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REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

PORT OF BAR ENTERPRISE

WITH THE GUARANTEE OF

THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

FOR A PORT PROJECT

November 11, 1974

Europe, Middle East and N. Africa Region

Public Disclosure Authorized

CURRENCY EQUIVALENTS *

Currency Unit	:	Yugoslav Dinar (Din.)
US$1	=	Din. 15.15
Din. 1	=	US$0.0660
Din. 1,000	=	US$66.00
Din. 1,000,000	=	US$66,006

Fiscal Year

January 1 to December 31

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* The Yugoslav Dinar has been floating since July 13, 1973. The currency equivalents given above are as of August 1, 1974. The Yugoslav Central Bank established on October 29, 1974 a new intervention rate of US$1.00 equal to Dinars 17.23, an effective devaluation of 7 percent.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO PORT OF BAR ENTERPRISE WITH THE GUARANTEE OF THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

1. I submit the following report and recommendation on a proposed loan to Port of Bar Enterprise, with the guarantee of the Socialist Federal Republic of Yugoslavia, for the equivalent of US$44 million to help finance a port project. The loan would have a term of 25 years, including four years of grace, with interest at 8 percent per annum. US$5.7 million of the proceeds of the loan would be relent to the Railway Transport Enterprise, Belgrade (RTE Belgrade) for the railway part of the project, on similar terms and conditions to the Bank loan.

PART I - THE ECONOMY

2. A basic economic mission visited Yugoslavia in November 1972; its report entitled "The Economic Development of Yugoslavia" (R74-1) was distributed to the Executive Directors on January 2, 1974. An economic updating mission visited the country in October 1973 and its findings are reflected in this report. Basic data on the economy are given in Annex I.

Economic Trends and Development Issues

3. The Yugoslav economy has experienced rapid growth and significant structural change during the past two decades. GDP at constant prices increased by about 5.5 percent per year and per capita GDP by over 4.5 percent per year. Average per capita GNP is estimated at around US$900 (1973). The number of people engaged in agriculture has decreased both absolutely and as a percentage of the labor force, while the number engaged in industry and services has correspondingly increased. However nearly half of the labor force is still engaged in agriculture, most of it on small private farms. Industry accounts for 23 percent and services for 22 percent of the labor force.

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

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

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

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

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

9. Thus far the unemployment situation in Yugoslavia has remained manageable not least because some 800,000 Yugoslav workers have found work abroad. But the number of registered first-time job seekers has risen from 146,000 in 1971 to 230,000 early in 1974 (5.4 and 13.7 percent of the labor force respectively). The Government is concerned about having a large number of workers abroad and favors a policy of encouraging their return. Moreover job opportunities abroad may diminish as economic growth in Europe slows down.

Although this trend has not yet taken on serious proportions there is a growing tendency for workers to return home and a slow down in the number leaving. This could aggravate the country's unemployment and housing problems.

Recent Developments

10. Rapid economic growth since 1968 was accompanied by inflation and balance of payments problems. Many enterprises experienced financial difficulties primarily as a result of over-zealous investment programs and a lack of financial discipline. To counter inflation and improve the external payments position the Government, in 1972 and 1973, adopted measures aimed at restricting monetary expansion, limiting public expenditure, temporarily strengthening price controls, reducing the growth of personal income, improving the financial structure of enterprises and imposing limitations on external borrowing. In addition, to neutralize the inflationary pressure on the balance of payments, the dinar was devalued by 16.6 percent in January 1971, and again by 18.8 percent in December 1971. Since July 1973 the dinar has been floating. 1/

11. As a result of these measures exports increased rapidly in 1972 and 1973 and imports stagnated. Aided by a sharp rise in workers' remittances, up 36 percent in 1972, the current account showed a surplus of US$415 million in 1972, the first surplus since 1965. A current account surplus was again achieved in 1973 ($210 million). Foreign exchange reserves have risen from the equivalent of about one month's merchandise imports in 1971, to nearly 5 months at present. There has been no slowdown in the rate of inflation, however, and most prices continue to rise at the rate of 15-20 percent per year.

12. While the restrictive measures have been successful in improving the external payments position and the financial situation of enterprises, they have reduced economic growth. Real GDP increased by only 4.4 percent in 1972 as against 8.8 percent in 1971; for 1973 real economic growth is estimated at about 5 percent.

13. The Social Development Plan for 1971-75 projected an average GDP growth of 7.5 percent per year in real terms but it is clear that this will not be realized. Even if economic growth in 1974 and 1975 reached that level, average growth during the five years would amount to around 6.8 percent, due to the slowdown associated with the 1972/73 stabilization measures. Given the slow population increase this would still be rather high, and would compare well with growth during the preceding five-year period (6.3 percent per year).

The Energy Sector

14. On a calorific basis 67 percent of Yugoslavia's energy needs in 1973 were met from domestic sources. Domestically-mined coal remains an important source of fuel. Practically all thermal power plants are coal fired. About 39 percent of the oil consumed is of domestic origin. Yugoslavia generates more than half of its electricity from hydro plants despite the fact

1/ A new intervention rate was fixed by the Yugoslav Central Bank on October 29, 1974 of US$1.00 equal to Dinars 17.23, an effective devaluation of 7 percent.

that hydro capacity has been developed only to about one-third of its potential. The shortages of electricity that are emerging are not due to the lack of hydro generation potential, coal or oil, but rather to insufficient plant capacity, delayed construction and a country-wide drought which has reduced hydropower output. Yugoslavia maintains friendly relations with nearby oil producers, so that its oil imports are assured.

15. In spite of Yugoslavia's relatively low dependence on imported oil, increases in the price of oil are bound to affect the government's efforts to improve the external payments position. In 1973 oil imports amounted to an estimated US$259 million, or 5.4 percent of goods and services imports. For 1974 oil import payments will be of the order of US$900 million, at an average c.i.f. price of US$100 per m.t. (US$13 per barrel), equivalent to about 15 percent of imports of goods and services. The impact on the balance of payments will be to contribute to a substantial current account deficit in 1974 (estimated at about US$600 million) and later years, instead of the supluses Yugoslavia has enjoyed recently.

16. The indirect consequences of the world energy crisis are unclear. On the positive side Yugoslavia's heavy use of coal and hydropower should improve the country's international competitive position. On the other hand job opportunities for Yugoslavs working abroad will diminish as economic growth in Western Europe slows down. Returning migrant workers would exacerbate unemployment and housing problems and workers' remittances, which have played a dynamic role in the economy, may suffer. Moreover, stagnation in economic activity abroad could affect Yugoslavia's exports. The rise in the cost of automobile and air transportation may influence tourism unfavorably, although it is also conceivable that the country would attract tourists who would otherwise have gone further afield. Therefore, the tourist sector may gain on balance. These conflicting trends are being watched carefully by the Yugoslav authorities and the Bank.

Capital Requirements

17. Yugoslavia is dependent to a large degree on imported equipment for its economic development and the country has borrowed substantial amounts abroad. Gross capital inflows have more than tripled during the last five years, reaching US$1,250 million in 1973, mostly in medium-term commercial credit. However, due to rapidly rising amortization payments, an increase of US$746 million in gross inflows between 1967 and 1972 resulted in an increase in the net inflow of only US$224 million. The growing discrepancy between gross and net inflows reflects a shift, following the 1965 Economic Reforms, from long-term official loans to medium-term commercial credits as a result of the limited availability of official capital and the liberalization of foreign trade and borrowing. The United States, the Federal Republic of Germany, Switzerland, Italy and the United Kingdom have provided most of the commercial credits. IBRD, the Federal Republic of Germany, and the USSR have been the principal sources of long-term official capital.

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

Creditworthiness

19. In spite of the present unsettled international conditions, the prospects for Yugoslavia's continued economic growth during the next decade are good. The country's endowment of natural and human resources, its relatively low dependence on imported energy sources, its pragmatic approach to economic problems and its readiness to undertake institutional changes, combine to give grounds for a favorable assessment of future prospects.

20. External public and publicly-guaranteed debt outstanding as of December 31, 1972 was US$1,730 million. In addition there was US$1,820 million non-public external debt outstanding. Total (public and non-public) debt service payments in 1973 were equivalent to 20 percent of foreign exchange earnings. With external borrowing projected at around US$2.5 billion per year during 1974-79, the debt service ratio (public and non-public) is expected to remain at the same level or to decline slightly to about 19 percent in 1979. Taking into account Yugoslavia's debt service record and the measures taken in the past to control balance of payments problems, as well as the prospective growth of production and foreign exchange earnings, Yugoslavia remains creditworthy for a substantial amount of Bank lending.

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

PART II - BANK GROUP OPERATIONS IN YUGOSLAVIA

22. The Bank has made 30 loans totalling about US$972 million to Yugoslavia. Of this amount approximately 50 percent (US$487.4 million) has been for 11 loans for the transportation sector - six for highways totalling US$180 million, four for railways totalling US$248 million, and US$59.4 million for the Naftagas pipeline loan approved in 1973. Bank lending has generally concentrated on infrastructure including, in addition to the transportation loans, power (three loans totalling US$135 million), telecommunications (one loan for US$40 million), and three multipurpose projects totalling US$103 million. Nine loans have also been made for industry, two for tourism and one for agricultural industries. This would be the first loan for a port project. IFC has made eight investments in Yugoslavia totalling about US$80 million.

23. In the last few years delays in loan effectiveness have hampered project implementation. To some extent delays are inevitable since the clearance of loan documents involves all the Republics and Provinces in every case. Conditions of effectiveness can rarely be met speedily, regardless of how well the ground is prepared. Yugoslavia has been continually evolving its constitutional process and the approval of a new constitution earlier this year should facilitate a better understanding of what is required to get project implementation off the ground quickly. There are encouraging signs of this. Three of the six loans approved in FY74 have already been declared effective and disbursements have started under all three of them. But this problem will continue to be closely monitored by the Federal authorities and the Bank. There have been delays in the execution of several projects including the Belgrade-Bar Railway Project and two tourism projects. The Bank has increased its efforts to deal with these problems through extra supervision and other missions. Annex II contains a summary statement of Bank loans and IFC investments as of September 30, 1974 and notes on the execution of on-going projects.

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

25. Over the next two years loans are envisaged for tourism infrastructure in Dubrovnik, power generation, agricultural credit, an oil pipeline, urban pollution control in Sarajevo, highways, two multipurpose (water supply/sewerage, and power/irrigation) projects and one for railways. IFC is currently investigating several new investment opportunities to encourage joint ventures which would provide technical, management and marketing expertise as well as long-term capital.

26. Apart from substantial assistance given in identifying and preparing projects for Bank financing, the Bank is providing technical assistance in several areas. A series of regional studies of the four less-developed regions of Yugoslavia was initiated two years ago and two studies, covering Kosovo and Bosnia-Herzegovina, have been completed. These studies will contribute to better assessment of development problems and will assist in formulating development strategies for these regions. Other current activities include assistance with a study on the Yugoslav capital market designed to help improve resource mobilization and allocation, and assistance for a training program for auditors of the Social Accounting Service, which audits all enterprises and Government activities, including Bank financed projects.

27. Bank commitments to Yugoslavia have averaged about US$100 million annually in the last three years. Although this has represented only a small proportion of the country's need for external finance, it has been equivalent to almost one-third of the annual long-term official capital inflow in convertible currencies. Assuming that the level of Bank lending continues to rise substantially during the next five years, the outstanding debt to the Bank could rise from about 9 percent of Yugoslavia's total external debt in 1973, to about 11 percent by 1979. Service on Bank loans as a proportion of total debt service would increase from about 3 percent to about 7 percent during the same period.

PART III - THE TRANSPORT SECTOR IN YUGOSLAVIA

28. Topography has influenced the development of Yugoslavia's transport sector. The main routes have tended, in the past, to avoid the mountains along the Adriatic coast and to the south. Instead they have flowed north-west to south-east along the Sava-Danube valley, linking Western Europe to the Balkans. By the early twentieth century a sound transport system was developing in the northern part of the country. The sector as a whole suffered considerably during the second World War. Today Yugoslavia has an extensive transport system including 96,000 km of roads, 10,400 km of railways, 15 airports, 5 major ports and a sizeable network of coastal and inland waterways. The roads and railwavs are the backbone of the transport system, together carrying some 90 percent of the total freight and 95 percent of passenger traffic in 1971. The maritime transport carried about 10 percent of the total freight. While there have been many physical improvements in the sector over the last decade, much remains to be done. The railways offer slow service; many of the roads are still below standard; and port capacity needs to be increased. In general the development of transport infrastructure over the last decade has been inadequate to meet the rapidly growing demand for its services.

29. The economic reforms of the sixties facilitated the decentralization of policy-making in the sector and the liberalization of the transport industry. From 1960 to 1970 passenger and freight traffic grew at annual rates of 10 and 7 percent, respectively. While the reforms encouraged growth they brought about structural changes. Passenger and freight traffic on the roads, benefitting greatly from the liberalization policies, grew at 21 and 20 percent respectively, while the comparable figures for railways were zero and 2.5

percent. By 1970 the railways' share of the passenger market had dropped from 67 to 25 percent and of the freight market from 74 to 47 percent. The decentralization wekened transport administration, coordination and planning. It also aggravated the difficulties faced by many enterprises in the sector, especially the railways, in mobilizing funds for investment.

30. Decentralized management made it difficult in recent years to formulate coherent policies for the sector as a whole. The policies that are pursued, such as the freedom of choice by users to select their transport mode and competition in the market economy among autonomous transport enterprises, reflect the prevailing economic climate. More emphasis is currently being placed on a coordinated approach to the transport sector. In 1971 a Federal Secretariat for Transport and Communications was established and most of the Socialist Republics (SRs) and Socialist Autonomous Provinces (SAPs) have since established similar secretariats, although all these authorities suffer from a lack of qualified staff. Under the Highways VI loan (Ln. 990-YU), approved by the Executive Directors in May 1974, agreement was reached that the Federal Goverment would take appropriate steps to coordinate planning and investments among transport modes.

31. Bank lending has been concentrated upon priority infrastructure projects for which funds were scarce. Increasing emphasis is being given to helping those institutions, like the Community of Yugoslav Railways, responsible for coordination and planning in the sector.

The Ports Subsector

32. The Yugoslav Adriatic coast, which stretches for about 600 km, includes some ninety harbors, some of which have been active for centuries. There are presently ten main ports of which the most active are Koper, Rijeka, Split, Ploce and Bar. The system is designed, so far as possible, to diversify access to the sea in more than one Republic. As the coast line is separated from the industrial and commercial centers to the east by mountain ranges, the major ports are located near mountain passes which provide access to the hinterland. The ten principal ports together handle more than 80 percent of the seaport traffic. Rijeka, by far the largest port, accounts for 50 percent of the Yugoslav seaport traffic. Because of their proximity to Italy, Koper, and to a lesser degree Rijeka, compete with Trieste and Venice for transit traffic from Austria, Czechoslovakia and Hungary.

33. During the last decade cargo handled by the ports has doubled, reaching the present level of 24 million tons per year. Oil imports have grown considerably faster than non-oil trade. The decline in the relative importance of the non-oil seaborne trade is partly due to the increasing share of trade with Western Europe in the total Yugoslav foreign trade picture, most of which is transported overland. Although port infrastructure has expanded substantially in the decade, general cargo congestion still exists, particularly in Rijeka and Koper, due to inadequate handling equipment, insufficient storage capacity and poor coordination with the railways. One crucial issue in estimating future seaport traffic and port requirements is the effect of containerization. Overland container rates are competitive

with sea rates and container cargo can be handled with greater time savings and flexibility by efficient railways and roads. Thus the development of containerization may encourage more overland transport.

34. Ports are generally constructed, operated and maintained by independent port enterprises in accordance with the principle of workers' self-management (see para. 38 below). They are free to set their tariffs in principle but they do so in practice in consultation with other ports. They formulate and implement their own development plans. Partly due to competition with other ports, including Italian ports, the principal Yugoslav ports have tended to be pre-occupied with their own expansion, resulting in a lack of nationwide coordination of port investments. The principal Yugoslav ports have formed an association which represents the ports in the Council for Transportation in the Chamber of Economy of Yugoslavia. The association is a consultative body with no executive functions, and its coordinating role has thus far been limited to tariff questions. Competition has forced the Yugoslav ports to keep their tariffs low and they have been unable to generate sufficient funds to meet their investment needs. Some ports have borrowed increasingly on short-term and are now facing liquidity problems.

35. The current five-year development plan for ports (1971-75), prepared by the association in 1971, represents an aggregation of individual port development plans. The plan calls for an investment of US$116 million, primarily for a 30 percent extension of general cargo berthage in the ten principal ports, the construction of a bulk handling installation at Bar and two minor container terminals at Rijeka and Koper. The plan does not attempt to provide for the optimization of port development on a national basis (by estimating the future traffic and defining the facilities required to meet the traffic). In connection with preparation of the next five-year plan, the ports are currently considering joint measures to improve coordination in the sub-sector, including carrying out a ports sub-sector study. The details of the study are under discussion among the ports. The study should offer a good opportunity to conduct a comprehensive review of the development of the ports sub-sector, which the Bank has urged the Yugoslav authorities to carry out. However, as the port enterprises themselves have not yet taken a decision, it would be premature to link the study either directly or indirectly with this project.

36. The proposed project would be the Bank's first lending operation in the ports sub-sector. Two more port projects are planned for later years; Rijeka and Belgrade. The primary objective of Bank lending for the subsector is to encourage institution-building and to help finance high priority investment. An important consideration in the case of the proposed project is its link with the Belgrade-Bar railway line (Ln. 531-YU), currently under construction and due for completion in 1976. The expansion of Bar harbor is linked to the completion of the rail link to Serbia and the central Yugoslav hinterland.

The Borrower

37. The proposed loan would be made to Port of Bar Enterprise (PBE). The Enterprise was established as a state agency in 1954, initially to undertake construction of the port facilities at Bar and, upon the completion of the construction in 1966, to operate the port. Today it has evolved into an autonomous, self-managing port enterprise, operating one of Yugoslavia's principal ports on the Adriatic coast, hitherto serving the area within and around Montenegro. Following the completion of the Belgrade-Bar railway, its service area will dramatically expand, encompassing industrial centers in eastern and southern Yugoslavia, and by 1980 the traffic through the port is expected to have increased fourfold.

38. PBE is characterized by the normal Yugoslav concept of workers' self-management. The policy making body is a Workers' Council elected by all personnel, which appoints the general manager as chief executive. The enterprise comprises five units dealing with operations, maintenance, construction, administration-finance-marketing and general services. Each unit has a large degree of autonomy in regulating its own affairs which are coordinated by the Workers' Council. Senior management personnel are qualified and experienced, but staff at the middle management levels are less experienced.

39. In view of the proposed expansion of PBE's operations after the completion of the project, its management has decided to bring its structure and operating procedures more in line with those of a larger scale operation. The measures being implemented toward this end will increase the delegation of authority and more clearly identify operational responsibilities. One of the immediate requirements is to improve the management information system. PBE has employed a Yugoslav consulting firm to help improve its accounting system and is in the process of implementing the consultants' interim recommendations to improve its costing procedures and budgetary control. PBE has agreed to continue to employ accounting consultants, acceptable to the Bank, to help complete the implementation of satisfactory cost accounting and management information systems, including procedures for setting tariffs (Loan Agreement, Section 4.05 (a)). PBE has also agreed to employ consultants to help to improve cargo handling procedures and, in view of the planned increase of labor force from the present 560 to some 1,500 in 1980, consultants to help devise an appropriate training program in operational procedures (Loan Agreement, Section 4.05 (b)).

PART IV - THE PROJECT

40. When the Bank agreed in 1968 to assist in construction of the Belgrade-Bar railway line (Loan 531-YU), the Federal Government undertook to begin an expansion program for the port of Bar to cater for expansion of the traffic consequent upon the completion of the railway line, now expected in 1976. The proposed project, which would provide for the necessary expansion, was prepared by PBE with assistance from consultants. Following several Bank missions to help in project preparation, a mission visited

Yugoslavia in January 1973 to review the feasibility study and the project was appraised in December 1973. Due to delays in finalizing the financing plan, two follow-up missions were undertaken earlier this year. Negotiations were held during September 1974 in Washington, D.C. The Yugoslav delegation was led by Mr. Gavra Popovic, Assistant Federal Secretary for Finance, and included representatives of the Federal Government, Republican Government of Montenegro, Investment Bank of Titograd, the Borrower and the Railway Transport Enterprise (RTE) - Belgrade (the Sub-Borrower).

Project Description

41. The proposed project represents a four-year slice (1974-1977) of PBE's investment program for 1974-1980 aimed at building the necessary port capacity to handle the traffic demand after the opening of the Belgrade-Bar railway. The program envisages an investment in port facilities of US$76.5 million, providing for the expansion of port capacity fourfold by 1980, i.e. from the present 1.2 million tons to about 5.0 million tons, made up of 3.0 million for dry bulk cargo, 1.5 million for general cargo and 0.5 million for liquid cargo.

42. The loan and project are summarized in Annex III and the project is described in detail in the Appraisal Report entitled "Appraisal of the Port of Bar, Yugoslavia" dated November 8, 1974, which is being distributed separately to the Executive Directors. The project consists of:

(a) Port Facilities

(i) expropriation of and compensation for about 250 houses on the land to be developed

(ii) construction of a hostel for about 500 single workers and apartments for about 250 workers with families

(iii) completion of the dry bulk cargo wharf under construction, construction of two general cargo berths, extension of the passenger ferry facilities, dredging, and provision of railway facilities, water supply and other services in the port area

(iv) construction of transit and storage sheds, grain silos and edible oil tanks

(v) procurement and installation of portal and mobile cranes, transporter bridges, fork-lift trucks, tractors, trailers and tug boats

(vi) a program to improve PBE's management, financial control, and accounting system witth the assistance of consultants

(b) Railway Facilities: construction of reception and dispatch yards outside the port area, and of sidings for the distribution and marshalling of wagons outside the customs area.

Detailed design is expected to start shortly before the end of 1974 and the project construction would begin in the first quarter of 1975. The project would be completed by December 31, 1977. The dry bulk cargo handling facilities are scheduled to be available in the first quarter of 1976 in time for operation of the Belgrade-Bar railway. The remaining works would be completed by the end of 1977, in step with the expected build-up of general cargo traffic.

Project Execution

43. PBE would be responsible for the execution of the port component of the project. The overall responsibility for planning, coordination, and supervision of project implementation lies with PBE's Project Management Group (PMG) which was recently established to assist the general manager. In order to strengthen this group, PBE has recruited additional qualified staff and has also agreed to employ design consultants to assist in detailed engineering and in preparation of bid documents (Loan Agreement, Section 3.03). In view of the urgent need for the services of design consultants and management - accounting consultants (para 39), it is recommended that the Bank finance retroactively expenditures incurred from January 1, 1974 for these consultants' services, up to US$100,000.

44. RTE Belgrade, which is constructing the Belgrade-Bar railway under the Bank assisted project (Loan 531-YU), will construct, manage and operate the proposed railway investments under the project. PBE would enter into a Subsidiary Loan Agreement with RTE Belgrade for relending a portion of the loan to the latter for the construction of the railway facilities. The ratification of this agreement would be a condition of effectiveness (Loan Agreement, Recital N, and Section 7.01). Since most of the traffic through the port is expected to travel along the Belgrade-Bar railway, it is essential that the port and railway operations are closely coordinated. Therefore, PBE and RTE-Belgrade have agreed to ensure continuous coordination between the port and railway operations, including joint review of projected traffic (Loan Agreement, Section 3.02 (b) and Subsidiary Loan Agreement, Section 3.04).

Expropriation

45. The proposed expansion of the port facilities would involve expropriation of land and resettlement of some 250 families. Although the city of Bar would provide the necessary land for resettlement, PBE is responsible for negotiating the acquisition of land and for the provision of appropriate compensation. PBE has made satisfactory plans for expropriation and adequate provision for compensation: all the land is scheduled to be acquired by the end of 1974.

Project Cost and Financing

46. The total cost, including interest during construction (US$6.0 million), is estimated at US$78.0 million with a foreign exchange component of US$36.9 million (about 47 percent of the total). Port facilities account for

US$67.8 million of the total cost and the railway facilities US$10.2 million. Price contingencies assume annual price increases of 12, 10 and 8 percent for the foreign exchange cost and 20, 16 and 10 percent for the local cost in 1975, 1976 and 1977, respectively.

47. The proposed Bank loan of US$44.0 million would finance 55 percent of the investment cost, including about US$7.1 million of local costs, and US$4.6 million for interest on the Bank loan during construction. The proposed investment is more than thirty times the size of PBE's current operating revenues and PBE is not expected to generate sufficient funds to pay interest during the construction period. The balance of the local costs for the port would be financed as follows: grants from the Governments of Serbia and Montenegro US$10.5 million, loans from the Investment Bank of Titograd (IBT) and the Federal Directorate for Reserves of Food Stuffs (the Directorate) US$17.0 million and PBE's internally generated funds US$2.0 million. For the railways, RTE Belgrade would finance the balance of US$4.5 million and has agreed to guarantee cost overruns (Loan Agreement, Recital (M) and Subsidiary Loan Agreement, Section 3.03 (b)). IBT would guarantee cost overruns for the port facilities. The Serbian and Montenegrin Governments have agreed to make their respective grants and local loan agreements between PBE, IBT and Directorate, all in form and substance satisfactory to the Bank, are about to be executed. Authorization or ratification of all of these agreements would be conditions of loan effectiveness (Loan Agreement, Section 7.01).

Procurement

48. Procurement would be on the basis of international competitive bidding in accordance with Bank Group's "Guidelines for Procurement". The major infrastructure, service and storage items would be procured through civil works contracts and wharf cranes, bulk handling equipment, mobile mechanical handling equipment and tug boats, each with an initial stock of spare parts, through supply contracts. Most equipment financed under the Bank loan would be procured from abroad. For the purpose of bid comparison, a preference of 15 percent of the CIF landed price of imported goods or the actual custom duty, whichever is lower, would be given to local manufacturers who qualify as preferred bidders. There are competent contractors for civil and marine works in Yugoslavia. It is therefore doubtful whether overseas contractors would be interested, even in the larger contracts , except possibly in joint ventures with Yugoslav contractors. Prequalification of bidders would be desirable to confine bidding to reliable and experienced contractors. PBE has agreed that prequalification would be applied for all civil works contracts estimated to cost more than US$3.0 million. Experienced foreign suppliers and contractors are well represented in Yugoslavia and local competitive bidding would apply for works contracts under US$1.0 million and supply contracts under US$200,000.

Disbursement

49. Disbursement is expected to start early in 1975, except for technical assistance. For port facilities, disbursement would be made on the basis of: (i) 100 percent of the CIF landed cost of imported goods or of the ex-factory prices for goods procured locally; (ii) 100 percent of the foreign exchange cost of consulting services; (iii) 100 percent of interest during construction

on the Bank loan; and (iv) 57 percent of applicable civil works contracts. The Bank would not disburse for land acquisition, accommodation (hostel and apartments), or dredging, which are governed by local regulations or are the continuation of existing contracts. For railway facilities the Bank would disburse 55 percent of all expenditures and 100 percent of interest during construction on the Bank loan. The disbursement schedule on the Bank loan is given in Annex III. Any surplus funds in the loan account after the project has been completed would be cancelled. As recommended in para 43, disbursement would be made for up to US$100,000 against expenditures incurred after January 1, 1974 for consultants' services.

Environment

50. The proposed expansion of the port is in accordance with the general zoning plan of the Commune of Bar. PBE had an environmental study carried out in connection with the project and is taking measures to prevent possible coastal and marine pollution through bilge water discharge and oil spill. The project is not expected to have any adverse effects on the existing environment.

Financial Position

51. PBE's financial results for 1971 and 1972 showed small operating losses due to the low level of traffic relative to the capacity and also to poor operating procedures. During the construction period and in the subsequent years when traffic will rise dramatically, earnings are expected to increase significantly; first until 1976 due to initial traffic increase and improvement of operating procedures, and after 1978 when the assets under the project would be used to capacity. The operating ratio will improve from 85 percent in 1973 to 64 percent in 1976 and 57 percent in 1980. Interest and debt service ratios would be satisfactory reaching 2.8:1 times and 2:1 times, respectively, in 1976 and 1980 and the rate of return on average net fixed assets will rise from 2.3 percent in 1973 to 8.7 percent in 1976 and 9.8 percent in 1980. However, these projections assume, and PBE has agreed to ensure, that depreciation would be charged on breakwaters and wharves starting January 1, 1976 (Loan Agreement, Section 5.04). Expected debt/equity ratios would be acceptable, reaching 53:47 in 1978 and declining to 48:52 in 1980.

52. PBE plans to invest an additional US$14.5 million between 1978 and 1980 to meet the projected traffic demand after 1980. On the basis of the financial projections, it will be able to finance, out of its revenues, all but US$3.3 million of the planned investment. PBE has agreed that it would achieve an operating ratio of not more than 70 percent by 1976 (Loan Agreement, Section 5.06), and that tariffs would be set at a level which would enable PBE to earn a minimum rate of return on its average fixed assets of 4 percent between the year following the opening of the Belgrade-Bar line and 1980, and a minimum rate of 8 percent thereafter (Loan Agreement, Section 5.07). It was also agreed that PBE would not incur any additional long-term debt unless its net income for the fiscal year is at least 1.5 times the maximum debt service requirements of any succeeding year on all its long-term debt, including the debt to be incurred (Loan Agreement, Section 5.05), and that

during the period through 1980 it would not undertake any investments other than those envisaged in the 1974-80 program, except for small items not exceeding US$400,000 annually (Loan Agreement, Section 4.07).

Tariffs

53. PBE's tariffs have generally been lower than those of Rijeka and Koper by 10-15 percent, reflecting the weaker competitive position of the former. However, after 1976 when opening of the Belgrade-Bar railway will substantially increase traffic at Bar, PBE's improved competitive position would enable it to charge the level of tariffs comparable to those of Rijeka and Koper. On this assumption the requirements in the rate covenant (para. 52) are realistic. The present tariff structure of PBE does not fully reflect costs, partly because of the lack of adequate cost information. This is being studied (see para 39) and PBE has agreed that a cost based tariff structure would be prepared before January 1, 1976, for review with the Bank prior to its implementation (Loan Agreement, Section 5.08).

Justification

54. Linking the port of Bar and the Belgrade-Bar railway line would achieve an important objective of transport policy to connect the mountainous and relatively isolated regions of the south western Yugoslavia with more industrialized areas to the north and east. It would also provide the industrial centers in Serbia and Vojvodina with closer access to a major sea port in Yugoslavia. The opening of the Belgrade-Bar railway is expected to facilitate economic and social development of the traffic zone along the line. The proposed expansion of port of Bar under the project, represents the least cost solution to meet the projected traffic demand consequent upon the opening of the Belgrade-Bar railway.

55. The quantifiable benefits of the project would consist primarily of savings in overland transport cost for goods imported to and exported from eastern Yugoslavia, savings in port operating costs, and net revenues from transit traffic. It is estimated that by 1980 users' financial savings would amount to about US$6.6 million per year, equivalent to one-third of the average cost of inland transport to the northern Adriatic ports. The project would have an economic rate of return of 13 percent. The project would create employment for about 800 for port workers in Montenegro, one of the less-developed regions in Yugoslavia. Improvements in PBE's financial position through the project would also raise the wage levels of the port workers.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

56. The draft Loan Agreement between the Bank and the Port of Bar Enterprise, draft Subsidiary Loan Agreement between the Port of Bar Enterprise and the Railway Transport Enterprise, Belgrade, the draft Guarantee Agreement between the Socialist Federal Republic of Yugoslavia and the Bank, the

Report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement and the text of a draft resolution approving the proposed loan are being distributed to the Executive Directors separately.

57. Features of the Loan and Guarantee Agreements of special interest are referred to in paragraphs 44, 47, and 52 of this Report.

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

PART VI - RECOMMENDATIONS

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

Robert S. McNamara
President
by
I.P.M. Cargill

Attachments

COUNTRY DATA - YUGOSLAVIA

AREA
255,804 km²

POPULATION
20.540 million (mid-1970)

DENSITY
202 persons per km² of arable land

SOCIAL INDICATORS

	Yugoslavia 1960	Yugoslavia 1970	Reference Countries: Portugal 1970	Romania 1970	F.R.Germany * 1970
GNP PER CAPITA US$ (ATLAS BASIS) /1	375	730 /r	730 /r	740 /a	3,210 /r
DEMOGRAPHIC					
Crude birth rate (per thousand)	24	18	18	21	13.3
Crude death rate (per thousand)	10	9	10	10	11.6
Infant mortality rate (per thousand live births)	88	56	58	49	23.5
Life expectancy at birth (years)	62	65	67 /b,c	69	69.4
Gross reproduction rate /2	1.3	1.3	1.5 /b,c	0.9 /d	1.2
Population growth rate /3	1.2	1.0	0.9	1.0	1.0
Population growth rate - urban	5 /e	3 /r	..	3 /f	..
Age structure (percent)					
0-14	31	28	28.3 /r	26 /d	23.0 /r
15-64	63	64	62.5 /r	66 /d	63.6 /r
65 and over	6	8	9.2 /r	8 /d	13.4 /r
Dependency ratio /4	0.9 /h	0.8 /h	1.1 /g,h	0.7 /d	0.8 /g
Urban population as percent of total	28 /e	35 /e	..	41 /f	38.4 /d
Family planning: No. of acceptors cumulative (thous.)	..	..	..	..	..
No. of users (% of married women)	..	..	..	..	..
EMPLOYMENT					
Total labor force (thousands)	8,300	9,600 /af	3,400 /i	9,900	26,800 /g,j
Percentage employed in agriculture	57	52	36.6 /i	49	8.2 /g,j
Percentage unemployed	7 /n	8	..	0	0.8 /g,j
INCOME DISTRIBUTION					
Percent of national income received by highest 5%	17 /k,l	15 /l,m	..	24 /o	..
Percent of national income received by highest 20%	41 /k,l	42 /l,m	..	..	..
Percent of national income received by lowest 20%	7 /k,l	7 /l,m	..	6 /p	..
Percent of national income received by lowest 40%	19 /k,l	19 /l,m	..	..	..
DISTRIBUTION OF LAND OWNERSHIP					
% owned by top 10% of owners	..	..	..	..	..
% owned by smallest 10% of owners	..	..	..	..	..
HEALTH AND NUTRITION					
Population per physician	1,400 /n	1,010	1,100	840 /i	580
Population per nursing person	500 /n,q	370 /r	900 /r	200	330 /r
Population per hospital bed	190 /n	180	160	120	90
Per capita calorie supply as % of requirements /5	119 /s	125 /m	117	110	120 /t
Per capita protein supply, total (grams per day) /6	91 /s	92 /m	82	82	83 /t
Of which, animal and pulse	27 /s	29 /m	40	28	56 /t
Death rate 1-4 years /7	4.7 /n	2.6 /m	..	3 /d	..
EDUCATION					
Adjusted /8 primary school enrollment ratio	91	94	95	107 /d	132
Adjusted /8 secondary school enrollment ratio	34	45	65	62 /d	61
Years of schooling provided, first and second level	12	12	13	12-14	12-16
Vocational enrollment as % of sec. school enrollment	72	72	32	58 /u	48
Adult literacy rate %	77	85	..	..	99 /v,w
HOUSING					
Average No. of persons per room (urban)	4.5 /x,y	4.1 /x,y	..	1.3 /z	0.7 /c
Percent of occupied units without piped water	55 /aa	37 /aa	..	48 /z	1 /ab
Access to electricity (as % of total population)	94 /ac	98 /ac	..	49 /z,ac	99 /ac
Percent of rural population connected to electricity	..	..	..	27 /z,ad	..
CONSUMPTION					
Radio receivers per 1000 population	84	164	142	152	318
Passenger cars per 1000 population	3	35	60	..	270
Electric power consumption (kwh p.c.)	525 /ae	1,288	768	1,615	4,067
Newsprint consumption p.c. (kg per year)	2.3	4.3	4.6	2.8	17.5

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1956-60 or 1966-70; the latest years in principle to 1960 and 1970.

/1 The Per Capita GNP estimate is at market prices for years other than 1960, calculated by the same conversion technique as the 1972 World Bank Atlas.

/2 Average number of daughters per woman of reproductive age.

/3 Population growth rates are for the decades ending in 1960 and 1970.

/4 Ratio of under 15 and 65 and over age brackets to those in labor force bracket of ages 15 through 64.

/5 FAO reference standards represent physiological requirements for normal activity and health, taking account of environmental temperature, body weights, and distribution by age and sex of national populations.

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

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

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

/a In 1971 US$ converted at the rate of 20 lei per US$; /b 1965-70; /c UN estimate; /d 1969; /e For the definition of urban see UN Demographic Yearbook 1972, page 157; /f Cities, towns and 183 other localities having urban socio-economic characteristics; /g 1971; /h Ratio of population under 15 and 65 and over to total labor force; /i Estimate; /j Estimate based on the results of a labor force sample survey; /k 1963; /l Households; /m 1968; /n 1962; /o Percent of salaried workers earning less than 1,100 lei; /p Percent of salaried workers earning more than 2,500 lei; /q Include midwives, assistant midwives and assistant nurses; /r Includes midwives; /s 1960-62; /t 1969-70; /u Full-time education; /v 15 years and over; /w Definition not available; /x Data refer to dwellings; /y Urban and rural; /z 1966; /aa Urban units only; /ab Percentage of dwellings without piped water inside; /ac Percentage of dwellings with electrical lighting; /ad Percentage of rural dwellings with electrical lighting; /ae 1961; /af including workers abroad

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

A.M. R5 October 16, 1974

YUGOSLAVIA - ECONOMIC DEVELOPMENT DATA SHEET
(amounts in millions of U.S. dollars)

NATIONAL ACCOUNTS	Actual 1965	Actual 1970	Actual 1972	Projected 1973	Projected 1974	Projected 1979	1960-1965	1965-1970	1970-1975	1974-1979	1960	1970	1979
	3-Year Averages at 1967-1969 Prices & Exchange Rates						Average Annual Growth Rate				As Percent of GDP		
Gross Domestic Product	9543	12033	13570	14455	15539	22308	6.2	4.7	6.8	7.5	100.6	100.1	99.7
Gains from Terms of Trade (1/)	- 7	- 13	- 18	- 28	- 19	69	-29.0	12.5	.	.	- .6	- .1	-0.3
Gross Domestic Income	9536	12020	13553	14426	15520	22376	6.3	4.7	6.8	7.6	100.0	100.0	100.0
Imports (incl. NFS)	1626	2800	3154	3267	3571	6175	8.7	11.5	7.4	11.6	15.3	23.3	27.6
[illegible] Imports Capa)	-1522	-2209	-2533	-2696	-2863	-4876	13.1	7.7	7.7	11.2	-11.7	-18.4	-21.8
[illegible]	104	591	622	571	709	1300	-16.1	41.4	6.3	12.9	3.6	4.9	5.8
Consumption Expenditure	6539	8843	9680	10081	10863	15712	4.9	6.2	5.7	7.7	73.3	73.6	70.2
Investment (incl. stocks)	3101	3768	4495	4916	5366	7964	7.8	4.0	9.1	8.2	30.2	31.3	35.6
Domestic Savings	2997	3178	3873	4345	4658	6664	9.8	1.2	9.6	7.4	26.7	26.4	29.8
National Savings	3043	3535	4543	5060	5376	7472	9.2	3.0	10.2	6.8	27.9	29.4	33.1
MERCHANDISE TRADE	Annual Data at Current Prices										As Percent of Total		
Imports													
Capital goods	256	615	685	891	1032	1724	1.6	19.2	14.0	10.8	28.5	21.3	16.9
Intermediate goods (excl. fuel)	728	1678	1867	2422	2522	5324	11.4	18.2	13.0	16.1	51.3	58.4	52.2
Fuels and related materials	72	138	176	314	1010	1572	9.9	13.9	49.0	9.2	5.4	4.8	15.4
of which: Petroleum	(32)	(99)	(161)	(259)	(927)	(1420)	(2.7)	(25.3)	(57.0)	(9.3)	(3.3)	(3.4)	(13.9)
Consumption goods	232	443	505	655	760	1568	13.9	13.8	14.4	15.6	14.0	15.4	15.5
Total Merch. Imports (c.i.f.)	1288	2874	3235	4282	5324	10188	9.3	17.4	16.7	17.6	100.0	100.0	100.0
Exports													
Primary products (excl. fuels)	322	610	752	821	949	1701	8.9	13.6	11.1	12.5	37.1	36.4	31.5
Fuels and related materials	11	20	18	20	20	20	6.6	12.7	-	-	1.4	1.2	0.4
of which: Petroleum	(10)	(12)	(9)	(13)	(13)	(13)	(27.1)	(3.8)	(-)	(-)	(0.5)	(0.7)	(0.2)
Manufactured goods	758	1045	1467	1576	1819	3668	16.8	6.6	15.0	15.0	61.5	62.4	68.1
Total Merch. Exports (f.o.b.)	1091	1675	2237	2420	2791	5392	14.0	9.0	13.6	14.0	100.0	100.0	100.0
Tourism & Border Trade	81	275	463	526	620	1358	42.0	28.0	22.5	17.0			
VALUE ADDED BY SECTOR 1/	Annual Data at 1967-69 Prices and Exchange Rates												
Agriculture	2008	2221	2322	2453	2590	3340	4.3	2.0	3.9	5.2	28.4	18.6	15.0
Industry	3648	4777	5477	5930	6422	9576	10.7	5.5	7.7	8.4	32.6	40.0	43.0
Service	3771	4944	5624	6046	6499	9353	7.5	5.6	7.1	8.0	39.0	41.4	42.0
Total	9427	11942	13423	14429	15511	22269	7.0	4.8	6.8	7.5	100.0	100.0	100.0
PUBLIC FINANCE 2/											As Percent of GDP		
Current Receipts	..	4272	4573	4871	5237	7513	..	..	5.2	7.5	..	35.5	33.7
Current Expenditure	...	3742	4112	4380	4708	6759	..	..	5.9	7.5	...	31.1	30.3
Budgetary Savings	..	530	461	491	529	759	..	..	1.4	7.5	..	4.4	3.4
Other Public Sector	..	-	-	-	-	-	..	..	-	-	..	-	-
Public Sector Investment	..	530	461	491	529	759	..	..	1.4	7.5	..	4.4	3.4

CURRENT EXPENDITURE DETAILS (As % Total Current Expend.)	Actual 1965	Actual 1970	Actual 1971	Actual 1972	Est. 1973
Education	..	18.4	17.7	18.1	18.0
Other Social Service	..	8.4	8.8	8.1	3.4
Agriculture	..	0.2	0.2	0.1	0.1
Other Economic Services	..	8.8	5.8	6.2	8.5
Defense / Administration & Other	..	64.2	59.4	67.4	69.0
Total Current Expenditures	..	100.0	100.0	100.0	100.0

DETAIL ON PUBLIC SECTOR INVESTMENT PROGRAM 3/	At 1967-69 PSER Last Plan (1968-70)	At 1967-69 PSER New Plan (1971-75)	As Percent Total Last Plan (1968-70)	As Percent Total New Plan (1971-75)
Social Sectors	..	..	..	..
Agriculture	..	..	..	..
Industry and Power	..	..	..	..
Transport & Communications	..	..	..	..
Other	..	..	..	..
Total Expenditures	..	..	..	..
FINANCING				
Public Sector Savings	..	..	..	..
Domestic Borrowing (net)	..	..	..	..
Foreign Borrowing (net)	..	..	..	..
(ditto in current U.S.$)	..	..	..	..
Total Financing	..	..	..	..

SELECTED INDICATORS (calculated from 3-year averaged data)	1960-1965	1965-1970	1970-1975	1974-1979
Average ICOR	5.4	6.6	4.3	4.7
Import Elasticity	1.3	2.2	1.6	1.6
Marginal Domestic Savings Rate	.46	.04	.27	.29
Marginal National Savings Rate	.45	.14	.32	.30

LABOR FORCE AND OUTPUT PER WORKER	Total Labor Force 5/ In Mill. 1960 4/	In Mill. 1970 4/	% Total 1960	% Total 1970	1960-1970 Growth Rate	Value Added Per Worker (1967-69 Prices & Exch. Rates) 4/ In U.S. Dollars 1960	In U.S. Dollars 1970	% of Average 1960	% of Average 1970	1960-1970 Growth Rate
Agriculture	4.69	3.93	56	47	-1.7	428	565	50.5	39.2	2.8
Industry	1.46	1.89	18	23	2.6	1579	2527	186.4	175.5	4.8
Services	1.36	1.80	16	22	2.8	1259	2001	149.6	139.0	4.7
Other (incl. unemployed)	.83	.67	10	8	-2.0					
Total	8.34	8.29	100	100	- .1	847	1440	100.0	100.0	5.5

. not applicable
.. not available
1/ GDP at market prices
2/ Federal regional and local governments, plus specialized funds.
3/ Due to decentralization the public sector only plays a residual role in carrying out investment. Socialist self managing enterprises are the prime agents for implementing investment plans.
4/ Based on data for 1961 and 1971.
5/ Excluding workers abroad (most of whom come from the agriculture sector)

Europe, Middle East and North Africa Region
October 16, 1974

YUGOSLAVIA - BALANCE OF PAYMENTS, EXTERNAL AND DEBT PROJECTIONS

(amounts in millions of U.S. dollars at current prices)

	Actual				Estimated	Projected						Avg. Annual Growth Rate
	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1974-1979
SUMMARY BALANCE OF PAYMENTS												
Exports (incl. NFS)	2134	2489	2722	3315	3963	4351	5029	5791	6633	7581	8660	15.0
Imports (incl. NFS)	2405	3220	3740	3790	4816	6033	6800	7651	8747	9982	11360	13.5
Resource Balance (X-M)	-271	-731	-1018	-475	-853	-1682	-1770	-1860	-2114	-2401	-2700	.
Interest (net)	- 90	-109	-128	-148	- 182	- 234	- 240	- 249	- 256	- 279	- 314	6.0
Direct Investment Income	-	- 1	- 2	- 3	- 3	- 8	- 14	- 23	- 34	- 46	- 59	49.0
Workers' Remittances	206	440	652	889	1170	1240	1315	1393	1477	1566	1660	6.0
Current Transfers (net)	45	61	140	152	78	88	98	110	123	138	155	12.0
Balance on Current Account	-110	-340	-356	415	210	- 596	- 612	- 628	- 804	-1022	-1268	.
Private Direct Investment	5	10	20	30	50	75	100	130	150	150	150	14.9
Official Capital Grants	-	-	-	-	-	-	-	-	-	-	-	-
Public M&LT Loans												
Disbursements	206	210	275	340	585	711	555	581	527	540	538	-4.5
- Repayments	155	-135	-131	-200	-291	-341	-452	-472	-454	-384	-343	0.0
Net Disbursements	51	75	144	140	294	370	103	109	72	154	195	-8.9
Other M&LT Loans												
Disbursements	313	469	723	732	665	807	975	1143	1485	1829	2200	30.0
- Repayments	-109	-205	-391	-494	-539	-618	-648	-717	-877	-1098	-1253	15.1
Net Disbursements	205	264	332	238	126	189	327	425	608	731	947	.
Capital Transaction n.e.i.	- 72	- 99	-206	- 20	70	- 38	- 82	- 36	26	- 14	- 24	6.8
Change in Net Reserves	- 78	90	66	-804	-750	0	0	0	0	0	0	.
GRANT AND LOAN COMMITMENTS												
Official Grants and Grant-like	-	-	-	-	-							
Public M&LT Loans 1/												
IBRD	30	99	110	83	100							
IDA	-	-	-	-	-							
Other	-	-	-	-	-							
Other Multilateral	-	-	-	-	-							
Governments	77	30	130	875	145							
Suppliers	8	31	13	-	-							
Financial Institutions	11	12	-	-	-							
Bonds	-	-	-	-	-							
Public Loans n.e.i.	-	-	1	-	-							
Total Public M&LT Loans	126	172	254	958	245							

DEBT AND DEBT SERVICES	1969	1970	1971	1972	Est. 1973
Public Debt Out. & Disbursed	1196	1216	1355	1729	2023
Interest on Public Debt	53	72	52	63	92
Payments on Public Debt	160	169	131	155	291
Total Public Debt Service	213	242	183	218	383
Other Debt Service (net)	146	243	468	550	882
Total Debt Service (net)	359	484	652	768	1265
Burden on Export Earnings (%)					
Public Debt Service	8.9	8.1	5.2	5.0	7.8
Total Debt Service	15.0	16.2	18.5	17.6	19.4
TDS+Direct Investment Inc.	15.0	16.2	18.5	17.7	19.5
Convertible Debt Service Ratio 2/	23.6	24.9	24.3	25.2	25.0
Average Terms of Public Debt					
Int. as % Prior Year DO&D	4.6	6.0	4.3	3.9	5.3
Amort. as % Prior Year DO&D	13.9	14.2	10.8	17.3	16.8
IBRD Debt Out. & Disbursed	216	244	277	316	368
IBRD as % Public Debt O&D	18.1	20.0	20.4	18.3	18.2
IBRD as % Public Debt Service	8.5	9.5	14.6	10.5	9.0
IDA Debt Outstanding & Disbursed	-	-	-	-	-
IDA as % Public Debt O&D	-	-	-	-	-
IDA as % Public Debt Service	-	-	-	-	-

ACTUAL AND PROJECTED EXTERNAL DEBT:	Actual Debt Outstanding on Dec. 31, 1972 Disb. Only	Percent
World Bank	316	8.9
IDA	-	-
Other Multilateral	7	0.2
Governments	859	24.2
Suppliers	187	5.3
Financial Institutions	339	9.5
Bonds	19	0.5
Public Debts n.e.i.	2	0.1
Total Public M&LT Debt	1729	48.7
Other M&LT Debt (Non-Public Debt)	1822	51.3
Total M&LT Debt	3551	100.0

. not applicable.
- nil or negligible.
1/ Excluding loans repayable in domestic currency.
2/ Debt service in convertible currency over convertible foreign exchange earnings.

Europe, Middle East and North Africa Region
October 16, 1974

THE STATUS OF BANK GROUP OPERATIONS IN YUGOSLAVIA

A. STATEMENT OF BANK LOANS (as at September 30, 1974)

Number	Year	Borrower	Purpose	US$ million Amount (less) cancellations) Bank	Undisbursed
Twelve Loans fully disbursed				326.2	
531	1968	Yugoslav Investment Bank	Railways	50.0	2.4
654	1970	Yugoslav Investment Bank	Industry	18.5	0.1
657	1970	Yugoslav Investment Bank	Telecommunications	40.0	7.8
678	1970	SFRY	Roads	40.0	8.9
751	1971	SFRY	Roads	35.0	15.6
752	1971	Hotel "Bernardin", Piran	Tourism	10.0	9.0
777	1971	SFRY	Multi-purpose Water	45.0	41.1
782	1971	"Babin Kuk" Hotelsko Turisticki Centar, Dubrovnik	Tourism	20.0	18.0
836	1972	Eleven Electric Power Enterprises in Yugoslavia	Power	75.0	65.1
894	1973	Stopanska Banka, Skopje	Agricultural Industries	31.0	28.4
916	1973	Naftagas	Gas Pipeline	59.4	58.7
947	1973	Kikinda	Iron Foundry	14.5	11.9
965	1974	IMT	Tractor Factory	18.5	18.1
966	1974	FOB	Iron Foundry	15.0	14.9
990*	1974	Bosnia-Herzegovina Road Fund	Roads	30.0	30.0
1012*	1974	Stopanska Banka, Skopje	Industrial Credit	28.0	28.0
1013*	1974	Privredna Banka, Sarajevo	Industrial Credit	22.0	22.0
1026*	1974	Community of Yugoslav Railways	Railways	93.0	93.0
		Total (less cancellation)		971.7	473.0
		of which has been repaid		103.5	
		Total now outstanding		868.2	
		Amount sold	7.7		
		of which: Amount repaid	6.1	1.6	
		Total now held by Bank		866.6	
		Total undisbursed			473.0

* Not yet effective.

B. STATEMENT OF IFC INVESTMENTS (as at September 30, 1974)

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	Zavodi Crvena Zastava Fiat S.P.A.	Automotive Industry	5.0	8.0	13.0
1971	Tovarna Automobilov in Motorjev Maribor (TAM)/Klockner-Humboldt Deutz A.G. (KHD)	Automotive Industry	7.5	2.1	9.6
1972	FAP-FAMOS Belgrade/Daimler Benz A.G.	Automotive Industry	12.5	2.8	15.3
1972	Sava/Semperit	Tires	4.0	1.5	5.5
1973	Belisce/Bell	Pulp and Paper	13.0	-	13.0
1974	Zelezarna Jesenice/ARMCO	Special Steel	10.0	-	10.0
1974	Salonit Anhovo	Cement Plan	10.0	-	10.0
	Total Gross Commitments		61.5	16.2	77.7
	less cancellations, terminations repayment and sales		10.2	2.2	12.4
	Total Commitments held by IFC		51.3	14.0	65.3
	Total Undisbursed		32.8	5.95	38.75

C. PROJECTS IN EXECUTION [1/]

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

The completion of this project was originally scheduled for 1973 but geo-technical and other construction difficulties in mountainous terrain are expected to delay operation of the line at least until 1976. The Closing Date has been postponed from December 31, 1973 to December 31, 1975.

As a result of inflation and cost overruns, the total project cost has increased from $225.5 million to $290.0 million. There is at present a financing gap of about $35 million. The Federal Government and the Republican Governments of Serbia and Montenegro have already taken some measures to close this gap so that financing for all the works to be carried out in 1974, as well as part of works in 1975, is identified. The necessary financing for the balance of work to complete the project is expected to be secured in the course of this year.

Loan 654 Industrial Projects - 1970: US$18.5 million Loan of January 1970; Closing Date: July 31, 1974.

All three sub-projects under the loan have been substantially completed. The Closing Date was postponed from June 30 to December 31, 1973, to allow payments of 10 percent retention money under already concluded contracts of Crvena Zastava and Sisak, and a second time on December 28, 1973 by seven months to July 31, 1974, to allow final disbursements of guaranteed payments. The disbursements have been substantially completed and the remaining balance is expected to be cancelled shortly.

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

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

1/ These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

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

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

Inflation and the delays in starting construction caused an increase over the appraisal cost estimate of about 10 percent. On the basis of a revised cost estimate of construction work in January 1973 the disbursement percentage was revised from 43 to 40 percent, effective March 1, 1973. Disbursement is proceeding in line with the revised projection.

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

After a delay of about eight months in fulfilling the conditions for effectiveness of the loan, construction work is now making satisfactory progress on all sections. A 10 percent increase in the appraisal cost estimate is expected, and the disbursement percentage will be revised on the basis of more accurate revised cost estimates. Disbursements under the loan are about one year behind the appraisal estimate.

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

There have been delays in implementation of the project due to delays in making the loan effective, appointing consultants, providing the necessary infrastructure and approvals by local authorities. As a result disbursements are behind schedule. Bids received in July 1974 indicate that the project, if it were to be implemented as originally envisaged (2,500 beds) would cost approximately US$55 million instead of US$24 million. This increase is mainly due to rapid inflation, but also to realignment in exchange rates. Only a project of at least 1,600 beds would be economically viable and this would require additional financing of US$16 million. The borrower is presently trying to secure these funds.

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

The start of project wok was delayed for one year. However, the responsible agency, the Ibar-Lepenac Enterprise, is now well established and good progress is being made in constructing the project. It should be possible to complete most of the project by the end of 1976 (i.e., one year later than originally planned). Disbursements are proceeding in line with the revised schedule.

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

There have been delays in the implementation of the project due to delays in making the loan effective and in mobilizing consultants. Accordingly disbursements are behind schedule. Although these problems have now been largely resolved, the project is almost two years behind schedule. Bids for civil works and estimates for other components indicate that the project would cost at least twice as much as originally estimated. This increase is largely due to rapid inflation and also to realignment in exchange rates. As only limited additional funds may be available, there is a need to reduce the scope of the project. The economic viability of a reduced project is presently under study.

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

The project execution is about one year behind schedule mainly because of coordination difficulties and inherent delays in reaching agreement among 12 borrowers. All main contracts have now been awarded and management consultants would also commence work in November 1974 to help improve planning, operation and management of the interconnected power system. Disbursements are proceeding in line with the revised schedule.

On July 10, 1974 an Accession and Amending Agreement was signed between the Bank and the eleven original borrowers, JUGEL and electric power enterprise OSIJEK, allowing the latter to become the twelfth borrower.

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

This loan became effective on November 28, 1973. A recent supervision mission found continued strong credit demand wih many credit applications already received. Stopanska Banka has already granted numerous small subloans and appraisals of several large subloans have been submitted to the Bank for approval. Disbursements are on schedule.

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

This loan became effective on March 22, 1974, after almost six months' delay. Bids received on pipes and equipment greatly exceeded appraisal estimates and civil works costs have increased so that project costs are now about 93 percent above the appraisal estimate. Additional local finance for civil works is being arranged but little additional foreign finance for pipes and equipment is available. The Bank is working with the Borrower to devise a reduced project.

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

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

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

This loan became effective on May 28, 1974, as scheduled. The implementation of the project is proceeding on schedule. Disbursements have just started.

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

This loan became effective on June 11, 1974 after two weeks delay. The implementation of the project is proceeding on schedule.

YUGOSLAVIA: HARBOR BAR PROJECT

Loan and Project Summary

Borrower:	Port of Bar Enterprise (PBE).
Guarantor:	Socialist Federal Republic of Yugoslavia.
Amount:	US$44 million, equivalent, in various currencies.
Beneficiaries:	PBE for US$38.3 million: US$5.7 million would be relent to the Railway Transport Enterprise (RTE)-Belgrade for the construction of the railway facilities.
Terms:	Amortization in 25 years, including a four-year grace period, with interest at 8 percent.
Relending Terms:	Same as the Bank lending terms.
Project Description:	The project comprises a four-year slice (1974-77) of Port of Bar Enterprise's investment plan for 1974-80 and would expand the port capacity from the present 1.2 million tons to 5.[illegible] million tons by 1980. The project includes:

(a) Port Facilities

(i) expropriation of and compensation for about 250 houses on the land to be developed.

(ii) construction of a hostel for about 500 single workers and apartments for about 250 workers with families.

(iii) completion of the dry bulk cargo wharf under construction, construction of two general cargo berths, extension of the passenger ferry facilities, dredging, and provision of railway facilities, water supply and other services within the port area.

(iv) construction of transit and storage sheds, grain silos and edible oil tanks.

(v) installation of portal and mobile cranes, transporter bridges, fork-lift trucks, tractors, trailers and tug boats.

(vi) a program to improve PBE's management, financial control, and accounting system with assistance of consultants.

(b) Railway Facilities: construction of reception and dispatch yards outside the port area and of sidings for the distribution and marshalling of wagons outside the customs area.

Estimated Cost (including interest during construction:

	US$ Million		
	Local Currency	Foreign Exchange	Total
I. Port Facilities			
Expropriation	3.7	1.2	4.9
Housing	4.5	1.4	5.9
Infrastructure	3.5	2.4	5.9
Services	5.3	3.4	8.7
Storages	4.8	4.7	9.5
Equipment	2.9	9.6	12.5
Technical Assistance	1.3	0.5	1.8
Sub-total	26.0	23.2	59.2
Contingencies:			
Physical	2.3	1.7	4.0
Prices	5.2	3.6	8.8
Sub-total Port	33.5	28.5	62.0
II. Railway Facilities	4.8	3.2	8.0
Contingencies:			
Physical	0.2	0.1	0.3
Prices	1.2	0.5	1.7
Sub-total Railways	6.2	3.8	10.0
III. Interest during Construction			
Port	1.4	4.4	5.8
Railway	-	0.2	0.2
	1.4	4.6	6.0
TOTAL	41.1	36.9	78.0

Financing Plan (including interest during construction):

Sources	Percent of US$ Million	Percent of Total Financing
I. Port Investment		
IBRD	38.3	48
Grants from Serbia and Montenegro	10.5	14
Matrez	2.7	4
Investment Bank of Titograd	14.3	18
PBE	2.0	3
	67.8	87
II. Railway Investment		
IBRD	5.7	7
RTE-Belgrade	4.5	6
	10.2	13
Total	78.0	100

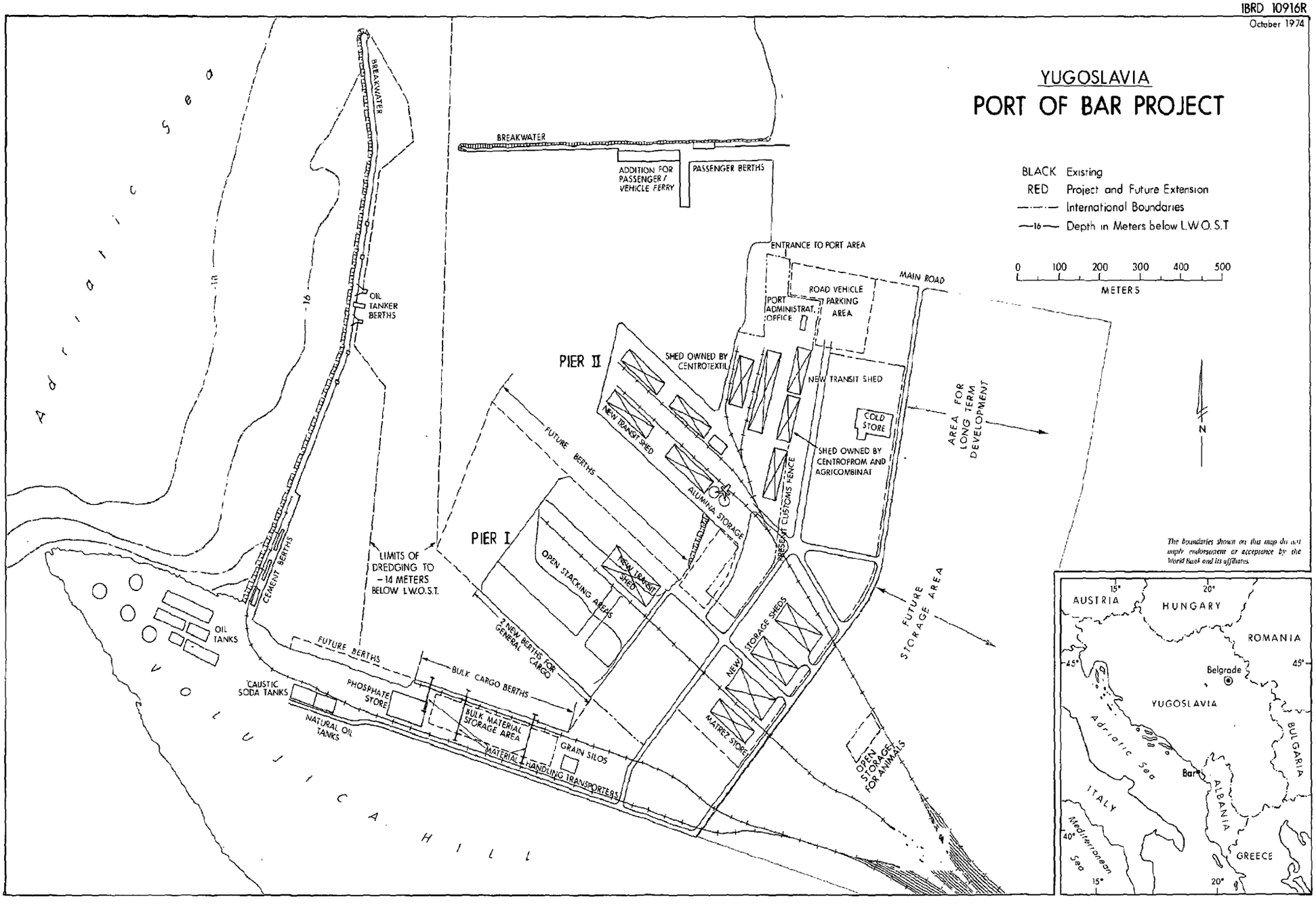
Estimated Disbursements:	Fiscal Year	Amount (US$ Million)
	1975	5.6
	1976	22.4
	1977	16.0

Procurement Arrangements: Procurement would be on the basis of international competitive bidding in accordance with Bank Group's "Guidelines for Procurement." The major infrastructure, service and storage items would be procured through civil works contracts and wharf cranes, bulk handling equipment, mobile mechanical handling equipment and tug boats each with an initial stock of spare parts through supply contracts. Most equipment financed under the Bank loan would be procured from abroad. Yugoslavia has no preference treaties and bids would be compared on a CIF basis net of customs duties. For the purpose of bid comparison, a preference of 15 percent of the CIF landed price of imported goods or the actual custom duty, whichever is lower, would be given to local manufacturers who qualify as preferred bidders. Experienced foreign suppliers and contractors are well represented in Yugoslavia and local competitive bidding would apply for works contracts under US$1.0 million and supply contracts under US$200,000.

Consultants:	Would be employed for technical assistance to assist the Borrower in the area of management, accounting and detailed engineering for port facilities.
Economic Rate of Return:	13 percent.
Estimated Project Completion Date:	December 31, 1977
Appraisal Report:	Report No. 557-YU, dated November 8, 1974 Railways, Ports and Pipeline Projects Department EMENA Region

IBRD 10916R
October 1974

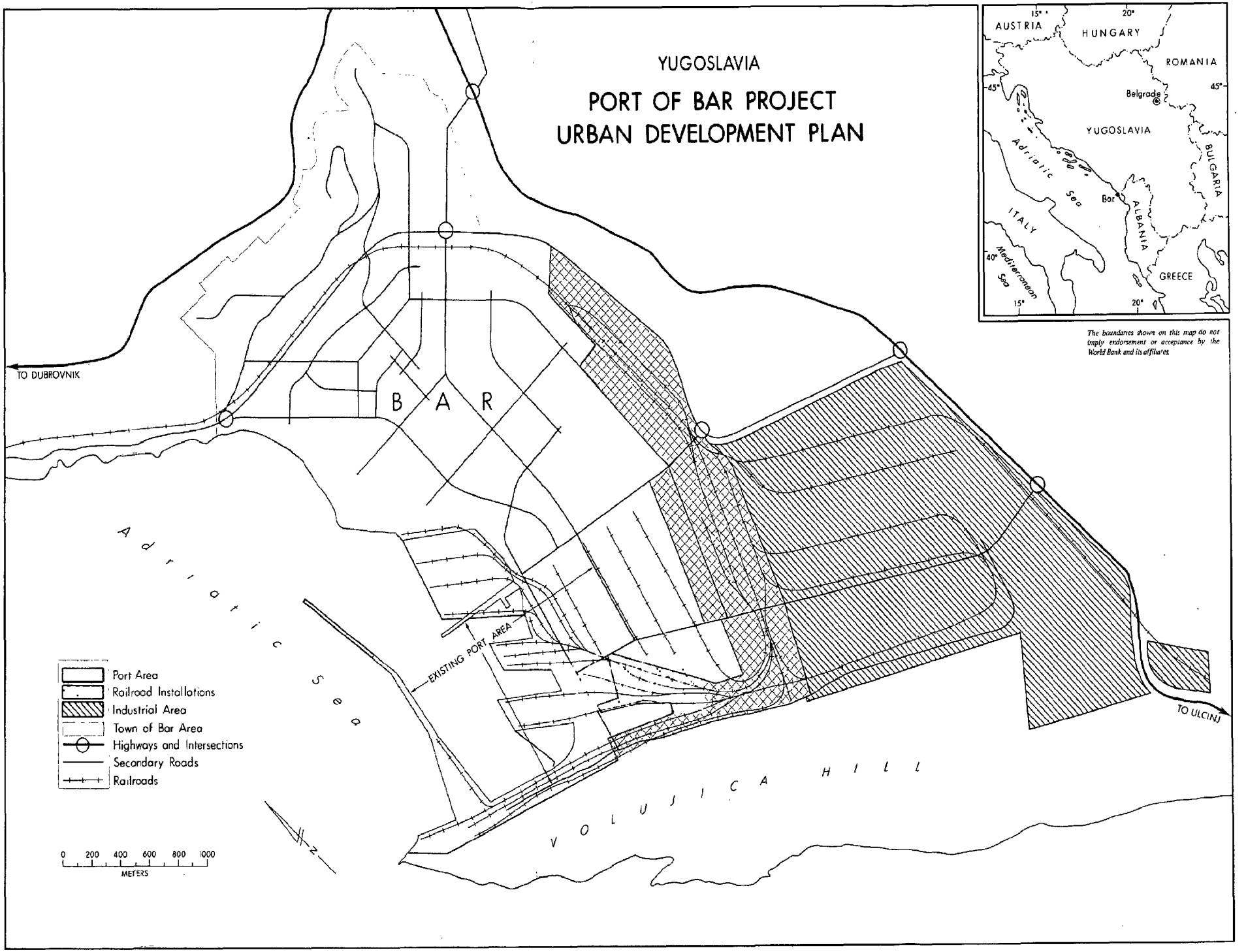
YUGOSLAVIA
PORT OF BAR PROJECT



IBRD 10917

YUGOSLAVIA

PORT OF BAR PROJECT
URBAN DEVELOPMENT PLAN



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