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# YUGOSLAVIA

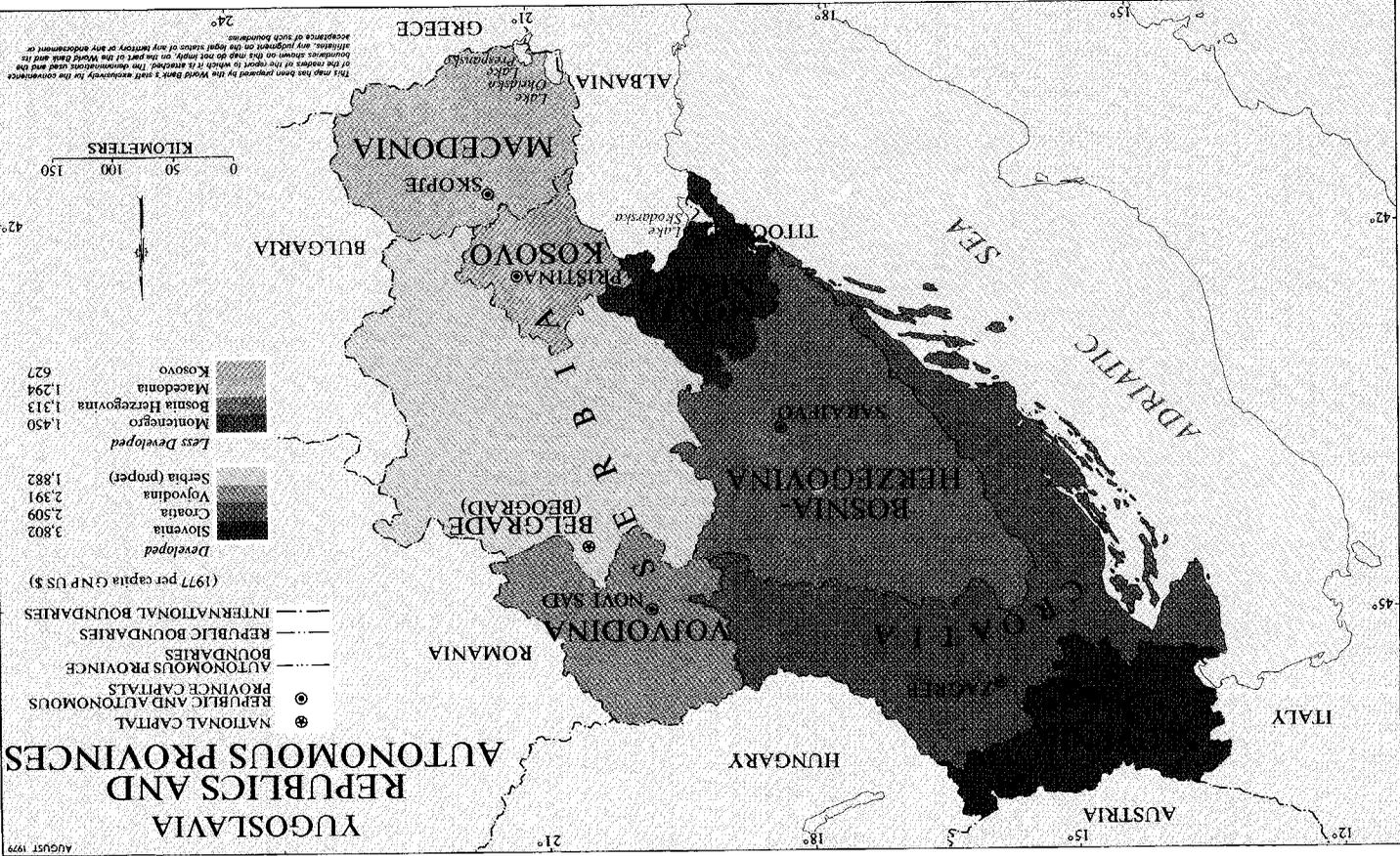
and the  
World Bank

*September  
1979*



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**YUGOSLAVIA**  
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World Bank

September 1979

World Bank  
1818 H Street, N.W.  
Washington, D.C. 20433



## *Foreword*

On December 31, 1945 Yugoslavia joined 37 other countries in adopting the Articles of Agreement of the World Bank. The International Bank for Reconstruction and Development, as it is formally called, was established to finance reconstruction in war damaged countries and to channel resources to the underdeveloped areas of the world. Apart from a few early loans for reconstruction, the Bank's activities have been concentrated entirely on fostering development in the developing countries.

A strong partnership has grown between Yugoslavia and the World Bank, and today Yugoslavia ranks among the Bank's five largest borrowers, having received close to 60 loans totaling more than \$2 billion. The World Bank helped Yugoslavia to meet the challenge of post-war development both through its lending program and its encouragement of structural reforms to assist development. Yugoslavia has experienced rapid economic growth and has become more integrated in the world economy, although problems of disparities between developed and less-developed regions still exist.

Both Yugoslavia and the World Bank have undergone substantial changes during their 34-year association. Yugoslavia's economic and political system has evolved through several constitutions and other legislative reforms. A centrally planned economy has changed to a decentralized one with a unique style of management, and the Bank has adjusted its operational approach to the country accordingly.

The World Bank has grown to 134 member countries; and two affiliates, the International Development Association (IDA) and the International Finance Corporation (IFC), have been added. The emphasis of World Bank lending throughout the world has shifted to that of improving the productivity and standard of living of the poorest people, especially those in the countryside.

This booklet examines the growth of the partnership between the World Bank and Yugoslavia. The challenges and achievements of development and the World Bank's contribution to the effort are described, and World Bank lending in each of the major economic sectors is examined in the context of a number of individual projects.

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**Cover**

*Saws for cutting marble are included in equipment which has been purchased by the Ukras Marble Enterprise at Danilovgrad in Montenegro with funds provided by Inveciona Banka Titograd. The loan is part of the World Bank's Second Industrial Credit project which is assisting small and medium-sized industries in Yugoslavia's less-developed regions.*

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## *The World Bank*

The World Bank is a group of three main institutions, the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC).

The common objective of these institutions is to help raise standards of living in developing countries by channeling financial resources from developed countries to the developing world.

The World Bank, established in 1945, is owned by the governments of 134 countries. The Bank, whose capital is subscribed by its member countries, finances its lending operations primarily from its own borrowings in the world capital markets. Bank loans generally have a grace period of five years and are repayable over 20 years or less. They are usually directed toward developing countries at more advanced stages of economic and social growth. The interest rate the Bank charges on its loans is calculated in accordance with a formula related to its cost of borrowing.

The International Development Association was established in 1960 to provide assistance for the same purposes as the Bank, but primarily in the poorer developing countries on terms that would bear less heavily on their balance of payments than Bank loans. IDA's assistance is, therefore, concentrated on the very poor countries—mainly those with an annual per capita gross national product of less than \$580 (in 1977 dollars). More than 50 countries are eligible under this criterion.

Membership in IDA is open to all members of the World Bank and 121 of them have joined to date. The funds used by IDA, called credits to distinguish them from Bank loans, come mostly in the form of subscriptions, general replenishments from its more industrialized and developed members, special contributions by its richer members, and transfers from the net earnings of the World Bank. The terms of IDA credits, which are made to governments only, are 10-year grace periods, 50-year maturities and no interest, but an annual service charge of 0.75% on the disbursed portion of each credit. Although legally and financially distinct from the Bank, IDA is administered by the same staff.

The International Finance Corporation was established in 1956. Membership in the World Bank is a prerequisite for membership in the IFC, which totals 109 countries. Legally and financially, the IFC and the Bank are separate entities. The Corporation has its own operating and legal staff, but draws upon the Bank for administrative and other services. IFC has three principal functions:

The first is to invest both in the form of loan and equity, in productive enterprises which have a private, commercial character. Unlike the World Bank, it does not require government guarantees;

In addition, the Corporation brings together investment opportunities, foreign and domestic capital, and experienced management;

Finally, it seeks to stimulate and help create conditions conducive to the flow of domestic and foreign capital into productive investment in member countries.

Since its establishment in 1956, IFC has steadily expanded its operations and has approved investments amounting to \$2,528 million for 472 projects in 73 of its developing member countries. Domestic and foreign investors provided an additional \$10,090 million, resulting in a total cost of IFC-assisted projects of \$12,618 million.

## *Yugoslavia's Economic System— Self-Management and National Planning*

Yugoslavia's economic system allows for an integration of workers' decision-making and macroeconomic coordination. Through a system of elected delegates and a consultative planning process, workers, political organizations, and government assemblies at local, republic and federal level all participate in economic decision-making. A balance also is struck between reliance on market forces on the one hand and economic planning on the other. The key elements of the system are described below.

### Basic Organizations of Associated Labor

At the heart of the self-management system are Basic Organizations of Associated Labor (BOALs). A BOAL is the smallest unit of workers whose production of goods and services can be measured. A typical factory consists of a number of BOALs, each made up of workers responsible for a distinctly identifiable phase of production. The workers elect delegates to the Workers Council, which is the decision-making body of the BOAL. The delegate system operates in such a way that decisions by the Workers Council are only made after consultation with all the workers.

BOALs can remain independent, or they can join together with other BOALs for joint purposes such as marketing and research. Such a grouping in a factory is called a Work Organization. A professional manager or a management board may be appointed under a fixed-term contract to carry out the decisions of the Workers Council.

### Social Ownership

Factories are socially owned, belonging to the people of Yugoslavia as a whole as opposed to the state. The exceptions are industrial and other units of less than five non-family workers, which may be privately owned. In agriculture, farms of less than ten hectares remain in the private sector with the result that 85 percent of the nation's farming is in private hands.

There is also a mixed private/social enterprise called a Contractual Organization of Associated Labor (COAL). Most of these organizations are in Slovenia and have been formed by returning migrant workers who have accumulated investable funds. Up to ten people contribute at least ten percent of the initial capital and, in addition to wages, the investors receive an income proportionate to their paid-in capital. These organizations are regarded as transitional, with the founders eventually being paid back their investment, and the enterprise, therefore, becoming fully part of the social sector.

### Self-Managed Communities of Interest

Self-management extends to community services such as health, education and transportation. These services are governed by Communities of

Interest which bring together the providers and the users of services. In the case of education, for example, a Community of Interest would consist of representatives of local BOALs (who, as taxpayers, are paying for the schools), teachers, and representatives of the general public (whose children attend the schools).

### Socio-Political Organizations

There are five Socio-Political Organizations, each of which has a distinct role in decision-making. The Socialist Alliance is the largest, comprising 95 percent of the adult population. It constitutes the main forum for political, social and economic discussion. The League of Communists is a much smaller organization with a membership of only about 15 percent of that of the Alliance. However, it is a powerful and influential body whose task is to assert Marxist doctrines in national affairs. Another group, the Trade Unions, to which most social sector workers belong, has an important role in the internal workings of BOALs. These, and two other Socio-Political Organizations: the Youth Federation and the Veterans Association, nominate delegates to the assemblies of the Republics and Autonomous Provinces and are also represented in the Federal Assembly in Belgrade.

### Legislative Structure

The delegate election system extends throughout the legislative machinery. Work Organizations (of BOALs) elect, from among their members, delegates to the assembly of the Commune which is the unit of local government. (There are 510 Communes in Yugoslavia, representing an average of 40,000 people each.) Communes, in turn, elect delegates to the assemblies of the six Republics and the two Autonomous Provinces, and these assemblies send delegates to the Federal assembly in Belgrade.

### Workers' Decision-Making and National Planning

Workers, Communities of Interest, Socio-Political Organizations, and government bodies at all levels, participate in the national planning process. General planning guidelines which take broad economic factors into account are issued at the federal level at the beginning of the planning period. The guidelines are then given to the Republics, Communes, BOALs and other organizations. There follows an extensive process of discussion between all concerned parties, which takes full account of local market, labor, and other conditions. Every unit of the economy and government is involved in this give-and-take process, and discussion continues until a consensus is reached at all levels.

Agreements are legally codified. Broad economic policies are given the force of law through so-called "Social Compacts," while detailed commitments between specific economic groups are governed by "Self-Management Agreements."



# *Introduction*

## Historical and Geographic Perspective

Yugoslavia is a country of 21.8 million people and 256 thousand square kilometers—about the same size as the Federal Republic of Germany, but with less than half the population. Few countries of its size possess Yugoslavia's variety of terrain. The Julian Alps in the northwest extend into the high, barren, plateaux of the Dinaric Alps which stretch down the Adriatic coast to the Albanian border in the south. Mountains dominate the middle and south of the country, but the high peaks are modified by the varied relief of rolling hills and valleys. In contrast the northern quarter of Yugoslavia, bordered by Hungary and Romania, is a fertile plain, watered by the Danube, Sava and Drava rivers. (*See map inside back cover.*)

The name Yugoslavia means "the land of the Southern Slavs." The inhabitants, who gave the country its name, migrated to the Balkans in the sixth and seventh centuries, but as the land they occupied formed the natural route between Europe and Asia, the people were ruled for centuries by a succession of invaders, all of whom imposed their own culture, religion and language.

For much of the six hundred years preceding the First World War, the northern part of the region was ruled by the Hapsburg empire of Austria and Hungary while the Ottoman empire of Turkey dominated the south, with the Kingdoms of Serbia and Montenegro enjoying varying degrees of independence. While the Slovenes and Croats in the north embraced Roman Catholicism, the Serbs, Macedonians, and Montenegrins in the south followed the Orthodox creed of Christianity. In Bosnia and Kosovo the Turks' religion of Islam was dominant.

A sense of ethnic identity was maintained by the Slovenes, Serbs, Croats, Macedonians, and Montenegrins, who, in the latter part of the nineteenth century began to look to their common Slav heritage for the unity to free themselves from foreign domination. These national groups were brought together as the "Kingdom of the Serbs, Croats and Slovenes" at the end of World War II, and in 1929 the country was renamed Yugoslavia.

Following its invasion by the forces of Germany, Italy, Hungary and Bulgaria on April 6, 1941, Yugoslavia experienced four years of fighting, from which Josip Broz Tito's Partisans emerged as the dominant force to become the Communist government of postwar Yugoslavia.



## CHAPTER 1

# *Thirty-Four Years of Partnership: World Bank Helps Yugoslavia's Reconstruction and Development*

### The Early Years

More than 1.7 million Yugoslavs, their average age being 22, died during the second world war. This was more than twice the military and civilian casualties sustained by the United States and the United Kingdom combined. In 1945 three and a half million Yugoslavs were homeless, and almost half the country's manufacturing capacity was inoperative.

Eighteen months before the end of the war, a provisional government had been declared at Jajce in the Bosnian mountains and planning for postwar Yugoslavia had begun. The devastation of a country that was poor even before the war presented the government with an enormous task of reconstruction and development. These same problems were addressed in a global context in June 1944 at Bretton Woods, New Hampshire in the United States, when representatives of 44 countries met to develop a framework for postwar international economic cooperation—a meeting that resulted in the establishment of the World Bank and the International Monetary Fund. Yugoslavia, although still partially occupied, sent a delegate to Bretton Woods, and when the World Bank began operations on June 25, 1946, Yugoslavia was one of the 38 founder members.

While the international financial institutions, the World Bank and the IMF, were being established in Washington, the Federal People's Republic of Yugoslavia was proclaimed in Belgrade. (It was renamed the Socialist Federal Republic of Yugoslavia in 1963.)

Yugoslavia's 1946 constitution, which followed the formation of the new state, established six constituent republics corresponding to traditional national groupings: Serbia, Croatia, Slovenia, Bosnia-Herzegovina, Montenegro, and Macedonia. Two autonomous provinces, Vojvodina and Kosovo, were created in the northern and southern parts of Serbia respectively. (*See map inside front cover.*)

The new government set out to mold a modern diversified economy out of a largely agrarian one through a centralized program aimed at

rapid industrialization of the war-ravaged country. However, early in 1948, the country's post-war reconstruction and development efforts received a setback when the Soviet Union and other Cominform countries severed their ties with Yugoslavia. Imports from and exports to Socialist bloc countries ceased immediately, and agreements to provide development assistance were cancelled. A large number of projects—many of which were for heavy industry—were left half finished without the funds for their completion. Early in 1949 Yugoslavia dispatched a mission to Washington to ask for World Bank assistance to help complete these projects.

Discussions between Yugoslavia and the Bank continued for two years, and in the meantime a small loan was made to Yugoslavia in October 1949, for \$2.7 million for the purchase of timber production equipment. Two loans eventually resulted from the negotiations. In October 1951 the Bank lent Yugoslavia the equivalent of \$28 million in various currencies to complete power, mining, industrial, agricultural, transportation and other projects. In February 1953, a loan equivalent to \$30 million was signed, bringing the total number of sub-projects supported by the two loans to over 50.

The 1950's were years of change for Yugoslavia. Economic policy moved away from the rigid central controls which had characterized the immediate postwar period, and the system of self-management was introduced. Yugoslavia developed a socialist society based on social ownership—as opposed to state ownership—of the means of production with the workers themselves as the decision makers. (*See Page viii: Self-Management and National Planning.*)

Throughout the period Yugoslavia participated in decisions of the Bank's board and joined the International Development Association (IDA) in 1960.

## The 1960's: Assistance for Modernization

The loans of the 1960's were directed towards building a strong infrastructure and helping Yugoslavia to become more integrated with its trading partners.

In February 1961 a \$31 million loan was made, and a second for the same amount in the following year assisted the building of two hydro-electric power stations and more than 1,700 km. of transmission lines. The Yugoslav electricity grid's interconnections with Austria and Italy were also strengthened.

Transportation loans during the 1960's also served to improve Yugoslavia's links with the rest of Europe by assisting in the completion and modernization of the central and coastal highways. Modernization of railways and the construction of lines joining Adriatic ports and the center of the country were assisted by loans totaling \$155 million be-

tween 1963 and 1970. (See *Chapter 3: Transportation.*) Three loans totaling \$45 million provided imported equipment for twenty industrial enterprises (See *Chapter 4: Industry*) and one \$40 million loan, in February 1970, expanded the country's telephone and telecommunications network.

In July 1968 Yugoslavia joined the International Finance Corporation (IFC), and in 1970 IFC made a \$2 million equity commitment to the International Investment Corporation for Yugoslavia. Subsequent IFC investments have given priority to the establishment of joint ventures to attract foreign investment. (See *Chapter 7: IFC in Yugoslavia.*)

As the evolution of the self-management system caused more and more decision-making to be decentralized, the World Bank began lending directly to enterprises with a government guarantee rather than to a central entity in Belgrade. For the World Bank, which had been accustomed to dealing directly with single entities like a finance or agriculture ministry in borrowing countries, negotiations with Yugoslav borrowers representing a number of enterprises were often complicated and lengthy. Negotiations for a 1972 power transmission loan for \$75 million involved 100 officials representing 11 enterprises and the governments and banks of all the republics and provinces.

This loan and a second power transmission loan for \$80 million in 1977 illustrate the Bank's support for projects that have enhanced Yugoslavia's ability to cooperate with its European neighbors. Yugoslavia is now able to buy, sell and exchange electricity with the rest of Europe as a result of construction of 4,000 km. of 380 kv. transmission lines—a considerable engineering feat in a country as mountainous as Yugoslavia. Prior to 1975, Greece had been cut off from the rest of the European power grid, but it is now linked to Italy and Austria through Yugoslavia. Yugoslavia is also interconnected to Czechoslovakia, Romania and Hungary.

## Disparity Amidst Growth

Throughout this period Yugoslavia achieved dramatic growth. Annual real growth in Gross Material Product<sup>1</sup> averaged 7 percent between 1952 and 1977, and by 1977 per capita GNP was \$1,960. Overall post-war growth has been more than twice the average of developed and developing countries. Social advancement has accompanied growth. Infant

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1. GMP includes a market price value added of those sectors which produce goods plus the value added by the activities contributing to the production and distribution of these goods and thereby increasing their value—transport and trade. It does not include other services which are directly rendered to individuals—housing, social services, and government.

mortality has dropped from 118.6 per thousand live births in 1950 to 55.2 in 1970; the ratio of doctors to patients has tripled, and the illiteracy rate has dropped from 1 in 4 to 1 in 7.

But one goal has still to be attained. Income disparities between and within developed and less-developed regions<sup>2</sup> persist. Today, despite substantial efforts to narrow the gap, Slovenia, with per capita GNP of \$3,802, is comparable to several European countries, while inhabitants of Kosovo, with per capita GNP of \$627, have a similar standard of living to the people of many developing countries. (*See map inside front cover*)

The 6:1 ratio between the per capita GNP of Slovenia and that of Kosovo is the extreme example, but disparities between the other republics are a serious problem as the following table demonstrates:

### Regional Disparities of Income Per Capita, 1954-77

	GMP <sup>1</sup>			Household GNP (US\$) <sup>2</sup> Income <sup>3</sup>		
	1954	1964	1970	1977	1977	1973
Bosnia-Herzegovina	82	69	67	67	1,313	76
Montenegro	53	72	78	74	1,450	82
Macedonia	69	73	64	66	1,294	78
Kosovo	48	37	34	32	627	49
Less-developed regions	71	65	61	61	1,196	72
Croatia	119	119	125	128	2,509	125
Slovenia	188	187	193	194	3,802	150
Serbia Proper	84	95	97	96	1,882	100
Vojvodina	88	116	110	122	2,391	105
Developed regions	110	118	121	123	2,411	116
Yugoslavia	100	100	100	100	1,960	100

Source: Statistical Yearbook of Yugoslavia, various issues.

1. Calculated on the basis of current prices; Yugoslav average = 100.
2. GNP per capita Yugoslavia computed according to World Bank Atlas methodology; regional data imputed by applying the GNP per capita differences to the country average.
3. Calculated from household surveys; Yugoslav average = 100.

While absolute GMP growth has been very similar to the developed regions and the less-developed regions, the considerably higher population growth of the poorer areas has had an adverse effect on the differ-

2. The term *developed regions* refers to Slovenia, Croatia, Vojvodina, and Serbia. The term *less developed regions* refers to Montenegro, Bosnia-Herzegovina, Macedonia, and Kosovo.

ences between per capita GNP. The impact of population growth is shown in the following table:

**Growth Rates of GMP, Population, and GMP Per Capita, 1966-1975**

	<i>GMP</i> %	<i>Popu- lation</i> %	<i>GMP per Capita</i> %
Bosnia-Herzegovina	5.0	1.3	3.6
Montenegro	5.1	1.1	3.9
Macedonia	6.3	1.5	4.5
Kosovo	6.1	2.7	3.0
Less-developed regions	5.4	1.6	3.5
Croatia	5.3	0.5	4.8
Slovenia	6.8	0.7	6.0
Serbia Proper	5.4	0.7	4.6
Vojvodina	5.0	0.4	4.6
Developed regions	5.6	0.6	4.9
Yugoslavia	5.6	1.0	4.5

*Source:* Statistical Yearbook of Yugoslavia, various issues.

The origins of the economic differences between regions are deep-rooted. Natural endowments led to an emphasis on basic industries such as metallurgy and energy in the less-developed regions. Less productive private agriculture is also concentrated in these largely mountainous regions. The developed regions, on the other hand, built up their managerial and technical know-how in the 19th century and were able to develop processing industries. In addition, Vojvodina possesses the richest farming in the country. Problems of poverty and underemployment in the less-developed regions have been compounded by the fact that ethnic and cultural differences between republics have limited the potential for interregional migration. These imbalances in employment have been accentuated by reduced opportunities for Yugoslav workers in western Europe. In 1973 there were 830,000 Yugoslavs employed outside the country, but the trend has been reversed by slower growth and policy changes in host countries, so that by 1979 the expatriate workforce had been reduced to about 700,000.

Yugoslavia has devoted much attention to trying to solve the problems of regional disparities. As early as the 1950's, transfers of resources were made to the less-developed regions from the Federal General Fund and the Federal budget. When this fund was discontinued in 1966, a permanent mechanism was established called "The Federal Fund for Crediting

the Accelerated Development of the Less-Developed Republics and the Autonomous Province of Kosovo.”

Between 1971 and 1975 transfers of financial resources at highly concessional terms through the Federal Fund, as it is known, accounted for about 20 percent of the fixed asset investments of the less-developed regions, with the ratio rising to 70 percent for Kosovo. Additional resources, largely for social services in poorer areas, have been provided from the Federal budget. In total these transfers amounted to 9.3 percent of the less-developed regions' Gross Material Product and involved a sacrifice for the developed regions of 2.7 percent of GMP.

An increasing effort is being made to effect technical as well as financial resources to the less-developed regions. The World Bank's activities in Yugoslavia, which include technical assistance, have increasingly aided the less-developed regions. Today the Bank channels at least two thirds of its loan resources to the poorer republics and Kosovo.

### World Bank Lending in the 1970's

This approach is consistent with a new emphasis in lending philosophy which was spelled out by the Bank's President, Robert S. McNamara, in a speech to the Bank's Board of Governors at their 1973 Annual Meeting in Nairobi, when he outlined a strategy for attacking absolute poverty especially in the world's rural areas. Since then Bank assistance worldwide has increasingly been channeled into agriculture and rural development and into other sectors benefiting the poorest of the population, while traditional lending for infrastructure and industry has increased in absolute terms.

Six months before the Nairobi speech, the Bank had made its first agricultural loan to Yugoslavia—a \$31 million project in Macedonia, with the poor, individual farmer being an important beneficiary. Since then a considerable portion of Bank lending in Yugoslavia has been directed toward helping the individual farmer. (*See Chapter 2: Agriculture.*)

The increased emphasis is on helping the poor is illustrated by Bank lending in the industrial sector in 1974. While loans were made to two foundries—one in Vojvodina and one in Serbia—two other loans specifically benefited the less-developed regions by providing credit to small and medium-sized industries in Macedonia and Kosovo and in Bosnia-Herzegovina and Montenegro. A fifth loan supported expansion of a tractor plant in Belgrade whose products are now a familiar sight on farms throughout Yugoslavia. (*See Chapter 4: Industry.*)

While the emphasis has shifted to projects directly assisting the poorest, the Bank's substantial support for the transportation sector continued throughout the 1970's with loans for railways, roads and the Port of Bar—all projects which benefit the country and its economy as a



*Oil receiving facilities have been built at the port of Omisalj on the island of Krk as part of an oil pipeline project supported by a \$49 million World Bank loan. The 736-km. pipeline will alleviate energy shortages by transporting up to 400,000 barrels of petroleum a day to five refineries in Yugoslavia.*

whole. (*See Chapter 3: Transportation.*) Two other infrastructure loans, for a natural gas pipeline in 1973 (\$59.4 million) and for an oil pipeline in 1975 (\$49 million), support major investments to alleviate energy shortages.

A loan of \$73 million was signed for a hydroelectric power station located on the Neretva river in the less-developed republic of Bosnia-Herzegovina, and a major water supply project for which the Bank provided \$54 million is located in Metohija, the poorest half of the poorest province of Kosovo. The poorest regions of Serbia are the beneficiaries of another water resource project in the Morava Valley supported by a \$20 million Bank loan. Air pollution and water supply projects in Sarajevo and Dubrovnik contribute to the health of the residents of those two cities. (*See Chapter 5: Health and Environment.*)

Details of the greater part of the Bank's recent lending—for agriculture, transportation, and small industry are contained in chapters 2 through 4 dealing with sector lending.

## CHAPTER 2

# *Assistance to the Agricultural Sector*

Yugoslavia's rapid industrialization has led to a relative decline in the role of agriculture, but it still accounts for about 14 percent of social sector GMP. With 40 percent of the active population—many of whom are poor—living in rural areas, agriculture is of vital importance to Yugoslavia's development.

It is the one sector of the Yugoslav economy which is predominantly privately owned, with about 85 percent of the country's arable land belonging to individual farmers. The remainder is cultivated by the social sector through "agrokombinats" (integrated factory farms), cooperatives and research institutions. The private sector employs about 90 percent of the agricultural workforce, but has lower productivity than the social sector, which produces about one third of the nation's agricultural output. The dual structure dates back to the 1953 Agrarian Reform Law, which reversed the collectivization policy of the 1940's and permitted private holdings up to a maximum of 10 hectares of cultivable land.

Social sector agrokombinats are self-managed compound organizations made up of Work Organizations and Basic Organizations of Associated Labor (BOALs) (*See page viii: Self-Management and National Planning*) and have the same status in the economy as their counterparts in manufacturing and service industries.

Before the present decade, agricultural development received little attention and experienced an average annual growth rate of only 2.2 percent during the latter part of the 1960's. The country's 2.6 million private farmers experienced only one sixth of the growth rate of the social sector, which had the advantage of receiving 16 times the capital investment per hectare and most of the available technical expertise. As well as being small, private holdings tend to be fragmented and of inferior land quality. This, coupled with lack of credit and extension services, has contributed to their poor productivity, and there is considerable underemployment and rural poverty especially in the less-developed republics and Kosovo.

It was an acknowledgement of past neglect and the vast potential of the private sector to produce more food which led to lengthy discussions between the republics and provinces in 1973, from which a common agricultural policy emerged. This "Green Plan" accords equal attention to both sectors.



*A farmer near Pristina uses oxen to draw his plough. Lack of mechanization has contributed to the low productivity of individual farms in Kosovo, the poorest province in Yugoslavia.*

The plan called for greater attention to be paid to the agricultural sector as a whole, with modernization and expansion of social sector facilities, but it also recognized that much of the growth in primary production had to come from the private sector. The plan emphasized cooperation between the social and private sectors to increase total productivity, and it also established a framework for private farmers to receive some of the benefits of social sector organizations such as health care and pensions.

#### **First and Second Agricultural Industries Projects, Macedonia, 1973 and 1977**

In 1973, the World Bank made its first loan to Yugoslavia for the exclusive development of agriculture. The \$31 million loan to Stopanska Banka Skopje (SBS), the development bank of Macedonia, was for on-lending largely to agrokombinats and cooperatives for the modernization of production and processing facilities. Five dairy farms,

four cattle fattening farms, four heifer rearing farms, and two pig farms were established. The loan also provided for slaughtering and meat processing plants and cold storage facilities for dairy, meat, poultry, fruit and vegetable products, as well as development of 2,600 hectares of vineyards and wine and wine byproduct processing plants. Eight fish ponds stocked with carp and trout were also developed. While some of these investments helped the private sector as well as the social sector, others, like tobacco drying sheds, directly assisted individual farmers. Credit facilities were made available to about 2,400 private farmers to enable them to invest in vineyards, livestock and other improvements. Another important element of the loan was a provision for the government of Macedonia to study the private farm sector to determine its priorities for the next ten years.

It is estimated that an additional annual production of 75,000 tons of primary products, including 4,000 tons of processed meat and 24,000 tons of milk, have been generated by the project. About 1,500 jobs were created in the social sector and the average annual income of the 2,400 private farmers increased from about \$310 in 1973 to \$535 in 1978.

The closer link forged between the private farmer and cooperatives and agrokombinats has been a feature of subsequent World Bank loans for agriculture. Improved markets for their produce, coupled with the availability of small development credits, laid the groundwork for modernization of small farms in Macedonia. This progress was consolidated by a second project in 1977 supported by a \$24 million World Bank loan.

The second project provided for further processing facilities for the social sector as well as investments in the private sector for primary crop and livestock production.

An Agricultural Operations Department at Stopanska Banka Skopje was strengthened under the second loan to improve its appraisal of sub-projects. Eight agronomists were appointed by the government of the Republic, and a further 80 were hired at the commune level to provide extension services to private farmers.

One such farmer is Stankovic Milic, who owns a 3.5-hectare farm near Skopje. He and his son used to grow cereals and sugar beet, working the land by hand with occasional help from a neighbor's tractor; but on the advice of the extension service he has also started growing vines and sunflowers. The Skopska Polje Agrokombinat, which is close to Milic's farm, has established a unit for the specific purpose of cooperating with private farmers, and through it he has received low-priced fertilizer and high-yielding varieties of seeds. Also through the agrokombinat, Milic obtained credit (part of the 1973 World Bank loan which had been on-lent to the agrokombinat by SBS) to purchase a tractor at 9 percent interest for five years. Separately, he has signed an agreement to sell the greater part of his produce to the agrokombinat.



*Two pig farms have been established near Skopje as part of the World Bank's First Agricultural Industries project in Macedonia.*



*Stojan Pop Demetrov, who owns a farm near Skopje, has benefited from improved credit terms and better markets for his produce as a result of the World Bank's 1973 Agricultural Industries loan in Macedonia.*

The tractor and improved seed inputs have doubled his annual output of wheat from about 3,000 kilograms per hectare to 6,000 kilograms, and the farm income has doubled since 1973.

Another farmer, 66-year-old Stojan Pop Demetrov has lived on his farm for 50 years. The 13-hectare holding is divided between him and his two sons, with all three men and their wives working on the land. Although they have electricity, their water has to be pumped by hand from a well in the farm yard. Credit had been available to Demetrov before the World Bank loans were made, but it was not always on terms that appealed to him. He is now willing to pay the slightly higher interest on the credit he obtains through the World Bank/SBS/agrokombinat in return for a longer grace period and repayment terms. He has borrowed from the Skopje Polje Agrokombinat to purchase a tractor and a plough. He welcomes the expansion of the processing facilities of the agrokombinat as he now has a guaranteed market for his chickens, piglets, milk, wheat, corn, cabbages, carrots, and alfalfa. With this increased income he is planning to build a new cow house for his small dairy herd.

## First and Second Agricultural Credit Loans, 1975 and 1977

The success of the individual farmer component of the First Agricultural Industries project in Macedonia provided some lessons in techniques which could be applied to address the problems of rural poverty in Yugoslavia as a whole. The rural poor could best be helped, it seemed, by Bank support of primary production in the individual sector, while loans for modernization of the social sector would build up essential processing and marketing requirements.

Vojvodjanska Banka in Novi Sad, the development bank of Vojvodina, was chosen as the lead bank for the World Bank's national agricultural credit loans because of the agricultural experience it had gained from its location in the most fertile farming area in the country. The first loan, for \$50 million, was made to Vojvodjanska Banka in June 1975 for on-lending to seven banks representing the republics and Kosovo (with some funds being used for agriculture in Vojvodina itself). A Project Operations Department was established at Vojvodjanska Banka, and the training of its staff and the staff of the participating banks was also supported by the loan. (*See Chapter 6: Institution Building.*)

The loan provided funds to 380 social sector enterprises throughout Yugoslavia for investments in dairy farms, cattle fattening, vegetable production, irrigation, drainage, land development, and various food processing facilities. About 10,200 private farmers received the remaining funds (about 43 percent) for investments in dairy, sheep, vegetable and fruit production, on-farm mechanization, and land development. Although the direct investments for private farmers accounted for less than half the funds, they benefited from the increased markets for their produce provided by the social sector investment. Some 8,700 new jobs were created by the project, and an estimated 39,000 poorer farmers benefited directly or indirectly.

Most of the increased production from the project is being marketed domestically, reducing Yugoslavia's need to import food. This lessening of the import bill, combined with exports of meat, fruits and vegetables, is expected to earn or save about \$200 million in foreign exchange over the 20-year lifetime of the loan.

The Second Agricultural Credit loan for \$75 million, signed in June 1977, was along broadly similar lines, but the proportion of funds allotted to the less-developed republics and Kosovo was increased from a quarter under the first loan to a half under the second. Kosovo, the poorest province, was allocated considerably more resources in the second project, with Kosovska Banka Pristina receiving \$11.3 million. The benefits to poor individual farmers in Kosovo through cooperation with the social sector can be seen in a livestock component of the loan which provides for a broiler farm with hatchery and slaughterhouse to be built in an agrokombinat. Four times a year, the agrokombinat will sell batches of 750 one-day-old chicks to about 1,000 private farmers,

to whom loans to build new hen-houses will have been made. The farmers will keep the broilers for about nine weeks until they reach a weight of about 1.5 kilograms, when the agrokombinat will buy them back for processing in the project-financed facilities.

The private farmer component of the Second Agricultural Credit loan was increased to 57 percent (compared to 43 percent under the first loan). The closer links between the individual and social sectors are expected to increase the prosperity of some 40,000 private farmers throughout Yugoslavia by providing them with better access to markets and processing plants. About 60 percent of all project beneficiaries in the individual farmer sector have annual incomes of less than \$341 per family member. It is estimated that the nationwide average income of individual farmers will double by 1981.

### Agriculture and Agro-Industries Project, Montenegro, 1977

Because of its mountainous terrain, only a small part of the land area of Montenegro is cultivable. Two-thirds of this arable land is located in mountainous areas where individual farmers cultivate 62,000 holdings with an average size of 4.9 hectares. These farmers are being assisted through the two World Bank Agricultural Credit loans. The balance of the Republic's farm land is located on the Cemovsko Polje plain near Titograd, cultivation of which is being assisted by a \$26 million World Bank loan.

Cemovsko Polje had always been regarded by the people of Titograd as a desert, with snakes and birds being the only life sustained by its rock strewn, barren surface. Heat and dust from the plain contributed to Titograd's uncomfortable summer climate, and the local people visited the plain only to gather sacks of the absinthe shrub to flavor the hams they smoked for the winter. To the south the plain is bordered by Lake Skadar, from which the Romans took water by way of canals across the plain for their settlement at Doclea, now the site of Titograd railway station. Without pumps, the Romans were unable to use the lake or the subterranean water to cultivate the plain. In the 1930's trees were planted as windbreaks, but they were burned down in 1942 by the Italian forces who feared that the Partisans would use them for cover, and the plain remained desolate until the early 1970's.

In 1972 the Agrokombinat "July 13" (named for the 1943 Montenegrin uprising against the army of occupation) irrigated some pilot areas near Lake Skadar using water from the lake. Encouraged by their success, further studies were undertaken by the Organisation for Economic Cooperation and Development (OECD) and the U.N. Food and Agriculture Organization (FAO), and in 1974 a World Bank reconnaissance mission visited Cemovsko Polje. The project which was finally approved in February 1977, established a 2,000-hectare sprinkler irriga-



*Vineyards have been established on the barren Cemovsko Polje plain near Titograd with assistance from a \$26 million World Bank loan.*

tion system using both water pumped from Lake Skadar and from the underground water table. Windbreaks were added and nearly 700 hectares of vineyards have been established. Table grapevines, peach trees and cherry trees will also be planted. A winery with an annual capacity of 10 million litres and a cold store with a capacity of 3,000 tons will be built, as well as grading and packing facilities and a collecting center. The project also provides for 14 kilometers of farm roads, equipment sheds and research on new fruit tree varieties.

Although surface rocks and absinthe shrubs serve as a reminder of Cemovsko Polje's past, the plain is already transformed into prosperous and fertile vineyards and orchards, and the agrokombinat's "Vranac" wine is highly regarded. The World Bank loan was made to Investiciona Banka Titograd, the Montenegrin development bank, which on-lent the funds to Agrokombinat "July 13." It is estimated that the agrokombinat, which employs 2,800 workers in 26 BOALs will experience an annual incremental income of \$7.5 million and will employ 630 new workers as a result of the project. The incomes of the workers' families are expected to increase by about 55 percent.

## Bosanska-Krajina Agriculture and Agro-Industries Project, 1978

A loan approved in September 1978 for a project in Bosnia-Herzegovina, one of Yugoslavia's poorest republics, is the most formalized approach to cooperation between the private and social sectors yet undertaken by the Bank. It aims at increasing growth of primary production in the individual sector by providing farmers with a host of services through the social sector.

In 1969 the Bosanska-Krajina region in northwestern Bosnia-Herzegovina was struck by a massive earthquake. Two tremors, 17 hours apart, almost destroyed the industrial town of Banja Luka, causing 18 deaths and leaving many of its 60,000 inhabitants homeless. The physical damage and economic disruption were severe. As one of the steps taken to reconstruct the area, the government invited the United Nations Development Programme (UNDP) to prepare a regional development plan. The strategy devised by UNDP called for increases in farm production, mainly in the individual sector, to be paralleled with increases in processing capacities and marketing opportunities in the social sector. To carry out the plan, an agrokombinat called Agro-industrijski I Prometni Kombinat (AIPK) was established by combining a group of previously independent agricultural BOALs.

AIPK prepared the project with assistance from the FAO/IBRD cooperative program.<sup>1</sup> The loan for \$55 million was made to Privredna Banka Sarajevo (PBS), the development bank of Bosnia-Herzegovina, which, with co-financing from Japanese and French banks, provided the balance of the funds for the \$203.8 million project.

At the heart of the project are the Zadrugas. A Zadruga is a group of private farmers who have pooled their land and labor in an Organization of Associated Labor, operating as part of a social sector agrokombinat. However, unlike a conventional social sector BOAL, ownership of the means of production—in this case the farm—remains in private hands. AIPK has 99 BOALs of which 23 are Zadrugas (to be increased to 40 under the project).

Rather than signing buying/selling contracts like those under the two agricultural credit loans, Zadrugas utilize the technology of the agrokombinat and provide it with produce for which they receive a share of the profits. The cooperation between the individual and social sector is, therefore, highly integrated.

The Bosanska-Krajina project assists primary production by making sub-loans to about 12,000 individual farmers through Zadrugas for

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1. Under the FAO/IBRD Cooperative Program, in existence since 1964, the Bank and the U.N. Food and Agriculture Organization share the costs of professional staff engaged in project identification and preparation.

livestock, cereal, fruit and vegetable production. Land reclamation and irrigation of both social and individual sector land is provided for. Extension services are being made available to individual farmers through AIPK, and investments are being made in heifer, cattle, pig and sheep farms, and seed and nursery facilities, all designed to improve livestock breeds and crop varieties. The agrokombinat will also be able to increase its facilities for processing meat, milk, fruit, vegetables and barley.

It is estimated that, at full development (in 1983), the average net income of 12,000 individual farmers will increase by 120 percent. Approximately 9,000 of these farmers currently have per capita annual incomes of less than \$225. A further 20,000 farm families will benefit from improved marketing outlets and technical assistance, and some 4,500 new jobs are expected to be created. Employment and increased income opportunities are particularly important to Bosanska-Krajina as some 40,000 people from the area are employed outside Yugoslavia, and an additional 12,000 are employed in other republics of Yugoslavia. They represent about 20 percent of the active agricultural population of the region, and it is, therefore, hoped that the project will help to reduce migration from the area.

## CHAPTER 3

# *Assistance to the Transportation Sector*

The development of Yugoslavia's transportation sector has been influenced both by the country's topography and its history. The broad valleys of the Danube and Sava rivers provided a natural corridor for road, rail and river transport running from the northwest to the southeast. For centuries this was the major land route from western Europe to Greece, Turkey and the East. Running parallel to this central corridor are the coastal and southern mountain ranges which form a formidable barrier, making construction of cross-country links from east to west both difficult and costly. This natural phenomenon has contributed to the problems of the less-developed regions by depriving them of access to the coast or the hinterland. (*See map inside back cover.*)

The historical influences that helped to widen the gap between the developed and the less-developed regions had their effect too on transportation development. In Slovenia a rail and road network was developed similar to that of its northern neighbor Austria, while in the south, transportation was never adequately developed.

Yugoslavia has made the expansion and modernization of the transportation sector one of its development priorities, both for its impact on the economy as a whole and specifically on the poorer regions, but also because of its potential for helping the country to become more integrated with its European neighbors.

There was substantial investment during the early postwar years, with the emphasis being very heavily on developing modern railways. World Bank involvement began in 1963, when it made one loan each for highways and railways. Since then, it has supported and encouraged balanced growth between the various sub-sectors. The Bank's involvement has been substantial, with more than \$1 billion—or 44 percent of total loan volume—being committed to 10 highway loans, five railway loans, and one each for a port, a natural gas pipeline, and an oil pipeline. The Bank has also made an important contribution to transportation through technical assistance and institution building of the bodies responsible for transportation development.

Late in 1976, the Federation, Republics and Autonomous Provinces agreed to establish a long-term transportation policy for the country. A social agreement on transport policy was signed by the various bodies

involved in the decision-making process and their respective responsibilities were clearly delineated.

## Highway Development

When the World Bank made its first highway loan in 1963, Yugoslavia's vehicle population was very small with about five cars per thousand inhabitants. Commercial vehicles also were scarce, and some 75 percent of the country's freight was carried by rail. Nevertheless, the flexibility offered by road transport made it an attractive alternative and supplement to rail, with the result that the number of vehicles on the roads was growing fast, but without an adequate highway network. Vehicle growth has continued, and by 1978 the ratio of cars to people had reached 98 per thousand. Freight carried on the roads also has increased from 17.8 billion tons per km. in 1970 to 34.2 billion tons per km. in 1978.

The first highway loan, for \$35 million, helped to finance the construction of the country's two major arterial roads, the Central Highway and the Adriatic Highway.

The Central Highway, stretching between the Austrian and Greek borders, is the backbone of the highway network, and the existing road was already the most advanced in Yugoslavia at the time of the project. The Bank loan assisted in the completion of an important 246-km. section, south of Belgrade, and a 34-km. section in the Slovenian Alps, connecting the Yugoslav and Austrian road systems. A tunnel under the border was designed to keep the road open throughout the year despite heavy snowfalls and landslides which had formerly closed the old road for six to seven months of the year. As well as reducing transportation costs for road users, completion of the Central Highway contributed to the growth of Yugoslavia's exports especially for agricultural products.

The original coastal road running from Rijeka, in the northwest, to Bar, by the Albanian border in the south, was a narrow gravel road with many steep grades and curves. The 180-km. journey from Dubrovnik to Split would take an entire day and was wearing on travellers and their cars. These conditions were discouraging to tourists who were beginning to discover the picturesque Adriatic coast and whose foreign exchange was of great potential importance to Yugoslavia.

Nearly two-thirds of the three million foreign visitors to Yugoslavia in 1963 arrived by car or bus, 80 percent of the tourists making the coastal resorts their destination. The new highway made it considerably more comfortable and convenient to travel to the Adriatic coast, and its success is reflected in the fact that, while one million foreign cars crossed the borders into Yugoslavia in 1963, the number had risen to 14 million by 1970, just five years after the highway's completion. Farmers growing fruits and vegetables and rearing sheep also welcomed

the new road for the access it gave them to markets and ports. Damage to their produce from transporting it over the old rough roads also was reduced. The old dirt road had once been a route taken by people traveling out of the country to find employment, but many of these same people are returning on the new highway to work in the prosperous coastal towns.

As well as contributing to employment for automobile assembly workers, truck drivers and many others, the expansion of highways also helped the establishment of a strong construction industry. Before 1963, Yugoslavia possessed a few poorly organized and ill-equipped road-construction units which were not capable of undertaking major works, while foreign contractors were excluded from participating in Yugoslav projects. The World Bank made it a condition of the first highway loan that construction contracts would be open to international competitive bidding. Foreign competition, coupled with technical assistance and subsequent joint ventures with foreign contractors, has helped Yugoslavia to build up a strong construction industry which is now fully competitive internationally. A large proportion of Yugoslavia's receipts from procurement on World Bank projects outside the country are attributable to contracts won by the construction industry. (*See Chapter 6.*)

During the decade 1967-77, the World Bank made seven highway loans totaling \$276 million for stretches of new highway and road widening to ease congestion of the major arteries and to help open up the less-developed regions. The devolution of decision-making to the Republics and Provinces during the 1960's added stimulus to the development of the transportation sector as a means of maintaining an integrated economy.

The Bank's contribution to the institutional framework during this period was an important adjunct to its loans. Construction and maintenance were the responsibility of a number of enterprises, while the broader responsibilities for highway development lay with the Communities of Interest (representing transport enterprises and their users). Each republic and province had its own Community of Interest for Roads. Although there was a Federal Committee for Transportation, charged with the task of coordinating policy, the sector suffered from a lack of uniformity of methodology and practice between the Republics and Provinces. To address this problem, the Bank encouraged the establishment of a "Council of Republican and Provincial Roads Organization" (CRO). Although it has no legal authority, the CRO has provided a forum of discussion of common concerns such as standardization of road signs and other technical questions.

As part of the Bank's Fifth Highway loan in 1971, consultants were hired to develop a uniform methodology for project appraisal by the Republics and Provinces. This methodology, which uses the CRO's computer, was applied to all the economic features such as traffic flows, access roads, international implications and the impact of rail competi-

tion, for the entire length of the Central Highway to determine priorities for its improvement under the Bank's Ninth Highway loan.

The same methodology was applied more widely for the Tenth Highway loan, signed in April 1979, which marks a significant new development in the Bank's lending for transportation in Yugoslavia.

Before the Tenth loan, decisions about which stretch of highway should be financed were subject to the various demands of the different republics and provinces as well as the requirements dictated by national traffic flows. However, the Bank was anxious to concentrate its lending on the less-developed regions if suitable projects could be identified—a policy that was also a central element of the government's long-term transport plan. The new uniform methodology used for the Ninth Highway loan was employed by each of the less-developed republics and the two autonomous provinces (Vojvodina was included as the principal agricultural region) to develop master plans for their highway requirements for 1979 through 1985.

An inventory of all aspects of every section of road in Bosnia-Herzegovina, Macedonia, Montenegro, Kosovo, and Vojvodina was conducted to enable each republic or province to rank them according to economic priorities. The analysis ensures that critically needed investments in regional, secondary and feeder roads which are essential to induce and sustain economic development in remote areas are not obscured by the more visibly pressing needs of the arterial network. This sector approach also enables each republic or province to integrate its development policies for roads with those for agriculture and industry.

The Tenth Highway loan, for \$148 million, is the largest single loan the Bank has made in Yugoslavia. It supports a total project cost of \$794.6 million which will finance sections of road designated by the master plans as having the highest economic priority. The project provides for construction or improvement of 770 km. of interregional roads and 435 km. of regional roads; and for road maintenance and a monitoring system to implement the project. The management and operations of the roads organizations also will be strengthened through training and supply of equipment.

New and improved roads will directly serve the agricultural and industrial centers which produce the bulk of the output of the Less-Developed Republics and Vojvodina, and in several cases will open up new areas of the country for agricultural development and light processing industry.

Future highway projects are expected to employ similar methodology and will benefit from one of the provisions of an earlier loan. The Eighth Highway project contained funds to finance complementary studies of road-user charges and rail costs by consultants hired by the Bank. The road study is examining fiscal, economic and administrative implications of road tolls, vehicle taxes and other charges, and the allocation of resources for the highway subsector. The study on rail

costs is reviewing the cost effectiveness of the railway system. The two studies will contribute to planning a transportation system that attempts to harmonize the various sub-sectors.

## Railway Development

Compared to the newer and rapidly growing road sub-sector, the railways have developed much more slowly. In the decade from 1965 to 1975 rail freight traffic grew at 2 percent per annum and passenger traffic fell by about 2 percent, compared to 13 percent and 20 percent annual growths of freight and passenger usage of roads. However, the railways have tended to find their economic role in the carrying of longer distance traffic, notably bulk materials for key industries. In 1975, they accounted for about 40 percent of Yugoslavia's total freight traffic and 24 percent of public passenger traffic. Coordination between the different means of transportation has received special government attention in recent years, and rail and water transport are being encouraged for long and medium-distance commodity hauls, under the terms of a recent transport policy agreement.

An important Yugoslav innovation, aimed at resolving the questions raised throughout the world on effective use and development of railways, including the issue of subsidies, has been the creation of Communities of Interest (COIs), consisting of individual railway enterprises and their users. COIs have a key government role at republican and provincial level.

The main coordinating body at the federal level is the Community of Yugoslav Railways (CYR), which is an agency of the eight independent republican and provincial railway organizations. The existence of so many railways, government and related organizations complicates the planning decision-making process. The World Bank has therefore supported a more active role for the CYR as a coordinating body. The Bank has contributed to improved investment planning and project management by assisting the CYR and the railway organizations in preparing successive five-year plans. It also helped to analyze the railway tariff and subsidy structure.

The Bank's institution building and technical assistance for the railways has supported a lending program totaling \$348 million committed through five loans. These funds have been used for modernization, electrification, building of ancillary facilities, and the construction of one major new line.

Yugoslavia's principal rail routes follow the same central corridor as the highways, with the mountain barrier separating the center of the country from the coast. An old narrow gauge line crossed the mountains to connect Sarajevo with the port of Ploce, but with the growth of Bosnia-Herzegovina as an industrial center, the rail line was unable to



*The Ploce to Sarajevo railway crosses the Neretva river south of Mostar. The World Bank's first railway loan in Yugoslavia in 1963 assisted in the construction of the 194-km. standard gauge electrified line.*

handle the increased freight generated by the region. With over 2.5 million tons of freight a year being forced to travel by more circuitous routes, and Bosnia-Herzegovina needing to expand further its industry and agriculture, it became imperative for the republic, which is one of the poorest, to be able to ship its goods to the Adriatic efficiently. The Bank's first railway loan, for \$35 million in 1963, helped to finance a new standard gauge electrified line from Ploce to Sarajevo, a distance of 194 km.

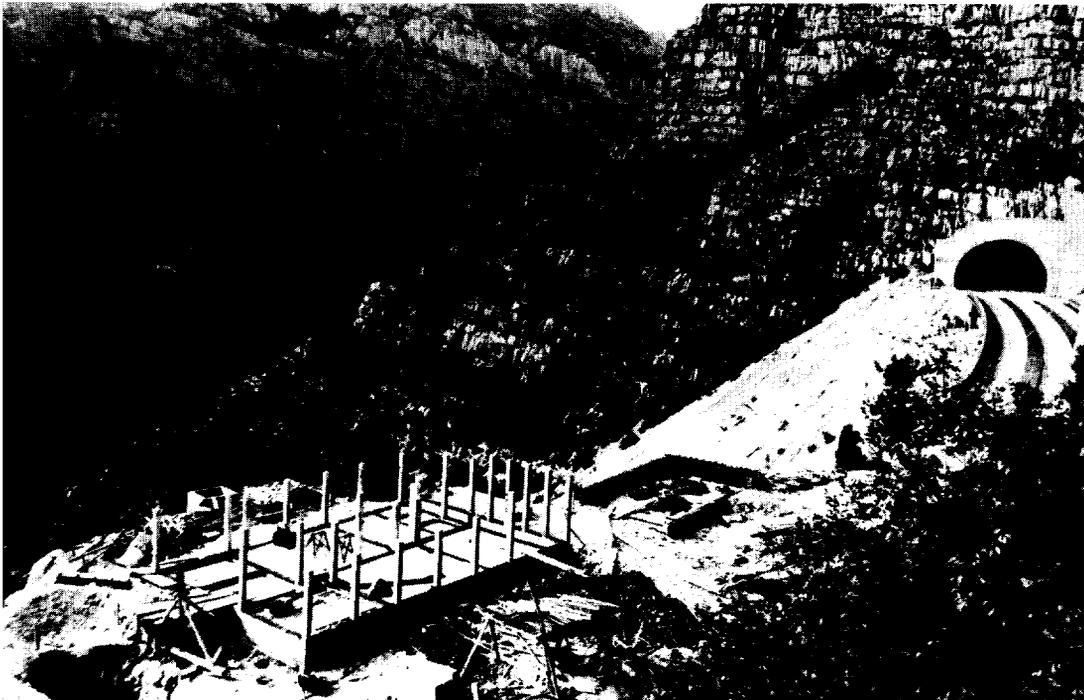
The journey from Ploce to Sarajevo is one of contrasts, as the train follows the Neretva river from the temperate coastal settlements through the foothills to Mostar, the ancient Herzegovinan town with its houses and mosques clustered around its historic Turkish bridge. As it crosses the Prenj mountains, the train passes over many viaducts and through tunnels blasted out of the rockface and crosses the flank of Mount Ivan, which is snow covered for much of the year, before dropping down to Sarajevo. To lay modern rail tracks along this route was a major civil engineering undertaking, but the achievement pales beside that of the building of the Belgrade to Bar railway five years later.

Prior to the Belgrade-Bar rail link, the less-developed republic of Montenegro was cut off from the potential markets of the more

prosperous republics to the north, while industrial enterprises in Serbia and agricultural producers in Vojvodina were deprived of the southern export outlet of the port of Bar.

The Bank's Third Railway loan for \$50 million assisted in the construction of the 462-km. line which, apart from a total of 90 km. at each end, was a completely new line. The track had to be pushed through mountainous terrain, much of which was remote from existing transport links, with the result that over 200 tunnels and numerous bridges and viaducts had to be built. Two of the tunnels are more than six kilometers long and another five are longer than three kilometers. The Mala Rijeka bridge is particularly dramatic. The track emerges from a tunnel in the mountainside straight onto a bridge, half a kilometer long, and then disappears into a tunnel on the other side. The bridge with a central span of 150 meters is supported by four massive pillars anchored to the edges of a ravine 120 meters above the Mala river.

*The Belgrade to Bar railway passes through more than 200 tunnels and over numerous bridges. Lutovo Station, which was under construction when this photograph was taken in 1974, is located in a mountainous area which was remote from existing transportation links.*



Opened in 1976, the railway has contributed substantially to the economies of Montenegro, Serbia, and Vojvodina through easier freight shipments, and the number of passengers traveling to Montenegro's tourist resorts has been considerably larger than had been expected.

## Port Development

Complementing the Belgrade-Bar railway project, the World Bank made a loan of \$44 million in November 1974 to assist the expansion of the port of Bar. Although a coastal settlement has existed here since the ninth century, and Bar had competed with Dubrovnik as a commercial center for much of the Middle Ages, it was 1952 before a modern port was built. Before construction of the railway, the port of Bar served only Montenegro and handled about 1.2 million tons of cargo a year. By 1980 the volume is expected to reach about five million tons, supported by a dry cargo wharf, two general cargo berths and modern cargo handling equipment provided under the World Bank-supported project.

*Expansion of the Port of Bar in Montenegro is being assisted by a World Bank loan of \$44 million.*



## CHAPTER 4

# *Assistance to the Industrial Sector*

Industry has been the moving force behind Yugoslavia's impressive economic performance of the last 25 years, providing employment to the growing labor force and opening the country to the world economy. The industrial value added growth rate of 9.4 percent per annum from 1956 to 1975 exceeded the GMP growth rate, and industry's share of GMP grew from 23 percent in 1955 to 37 percent in 1976.

During the 1950's, priority was given to the development of capital goods industries which still make up a considerable portion of total industrial output. The World Bank made loans in 1951 and 1953 to assist a number of key industrial projects which were already under way and were faced with an uncertain future following the 1948 break with the Cominform bloc (*See Chapter 1*), but no further industrial loans were made until 1967.

In the early 1960's the government began to place more emphasis on expansion of processing and consumer goods industries. The reforms of 1965 gave enterprises greater freedom in making production and investment decisions based on market forces, in an attempt to make them more efficient and competitive both domestically and abroad.

### Loans through the Yugoslav Investment Bank, 1967-1970

The World Bank decided to support this broader based modernization program with a loan to seven industrial enterprises in 1967. In other countries the Bank had frequently supported a variety of projects by making loans to Development Finance Companies (DFCs) which would have varying degrees of responsibility for project identification and implementation. However at this time it did not make loans to public sector DFCs, so the 1967 loan for \$10.5 million was made to the Yugoslav Investment Bank (YIB) for on-lending for the projects which the World Bank had identified and would subsequently supervise. A second, similar loan, for \$16 million was made to the YIB the following year to be on-lent to nine enterprises manufacturing a variety of goods including automotive engines, non-ferrous metals, electronics, textiles, and furniture. Both loans helped the government's program of export growth and

import substitution by increasing the capacity, productivity and competitiveness of the enterprises. Loans for individual projects varied in size from \$360,000 to assist plywood and veneer production in Bosnia-Herzegovina to \$5.1 million for expansion of a copper and aluminum rolling mill in Serbia.

While these two loans made an important contribution to broadening and modernizing Yugoslavia's industrial base, the Bank found it difficult to maintain a close involvement in the implementation of such a large number of projects. As a result the next loan to the YIB in 1970 supported only three enterprises. The most significant of these was Zavodi Crvena Zastava (ZCZ), the automobile manufacturer which received \$10 million to support a \$106 million expansion program aimed at increasing car production from 56,000 vehicles in 1968 to 200,000 by the mid 1970's. Both Fiat, under whose license Zastava cars are built, and the Bank's affiliate, IFC, provided additional financing for the project through quasi equity investments. The 1970 loan also provided \$2.8 million to a wheel manufacturer to increase output of automotive wheels to enable it to supply the growing auto industry, and \$6.2 million was committed to Yugoslavia's largest producer of steel tubes. The 1967, 1968 and 1970 loans generated a total of 9,200 new jobs.

### Kikinda Foundry Loan, 1973

The Kikinda iron foundry in northern Vojvodina had received \$1.1 million as part of the 1967 World Bank loan to the YIB, and in November 1973 it became the recipient of the first Bank loan made directly to an industrial enterprise in Yugoslavia. The \$14.5 million loan supported a \$35.1 million expansion and modernization of Kikinda's malleable iron foundry, its gray and nodular iron foundry and its machine tool plant. The project also provided for pollution control equipment to be installed. As the largest producer of castings in Yugoslavia, Kikinda needed to expand and modernize to meet the demands of greater volume and improved quality of Yugoslavia's growing car and truck manufacturing industries, and of its export markets. Production capacity was doubled as a result of the Bank loan, and today Kikinda supplies all the moving parts used in the engines of Zastava cars as well as several other components for cars and trucks. The foundry has been selling machined castings to the General Motors European subsidiaries, Opel and Vauxhall, since 1968 and currently provides them with 5,000 tons of castings a year.

The foundry's modernization has enabled it to sign a joint venture agreement with GM, whereby a new plant will be built alongside the present one. Kikinda will ship machined parts from the new plant to Opel and Vauxhall, which will send back substantially completed vehicles to which Kikinda will add bumpers and other final assembly items. The finished vehicles will fill a gap in the Yugoslav market for medium-size cars.



*Automobile production facilities at the Zavodi Crvena Zastava plant were expanded with assistance from a 1970 World Bank loan through the Yugoslav Investment Bank. IFC provided additional financing to Zastava which builds cars under license from Fiat.*



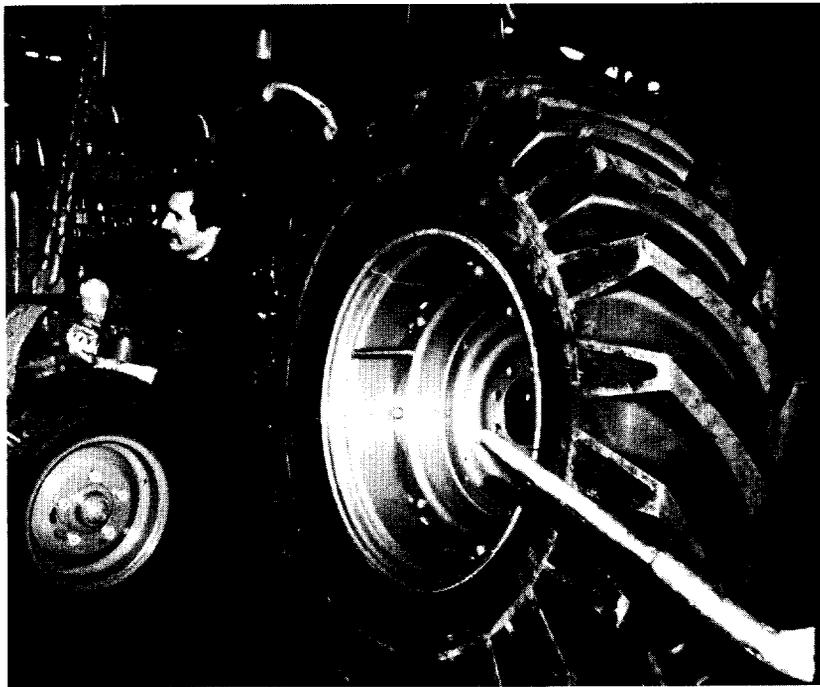
*Paulov Djura is a foreman on the nodular iron line at the Kikinda foundry which was expanded and modernized with assistance from a 1973 World Bank loan.*

Paulov Djura, a 42-year-old foreman on Kikinda's nodular iron line, like many other Yugoslav workers, has prospered as a result of the modernization of the country's industry. Djura started work at the foundry as a 16-year-old on an annual wage of \$120. By 1973, when the World Bank-supported expansion was being planned, his income had risen to \$1,400 per annum, and today he earns \$5,500. In 1973 he was a member of the Workers Council of both the nodular iron BOAL and the Work Organization of Kikinda as a whole. In this capacity he encouraged the workers to vote in favor of the expansion of the plant and explained to them the costs and benefits involved in the World Bank loan. He still participates in the decisions of his BOAL as a regular member and he is also a member of a Socio-Political Organization in the town of Kikinda. Despite some concerns about inflation, Djura enjoys a much better standard of living than he did when he started work in the early days of Yugoslavia's industrialization. He now owns a Zastava 750, a slightly larger model than his first car, a Zastava 101, and he regularly spends two weeks of his month's annual vacation at a resort owned by Kikinda on the island of Brac off the Dalmation coast. All Kikinda's workers contribute 1 percent of their wages to the upkeep of the resort, and are charged varying amounts for their holidays there on the basis of a means test applied to their salaries.

## IMT Tractor Loan, 1974

Another enterprise to benefit from a World Bank loan, made a few months after the Kikinda loan, was Industrija Masina i Traktori (IMT), a tractor plant in Belgrade. Part of the July 1973 "Green Plan" (See *Chapter 2: Agriculture*) called for increased mechanization of Yugoslavia's agricultural sector, and a growth in the country's tractor fleet from 95,400 units in 1972 to 400,000 units by 1990. IMT, which had started production of 35 horsepower tractors under license to Massey Ferguson in 1955, introduced its own models in 1968, and as the largest tractor manufacturer in Yugoslavia, was expected to spearhead the increase in production to meet the Green Plan targets. The 1974 World Bank loan for \$18.5 million supported an \$87.6-million expansion project which included a new assembly plant with transfer lines, 25 km. of overhead conveyors, new paint shops and other facilities including computer equipment for production planning and control. Output increased

*Production of tractors at the IMT factory in Belgrade has increased from 15,000 units in 1974 to 38,000 units in 1978 as a result of a major expansion supported by a World Bank loan.*



from 15,000 units in 1974 to 33,600 units in 1977, the first full year of production at the new plant. In addition to its contribution to the agricultural sector, the project provided 1,445 new jobs and helped to make IMT products more competitive internationally. The factory now builds a range of tractors from a 44-horsepower multipurpose model, which is popular with individual farmers, up to a 223-horsepower deep ploughing model. In 1978 it was able to export 10 percent of its year's production of 38,000 units.

At the same time as the IMT loan, the World Bank made a \$15 million loan to expand production and install pollution control equipment at Fabrika Odlivaka Beograd (FOB), a foundry which had formerly been part of IMT, and still remains the major source of castings for the tractor plant.

### Industrial Credit Loans, 1974, 1976, and 1978

While earlier World Bank loans had contributed to the overall industrialization of the country, they had not given special emphasis to the less-developed regions. By 1974, Bank lending worldwide was aimed at making the poorest members of society more productive, and in Yugoslavia it was trying to channel the greater part of its resources to the less-developed regions.

While industry had been growing faster in the less-developed regions than elsewhere in the country, the growth stemmed from basic industries which capitalized on natural resources and tended to be capital intensive. The less-developed regions' share of processing and fabricating industries like metal products and textiles, which are more labor intensive, was substantially below the national average. Unemployment was higher in the less-developed regions as a whole and in Kosovo it was more than twice the national average.

For several years the Bank had discussed with the government the possibility of financing comparatively small industrial projects through DFCs, which would identify, appraise and implement a large number of projects. At the time of the three loans through the Yugoslav Investment Bank in the 1960's, the World Bank did not lend to publicly owned DFCs, but this policy had since changed and loans were now being made to public sector DFCs in several countries.

Privredna Banka Sarajevo (PBS), Stopanska Banka Skopje (SBS), Investiciona Banka Titograd (IBT), and Kosovska Banka Pristina (KBP), the main banks of Bosnia-Herzegovina, Macedonia, Montenegro, and Kosovo, respectively, were chosen as the institutions to which the DFC loans should be made. These banks are well integrated with the economies of their regions and 80 percent of investment finance is channeled through them.

The Bank's First Industrial Credit loan for \$50 million was made in June 1974 to SBS in Skopje and PBS in Sarajevo. SBS received \$28

million, of which \$16.6 million was for on-lending to KBP in Pristina while PBS received \$22 million with \$6 million being earmarked for IBT in Titograd. At the time of the loan, SBS and PBS were considered to be the strongest of the four institutions and better able to act as intermediaries for World Bank financing.

The funds were to be lent by the four banks for small and medium-size sub-projects in manufacturing and processing industries with a maximum sub-project limit of \$5 million, of which the maximum amount of World Bank funds would be \$2 million. Commitment of World Bank funds of less than \$200,000 was permitted without prior review for approval by the World Bank, and an aggregate of 25 percent of each bank's share of the loan could be committed without the sub-loans being reviewed by the World Bank. As well as contributing to a more equitable industrial growth, the project also was designed to strengthen the institutional capability of the four participating banks, with the two lead

*Modernization of the Kosuta footwear factory at Cetinje, the ancient capital of Montenegro, is being assisted by a loan of \$139,000 through Investiciona Banka Titograd as part of the World Bank's Second Industrial Credit project.*



banks being required under the loan agreement to set up joint units with their "partner" banks for the purpose of implementing the project.

The four banks were successful in identifying suitable sub-projects, and when the Second Industrial Credit loan was signed in June 1976, more than \$42 million of the original \$50 million loan had been committed to 64 sub-projects. The capability of appraising projects, the main institution-building element of the first loan, had progressed well, and it was now felt that all four banks were qualified to be direct recipients of the second loan.

The 1976 loan was therefore made to PBS (\$16 million), SBS (\$114 million), IBT (\$6 million), and KPB (\$16.6 million), for a total of \$50 million. The free limit for sub-loans (above which, World Bank approval would be required) was raised to \$500,000 and the aggregate free limit to 40 percent. This was an indication of the Bank's increased confidence in the borrowers' appraisal capability. To encourage the four banks to obtain foreign co-financing, an extended grace period was permitted in those instances where the World Bank loan would be supplemented by other foreign exchange financing to compensate for the customarily shorter grace periods offered by commercial banks.

A typical sub-project, financed in 1977 by Privedna Banka Sarajevo, was for expansion and modernization of a factory making refrigeration and airconditioning units at Citluk near Mostar. World Bank funds totaling \$725,810 were contributed to the total project cost of \$4,278,800, with 123 jobs being created. Other sub-projects have supported a wide range of enterprises.

The Bank's next commitment for industrial credit was through four loans signed in July 1978, the Third Industrial Credit project loan to Kosovska Banka Pristina for \$40 million, and the Fourth Industrial Credit project, comprising loans to the remaining three banks, with each receiving \$20 million. The unique development problems of Kosovo, the country's poorest province, necessitated the division into two projects.

Each line of credit focuses on alleviating unemployment, and they are the first loans to Yugoslavia containing a specific component to encourage labor-intensive enterprises. In each loan \$5 million is earmarked for sub-projects which will provide employment at a maximum cost per job of \$23,000. Half of the loan to KBP is to finance three specific "Special Projects" that use local raw materials, are located in underdeveloped communes, and will help to diversify the industrial sector. One of these projects, the modernization of a lead smelter, will save the jobs of 1,000 people because the old plant emitted such a high level of pollutants that its closure was imminent. The other two projects are for establishment of a battery plant and a battery casing plant—facilities which are expected to export 70 percent of their production. In addition to improving the atmosphere in the area of the lead smelter, the loan also provides for anti-pollution devices at the battery plant. Appraisal of the

latter two projects contributed to Kosovska Bank Pristina's institution building as they were jointly appraised by World Bank-hired consultants and KBP staff.

Improvement in project appraisal work by the four banks, and the World Bank's familiarity with them and confidence in their capabilities, is reflected in an increase in the free limit from \$500,000 to \$1 million under the Third and Fourth loans. The aggregate free limit was also increased for each bank from 40 percent to 60 percent, thus allowing the World Bank to review for approval about three or four sub-projects per bank.

Courses have been conducted by the World Bank to train the staffs of the industrial credit units within the banks in appraisal methods, preparation of procurement documents and other World Bank methodology such as calculating the economic rate of return for a project. Kosovska Banka Pristina has had particular difficulty in training its staff; so \$300,000 of the Third Industrial Credit loan is set aside for technical assistance in educating staff.

## CHAPTER 5

### *Health and Environment: Sarajevo Air Pollution and Water Loans, 1976*

Few visitors to Sarajevo fail to go to the little stone bridge over the Miljacka river where the Archduke Franz Ferdinand was assassinated in June 1914, sparking off the First World War. Today, however, it is hard for the tourists to imagine that when Gavrilo Princip fired those famous shots, the Miljacka was a clear mountain river flowing through a city of fine architecture and green hillsides. The city still has its Turkish mosques and Hapsburg townhouses, lining cobbled streets, but the river of today is no longer a source of clean water, and the hillsides are covered with buildings which can rarely be seen through the sulfur-polluted air.

The rapid industrialization of Sarajevo since the late 1940's, while giving prosperity to thousands of people from the poor surrounding country, brought pollution with it. The city has grown from a population of about 75,000 in 1945 to over 350,000 today. Many of the new residents work in factories powered by furnaces running on lignite and coal which emit a heavy sulfur-laden brown smoke. The same fuels are used to heat their homes.

The most densely populated part of Sarajevo lies along the Miljacka river, in an area cradled by the steep slopes of the surrounding mountains. The narrow valley inhibits the flow of air in and over the city, and during the winter months, temperature inversions—where warm air is trapped under a lid of colder air—are frequent. Large quantities of sulfur dioxide pollutants accumulate under the inversion lid, and when the temperature drops below freezing the smog thickens as more people burn lignite and coal to stay warm.

A level of more than 300 micrograms of sulfur dioxide per cubic meter of air ( $\mu\text{g}/\text{m}^3$ ) occurring for three or four days is generally considered to be harmful to health. International air quality standards differ from country to country, but, on average, call for maximum levels of about 150  $\mu\text{g}/\text{m}^3$ . The average winter concentration in the center of Sarajevo is 600  $\mu\text{g}/\text{m}^3$ , while the entire metropolitan area is regularly exposed to concentrations above 200  $\mu\text{g}/\text{m}^3$ , giving Sarajevo higher levels of sulfur oxides and particulates than were measured in the notorious London smog of 1952 which took many lives.



*The heavily polluted Miljacka river flows under the bridge in Sarajevo where the Archduke Franz Ferdinand was assassinated in 1914. In winter the city's buildings can rarely be seen through the sulfur-polluted air.*

The weekly death rate in Sarajevo climbs during periods when air pollution reaches high levels, and hospital admissions of patients with respiratory and cardiovascular problems rise alarmingly. Productivity in the factories declines, housewives go shopping with scarves wrapped over their mouths, and schoolchildren are taken in buses to the nearby hills to a level above the inversion line.

Sarajevo's water also is seriously polluted. The city's water distribution pipes were installed in the days of the Austro-Hungarian empire and are so badly corroded that leakage necessitates frequent water rationing. The sewerage system also dates from the turn of the century and was designed to serve a population of 60,000. Much of the city's sewage empties into the Miljacka and makes up more than half of the river flow. Sewage, leaking from this antiquated system, seeps into the city water supply through the deteriorating water pipes causing a serious health hazard. Sarajevo has suffered epidemics of typhoid, hepatitis and diarrhea, and between 1967 and 1973, more than 8,500 cases of waterborne diseases were reported.

City officials, who felt that a crisis had been reached in the early 1970's, formed a Commission on Environment to advise the city on the problems of pollution and possible solutions. The issue was discussed in Socio-Political Organizations, the Councils of the Communes, and



*Natural gas pipes are being installed as part of a World Bank-supported project to reduce air pollution in Sarajevo. The project provides for 300 central heating plants and 10,000 houses to be converted to use natural gas instead of lignite and coal.*

through public meetings. In 1973, a referendum was held on the question of financing, and the citizens voted overwhelmingly in favor of imposing a tax ranging from 1.5 percent to 2.5 percent on their incomes to pay for better health facilities and an improved water and sewerage system.

Over the next two years the World Bank worked closely with the Sarajevo authorities to develop two projects to reduce air and water pollution. In May 1976 loans for \$38 million to alleviate Sarajevo's air pollution and \$45 million for improved water supply and sewerage were approved.

The Air Pollution loan was the first of its kind ever approved by the Bank. It provided for a 265-km. branch pipeline to be built, connecting Sarajevo to the country's natural gas network (which had been financed with assistance from an earlier Bank loan) at a point near Belgrade. This will be linked to a distribution ring around Sarajevo, and 160 km. of service lines will be installed to serve 300 central heating plants and 10,000 houses which will be converted to use the new fuel.

The second loan will contribute to providing water supply and sewerage for an area about twice that covered by the old system. A sewage treatment plant is being built, and new filters, collectors, and main sewers will be installed. The old water mains and distribution pipes are

being replaced, new reservoirs and pumping stations are being built and the old ones are being expanded.

Sarajevo's citizens are constantly being reminded of the projects by the obstruction being caused by the laying of new pipes, but they are enthusiastic about the anticipated rebirth of their city. Sarajevo's confidence in its more healthy future has been reinforced by the decision of the International Olympic Committee which has chosen Sarajevo as the site for the 1984 Winter Games.

## CHAPTER 6

# *Institution Building, Technical Assistance, and Yugoslavia's Contributions to the World Bank*

Cooperation between Yugoslavia and the World Bank has not been limited to the lending program. Economic and technical advice and assistance have been given to Yugoslavia in many areas affecting its development, and Yugoslavia, in turn, has contributed to the World Bank's financial resources.

### **Institution Building**

The World Bank has fostered institution building in a number of fields. The establishment of an auditing capability is one example. A condition of World Bank loans is that borrowers must have their financial statements presented and audited in accordance with internationally accepted accounting and auditing practices. Yugoslavia has for many years had a Social Accounting Service (Sluzba Drustvenog Knjignovodstva or SDK) responsible for the inspection of financial reports in accordance with Yugoslav law. However, in the past, SDK concentrated more on adherence to legal requirements than on the application of modern auditing techniques. The requirements of the Bank loan agreements gave impetus to SDK's desire to develop this additional capability. With World Bank support and assistance, SDK now has over 100 auditors at various levels of training and was able to audit the financial statements of about 30 enterprises and five systems of banks in 1978.

This new capability had its origins in 1974 when, as a result of arrangements agreed upon between SDK and the Bank, a group of 26 Yugoslavs spent several months in the United Kingdom on a training program conducted by the international accounting firm, Coopers and Lybrand. They subsequently returned to Yugoslavia to share with Coopers and Lybrand the work of auditing selected Yugoslav enterprises. Until 1976, joint audits were conducted by SDK and Coopers and Lybrand, but since then the audits have been the full responsibility of SDK, with Coopers' acting as consultants and training advisors.

Some of the original 26 trainees are now training new SDK auditors. World Bank officials have attended several of the formal training sessions and have also visited the auditors at work in the enterprises. SDK audits of Yugoslav enterprises now extend beyond Bank-supported projects, and they facilitate participation in joint ventures by foreign partners. For this purpose, SDK staff also converts the financial statements of Yugoslav enterprises and banks to a format which can be internationally understood.

## Education and Training

While most World Bank loans contain a technical assistance component, the Bank also undertakes regular formal training of nationals of its member countries as part of its institution-building efforts. The Economic Development Institute (EDI) was established in Washington in 1955 to improve the quality of economic management in developing countries by providing training for officials involved with development programs and projects. A Yugoslav, Leon Rip, who is now an official of the Federal Economic Planning Institute in Belgrade, was a fellow of the first course ever conducted by EDI in 1956. Since then, 33 Yugoslavs have attended courses in Washington and more than twice that number have completed courses held in Yugoslavia. Some of these EDI "graduates" have subsequently conducted training courses in Yugoslavia, adding considerably to the number of officials who are now equipped to work closely on World Bank-supported and other development projects. One Yugoslav, Aleksander Virag, a 1972 EDI fellow is helping the development program of another country while maintaining links with EDI. As UN transport advisor to the East African Management Institute he has acted as coordinator for two EDI transportation courses held in Tanzania.

A typical recent EDI fellow is Branko Radonic, who is playing an important role in Yugoslavia's agricultural development program. Radonic joined Vojvodjanska Banka in 1974, at about the time that a World Bank appraisal mission was formulating the First Agricultural Credit project. Vojvodjanska Banka had been chosen as the lead borrowing bank for the \$50 million loan, and it, in turn, was to on-lend the funds to the banks of the six republics and Kosovo for them to provide credit to individual farmers and to social sector projects (*see Chapter 2: Agriculture*). Because this was the first loan of its kind in Yugoslavia, an important component provided for the training of the various officials throughout the country who would be involved in its implementation. Radonic, who had been appointed to the IBRD section of Vojvodjanska Banka, participated in a course held in Novi Sad in 1975 in which instruction was given in agricultural projects appraisal and preparation.

The course was conducted by a Yugoslav EDI fellow, Zorka Zakic, using EDI course materials.

Radonic subsequently worked closely with the World Bank on implementation of both this loan and the second agricultural credit loan of 1977. In June 1977 he came to Washington for nine weeks to participate in an EDI Agro-Industrial Projects course. With 28 other fellows from 22 countries and five international organizations, he studied project identification, financial, economic and market analysis; cost estimating and project financing. Since his return to Yugoslavia, Radonic has continued to work on World Bank projects and has instructed officials responsible for implementing the two agricultural credit projects in the methods taught by EDI in Washington. Officials responsible for implementation of World Bank projects in other sectors have undertaken similar training programs.

In addition to teaching project appraisal methods, efforts are made to instruct officials in other aspects of project implementation including procurement. Procurement of goods and services for use in Bank projects is largely the responsibility of the borrower, but the Bank has established strict guidelines to ensure economy and efficiency, while giving enterprises in all the member countries an opportunity to compete. To encourage the development of local contractors and manufacturers, bids from enterprises in the borrowing countries receive a 15 percent cost preference.

The bank has conducted seminars both for Yugoslav firms interested in bidding on projects within Yugoslavia and in other member countries, and for borrowers, sub-borrowers and consultants in Yugoslavia who have the responsibility of preparing tender documents. Two groups of Yugoslavs totaling 91 people attended a seminar of the latter type at the Sava Center in Belgrade in May 1978. World Bank officials with expertise in the procurement field were joined by others with long exposure to the Yugoslav economic system to discuss the Bank's procurement policies and procedures and give practical advice to a group representing governments, banks enterprises and consulting firms. Some months later, 45 other Yugoslav officials were able to learn how to prepare tender documents and participate in international competitive bidding when a procurement seminar was conducted at Vojvodjanska Banka.

### Procurement Contracts for Yugoslav Enterprises

Yugoslav enterprises supplied goods and services worth \$124.9 million for World Bank projects in Yugoslavia in Fiscal Year 1978, a considerable increase over the 1977 total of \$84 million. Contracts won by Yugoslav firms for projects in other Bank member countries totaled \$31.7 million in FY1978, compared with the 1977 figure of \$4.61 million. In FY1978, the Yugoslav share of all procurement for World Bank and IDA projects was 5 percent.

## Yugoslavia's Contributions to the Resources of the World Bank

Yugoslavia has continually expressed strong support for the World Bank's policies and objectives and is one of a small number of the Bank's borrowing member countries to have contributed to IBRD and IDA resources.

Yugoslavia was one of seven Part II<sup>1</sup> countries to volunteer a contribution to the initial subscriptions of IDA by committing \$4.04 million in 1960. It was the first Part II country to contribute to an IDA replenishment when it gave \$4.04 million to IDA-3, and it has committed a total of \$13 million to subsequent IDA replenishments.

Yugoslavia's initial subscription to the World Bank's capital was \$53.35 million in 1946 (of which \$10.67 million was paid in) and it was one of the first member countries to authorize its entire paid-in subscription to be released to fund the Bank's early lending program. Its subscription was doubled in the 1959 general capital increase and has been supplemented through subsequent selective capital increases. Yugoslavia's capital subscription at the end of FY1979 stood at \$153.5 million. Yugoslavia was an early and persistent advocate of the proposal to double the Bank's capital from its FY1979 level of about \$40 million.

Yugoslavia has also made loans to the World Bank. The greater part of the Bank's lending program is funded on the world's financial markets through the sale of the Bank's bonds and through private placements and official placements with governments, their agencies or central banks. In 1959 Yugoslavia bought its first World Bank two-year bonds and has regularly purchased more in the years since then. At the end of FY1979, the National Bank of Yugoslavia held outstanding World Bank bond obligations totaling \$29.5 million.

The World Bank has also borrowed from the National Bank through placement of notes. In September 1975 the World Bank borrowed \$50 million from the central bank at an interest rate of 8.5 percent through five-year notes, and in July 1977 a second placement was made for \$100 million at 8.1 percent interest in seven-year notes.

Yugoslavia's contributions to the World Bank's resources are representative of the cooperation which extends well beyond the making of loans by the Bank.

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1. Part I countries are the high-income members of IDA, while Part II countries are the relatively less-developed members.

## CHAPTER 7

# *The International Finance Corporation in Yugoslavia*

Yugoslavia is the second largest recipient of IFC financing and has received 8 percent of the Corporation's total financing. Fourteen IFC investments totaling approximately \$170 million have been made in Yugoslavia. Of these, 12 investments amounting to \$155 million were made in 10 manufacturing projects. One \$2 million investment was made in a development finance and servicing institution and one \$6 million investment was made in an agribusiness enterprise.

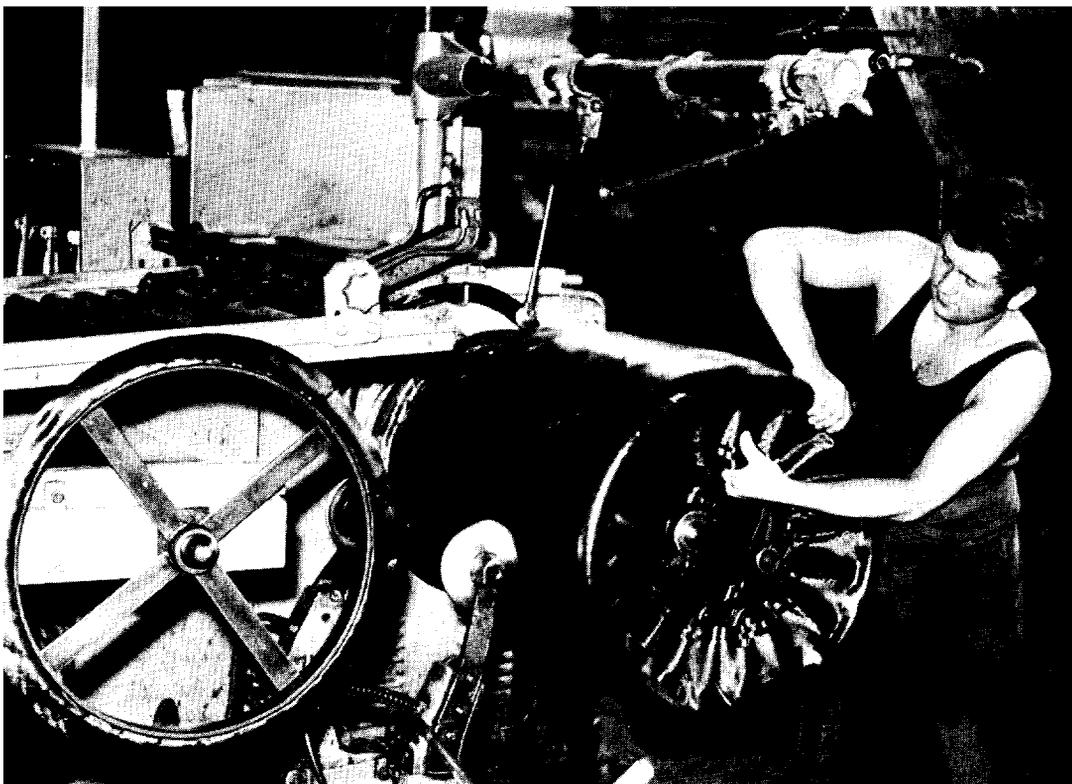
### IFC Projects

IFC's first Yugoslav investment was made in 1969 for a pioneering type investment company—International Investment Corporation for Yugoslavia (IICY)—helping to link foreign firms with Yugoslav enterprises in order to establish joint industrial, agricultural, tourism, and other service ventures in the country.

This was followed by IFC support for a more than \$100 million project to double the production of Zavodi Crvena Zastava to 193,000 automobiles a year; for an \$80 million project to modernize and double Tovarna Avtomobilov in Motorjev Maribor's production of light and medium-size trucks and buses and introduce production of a new-design diesel engine; and then for a third automotive project—an approximately \$80 million venture to modernize and more than double Fap-Famos Belgrade's heavy commercial vehicle production.

In 1972 the Corporation helped finance a \$25 million project by Tovarna Avtopnevmatike "Sava-Semperit" to produce 13,700 metric tons of radial automotive tires a year. A further expansion of the enterprise was supported by IFC in 1978 when it helped finance a \$42 million increase in productive capacity.

In 1973, Belisce-Bel Tvoronica Papira, Poluceluloze i Kartonaze undertook, with IFC assistance, an approximately \$50 million project to almost triple output of container board and containers to 95,000 metric tons a year. And the following year IFC joined Z. P. Slovenske



*Tovarna Avtopnevmatike "Sava-Semperit," a tire factory at Kranj in Slovenia, has expanded its facilities with assistance from two IFC investments.*

Zelezarna Jesenice, Yugoslavia's second largest steel producer, in financing a new \$96 million, 88,000 metric tons a year special steels cold rolling mill. Also in 1974, IFC supported construction of a \$70 million, 850,000 metric tons a year cement plant by Salonit Anhovo Industrija Gradbenega Materiala, an important regional cement producer in Slovenia.

IFC's largest investment in Yugoslavia was a \$50 million loan, syndicated in part to international banks, in 1975 for Rudarsko Metalurški Kombinat Zenica, the country's biggest integrated-steel producer, for a \$37 million expansion project. In 1977, the Corporation helped finance the \$62 million, 45,000 metric tons a year paperboard plant of Tvornica Kartona i Ambalaze Cazin. The same year, the Corporation joined in establishing Frikom R.O. Industrija Smrznute Hrane, a \$40 million project to produce annually 15,000 metric tons of frozen ready meals, frozen bakery products and vegetables, and 2,500 tons of ice cream. Radna Organizacija Hermeticki Kompresori u Osnivanju, Mostar, a \$40 million venture to manufacture 1.2 million small compressors for use mainly by the Yugoslav household refrigerators industry, was assisted by IFC in 1978.

## IFC Strategy and Future Plans

IFC's past investment strategy in Yugoslavia is closely coordinated with the government's development efforts and has two principal characteristics.

First, it aims largely at encouraging projects that will bring in both foreign technology and foreign financial support. In 10 of the Yugoslav projects in which IFC invested, technical and financial assistance was provided by leading companies of Austria, Germany, Italy, the Netherlands, and the United States. In three other projects which did not require foreign technical assistance, the Corporation's main role was mobilizing financing from foreign sources. In one of the cases, IICY, nearly 40 foreign financial institutions joined 12 Yugoslav institutions and IFC in providing capital for the project.

Second, IFC investments have been heavily in the industrial sector. This reflects both Yugoslavia's objectives and the Corporation's role of supporting ventures which build on the basic infrastructure developed with the assistance of the World Bank and others. IICY is similarly oriented towards such investments although its role is not primarily a financial one but rather a service function of both Yugoslav and foreign enterprises interested in joint venture activity.

In the future IFC expects to increase its portfolio of Yugoslav enterprises. It will continue to try to facilitate joint ventures as well as joint financings with the international community. In addition, the Corporation will make special efforts in helping to define and structure projects in the lesser developed areas of Yugoslavia. Another area where IFC is currently doing work that could help Yugoslavia in dealing with its priority needs is small-scale enterprises. This sector, relatively speaking, has been at a disadvantage in obtaining financial and technical services. But new policies have been formulated in each republic to deal with the situation and IFC is working on a plan to provide some of the financial resources needed to make these new policies effective.

## *Tables*

**Statement of World Bank Loans (as at June 30, 1979)**

<i>Year</i>	<i>Borrower(s)</i>	<i>Purpose</i>	<i>US\$ million Original Amount</i>
1949	Socialist Federal Republic of Yugoslavia	Timber Equipment	2.7
1951	Socialist Federal Republic of Yugoslavia	Power, Mining Industry etc.	28.0
1953	Socialist Federal Republic of Yugoslavia	Key Projects	30.0
1961	Yugoslav Investment Bank	Power	30.0
1962	Yugoslav Investment Bank	Power	30.0
1963	Yugoslav Investment Bank	Roads	35.0
1963	Yugoslav Investment Bank	Railways	35.0
1964	Yugoslav Investment Bank	Railways	70.0
1967	Yugoslav Investment Bank	Roads	10.0
1967	Yugoslav Investment Bank	Industrial	10.5
1968	Yugoslav Investment Bank	Railways	50.0
1968	Yugoslav Investment Bank	Industrial	16.0
1969	Socialist Federal Republic of Yugoslavia	Roads	30.0
1970	Yugoslav Investment Bank	Industrial	18.5
1970	Yugoslav Investment Bank	Telecommunications	40.0
1970	Socialist Federal Republic of Yugoslavia	Roads	40.0
1971	Socialist Federal Republic of Yugoslavia	Roads	35.0
1971	Hotel Bernadin, Piran	Tourism	10.0
1971	Socialist Federal Republic of Yugoslavia	Ibar Multipurpose Water	45.0
1971	"Babin Kuk" Hotelsko Turisticki Centar, Dubrovnik	Tourism	20.0
1972	Twelve Electric Power Enterprises in Yugoslavia	Power	75.0
1973	Stopanska Banka, Skopje	Agricultural Industries	31.0
1973	Naftagas	Gas Pipeline	59.4
1973	Kikinda	Iron Foundry	14.5
1974	Industrija Masina i Traktora	Tractor Factory	18.5
1974	Fabrika Odlivaka Beograd	Iron Foundry	15.0
1974	Bosnia-Herzegovina Road Funds	Roads	30.0
1974	Stopanska Banka, Skopje	Industrial Credit	28.0
1974	Privredna Banka Sarajevo	Industrial Credit	22.0

*cont'd*

Statement of World Bank Loans (as at June 30, 1979) *cont'd*

<i>Year</i>	<i>Borrower(s)</i>	<i>Purpose</i>	<i>US\$ million Original Amount</i>
1974	Community of Yugoslav Railways	Railways	93.0
1974	Port of Bar	Harbor Expansion	44.0
1974	Vodovod Dubrovnik	Water Supply and Wastewater	6.0
1975	Vojvodjanska Banka	Agricultural Credit	50.0
1975	Republic Roads Organizations of Slovenia, Montenegro, and Serbia	Roads	40.0
1975	Jugoslavenski Naftovod	Pipeline	48.4
1976	Republiki Fond Voda	Water Supply, Sewerage & Water Resources	20.0
1976	Sarajevo Water Supply & Sewerage Enterprise	Water Supply & Sewerage	45.0
1976	Sarajevo Gas Enterprise & Naftagas Gas Unit	Air Pollution Control	38.0
1976	Privredna Banka Sarajevo, Stopanska Banka Skopje, Investiciona Banka Titograd, Kosovska Banka Pristina	Second Industrial Credit	50.0
1977	Management Organization "Metohija"	Multipurpose Water	54.0
1977	Investiciona Banka, Titograd	Agriculture Industries	26.0
1977	Stopanska Banka, Skopje	Agriculture Industries	24.0
1977	Roads Organizations of Bosnia-Herzegovina, Serbia, Kosovo, and the Republic of Macedonia	Roads	56.0
1977	JUGEL and six Electric Power Organizations in each Republic	Second Power Transmission	80.0
1977	Vojvodjanska Banka	Second Agricultural Credit	75.0
1978	Community of Yugoslav Railways	Railways	100.0
1978	Republic Road Organizations of Slovenia, Croatia and Serbia	Roads	80.0

*cont'd*

**Statement of World Bank Loans (as at June 30, 1979) *cont'd***

<i>Year</i>	<i>Borrower(s)</i>	<i>Purpose</i>	<i>US\$ million Original Amount</i>
1978	Elektroprivreda Bosne i Hercegovine	Hydro Power	73.0
1978	Kosovska Banka Pristina	Third Industrial Credit	40.0
1978	Privredna Banka Sarajevo	Fourth Industrial Credit	20.0
1978	Stopanska Banka Skopje	Fourth Industrial Credit	20.0
1978	Investiciona Banka Titograd	Fourth Industrial Credit	20.0
1978	Stopanska Banka Skopje	Macedonia Strezevo Irrigation	82.0
1978	Privredna Banka, Sarajevo	Bosanska Krajina Agri- culture and Agro- Industries	55.0
1979	Roads Organizations in Bosnia- Herzegovina, Montenegro, Kosovo, Vojvodina, and the Republic of Macedonia	Roads	148.0
Total			2,267.1

**Statement of IFC Investments (as at June 30, 1979)**

<i>Year</i>	<i>Obligor</i>	<i>Type of Business</i>	<i>(Amount in US\$ million)</i>		
			<i>Loan</i>	<i>Equity</i>	<i>Total</i>
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	2.6	10.1
1972	FAP-FAMOS Belgrade/Daimler Benz A.G.	Automotive Industry	13.8	3.4	17.2
1972/78	Sava/Semperit	Tires	11.3	3.8	15.1
1973	Belisce/Bel	Pulp and Paper	13.3	—	13.3
1974	Zelezarna Jesenice/ARMCO	Special Steel	10.0	—	10.0
1974	Salonit Anhovo	Cement Plant	10.0	—	10.0
1975	Rudarsko Metalurski	Steel	50.0	—	50.0
1977	Frikom ro Industrija Smrznute Hrane	Food and Food Processing	4.0	2.5	6.5
1977	Tvornica Kartona i Ambalaze Cazin	Pulp and Paper Products	15.7	2.6	18.3
1978	Soko Mostar	Hermetic Compressors	7.0	—	7.0
		<b>Total</b>	<b>147.6</b>	<b>24.9</b>	<b>172.5</b>

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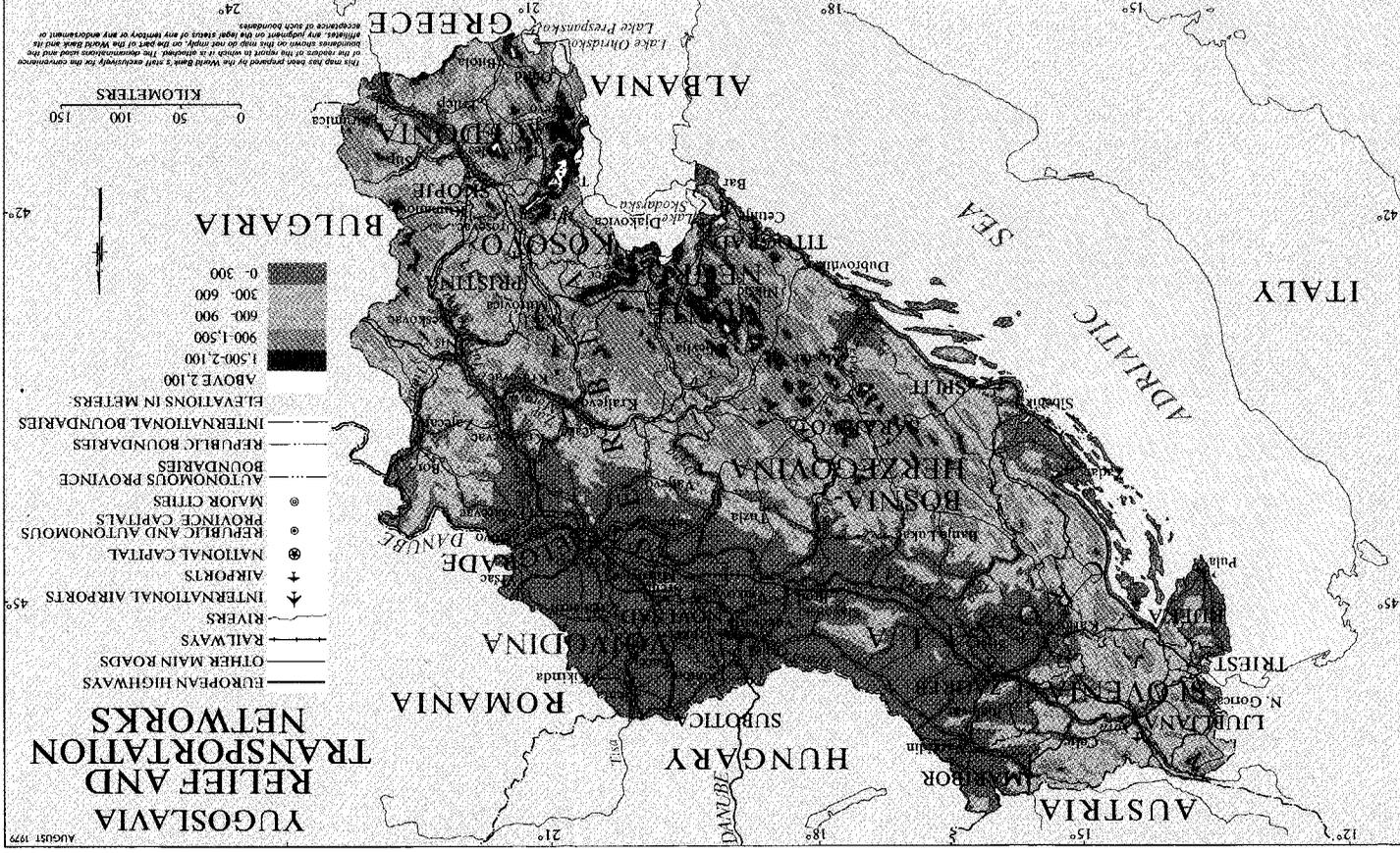
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*Page 31: Zavodi Crvena Zastava*

*Page 47: Sava-Semperit*



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