay due to expropriation issues, the project is proceeding satisfactorily. Procurement of signalling and telecommunications (SS&TT) equipment and freight wagons has been completed. Upon request of the Borrower the Bank has agreed to a reallocation of loan funds which will become surplus because of favorable results on the SS&TT contract and the devaluation of the Dinar. The surplus funds will finance the acquisition of four diesel motor trains for which a contract will shortly be awarded.

Loan 1993 Kosovo Agricultural Development: $90 Million Loan of June 15, 1981; Effective Date: December 23, 1981; Closing Date: June 30, 1987.

About 25% of the Loan amount has yet to be committed and the Borrower, KBP, is behind schedule in hiring requisite support staff. Six agro-industry investors have signed construction and equipment installation contracts and work has started. The investors for two other agro-industry subprojects expect within the month to finalize contracts according to the bid evaluation reports, after considerable delays due to the investors' requests to change processing capacity or product line. The four remaining agro-industries sub-projects are being replaced, taking into consideration changes in market potential of inputs and outputs. Out of 2,000 ha of plantation sub-projects, the Borrower has approved sub-loans to seven social sector investors covering about 1,600 ha for vineyards and orchards. For the individual sector, the Borrower has approved sub-loans for 300 ha of vineyards. For the Groundwater studies component, the consultants have completed the detailed terms of reference and cost estimates and started work on hydro-geologic investigations.

Loan 2039 Macedonia III Agricultural Development: $80 Million Loan of July 23, 1981; Effective Date: January 6, 1982; Closing Date: June 30, 1987.

Project implementation is ahead of schedule. Disbursements are about one year ahead of schedule. The social sector vineyard (1,450 ha) and orchard (2,500 ha) components and the cold store component (15,000 tons) were fully committed. Individual sector investments are also ahead of

schedule. Although nearly all feasibility studies have been completed, the small-scale irrigation component is behind schedule due to SBS appraisal bottlenecks and to problems with generating the 20% local contribution to be provided by the Communes.

Loan 2055 Kosovo Water Supply: $41 Million Loan of December 14, 1981; Effective Date: April 14, 1982; Closing Date: June 30, 1985.

Loan declared effective on April 14, 1982. Overall construction progress has been good and the quality of construction is high. Contracts for all major components of the project have been awarded. Due to several contributory factors revised total project cost has been reduced which will result in a savings of US$15.0 million from the Bank loan.

Loans 2132 and 2133 Sixth Industrial Credit Project: $33 Million Loan Each Loans of August 31, 1982; Effective Date: November 23, 1982; Closing Date: December 31, 1987.

Loans declared effective on November 28, 1982. Commitments of sub-loans progressing satisfactorily. $0.98 million disbursed as of March 31, 1983.

Loan 2136 Bosnia Agricultural Development Project: $35 Million Loan of May 4, 1982; Effective Date: November 23, 1982; Closing Date: March 31, 1987

This loan became effective on November 23, 1982. Bid Evaluation Reports for all six agro-industrial processing facilities have been cleared by the Bank. About 40% of the Contract Documents have been received while others are awaited by end April 1983. Construction of about 60% of the Popovo Polje Irrigation Project has been completed.

Loan 2161 Semberija Drainage: $34.6 Million Loan of May 27, 1982; Effective Date: April 29, 1983; Closing Date: September 30, 1987.

The loan is not yet effective. The new Date of Effectiveness is set for April 29, 1983. Federal ratification and legal opinion are awaited.

Loan 2233 Tuzla Water Supply and Sewerage: $30.0 Million Loan of January 25, 1983; Effective Date: June 10, 1983; Closing Date: December 31, 1988

The Project was appraised in March/April 1982. Loan documents were signed on February 10, 1983. The loan is not yet effective.

YUGOSLAVIA: INDUSTRIAL CREDIT PROJECT VII

Supplemental Project Data Sheet

Section I: Timetables of Key Events

(a) Time taken by Country to prepare the project:	October 1980 - September 1982
(b) Project Preparation agencies:	Kosovska Banka Pristina Investiciona Banka Titograd
(c) First Bank mission to consider Project:	April 1981
(d) Appraisal Mission Dep:	October 30, 1982
(e) Negotiations Completed:	May 4, 1983
(f) Loan Effectiveness Planned:	November 1983

Section II: Special Bank Implementation Action

To arrange outside training for staff of borrowing banks.

Section III: Special Conditions

A. Effectiveness

Engagement of a development banking advisor, acceptable to the Bank by KBP (para. 41).

B. Other

(a) Protection against foreign exchange risk on the banks' savings accounts (para. 43);

(b) Eligibility criteria for labor-intensive (para. 49) and export-oriented (para. 50) sub-projects;

(c) Remedies for non-compliance with employment and export orientation targets (para. 50);

(d) Use of at least one-third of loan amounts for joint venture projects (para. 51);

(e) Maximum sub-loan size will be $4 million for labor intensive and $5 million for export-oriented sub-projects, (para. 54) and free limit $1.5 million for individual sub-loans and 60 percent of aggregate loan amount for each bank; first five sub-loans for export-oriented sub-projects will be treated as above the free limit (para. 55);

(f) Bank funds lent to sub-borrowers will bear variable interest of at least 1.25% above the Bank rate; domestic funds lent to sub-borrowers from the banks' own resources will carry an interest rate of at least 18 percent (paras. 59 and 61).