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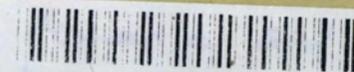
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Folder 2

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POSSIBLE FY80 PROJECT

Project: Croatia Sava Drainage

Project

Description:

Project is part of Croatia's long-term drainage development program for the Sava River Basin. The project would drain 44,000 ha. of land, increasing arable land by 19,700 ha. and improving crop yields and cropping intensity on 24,300 ha. As a result, productivity, income and employment of the rural population would be raised. The project would also establish extension and land consolidation programs and strengthen institutions involved in the project.

Borrower: Zagrebacka Banka (ZB)

Project Authority/

Implementing

Agency:

Sava River Authority

Estimated Project

Cost:

US\$ Million

<u>Local</u>	<u>Foreign</u>	<u>Total</u>
81.5	51.1	132.6

Financing Plan:

US\$ Million

Percent of Total

IBRD Loan	51.0	39
ZB	55.1	41
Sub-borrowers	<u>26.5</u>	<u>20</u>
Total	<u>132.6</u>	<u>100</u>

Status:

- (i) Loan has been negotiated. Approval of negotiated documents by Yugoslav authorities is awaited.
- (ii) Project Unit to be established.
- (iii) Subsurface drainage investigations to be carried out.
- (iv) Extension service to be established.

Anticipated Timing

of Processing:

Board: August 28, 1979 (tentative)

POSSIBLE FY80 PROJECT

Project: Eleventh Highway

Project
Description:

The project will form the second tranche of Trans-Yugoslav Highway (TYH) Project and will focus on eliminating bottlenecks and facilitating traffic flows on E-94 (TYH), Yugoslavia's primary highway artery. The project would comprise construction/reconstruction of high priority sections of E-94 totalling about 75-100 km and would include for the first time a highway safety program. The benefits of the proposed project would permeate the entire Yugoslav economy.

Borrowers: To be determined.

<u>Estimated Project</u> <u>Cost:</u>	US\$ Million		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	310	140	450

Financing Plan:

US\$ Million

IBRD Loan 85

Balance to be found from local sources and co-financing for the foreign costs.

Status:

- (i) All feasibility studies and detailed engineering to be completed by August 1979.
- (ii) Appraisal to be dependent on concrete plans for co-financing of the foreign costs.

Anticipated Timing
of Processing:

Appraisal Mission: August-September 1979
Negotiations: February 1980
Board: April 1980

POSSIBLE FY80 PROJECT

Project: Third Agriculture Credit (see Annex G(vii)(a), para. 12).

Project Description: The project would provide (a) credit for primary production to the individual sector mainly for vegetable, fruit, live-stock and hop production as well as for tobacco dryers and support services, such as milk collection stations, small irrigation schemes, pasture improvement, and grain-drying facilities; and (b) subloans for processing capacities in the social sector, which would finance investments in vegetable, fruit, wine, milk, and meat processing.

Borrower: Same as Second Agricultural Credit Project--Vojvodjanska Banka

Loan Distribution: Same as Second Agricultural Credit Project--one participating bank in each republic and province.

Bank Loan: US\$110 million.

<u>Estimated Project Cost:</u>	US\$ Million		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	198.0	111.0	309.0

Status:

- (i) Project was appraised May, 1979
- (ii) Bank position regarding on-lending interest rates on Bank and local funds to be reviewed in light of on-going study on interest rates by Yugoslav Association of Banks (undertaken under Second Agriculture Credit Project). It is unlikely that sufficient information will be available prior to the December 1979 completion date of the study to enable staff recommendations to be finalized and negotiations held before January 1980.

Anticipated Timing of Processing:

Mission to review status of Yugoslav interest rate study:	September 1979
Completion Yugoslav interest rate study:	December 1979
Negotiations:	January 1980
Board:	March 1980

POSSIBLE FY81 PROJECT

Project: Kosovo Agricultural Processing, Agro-industries and Forestry; and Macedonia Third Agriculture and Agro-Industries Project.

Project
Description:

The project would consist of:

- (i) Agro-industry development through expansion of processing facilities;
- (ii) forestry development, access roads, equipment reforestation, nurseries, research and training;
- (iii) support services for individual farmers through extension service, research and training;
- (iv) groundwater study to form basis for selecting future groundwater irrigation projects in Kosovo.

Borrower: Udruzena Kosovska Banka (UKB) and Stopanska Banka Skopje (SBS)

Estimated Project

Cost: US\$255 Million

Financing Plan: IBRD Loan US\$115 Million
Source of balance to be determined.

- Status:
- (i) UKB to strengthen its agriculture and agro-industries department;
 - (ii) organization of suitable and effective agricultural extension service urgently needed in Kosovo;
 - (iii) consultants' assistance required in Kosovo to analyze technical and economic feasibility of certain proposed investments;
 - (iv) SBS to identify project components and begin preparation;
 - (v) on-lending interest rates to be determined in light of findings of interest rate study being carried out by the Association of Yugoslav Banks;
 - (vi) Detailed organizational arrangements to be established.

Anticipated Timing
of Processing:

Pre-appraisal: October 1979
Appraisal: May 1980
Negotiations: December 1980
Board: March 1981

POSSIBLE FY81 PROJECT

Project: Industrial Credit V.

Project
Description: Line of credit to finance:

- (i) small and medium-sized manufacturing and processing industries in each of the four LDRs; and
- (ii) joint venture enterprises with one or all of the four DRs.

Borrowers: Privredna Banka Sarajevo
Stopanska Banka Skopje
Investiciona Banka Titograd
Kosovska Banka Pristina

Bank Loan: About US\$100 million

- Status:
- (i) On-lending interest rates to be determined in light of study on interest rates by Association of Yugoslav Banks.
 - (ii) Allocation for labor-intensive projects, maximum sub-loan size, free limit to be reviewed.
 - (iii) Sub-project selection criteria for joint venture component to be defined.
 - (iv) Appropriate timing for Kosovo part of credit to be determined if third credit line is not sufficiently committed by KBP.

Anticipated Timing
of Processing:

Pre-appraisal:	June 1979
Appraisal:	October-November 1979
Negotiations:	April 1980
Board:	June 1980

POSSIBLE FY81S PROJECT

Project: Third Power Transmission Project.

Project Description: Third phase of a national integrated 400 KV power transmission network. Primary component would be integrated dispatch system.

Borrowers: Same as under previous two transmission loans: six electric power organizations in the Republics of Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Slovenia. The loan would be distributed among six Borrowers in proportion to the estimated cost of the project within their respective Republics.

Coordinator: Same as under the previous two transmission loans: The Union of Yugoslav Electric Power Industry (JUGEL).

Bank Loan: About US\$80 million

<u>Estimated Project Cost:</u>	US\$ Million		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	160.0	188.0	348.0

Status:

- (i) Feasibility study to be completed by Yugoslavs July-August.
- (ii) National least cost development study under Second Power Transmission Project is delayed now expected by end-1979.
- (iii) Management studies (under Second Power Transmission Project) of individual, apex republic power organization delayed and expected to be underway by late 1979.

Anticipated Timing of Processing:

Pre-appraisal:	September 1979
Appraisal:	November 1979
Negotiations:	April 1980
Board:	June 1980

POSSIBLE FY81 PROJECT

Project: Montenegro Regional Water Supply.

Project Description: Improvement and expansion of water supply and sewerage facilities in the coastal areas of Montenegro. Project definition is awaiting the finalization of emergency measures to restore minimal water and sewerage facilities in the earthquake region and agreements with the Republics of Croatia and Bosnia-Herzegovina for use of the Platt River water in Montenegro.

Borrower: To be determined.

Estimated Project Cost: To be determined.

Financing Plan: To be determined.

Status:

- (i) Project redefinition awaited.
- (ii) Finalizing establishment of the Regional Water and Sewerage Enterprise to carry out construction and, in due course, take over all operations.
- (iii) Tariff policy.

Anticipated Timing of Processing: Project definition is expected by August/September 1979, at which time the Bank can expect a request for accelerated processing. In the meantime, the timetable is being held in abeyance.



YUGOSLAVIA

BANK LENDING - REGIONAL BREAKDOWN

	4 LDRs	Slov- venia	Croatia	Vojvo- dina	Serbia	Monte- negro	Mace- donia	Bosnia	Kovoso	Total
'76										
IFC II						6.0	11.4	16.0	16.6	50.0
Multi-purpose					20.0					20.0
Highways VII		10.8			14.4	14.8				40.0
Oil Pipeline			40.0	6.0				3.0		49.0
Sarajevo Water & Sewerage								45.0		45.0
Sarajevo Air Pollution								38.0		38.0
Totals - FY '76	150.8	10.8	40.0	6.0	34.4	20.8	11.4	102.0	16.6	242.0
%	62.3	4.5	16.5	2.5	14.2	8.6	4.7	42.1	6.9	100.0
'77										
Agric. Processing--Macedonia							26.0			26.0
Agric. Processing--Montenegro						24.0				24.0
Multi-purpose--Metohija									54.0	54.0
Highways VIII					20.9		23.4	7.4	4.3	56.0
Power Transmission II		12.3	15.2		15.9	9.6	9.4	17.1	0.5	80.0
Totals - FY '77	175.7	12.3	15.2		36.8	33.6	58.8	24.5	58.8	240.0
%	73.2	5.1	6.3		15.3	14.0	24.5	10.2	24.5	100.0
'78										
Agric. Credit II		3.2	10.7	10.8	12.8	4.5	9.0	12.7	11.3	75.0
Highways IX - Trans-Yugo		20.0	39.5		20.5					80.0
Railways V		13.4	16.7	13.2	13.6	4.6	10.7	18.6	9.1	100.0
Power Generation Bosnia								73.0		73.0
Totals - FY '78	153.5	36.6	66.9	24.0	46.9	9.1	19.7	104.3	20.4	328.0
%	46.8	11.2	20.4	7.3	14.3	2.8	6.0	31.8	6.2	100.0
'79										
Rural Development--Bosnia								55.0		55.0
IFC III/IV						20.0	20.0	20.0	40.0	100.0
Irrigation--Macedonia							82.0			82.0
Highways X	112.0			36.0		20.0	35.0	35.0	22.0	148.0
Totals - FY '79	349.0			36.0		40.0	137.0	110.0	62.0	335.0
%	90.7			9.4		10.4	35.6	28.6	16.1	100.0
Totals - FY '76-79	829.0	59.7	122.1	66.0	118.1	103.5	226.9	340.8	157.8	1195.0
%	69.4	5.0	10.2	5.5	9.9	8.7	19.0	28.5	13.2	100.0
Totals - FY '77-79	678.2	48.9	82.1	60.0	83.7	82.7	215.5	238.8	141.2	953.0
%	71.2	5.1	8.6	6.3	8.8	8.7	22.6	25.1	14.8	100.0

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REGIONAL OVERVIEWSREGIONAL INCOME DISPARITIES

1. Yugoslavia's impressive record of economic growth has at times overshadowed one persistent problem: the disparities between regions. In 1975, three out of the eight regions--accounting for almost one-third of the population--had per capita incomes averaging 70 percent of the national level. A fourth region, Kosovo--which contains 7 percent of the population--had per capita income equivalent to a third of the national average (see Annex F(i)). Per capita income differentials between the Most Developed and the Less Developed Regions extend over a range of 6 to 1. In spite of efforts dating back to the early 1950s to redress such disparities by large financial transfers, the disparities tended to widen until 1972, stabilizing thereafter. Achievement of tangible progress towards reducing regional disparity is important not only for preserving national cohesiveness--which demands a high degree of interregional economic equality--but also for safeguarding the credibility of the country's founding principles of socialism and equality.

TABLE 1: Regional Disparities of Income Per Capita, 1954-75

	1954	1964	GMP 1970	1977	Adjusted ^{/1} 1977	GNP (US\$) ^{/2} 1977	Household Income ^{/3} 1973
Bosnia-Herzegovina	82	69	67	67	74	1313	76
Montenegro	53	72	78	74	79	1450	82
Macedonia	69	73	64	65	71	1274	78
<u>Kosovo</u>	<u>48</u>	<u>37</u>	<u>34</u>	<u>30</u>	<u>43</u>	<u>588</u>	<u>49</u>
Less Developed Regions	71	65	61	60	68	1176	72
Croatia	119	119	125	123	116	2509	125
Slovenia	188	187	193	194	182	3802	150
Serbia Proper	84	95	97	96	92	1882	100
<u>Vojvodina</u>	<u>88</u>	<u>116</u>	<u>110</u>	<u>122</u>	<u>110</u>	<u>2391</u>	<u>105</u>
Developed Regions	110	118	121	123	115	2411	116
<u>Yugoslavia</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>1960</u>	<u>100</u>

/1 Assuming all regions experienced the same rate of population growth since 1954.

/2 GNP per capita Yugoslavia computed according to World Bank Atlas methodology; regional data imputed by applying the GMP per capita differences to the country average.

/3 Calculated from household surveys; income disparities are lower because of transfer payments.

2. Since 1965 there have been two sources for financial transfers to the Less Developed Regions: (i) the Federal Fund for the Accelerated Development of the Less Developed Republics and Kosovo, which provides credits at

very concessional terms 1/ for economic investments in the LDRs, and (ii) budgetary transfers, which are grants out of the federal budget to augment regional and communal resources for improvement of social services. The importance of these transfers and the sacrifices they entail for the Developed Regions (DRs) may be put in perspective by the following: for the 1971-75 period, resources from the Federal Fund accounted for about one-fifth of total fixed asset investments in the LDRs, the ratio rising to well over 50 percent for Kosovo. In addition, budgetary grants also contributed significantly to republican and communal budgets in the LDRs and were mainly directed to support the social services in the poorer areas. In total, these transfers amounted to 9.3 percent of the LDRs' GMP and involved a sacrifice by DRs of 2.7 percent of their GMP.

3. The widening of the gap until 1972 and its subsequent stabilization is by no means a result of economic stagnation in the LDRs but is the result of different economic and population growth rates between the regions. Table 5 shows the difference in the growth of population between the various regions of Yugoslavia. The LDRs have, with no exceptions, higher population growth rates, the extreme case being that of Kosovo with a population growth rate of 2.9. For illustrative purposes, Table 4 shows the disparities in income levels in 1977 if all regions had experienced the same population growth since 1954. There would still be some deterioration for the LDRs as a group; however, this is small, and developments in individual regions vary significantly. Thus an important factor in the growth in regional disparities has been the faster population growth rate of the LDRs.

TABLE 2: Regional Characteristics 1971
(percent)

	Population Growth (1961-71)	Population Below 20 of Age % of Total	Share of Social Sector Employment in Labor Force
Bosnia-Herzegovina	1.3	46	39
Montenegro	1.2	48	51
Macedonia	1.6	43	43
<u>Kosovo</u>	<u>2.9</u>	<u>53</u>	<u>31</u>
Less Developed Regions	1.6	46	40
Croatia	0.6	32	48
Slovenia	<u>0.8</u>	33	66
Serbia Proper	0.9	31	37
<u>Vojvodina</u>	<u>0.5</u>	<u>30</u>	<u>50</u>
Developed Regions	0.7	31	46
Total	<u>1.0</u>	<u>36</u>	<u>45</u>

1/ Credits have maturities of 18 years (21 for Kosovo) including 3 years grace (4 for Kosovo) at 4 percent interest (3 percent for Kosovo).

4. A number of factors account for these disparities in incomes. First, because of the higher rates of population growth, the LDRs have a significantly higher share of the population below the age of 20. The share of working age population is consequently much lower. This is accentuated by the generally lower working age participation rates, particularly among women. Both these factors lead to higher dependency ratios in the LDRs. Second, the share of the traditional low productivity private agricultural sector is higher in the LDRs. Earnings in the modern social sector and the private agricultural sector tend to be lower in the LDRs. However, differences in income between these two sectors are much higher, and the larger share of the low income private sector is the more important factor accounting for the overall income disparities. These differences are due largely to the inherited economic structures dating from after World War II. In part, however, they also reflect the more capital-intensive, basic industry and mining orientation of development in the LDRs. Third, the LDRs have not been as efficient in the utilization of resources; returns to investment and labor productivity have been lower. An important additional factor has been the lack of adequate managerial and technical know-how.

Yugoslav Response: The Federal Fund for the Accelerated Development of the Less Developed Republics and Kosovo provides credits at highly concessional terms. The new legislation concerning the Federal Fund, in addition to providing for such transfer of financial resources, attempts to encourage joint venture investments in LDRs from the Developed Regions (see Annex F(iv)). This is an important step towards recognizing that the bridging of the development gap needs not only financial resources but also transfers of managerial and technical know-how.

Bank Response: The Bank is channeling the bulk of its resources to the LDRs. In addition the Bank is pursuing the possibility of financing interregional joint ventures (see Annex F(iv)).

Table ... SELECTIVE REGIONAL INDICATORS
(percent)

	Yugo- slavia	% of Yugo- slavia Total	Serbia	% of Yugo- slavia Total	Slovenia	% of Yugo- slavia Total	Mace- donia	% of Yugo- slavia Total	Kosovo	% of Yugo- slavia Total
<u>Demography and Labor Force</u>										
Population Growth (1954-77)	1.0	100	0.8	80	0.7	70.0	1.3	130	2.6	260
Share of Population Below 20 Years (1971)	36.0	100	31.0	86	33.0	92.0	43.0	119	53.0	147
Agricultural Population/ Total Population (1971)	38.0	100	44.0	116	20.0	53.0	40.0	105	52.0	137
Private Agricultural Labor Force/Total Labor Force (1971)	40.0	100	52.0	130	18.0	45.0	38.0	95	51.0	128
Active Population/Total Population (1971)	43.0	100	52.0	121	48.0	112.0	38.0	88	26.0	60
Registered Unemployment/ Social Sector Employment (1978)	12.2	100	16.6	136	1.5	12.0	21.4	175	26.8	220
Migrant Workers/Total Labor Force (1971)	10.0	100	6.0	60	8.0	80.0	12.0	120	10.0	100
<u>Income</u>										
Real Growth in GMP 1954-77	6.8	100	7.0	103	7.1	104.0	7.3	107	6.8	100
Real Growth in Per Capita GMP 1954-77	5.7	100	6.2	109	6.4	112.0	5.9	104	4.1	72
GNP Per Capita (Estimate) (1977) (\$)	1,960.0	100	1,882.0	96	3,802.0	194.0	1,274.0	65	588.0	30
Net Personal Incomes Per Worker in Social Sector Per Annum (1977) (\$)	2,750.0	100	2,690.0	98	3,180.0	115.0	2,280.0	83	2,300.0	84
<u>Economic Sectors</u>										
Share of Industry in GMP	37.0	100	35.0	95	46.0	124.0	35.0	76	39.0	105
Share of Agriculture in GMP	15.0	100	16.0	107	6.0	40.0	18.0	120	21.0	140
Share of Construction in GMP	11.0	100	11.0	100	11.0	100.0	12.0	109	10.0	91
Share of Transportation and Communications in GMP	8.0	100	8.0	100	7.0	88.0	8.0	100	6.0	75
<u>Social Indicators (1975)</u>										
Life Expectancy (1971) (Years)	65.0	100	68.0	105	65.0	100.0	66.0	102	65.0	100
Number of Persons Per Physician	687.0	100	572.0	83	513.0	75.0	756.0	110	1,943.0	283
Number of Persons Per Hospital Bed	167.0	100	156.0	93	132.0	79.0	184.0	110	384.0	208
Illiteracy Rate (% of Popu- lation Over 10 Years of Age)	15.0	100	18.0	120	1.0	7.0	18.0	120	32.0	213
Area of Dwelling Per Person (Square Meters)	14.0	100	14.0	100	17.0	121.0	11.0	79	9.0	64
Dwellings with Water Supply and Sewerage Facilities	38.0	100	34.0	89	72.0	189.0	38.0	100	17.0	45

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SERBIA

I. Historical Overview

1. Serb tribes settled in the interior of the Balkan peninsula, south and east of the Croat lands during the seventh century. In the latter half of the ninth century, Byzantine monks converted the Serbs to Christianity and introduced Byzantine culture into the area. Around 1170, Stephan Nemanja shook off Byzantine hegemony and created a Serb kingdom. In the next 200 years Serbia was the strongest state in the Balkans.

2. The Serbian Empire reached its zenith under its last emperor, Tsar Stephen Dusan (1331-55). With Dusan's death, however, rebellion by subordinate nobles brought about the disintegration of the Empire into which the Ottoman Turks expanded in the middle of the fourteenth century. In 1389 the Turks met and defeated the Serbian armies at Kosovo in what was to become the most legendary battle of Serbian history. Serb lands were placed under Turkish military occupation and so remained for more than 350 years.

3. The Serbs reverted to the egalitarian rural society that had characterized their social structure before the rise of feudalism. Deprived of a native nobility (killed or driven out by the Turks), the members of the church hierarchy were recognized by the Serbs as their leaders, and the Serbian Orthodox Church became the major perpetrator of the Serb tradition and national consciousness.

4. Complete freedom from Turkish domination was achieved in 1878. Following the assassination of Archduke Franz-Ferdinand (June 1914), Austria declared war on Serbia. The war which followed ended Hapsburg hegemony over the Balkans and forged the Yugoslav state, which emerged after World War II, under Marshall Tito, as a socialist federation.

II. Population and Labor Force

5. The Socialist Republic of Serbia (see Map at Annex C(ii)) is the most populous in Yugoslavia. In 1977, the population of Serbia Proper was estimated at 5,466,000, one-quarter of Yugoslavia's population. Population growth of 0.8 percent over the period 1954-77 is below the national average. About 44 percent of the population in Serbia is engaged primarily in agriculture, with 52 percent of the total labor force in the agricultural private sector. This is much higher than the national average and is attributable to the low level of development of most of Serbia. Registered unemployment in the social sector is also relatively high at almost 17 percent in 1978. There also exists considerable under- and un-employment in the private agricultural sector.

III. Income

6. GNP per capita for 1977 is estimated at \$1,882, just below the national average. This does not represent an accurate picture for the

Republic as a whole as wide disparities exist between the relatively large private agricultural sector and the social sector (see Annex G(vii) (a), pages 3 and 4, paras. 9-12). For example, annual incomes per worker in the social sector in 1977 amounted to \$2,690. The general level of development and incomes outside the several main urban centers (e.g. Belgrade) is comparable to Yugoslavia's Less Developed Regions. In the Morava River Basin (south of Belgrade), there exist many pockets of underdevelopment. It is in this area that the on-going first Morava Regional Development Project is located and where the proposed second project would lie (see this Annex, pages 3-6). Nevertheless, the real growth rates in GMP and GMP per capita over the period 1975-77 were above the national average at 7.0 percent and 6.2 percent respectively.

IV. Features of the Economy

7. Despite the large proportion of the labor force engaged in agriculture, the share of agriculture in GMP amounts to only 16 percent. This can partly be explained by the presence of a large private agricultural sector, in which productivity is impeded by small holdings, limited use of technology and insufficient access to credit. Industry and construction together accounted for 46 percent of GMP in 1977.

V. Bank Activity in Serbia

8. In the past, per capita Bank lending to Serbia has been close to the country average (US\$44 during the period 1967-75). However, as a result of our directing more than two-thirds of our lending to the three LDRs and Province of Kosovo, our lending to Serbia has been declining (during 1975-79, Bank lending per capita to Serbia was about 50 percent of the national average of US\$55), and has been primarily confined to participation in projects of national importance (e.g., highways, railways, agricultural credit and power transmission). About 12 percent of the 1980-84 lending program would directly involve Serbia (compared to 24 percent between 1967 and 1975).

9. However, one special project is under preparation for Serbia as a sequel to the first Morava Regional Development Project which focussed primarily on water supply and water management problems (see para 6 above). The second Morava regional development project will focus primarily on agriculture and agroindustries but is a part of a larger integrated regional development scheme which it is hoped will not only aid the development of one of Serbia's least developed regions, but will serve as a model for regional development in other republics and provinces (see pages 5 and 6, this Annex).

MORAVA REGIONAL DEVELOPMENT PROJECT:
WATER SUPPLY, SEWERAGE AND WATER RESOURCES
(Loan No. 1262-YU of June 14, 1976)

Loan and Project Summary

Amount: US\$20 million, of which US\$13.5 million is on-lent to the beneficiaries.

Borrower: Republicki Fond Voda (Socialist Republic of Serbia Water Fund or SWF) and, on creation, the Morava Region Water Community of Interest (MRWCI).

Beneficiaries: Portions of the loan on-lent to the five entities operationally responsible for the various project components.

Terms: Amortization in 20 years, including a 4-1/2 year grace period, with interest at 8-1/2 percent.

Relending Terms: Same as those for the Bank loan.

Project Description: The project has three primary objectives and components:

- (a) Assistance to the Republic of Serbia to improve the planning and management of water resources within the Morava region in order to promote accelerated economic development in the least-developed areas of the Morava River Basin;
- (b) Provision of improved water supplies and extension of the sewer networks in the towns of Titovo Uzice and Cacak; and
- (c) Demonstration of the feasibility and economics of low cost irrigation schemes.

Estimated Cost (including Physical and Price Contingencies):

	-----US \$ million-----		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Appraisal Estimate	35.3	20.6	55.9

Financing Plan:

	<u>US\$ Million</u>	<u>Percent of Total</u>
IBRD Loan	20.0	36
Republic Funds	9.9	18
Local Funds	<u>26.0</u>	<u>46</u>
Total	<u>55.9</u>	<u>100</u>

Economic Rate
of Return:

Benefits not sufficiently quantifiable to calculate a rate of return on most project components. Pilot irrigation components would provide economic rates of return of approximately 20 percent.

Estimated Date
for Project Completion:

Appraisal Estimate
December 1979

Current Estimate
December 1980

Current Status:

A moderate Problem Project but improving

The regional development study undertaken by a consortium of Yugoslav consulting firms is finished and has been submitted to the Bank and formed the basis for the subsequent preparation now underway regarding the proposed second Morava project (see following page). Water quality studies are underway but flood hazard studies are somewhat delayed. Construction is completed on the principal parts of the Cacak component, the remainder is well advanced. Construction is also underway in Titovo Uzice. Final designs of sewage treatment plants in Cacak are underway, and in Titovo Uzice, are dependent upon the recruitment of suitable foreign assistance to local consultants. The pilot irrigation components, which have been considerably delayed pending the establishment of suitable monitoring arrangements, are expected to be underway soon. The creation of the MRWCI was delayed due to the longer than anticipated process of seeking agreement among all the Yugoslav parties concerned on the structure of the organization. Staffing has been strengthened in the water authorities in Cacak and Titovo Uzice and in the MRWCI.

POSSIBLE FY82S PROJECT

Project: Second Morava Regional Development Project --
Agriculture and Agro-industries.

Project
Description:

- (i) Regional approach to development in which the main focus would be measures to promote primary production (crops, livestock, fish) in the individual farm sector, supported by strengthening services and broadening cooperation between the individual and social sectors;
- (ii) Investments in the social sector through expansion of processing facilities as a means of providing markets, creating additional employment and increasing family incomes in individual sector;
- (iii) Proposals for the expansion of technical and planning services to enhance the capacity of the regional organizations to promote and support overall integrated regional development.

Coordinator: Serbian Fund for Less Developed Regions.

Borrowers: Agro-Kombinats and regional organizations in Morava Region.

Estimated
Project Cost: US\$200 million.

Bank Loan: Between \$50-70 million.

- Status:
- (i) Medium and long-term regional economic development studies undertaken by consortium of Yugoslav consultants and research institutes under the direction of the Serbian Fund for Less Developed Regions have been completed (partly financed under first Morava Project). Studies have been discussed by regional organizations in the Morava region, and Serbian government officials, reviewed by Bank, and have formed basis of FAO/CP preparation work;
 - (ii) FAO/CP has since November 1978, conducted three identification/preparation missions;

- (iii) Given limits of amount available from Bank, proposed Bank loan has been primarily limited to agriculture and agro-industries investments since this is sector in which Bank can most effectively contribute and directly address the institutional problems involved in a regional approach to development in the Morava area.

Anticipated
Timing of
Processing:

Preparation Follow-up Mission:	September 1979
Pre-Appraisal:	April 1980
Appraisal:	September 1980
Negotiations:	April 1981
Board:	June 1981

Z

2. Stan - 14 coast

5. High pop growth
+ transfer to coast
+ High ind. awareness

KOSOVO

1. High pop growth
2. High growth in labor force
3. High ind. awareness
4. Low prod in agri

I. Historical Overview

1. Many of the development problems of the Socialist Autonomous Province of Kosovo have their roots in history. Through the Roman era the region was settled by Illyrians, a distinct Mediterranean ethnic and linguistic group. During the Byzantine era (after 700 AD), the Slavic migrations reached the region and transformed it gradually into the heartland of the medieval Serbian kingdom which disintegrated after the Turkish invasion (1389). As a province of the Ottoman empire, the Illyrian portion of the population, by now called "Albanian", largely converted to Islamic faith. The Serbian portion for the most part kept its Orthodox faith but the political and cultural orientation of the region gravitated towards the Islamic segment which was strengthened by migrations from Turkey. In 1912, the region, one of the last bulwarks of the Ottoman Empire in Europe, was annexed by the Kingdom of Serbia, which tried to restore a Serbian character. However, at the eve of World War II, the region still had an almost medieval social and economic structure with few, isolated enclaves of relative development, mostly Serbian. Autonomy for Kosovo, aimed at giving all ethnic groups access to political representation and personal advancement according to their relative share in the population, was fully established only after 1965. This was in harmony with the countrywide trend towards decentralization. Today Kosovo is legally an autonomous province of the Republic of Serbia, but for all practical purposes it can be considered as having political status in the Yugoslav Federation equivalent to that of the Republics.

II. Socio-Economic Conditions

2. Natural Conditions. Kosovo is surrounded by mountainous ridges rising to about 2,500 meters. A central north/south ridge divides Kosovo in its two subregions of roughly equal size and population: the Kosovo basin in the east and the Metohija basin in the west. Kosovo is bordered by Serbia proper, Macedonia, the Peoples' Republic of Albania and Montenegro. Only the river gorges in the north (from Kraljevo and Belgrade) and the south (from Skopje) and the pass in the east (from Nis) offer railway and all-weather road connections. These three major routes all lead to the Kosovo basin, while the Metohija basin has only one rail and all-weather road connection linking it to the rest of Kosovo. A map of Kosovo is at page 9 of this Annex.

3. Population. In 1977, the population of Kosovo was about 1.49 million. With 137 inhabitants per square km., Kosovo is the most densely populated region of Yugoslavia. The population is predominantly Albanian.

4. The trend of population growth for Kosovo, compared to that of Yugoslavia, clearly indicates an overall development lag for the Province. Although the fertility and birth rates declined somewhat over the past twenty years, improvements in health and maternity and child care have resulted in an almost equal decrease in the death rate leading to a stable population growth rate of about 2.6 percent. This growth rate in Kosovo stands out in sharp contrast to the slow growth rates of 0.6 percent of the developed regions and 1.0 percent for Yugoslavia as a whole.

Stan - 14 land area increased 3000 2/19
- 1 no land coast. yet

5. As a result of the past and present population dynamics, the population has a relatively young age structure and a high dependency rate. The proportion of the population below 20 years of age is about 53 percent in Kosovo, compared to 36 percent for the country as a whole. This age structure has major implications with respect to employment generation (see paras. 8 and 9).

III. Characteristics of the Kosovan Economy

6. Macro-Economic Characteristics: Growth, Labor Force and Level of Incomes: In 1977, Kosovo accounted for 6.8 percent of Yugoslavia's population, but its share in national GMP came only to about 2 percent. Kosovo's GMP grew over the period 1954-77 at about the same rate as Yugoslavia's. However, the differences in the population growth rates amplified the differences in GMP real growth rates; on a per capita basis the average growth rate of 4.1 percent in Kosovo compared unfavorably with the average Yugoslav growth rate of 5.7 percent. As a corollary of slower growth of social product from a lower basis and more rapid population growth, GMP per capita in Kosovo worsened continuously from around 50 percent of the national average in 1948 to about 30 percent in 1977.

7. Consistent with the national objective of reducing regional income disparities, the medium-term plan (1976-80) for Kosovo projects an average annual growth rate of 9.5 percent compared to the projected national average growth rate of 7 percent. The social sector and especially industry continue to be regarded as the driving force of the economy. Relatively high growth rates are also projected for infrastructure activities which are expected to assume a larger share of GMP. Agriculture, by comparison, is projected to grow at a slower average rate. Judged by the growth performance in the previous period and the estimated output growth in 1976-77, the overall growth target appears optimistic.

8. A projection of Kosovo's population up to the year 2000 has been made by the Bank. The projection showed a more than doubling of the working age population (from 608,700 in 1971 to 1,384,100 in 2001) and a threefold increase in the labor force by the year 2000. Even with a decreasing birth rate the labor force is expected to continue to grow rapidly as expansion of education and economic development in general leads to a higher work force participation rate, especially of females, which is presently significantly below the Yugoslav average. In addition, the large income differential between private agriculture and social sector employment (see para. 12) is expected to shift some of the labor force from the rural to the urban areas. In spite of the relatively high growth rate of employment of 5.2 percent between 1967-77, the ratio of social sector employment to working age population is very low, 20 percent for Kosovo as compared to 35 percent for Yugoslavia. This is basically a reflection of the general underdevelopment of Kosovo but has been aggravated by the highly capital intensive path of industrial development which has so far been pursued in the province.

9. Structure of the Economy: Agriculture, Industry, and Tertiary Economic Activities Including Transport and Communications. In broad terms, the economic structure of Kosovo differs from that of the country and of Serbia proper in three major respects: (i) a smaller share of the social sector and consequently greater predominance of generally low productivity individual sector activities; (ii) a significantly larger share of agriculture with a prevalence of small holder private farming; and (iii) a smaller share of infrastructure activities, namely, transport and communications and trade and catering. Furthermore, although the share of industry in the Province is comparable to that of the country, and higher than that of Serbia, the industrial sector is highly concentrated on basic industries, mainly energy and non-ferrous metallurgy. Such an industrial pattern as well as the expansion of the deficient physical infrastructure have resulted in a relatively capital intensive orientation of the economy and constrained the employment generation effect per unit of investment.

10. Agriculture plays a major role in the economy of the province. It accounted for 21 percent of the social product in 1977 and represents the major means of livelihood for nearly one-half of the population. As in most other republics and provinces, there is significant dualism in agriculture between the technologically integrated and advanced social sector and the predominantly traditional individual sector (see Annex G(vii) (a), paras 3 and 9-12).

11. The social sector holds about 12 percent of cultivable land in Kosovo, accounts for the bulk of fixed investments in agriculture and employs 5 percent of the rural population at remuneration levels on a par with other social sector activities in the rest of Yugoslavia. In 1975 the social sector contributed 17 percent to agricultural social product.

12. The individual sector owns about 88 percent of arable land and in 1975 accounted for 83 percent of agricultural social product. It engages 95 percent of the total agricultural labor force. The large number of holdings in the sector have an average size of 3.7 ha, subdivided into small plots. The income per active member was about US\$730 equivalent in 1975, less than one-third the average income of social sector employees. With a dependency ratio of 3.8 to 1, the average per capita income of private farmers (about \$215 equivalent in 1975) was below the relative poverty income level estimated for the country as a whole. This may be attributed to a number of factors which include lower natural resource endowment in terms of land quality, fragmentation of holdings and limited access to improved inputs and credit. The large average household size of about 7 persons also results in high own consumption leaving only a small marketable surplus.

13. With its small share of total land holdings, the social sector will have to rely in large part on cooperation with the individual sector to achieve an increase in the marketable surplus of primary production in order to meet the envisaged expansion of its processing capacities. In general, better crop and livestock production in the individual farm sector could be achieved by providing better services to the sector in the form of improved inputs, extension service and credit and by improving processing and marketing

channels through the social sector. Generally kombinats will enter into cooperative arrangements only with farmers grouped into cooperatives and producing "acceptable" crops. However, only about 10 percent of the 107,000 individual farm holdings in Kosovo belong to various farmer cooperatives for a variety of reasons, such as remoteness or fear of collectivization. Since it is the Government's policy to channel all services through cooperatives, 90 percent of the individual farmers therefore are currently without production and marketing support.

14. To promote and encourage the formation of cooperatives, a law has recently been enacted setting up a union of farmer cooperatives in the Province and in conjunction with the Ibar project (see pages 10-13, attached to this Annex), a major effort is now being made to organize such cooperatives. Although Kosovo has seemed to recognize the need to take specific action for the individual farmer sector not only by encouraging farmers' cooperatives, but also by hiring more agriculture extension workers to assist in the individual sector, it is important that greater impetus be given to these initiatives. The expansion of various forms of cooperation is likely to be the key factor for the advancement of private agriculture.

15. For various reasons, consolidation and enlargement of land holdings, necessary to facilitate planning for irrigation and drainage, appear to meet with serious obstacles in several regions of Yugoslavia and in Kosovo particularly. The first irrigation and multipurpose water project the Bank financed in Yugoslavia was the Ibar Multipurpose Project in Kosovo. This project has been long delayed and only recently has progress begun to be made on land consolidation in the project area. The next irrigation project undertaken, the Metohija Project (also in Kosovo), was designed around a boundary readjustment scheme more in keeping with traditional land use practices.

16. Development possibilities for agriculture in Kosovo have been identified in the areas of livestock and crop production, irrigation and drainage works (including groundwater development), forestry infrastructure and agro-industry. To absorb some of the underemployed, the individual farm sector could undertake development projects for dairy cattle, pig breeding and sheep farming and crop production development of high valued vegetables and soft fruits. Improved fodder production in dairy farms and improved inputs and farming practices of common cereals could also be concentrated in the individual sector. Projects for pig fattening and poultry production and processing of agricultural products would continue to be concentrated in the social sector which has already acquired the necessary technical know-how. Social sector enterprises could extend production of second crops such as maize for silage for cattle fattening on irrigated land.

17. Various possibilities for irrigation and drainage works have been investigated. In the southern Kosovo plain, drainage is needed. In the northern and southern Metohija areas, preliminary studies for the development of low-cost groundwater resources have been executed but more detailed investigations are necessary. The use of groundwater for future irrigation projects would offer the opportunity for lower per hectare investment costs than previous Bank-financed projects (see para. 19).

18. With respect to irrigation and drainage projects, Kosovo authorities have in mind to develop the second phase of both the Metohija and Ibar Multipurpose projects. The proposed Metohija II project would use water from the reservoir which is to be financed and built under the first phase. It would consist of a water distribution and drainage system for about 11,000 hectares, pumping stations and village water supply. Groundwater development in the northern and southern part of Metohija could be included in the Metohija II project or could form a separate regional development project after necessary studies had been completed. A drainage component for the southern Kosovo plain could also be considered. The second phase of the Ibar project would be the Lepenac Multipurpose project which calls for the construction of two dams, tunnels, a water distribution system for irrigation, an industry and urban water supply and drainage system and an infrastructure for flood control covering about 30,000 to 40,000 ha.

19. Before the Bank includes another irrigation project in its lending program, the results from the first phases of the Ibar and Metohija projects should be evaluated (see pages 10-17, this Annex). With the limited resources at Kosovo's disposal, high cost irrigation schemes must be re-evaluated given that, inter alia, they are located in a region characterized by fragmented land holdings, limited ability of beneficiaries to pay and problems of the readiness of tradition-bound farmers to adopt new cropping and agricultural techniques. As a result, we are strongly encouraging the Kosovo Government to re-examine its plans for the second phase of the Ibar-Lepenac project. As a minimum condition for any future lending for irrigation in Kosovo, a study of groundwater development possibilities and drainage needs would be undertaken in order that more cost efficient alternative irrigation or rainfed schemes might be found. Funds for this purpose should be made available in the next Bank-financed project for Kosovo.

20. In the past, Kosovo's industrial development has focussed on the development of heavy basic industry having average capital/output ratios two to three times those of light industries. Although the average productivity of labor in heavy industries is somewhat higher, this pattern of industrial development has generated less employment and less growth for the given amount of investment than an alternative pattern focussing on light industries could have yielded. In 1977, 46 percent of industrial value added was accounted for by electrical power, coal and non-ferrous metallurgy, all basic industries based on the exploitation of Kosovo's natural resources. These highly capital-intensive activities, in conjunction with a relatively small tertiary sector, have resulted in the low level of participation of Kosovo's labor force in the modern, essentially social sector (see para. 8, this Annex).

21. This strategy of industrial development was only partially chosen by Kosovo itself, many of the initial decisions having been taken during the period of centralized allocative decision making. But these decisions seem to have been wholeheartedly embraced by the Province as well, and doubts about the results and about some of the underlying assumptions have emerged only recently in the recognition of the need to reorient industry from basic production to labor-intensive, processing final goods activities (see Annex G(vii) (d)).

22. Tertiary economic activities comprising construction, transport and communications, trade and catering, and handicrafts account for less of GMP in Kosovo (about 27 percent) than in total Yugoslavia (about 32 percent). The number of persons active in tertiary economic activities per 1000 inhabitants in the early part of the decade was less than one half the Yugoslav average and little has changed. This gap reflects the limited development of the primary and secondary sectors of the economy which ultimately have to aliment tertiary activities. It simultaneously indicates the insufficient supply of tertiary goods and services which are supplementary to economic and social development. The expansion of tertiary economic activities is expected, however, to play an important role for further absorption of unemployment.

23. In transportation and communication Kosovo faces, on the one hand, problems of accessibility from other parts of the country and from abroad (only tackled in an all-Yugoslav development context), and on the other hand, many rural settlements with either no all-weather or any road connections. This lack of access to markets and employment possibilities impedes the process of breaking the circle of backwardness, overpopulation, poverty and stagnation. It is under these circumstances that recent initiatives have been taken by Kosovo, encouraged and supported by the Bank, to cater to its secondary/feeder road needs through a highway master plan study serving as the basis for a first highway sector loan (the Tenth Highway Project--see Annex G (vii) (c), pages 8 and 9).

IV. Sources of Financing

24. The economic performance of Kosovo has been undoubtedly sustained over the past two decades by large inflows of financial resources through two Federal transfer mechanisms: (1) the Federal Fund for the Accelerated Development of the Less Developed Republics and Kosovo which provides credits at very concessional terms for economic investments in the less developed regions and (2) budgetary transfers which are grants out of the Federal budget to augment regional and communal resources for improvement of social services. For the 1971-75 period, resources from the Federal Fund accounted for over 50 percent of total fixed asset investments in Kosovo (see Annex G(x), paras. 1 and 2).

25. Internal allocation of Federal Fund credits is decided upon by Kosovo's Government together with Kosovska Banka Pristina (KBP), the major business bank of the Province, and the Chamber of Economy (which encompasses associations of enterprises) in accordance with priorities established in the provincial plan. The foreseen sectoral allocation of Federal Fund credits and of total fixed asset investments (estimated at Din. 32.8 billion or about US\$1.8 billion equivalent at 1975 prices) for 1976-80 assigns the largest share to industry. Agriculture is however, expected to receive a relatively higher share of its allocation from Federal Fund resources. Of the total resources to agriculture, about one-half will be used for investment in irrigation works, including construction of the Ibar Multipurpose Project (scheduled for completion in 1981) and of the Metohija Phase I Project (also scheduled for completion in 1981)--see para. 19, this Annex.

VI. Bank Activity in Kosovo

26. On the basis of its widespread poverty, Kosovo is becoming, on a per capita basis, relatively the largest recipient of Bank assistance (see Annex G(ix)). The Bank has undertaken programs to support directly productive investments and to encourage the accelerated development of the individual farmer sector where poverty is concentrated; it has also undertaken to reinforce these interventions through appropriate support of infrastructure programs.

27. Given the fact that the majority of the rural population of Kosovo has incomes below the relative poverty level, the Bank is actively addressing this problem through various projects including agricultural credit and agro-industrial projects (Agricultural Credits I and II: Loans 1129 and 1477 of June 20, 1975 and July 29, 1977, respectively--see Annex G(vii) (a), pages 5-7) and schemes for rainfed and irrigated primary production (Ibar Multipurpose and Metohija I Multipurpose: Loans 777 and 1360 of June 30, 1971 and February 3, 1977, respectively--see pages 10-17, this Annex).

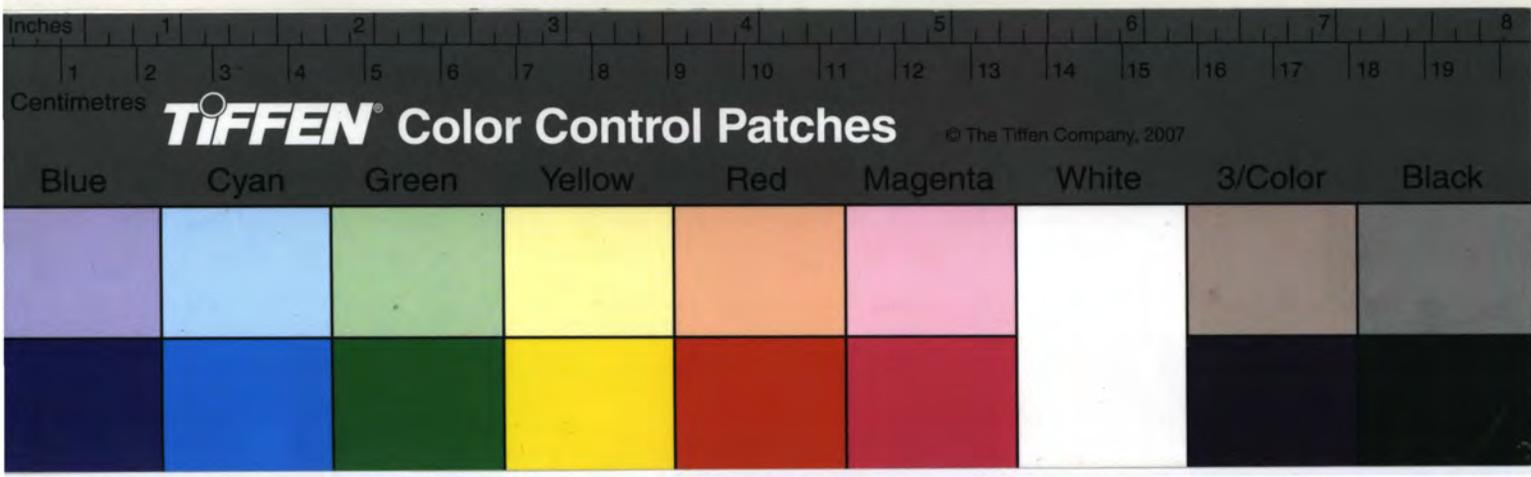
28. The Bank has also directed attention to industry through industrial lines of credit (Macedonia/Kosovo Industrial Credit, Second and Third Industrial Credits: Loans 1012, 1277 and 1611 of June 21, 1974, June 14, 1976 and July 26, 1978, respectively). The third industrial line of credit was especially tailored to respond to Kosovo's needs and program for developing processing facilities to encourage labor-intensivity and as an adjunct to the schemes for natural resource exploitation (see Annex G(vii) (d), page 6).

29. Kosovo is also sharing in the national power transmission and railway programs (Power Transmission II: Loan 1469 of July 11, 1977--see Annex G(vii) (b), pages 4-6)--and Railways V: Loan 1534 of April 13, 1978--see Annex G(vii) (c), pages 4 and 5) and is the beneficiary of a regional highway sector program (Highways X: Loan 1678-YU of April 9, 1979--see Annex G(vii) (c), pages 8 and 9).

30. Under the terms of its agricultural and industrial credit loans, the Bank has sought to strengthen Kosovska Banka Pristina (KBP), which as noted in para. 25 above, plays a key role in resource allocation in Kosovo. Recently funds for technical assistance to KBP and qualifying clients have been provided under the DFC III Project (Loan 1611 of July 26, 1978--see Annex G(vii) (d), page 6) for identification, preparation and operation of projects in new fields, i.e., processing industries undertaken to diversify the Province's industrial economy and to reorient to more labor-intensive activities. The Bank is also working closely with the Kosovan and Federal authorities to ensure that financial assistance, from within Yugoslavia and external sources, is complemented by the transfer of managerial and technical expertise (so lacking at present in Kosovo) from the other regions. It is in this context that the Bank has persisted with the concept of joint ventures (see Annex F(iv)).

31. Concerning population control (see Annex F(i), pages 2 and 3, paras. 8-10), the Bank has indicated several times to Kosovan authorities its activity in the area of population policy and has asked whether the Province of Kosovo might wish to make plans, with the Bank's assistance, for addressing this important development issue. A formal letter was sent in June 1978 to Mr. Oruci flagging the population question. An official response was never received. However, during Mr. Benjenk's October 1978 visit to Yugoslavia, which included Kosovo, the subject of population control was brought up. To be sure, sensitivity on the subject is deep seated, deriving from historic Albanian/Serbian difficulties (see paras 1 and 3, this Annex). It is, no doubt, partly in this context that federal authorities in the Serbian capital, Belgrade, have chosen to avoid pressing the issue of population control for fear of fanning old ethnic animosities and suspicions. However, privately, Mr. Kostic requested that the Bank, as an outside party, broach the topic of demography, which the Bank had already done, as noted.

32. Problems of pollution, both water and air, but particularly air, have also been a focus of the Bank's attention in Kosovo. The Trepca lead and zinc factories have long polluted the air and water surrounding them. Lead pollution has reached chronic levels. Several visits by Dr. Lee of the Bank and medical consultants from Cornell University have identified both the medical and industrial engineering issues involved. A summary of their findings has been sent to the Kosovan authorities and the matter was also discussed in the aforementioned letter to Mr. Oruci (see para. 31 above). We have been exerting pressure on the Kosovan authorities regarding the pollution problems of the Trepca plant, specifically by making funds to be provided through the Third Industrial Credit Project (see Annex G(vii)(d), page 6), conditional on the implementation of concrete steps to improve pollution control equipment on the existing, as well as future facilities. After prolonged discussion, we have recently approved a large subproject under the Third Industrial Credit for Trepca expansion after having received a detailed action program worked out by Trepca and a German industrial engineering firm. The Kosovans have also approached the Bank regarding possible future pollution projects regarding water/sewerage, but we have indicated that any consideration by the Bank of pollution projects would be contingent upon demonstrated action regarding the control of the existing pollution problems created by the Trepca industrial complex.



IBAR MULTIPURPOSE PROJECT
Loan No. 777-YU of June 30, 1971

Loan and Project Summary

Borrower: Socialist Federal Republic of Yugoslavia

Beneficiary: Ibar Lepenac Enterprise in Kosovo

Amount: US\$45 million

Terms: Amortization in 30 years, including a six-year period of grace, with interest at 7.25 percent

Project Description: The project consists of the Gazivode Dam (reservoir capacity of 350 Mm³) on the Ibar River, Gazivode hydro-power plant (34 MW) 147 km of water supply conduits, irrigation and drainage networks, and on-farm development for an area of 19,000 ha (originally to have been 30,000). Original allocation of water from the multi-purpose reservoir was as follows: industry--71 percent; irrigation--27 percent.

<u>Estimated Cost:</u> (including price and physical contingencies)	<u>US\$ Million</u>		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Appraisal	70.0	23.0	93.0
Current	202.0	65.0	269.0

<u>Financing Plan:</u>	<u>US\$ Million</u>	<u>Percent</u>
IBRD	45.0	17
Funds provided from Federal Government and Republic of Kosovo	224.0	83

Economic Rate of Return: 16 percent

<u>Estimated Date of Project Completion:</u>	<u>Appraised</u>	<u>Revised</u>
	June 1976	December 1980

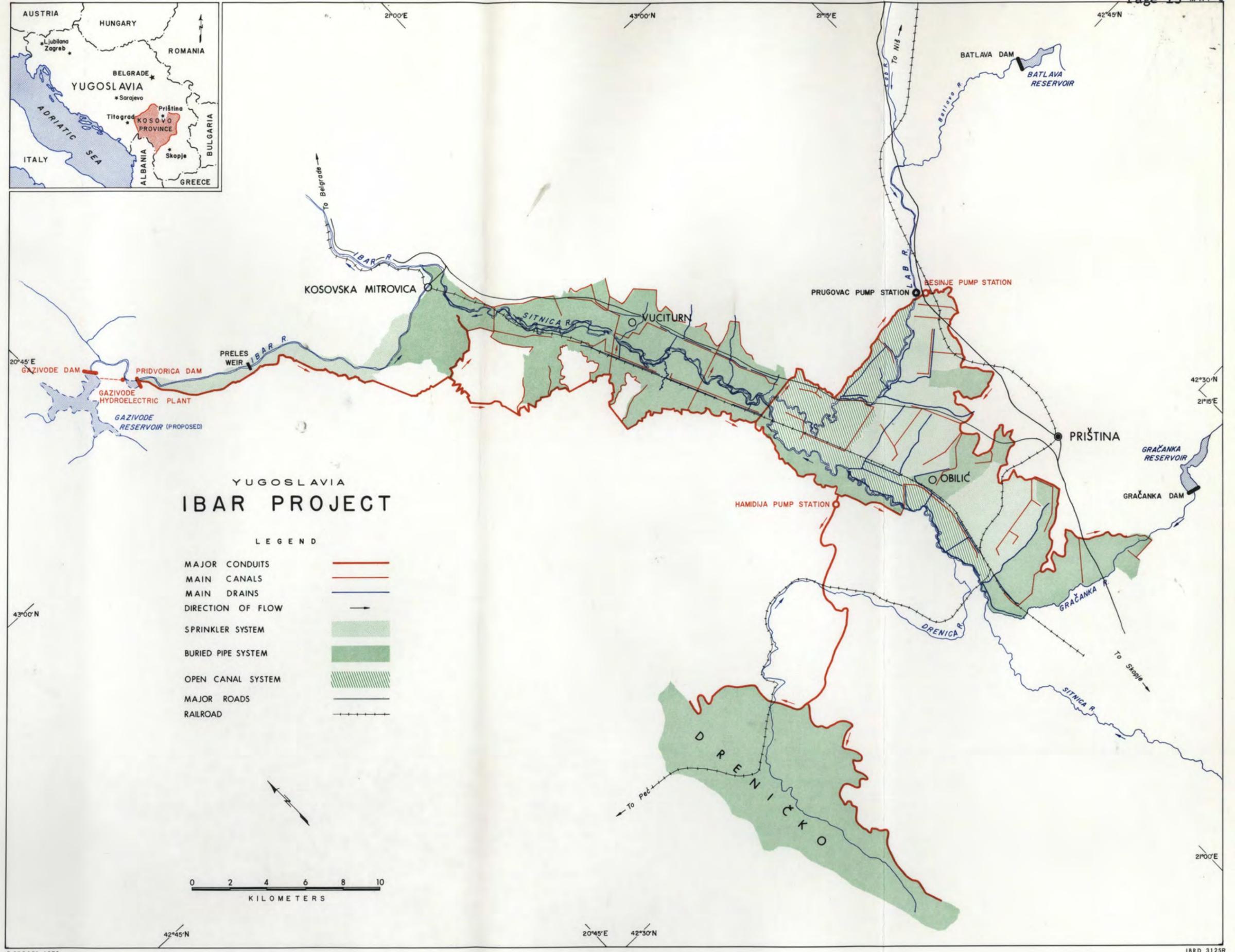
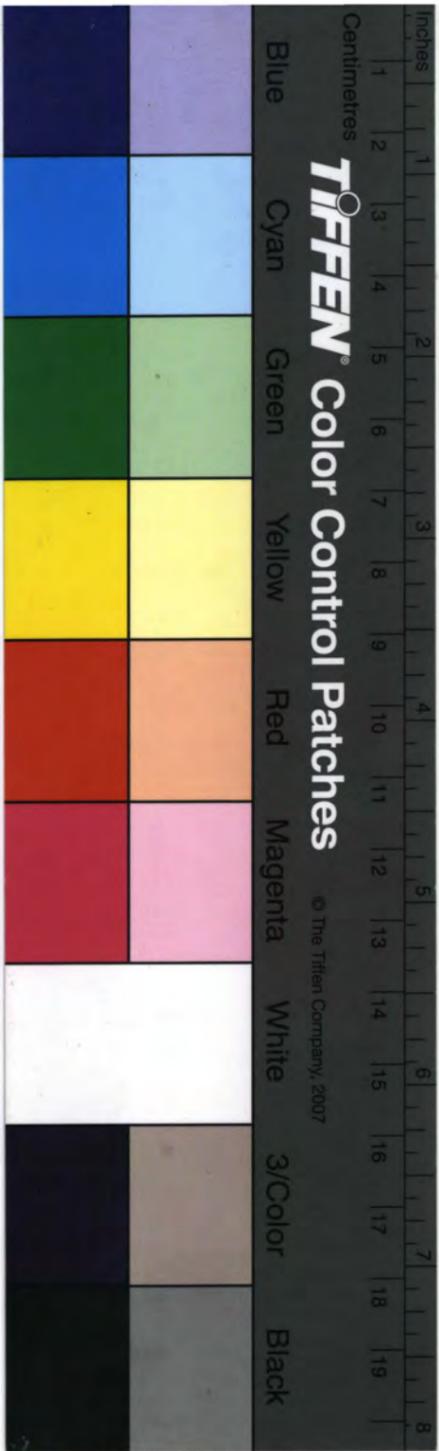
Current Status: Major problems, but with improving trend. The project is about four years behind schedule. The main dam is completed and the reservoir is now filled. A small part of the irrigation network has been completed with the

remainder expected to be completed by 1980, but original area under irrigation has been reduced from 30,000 ha to 19,000 ha. due to encroaching urbanization and industrialization in project area. Project costs are 300 percent above appraisal estimates, but the overrun financing is being provided by the Province of Kosovo and from Federal sources to ensure project completion and eventual financial viability. Considerable delays have been encountered in the arrangements for boundary adjustment. Although consultants have been engaged to help find solutions, and the Kosovo Government has enacted appropriate legislation, no land consolidation has been undertaken yet in the project area. As a result an interim solution involving monoculture on the existing plots will likely have to be instituted pending completion of a land consolidation program. After a delay of about five years, a law has been enacted by the Kosovo Government which will assist in the provision of agricultural extension services to the individual sector.

This project has long been one of the most troublesome in our lending program. Project delays were initially related to difficulties in the preparation of design and tender documentation, followed by slower than anticipated progress on construction which was also hampered by the skyrocketing domestic inflation during 1973 and 1974. Physical progress of the project is now back on track and near completion, but the huge cost overruns have required massive infusion of funds, partly from the limited budgetary funds of Kosovo, but primarily from the Federal Government who as the Borrower under the Bank loan (loan was made in 1971 prior to the subsequent practice of the Federal Government as only guarantor) apparently has also recently had to step in to take over more directly most of the debt servicing on the entire project.

On the positive side, the new Provincial Government which came into office a year ago has made good initial progress in addressing the long neglected problems of water management, land consolidation and agricultural extension which have plagued this project, as well as the Province in general. Repeated visits by Bank staff at all levels, culminating in Mr. Benjenk's visit last November, have focussed on those matters. The Province has promulgated new laws on land consolidation, agricultural extension, and cooperatives, as well as creating a Union of Cooperatives for the individual sector, a new Secretariat for Water Economy, and a special coordinating body at the level of the Executive Council to monitor the progress

of actions related to the development of the individual sector in particular. As an immediate result of these actions, there has been an increase in the number of cooperatives organized and agricultural extension agents employed, in both the project area and in the Province. Nevertheless, much progress remains to be made, particularly regarding land use rationalization policies and programs. The problems which have manifested themselves during the long history of this project (technical, financial, administrative and institutional) are symptomatic of larger problems Kosovo faces in its development. Hence, the Bank has placed considerable emphasis on the need to carefully evaluate the lessons learned in this project before proceeding, if at all, with the second phase Lepenac irrigation scheme which the Kosovans have long considered inseparable from the first phase.



METOHIIJA* MULTIPURPOSE PROJECT
Loan No. 1360-YU of February 3, 1977

Loan and Project Summary

Borrower: Vodoprivredna Organizacija Metohija (Water Management Organization Metohija--VOM)

Guarantor: Socialist Federal Republic Yugoslavia

Amount: US\$54 million

Terms: Amortization in 15 years, including a three-year grace period, with interest at 8.7 percent.

Project Description:

Essential features of the project include: (a) construction of the Radenic Dam; (b) a diversion weir with intake works and a canal from the Decanska Bistrica River feeding into above reservoir; (c) water supply works for three towns (Djkovica, Orahovac and Zrze) and twelve villages, including a water treatment plant with pumping equipment and new water storage facilities; (d) an irrigation distribution system for 10,250 ha; and (e) miscellaneous works including drainage, erosion control, soil improvement, power supply lines, equipment, farm roads, buildings, demonstration farms and consultant services.

Estimated Cost:
(including physical and price contingencies)

(US\$ million)		
<u>Local</u>	<u>Foreign</u>	<u>Total</u>
67.0	54.0	121.0

Financing Plan:

	<u>US\$ Million</u>	<u>Percent</u>
IBRD	54.0	45
Government of Kosovo	45.0	37
Duties and Taxes	22.0	18

Economic Rate of Return:

About 11 percent

Estimated Date of Project Completion:

Appraised

December 31, 1981

Revised

December 31, 1982

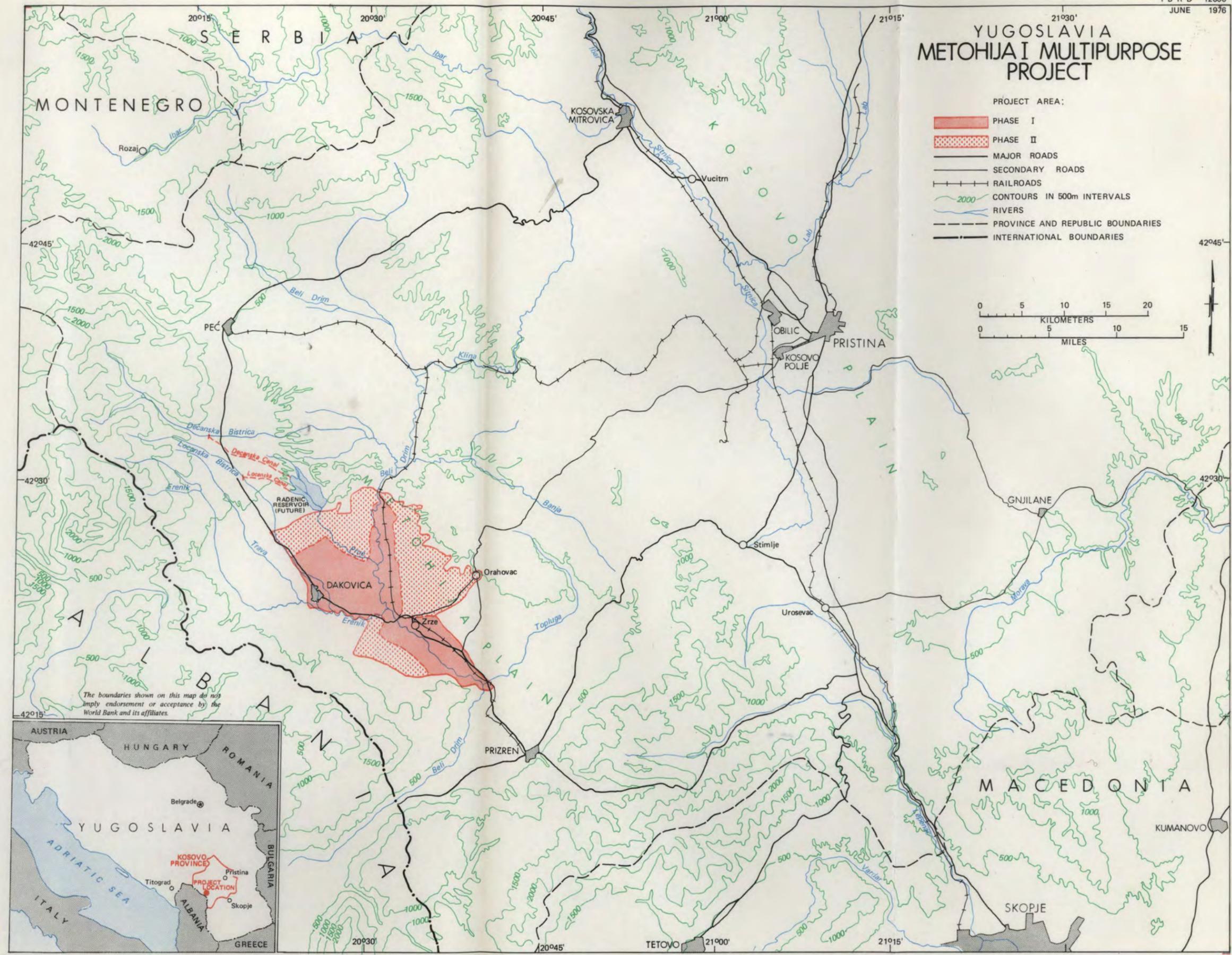
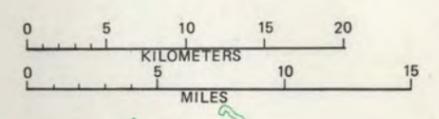
*Pronounced Metohiya

Current Status:

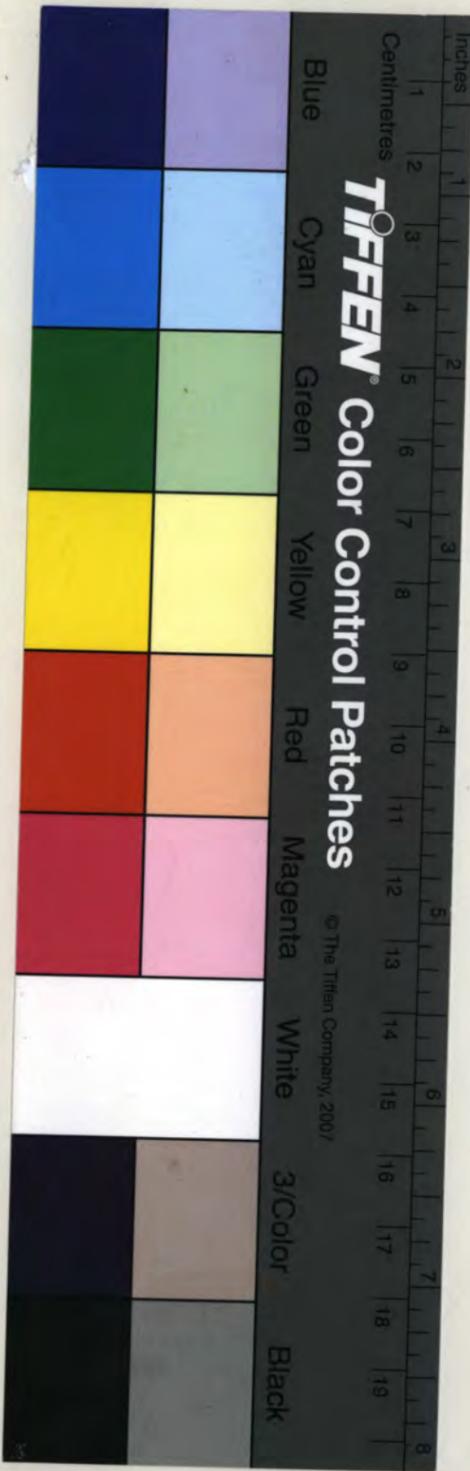
Major problems. This project is the closest to a "problem project" which we have in Yugoslavia at the present time. Technical problems associated with the system design and preparation of tender documents, as well as other aspects of procurement, have delayed the project by a year. To help avoid further such problems, agreement was reached with the Borrower on the specific steps which must be taken over the next few months to avoid further delays and Projects Department will begin to send supervision missions once every three months in order to keep on top of this project. The more intractable problem for which no immediate solution has been found is that of weak project management and administration. This will be the focus of the next supervision mission for which preliminary discussions were held by the recently returned supervision mission. Although the Project Director seems to be technically competent his administrative ability leaves something to be desired, but most importantly, he simply does not have adequate support staff. The general problem in Kosovo is the lack of trained manpower, which is manifesting itself in this project. We have in this project, as in others, suggested to the Kosovans that they should more actively seek to hire qualified staff from outside Kosovo, i.e. from other regions in Yugoslavia.

YUGOSLAVIA METOHIJA I MULTIPURPOSE PROJECT

- PROJECT AREA:
- PHASE I
 - PHASE II
 - MAJOR ROADS
 - SECONDARY ROADS
 - RAILROADS
 - CONTOURS IN 500m INTERVALS
 - RIVERS
 - PROVINCE AND REPUBLIC BOUNDARIES
 - INTERNATIONAL BOUNDARIES



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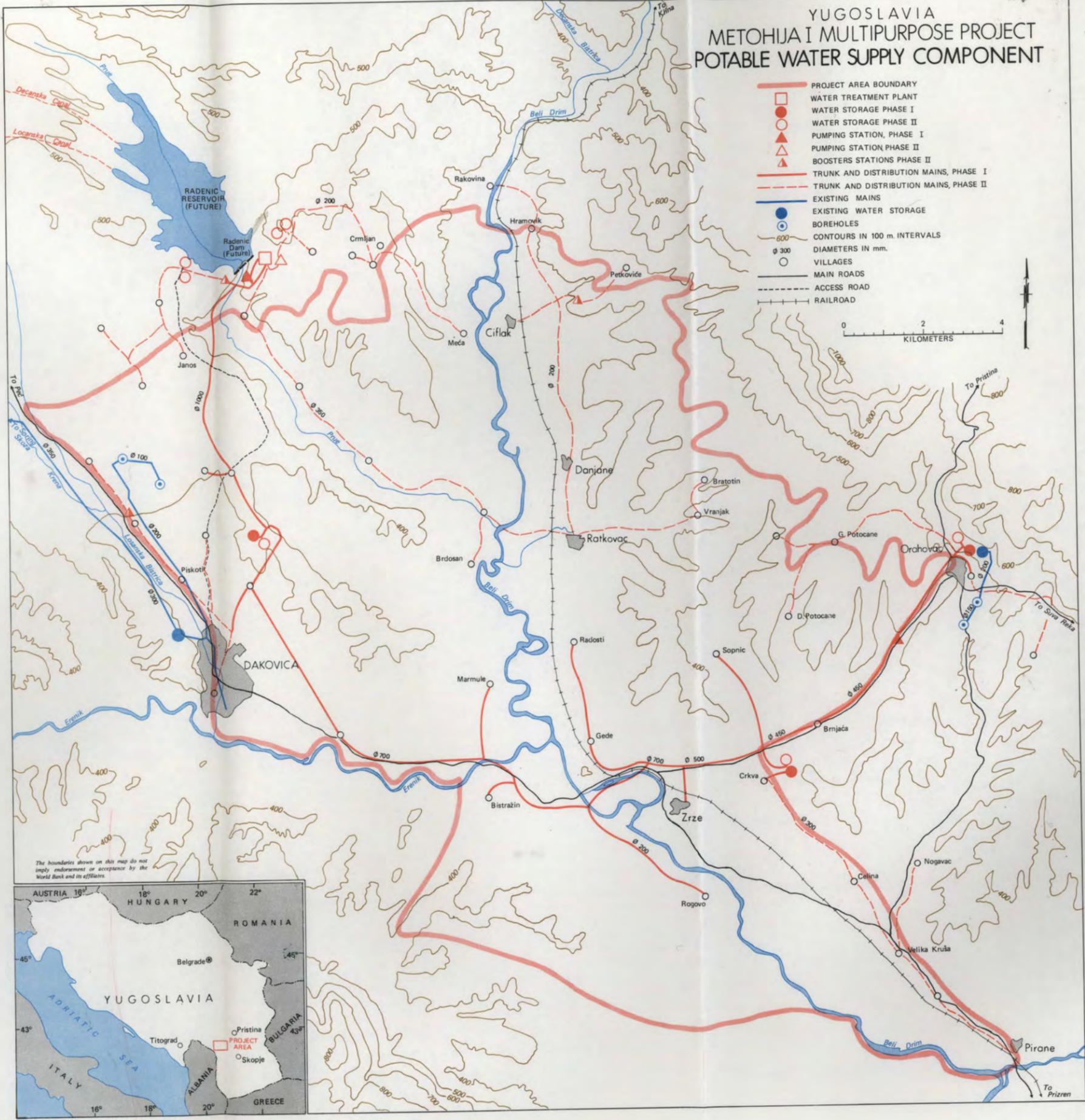
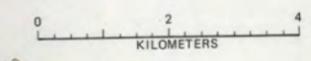


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YUGOSLAVIA METOHIJA I MULTIPURPOSE PROJECT POTABLE WATER SUPPLY COMPONENT

- PROJECT AREA BOUNDARY
- WATER TREATMENT PLANT
- WATER STORAGE PHASE I
- WATER STORAGE PHASE II
- PUMPING STATION, PHASE I
- PUMPING STATION PHASE II
- BOOSTERS STATIONS PHASE II
- TRUNK AND DISTRIBUTION MAINS, PHASE I
- TRUNK AND DISTRIBUTION MAINS, PHASE II
- EXISTING MAINS
- EXISTING WATER STORAGE
- BOREHOLES
- CONTOURS IN 100 m. INTERVALS
- DIAMETERS IN mm.
- VILLAGES
- MAIN ROADS
- ACCESS ROAD
- RAILROAD



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Centimetres
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Yellow
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PROPOSED KOSOVO RAILWAY PROJECT

I. Background

1. During negotiations for the Fifth Railway Project (see Annex G(vii) (c), pages 4 and 5), the federal government requested that the Bank consider making a subsequent separate loan for Kosovo prior to the next planned loan for Yugoslav railways. The Yugoslav authorities were informed that the Bank encouraged the plan of the Community of Yugoslav Railways (CYR)--see Annex G(vii) (c), page 2, para. 2--to form a special team of experts to study the railway needs of Kosovo and prepare specific feasibility studies for an investment program which would meet the needs of Kosovo railways and integrate them into the overall Yugoslav railway network. While it was premature to decide on whether there should be a special loan for Kosovo railways or whether Kosovo should be allocated a priority share within the next overall rail operation, it was agreed that the Bank would make every effort to respond to Kosovo's demonstrable needs as efficiently and effective as possible.

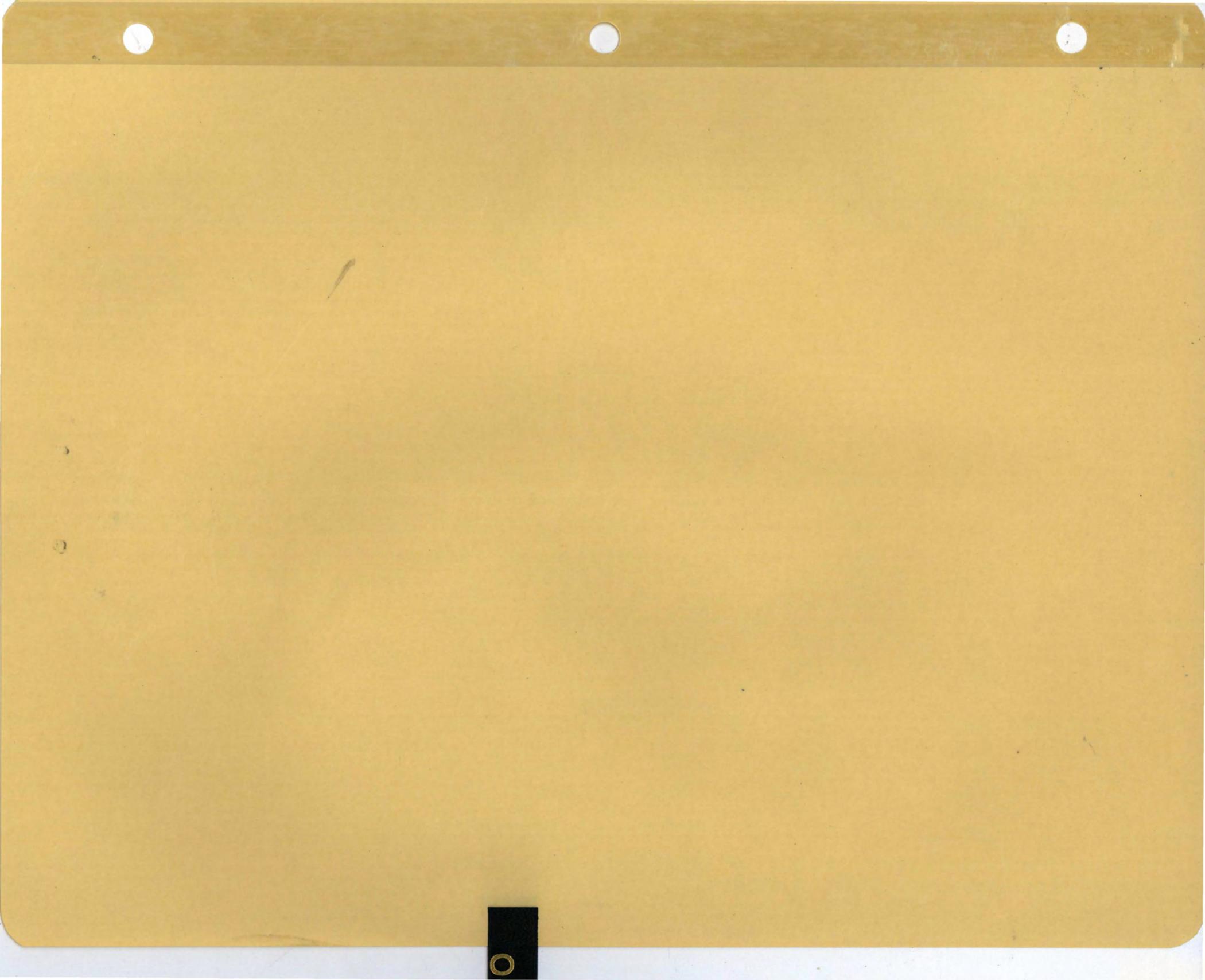
2. The CYR has now submitted to the Bank feasibility studies and has requested a loan to finance expansion of marshalling yards and signalling, which could attract a loan of about \$25 million. A Bank mission visited Kosovo in April 1979 to discuss the proposed Kosovo project with the provincial government and the railways. There are gaps in the preparation of the project, particularly regarding traffic forecasts and financial data. There are also serious doubts about the financial viability of RTO Pristina, the railway authority of Kosovo. The Kosovan authorities are continuing preparation of the project in the light of the Bank mission's findings, and it is proposed that a further Bank mission review the state of preparation in September 1979.

II. Issue

3. The proposed Kosovo Railway project is not currently incorporated in the Bank's lending program for Yugoslavia. The project is not expected to be ready for appraisal even in September 1979 and would therefore be a FY81 or FY82 project. The proposed Sixth Railways project, for which a tentative allocation of \$100 million has been made in the FY82 program, is a FY81 stand-by project. Preparation of two separate railways projects would involve two inputs of Bank manpower. For obvious reasons it would not be acceptable to propose to the Bank's Board two railway loans in the same fiscal year. Proceeding with a separate and smaller Kosovo project would therefore delay the larger Sixth Railway project.

III. Recommendation

4. The Yugoslav authorities have been informed of the likelihood for delay in the proposed Sixth Railway project if a loan for a separate Kosovo project is pursued. A decision will ultimately have to be made by the Yugoslav authorities as to whether they want to formally request a separate loan for Pristina RTO or whether it should be incorporated into the proposed Sixth Railway project.



MACEDONIAI. Historical Overview

1. Macedonia was settled by Slavic tribes in the early Middle Ages. It developed into a center of Slavic/Orthodox culture, which it remained. Save for a brief interlude of political independence, it was for centuries the object of conquest by powerful neighbors. Ottoman rule began in the fourteenth century and lasted until 1912 when greater Macedonia was carved up between the Kingdoms of Serbia, Bulgaria and Greece. As a consequence of World War II, the present Socialist Republic of Macedonia gained autonomy as a member of the Socialist Federal Republic of Yugoslavia.

II. Socio-Economic Conditions

2. Natural Conditions. Macedonia is the southern most republic of Yugoslavia. To the east it borders Bulgaria, to the south Greece, and to the west Albania (see Map at page 5, this Annex). Macedonia is predominantly mountainous; only about one-quarter of the total land surface qualifies for agricultural use. Fertile valleys, particularly in the south which enjoys a Mediterranean climate, provide favorable conditions for intensive agriculture, provided precipitation is sufficient and/or irrigation support is available. Macedonia is a link in the trans-European communications systems, connecting Central Europe and the rest of Yugoslavia with Greece and the Eastern Mediterranean countries.

3. Population. In 1977, Macedonia had 1.8 million inhabitants (about 8 percent of total Yugoslavia). The population growth rate after the immediate postwar period has been high, at something around 1.3 percent since 1954. However, population trends in the postwar period have also been effected by migrations, from rural to urban areas within Macedonia, between regions of Yugoslavia, and abroad, the latter category being mostly young men seeking "temporary" employment in the labor markets of Western Europe. A fundamental transformation of Macedonian society has taken place over the last two decades, the rural share of the population having declined from 61 percent in 1953 to about 40 percent twenty years later.

4. Labor Force. The total labor force (about 630,000 on the basis of the most recent census undertaken in 1971) is comprised of 43 percent in the social sector, 38 percent in the private agricultural sector, 2 percent in private nonagricultural activities, and 12 percent abroad as migrant workers. Productivity and income levels in the private agricultural sector are less than half social sector earnings per worker. There has therefore been considerable demand for social sector employment opportunities witnessed in recent years by a persistent rise in registered unemployment. Aggravated by the net return of migrant workers from abroad, these have risen from around 17 percent of social sector labor force to over 21 percent in 1978. This ratio of unemployment to social sector unemployment is the second highest in Yugoslavia after Kosovo. The projected growth in social sector employment, though

sufficient to absorb the natural increase in the labor force, will not adequately absorb the expected return of migrant workers and unemployment in the agricultural labor force at least until the mid-1980s. The problem of insufficient labor force absorption is therefore a major, if not the major, development problem of Macedonia. It is likely to remain the major problem for another two decades until gradually the pressure of the demographic dynamics recedes and the backlog of workers in the private agricultural sector with low productivity and income levels is absorbed by the momentum of economic growth.

Characteristics of the Macedonian Economy

5. Macro-Economic Characteristics. At 1977 prices and exchange rate, the social product (GMP) of Macedonia amounted to \$2.2 billion, or \$1,200 per capita. About 84 percent of GMP was accounted for by the social sector and 16 percent by the individual sector, largely in agriculture. The share of industry (manufacturing, mining, and quarrying) amounted to almost 36 percent of GMP and that of agriculture to 18 percent. In total Yugoslav GMP, Macedonia represented 5.4 percent, whereas it accounted for 8.3 percent of the total population. It contributed about 5.1 percent to Yugoslavia's industrial output, but 6.7 percent to the agricultural output.
6. Macedonia has sizeable exports of some agricultural products, most prominently tobacco and livestock. The largest proportion of its exports, however, are in the form of manufactured goods. In addition to its resource based industries, Macedonia has developed a strong export position for some relatively labor-intensive products such as textiles, leather, and metal products. On the whole, Macedonia contributed a significant share of the country's net exports of consumer goods.
7. Between 1954 and 1977, GMP grew, in real terms, at an average annual rate of 7.3 percent, thus surpassing the rate of 6.8 percent realized for the country as a whole. Due to the higher rate of population growth, the rise of GMP per capita, however was only marginally faster than that of total Yugoslavia. In 1977 Macedonia's per capita income was about 64 percent of the Yugoslav average.
8. Agriculture. In 1973, agriculture produced 18 percent of Macedonia's GMP, the highest percentage of all regions of Yugoslavia with the exception of Vojvodina. The growth rate of Macedonia's agricultural sector of 2.3 percent per year (1967-77) has been close to the Yugoslav average of 2.5 percent. The physical conditions of Macedonia dictate a production structure with extensive livestock (mainly sheep) raising in the mountainous areas and intensive agriculture in the valleys. The latter accounts for roughly one-quarter of the total surface. The predominantly mediterranean climate provides favorable production conditions, but irregular rainfall during the main growing season is a universal problem for utilizing the potential, unless corrected by irrigation. Presently irrigation covers 10 percent of the cultivated land.
9. The land use and the output mix reflect the physical conditions. Macedonia's agriculture is to a considerable degree oriented towards vegetables (particularly early varieties), tobacco and fruit growing (particularly

early table grapes and wine), and Macedonia is the only region of Yugoslavia which permits the cultivation of rice and cotton. Conversely, cereals, fodder crops, industrial crops and cattle raising are less important than elsewhere in Yugoslavia.

10. Industry. Macedonia's industry grew between 1954 and 1977 by an average rate of 10.8 percent, far exceeding the growth rate of total Yugoslav industry of 9.2 percent. By 1977, the share of industry in Macedonia's economy reached 35 percent. The growth rates exceeded the Yugoslav average for almost every branch.

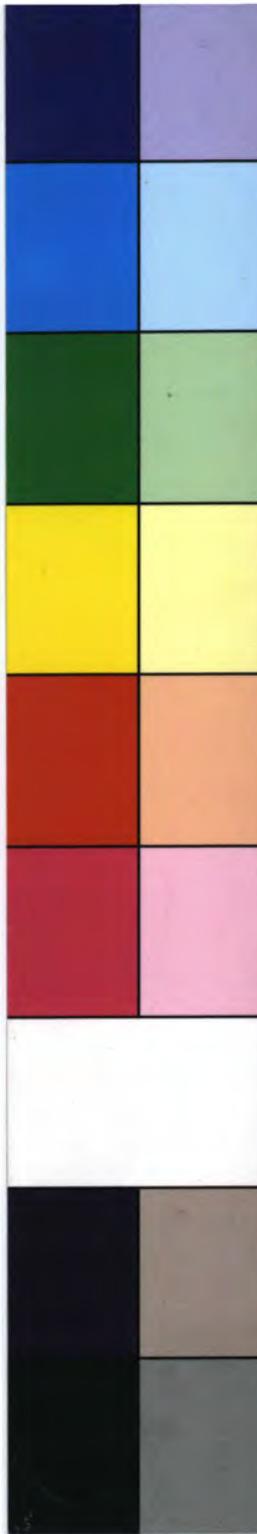
11. In the structure of Macedonia's industry, the "light industries" have a significantly greater weight than in the Yugoslav average, and particularly in comparison with the other less developed regions, although the difference was gradually declining since the early 1960s. Since "heavy industries" are in Yugoslavia associated with high average and incremental capital-output and capital-labor ("capital-intensity") ratios and with low accumulation rates, Macedonia's pattern of industrial mix is one of the reasons for its successful industrial and overall development.

12. In transport and communication, Macedonia's systems are still deficient in comparison with the developed regions of Yugoslavia. The improvement of the interrepublican system would ameliorate the physical disadvantage of the distance between Macedonia and the economic center region of Yugoslavia and the sources and destinations of most of foreign trade. Similarly, the improvement of the interrepublican systems would tie the poorer, economically stagnating and depopulating areas closer to the mainstream of development. It appears that the deficiency is particularly severe with respect to tertiary roads which would provide year-round all-weather-connection to the minor communes and settlements. Another problem area is modernization of the railway system and the improvement of its overall operating efficiency.

Bank Activity in Macedonia

13. The Bank's emphasis on assuring the accelerated development of the Less Developed Regions (LDRs) has direct application to Macedonia which is perhaps the most effective of the LDRs in addressing its developmental priorities. The Bank's activities emphasize particularly those key sectors touched upon above: agriculture, industry and transport with special attention and stress on agriculture. The Bank has given, and will continue to give support to this key sector, illustrated by our active and proposed interventions in a number of projects (Macedonia Agricultural Industries: Loan 894 of May 25, 1973; Macedonia Agriculture and Second Agro-Industries: Loan 1371 of March 10, 1977--see pages 6-8, this Annex; Agricultural Credits I and II: Loans 1129 and 1477 of June 20, 1975 and July 29, 1977, respectively--see Annex G(vii) (a), pages 5-7), with emphasis on horticulture. Bank involvement in Macedonia is further buttressed by our participation through industrial lines of credit (Macedonia/Kosovo Industrial Credit: Loan 1012 of June 21, 1974; Second Industrial Credit: Loan 1277 of June 14, 1976--see Annex G(vii) (d),

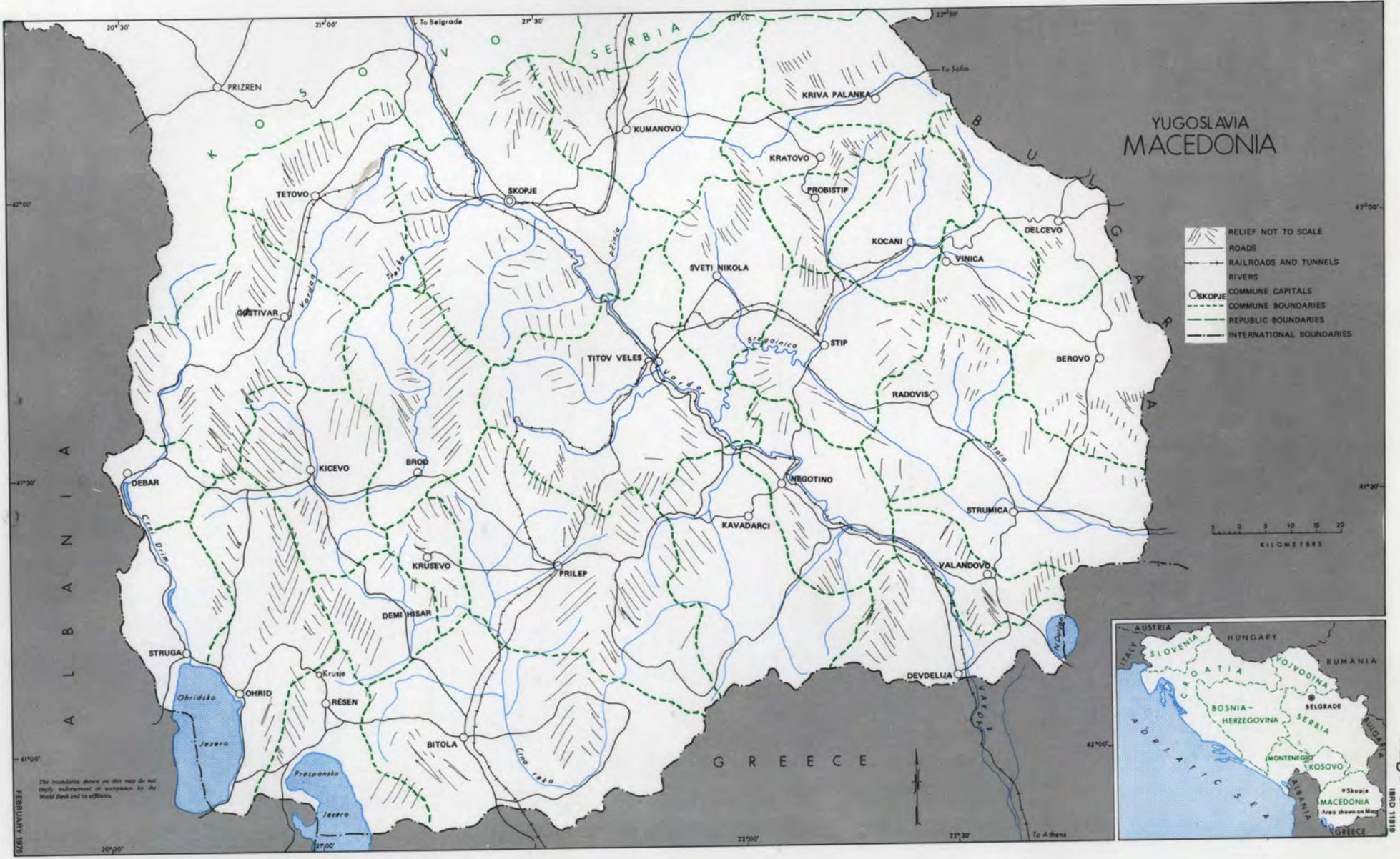
pages 4 and 5; and Fourth Industrial Credit: Loan 1613 of July 26, 1978) and in national infrastructure projects for Railways (Railways V: Loan 1534 of April 13, 1978--see Annex G(vii) (c), pages 4 and 5) and power transmission (Second Power Transmission: Loan 1469 of July 11, 1977--see Annex G(vii) (b), pages 4-6). Future projects in irrigation, agricultural processing and credit and industrial credit are contemplated; in addition, a loan (Loan 1678 of April 9, 1979) for a regional highway sector program was approved by the Board in March, 1979 (see Annex G(vii) (c), pages 8 and 9).



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AGRICULTURE AND AGRO-INDUSTRIES
PROJECT IN MACEDONIA
Loan No. 1371-YU of March 1977

Loan and Project Summary

- Amount: US\$24 million.
- Borrower: Stopanska Banka Skopje (SBS).
- Beneficiaries: 10 agricultural processing enterprises and agricultural cooperatives in the social sector, and about 960 private farmers in Macedonia.
- Terms: Amortization in 15 years, including 3-year grace periods, with interest at 8.5 percent.
- Relending Terms: Social Sector--maximum repayment period of 14 years, including 3-year grace period, with on-lending interest rate at 11 percent.
- Private Sector--maximum repayment period of 10 years, including 5-year grace period, with on-lending interest rate at 11 percent.
- Project Description: The aim of the project is to help achieve the agricultural objectives of Macedonia; namely, to increase agricultural production both for the growing domestic market and for exports, to raise productivity and income, particularly on small farms, to expand agro-industrial processing capacity, to improve product quality and to stabilize food supply. The project includes:
- (i) processing facilities in the social sector including a dairy plant, slaughterhouse, potato cold store and fruit and vegetable processing facilities;
 - (ii) investments for the private sector in grape and fruit production, plastic greenhouses and mechanization for vegetable production, livestock and tobacco drying facilities; and
 - (iii) a feasibility study for the design, construction and operation of a wholesale market center for agricultural products.

Estimated Cost (including
Physical and Price
Contingencies):

	-----US \$ million-----		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Appraisal Estimate	38.2	24.0	62.2
Current Estimate	40.0	24.0	64.0

Financing Plan:

	<u>US\$ Million</u>	<u>Percent of Total</u>
IBRD Loan	24.0	39
SBS	27.0	43
Sub-borrowers	<u>11.2</u>	<u>18</u>
Total	<u>62.2</u>	<u>100</u>

Economic Rate
of Return:

Project components would generate overall economic rate of return of 25.6 percent.

Estimated Date
for Project Completion:

Appraisal Estimate
June 1981

Current Estimate
June 1981

Current Status:

A Moderate Problems Project

Subloans for all social sector, agro-industries facilities, have been approved by the Borrower. Twenty-two subprojects in the individual sector have been approved committing 64 percent of the loan proceeds. It appears likely that most social sector subprojects will suffer from considerable cost overruns which the Yugoslavs blame on rigid ICB procedures. Considerable delays in bid evaluation, contract negotiation and award and fixed price construction contracts when annual inflation was 11 percent may have influenced bid prices and resulting subproject investment cost. Slow initial project progress may also have contributed to higher project costs than was originally estimated.

Poor quality agro-industry subproject appraisals prepared by SBS resulted in delay in providing Bank approvals until satisfactory clarification could be obtained. The employment of a qualified agro-industries specialist required in a loan agreement covenant should have improved subproject appraisal quality, but the specialist left after only a few months and the position has not subsequently been filled. Preparation of satisfactory tender documents for ICB procurement of agro-industry facilities has also been slower than expected in a repeater project. On May 3, 1979, SBS appointed a new Director of the Agriculture and Forestry Department in which Bank agricultural projects are administered. Indications are already evident that improvement in project implementation can be expected.

MACEDONIA STREZEVO IRRIGATION PROJECTLoan No. 1616-YU of August 1978Loan and Project Summary

Amount: US\$82 million.

Borrower: Stopanska Banka Skopje (SBS).

Beneficiary: Pelagonija Water Economy Enterprise (Vodostopanstvo).

Terms: Amortization in 15 years, including three years grace, with interest at 7.9 percent per annum.

Relending Terms: Proceeds on-lent to beneficiary (who bears the foreign exchange risk) on same terms as Bank loan except for an additional 0.5 percent spread on interest rate to cover administrative costs of Borrower.

ProjectDescription:

The Project is part of Macedonia's long term irrigation development program for the Pelagonija plain, the single largest area of arable land in the Republic. The Project seeks to increase crop production, to raise productivity and income, and to create employment in an area where unemployment and emigration are among the highest in Yugoslavia. The increased food production on the newly irrigated land would substitute for imports, cater to increasing domestic demand and provide limited export potential. The project would supply bulk water to the community of Bitola and to a thermal electric power facility under construction. Feasibility and preparation studies for three possible future irrigation projects are also included.

Direct beneficiaries of the project would number about 50,000 in one of Yugoslavia's less developed regions and average agricultural income per capita is expected to increase about five-fold. The proportion of farmers above the relative poverty level or target group would increase from 10-20 percent to about 85-95 percent.

Estimated Cost (including
Physical and Price
Contingencies):

	-----US \$ million-----		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Appraisal Estimate	106.2	82.6	188.8
Current Estimate	106.2	82.6	188.8

<u>Financing Plan:</u>	<u>US\$ Million</u>	<u>Percent of Total</u>
IBRD Loan	82.0	44
SBS	80.1	42
Republic of Macedonia Grant	11.1	6
Equity Contributions from Enterprises in Town of Bitola	<u>15.6</u>	<u>8</u>
Total	<u>188.8</u>	<u>100</u>

Economic Rate of Return: 15 percent

<u>Estimated Date for Project Completion:</u>	<u>Appraisal Estimate</u> December 1981	<u>Current Estimate</u> December 1981
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Current Status: A problem-free or minor problems project

Contracts for the construction of major project components (the alimentation canal, dam, and main canal) were signed in May 1979. Progress on construction of access roads, diversion canal and thermal power station pipeline is satisfactory. Bids have been requested as a result of retendering for the construction of the irrigation network on the basis of revised tender documents which allow bidders the opportunity to consider a broader range of suitable construction materials.

The contract has been awarded to Yugoslav consultants, with a specialized international consultant sub-contract, to prepare the studies for three possible future irrigation projects.

JOGOTUTUN BULB PLANT
FIRST SUPROJECT UNDER FIRST INDUSTRIAL CREDIT PROJECT
Loan NO. 1012-YU of June 1974

Total Cost: \$5.4 million

Bank Loan Amount: \$1.7 million

Other Sources of Finance:
Stopanska Banka Skopje - \$2.2 million
Stopanska Banka Stip - \$1.5 million

Terms of Bank Loan: Repayment over 12 years, including 2 years of grace; interest at 9.5 percent.

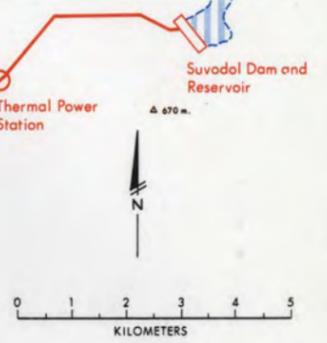
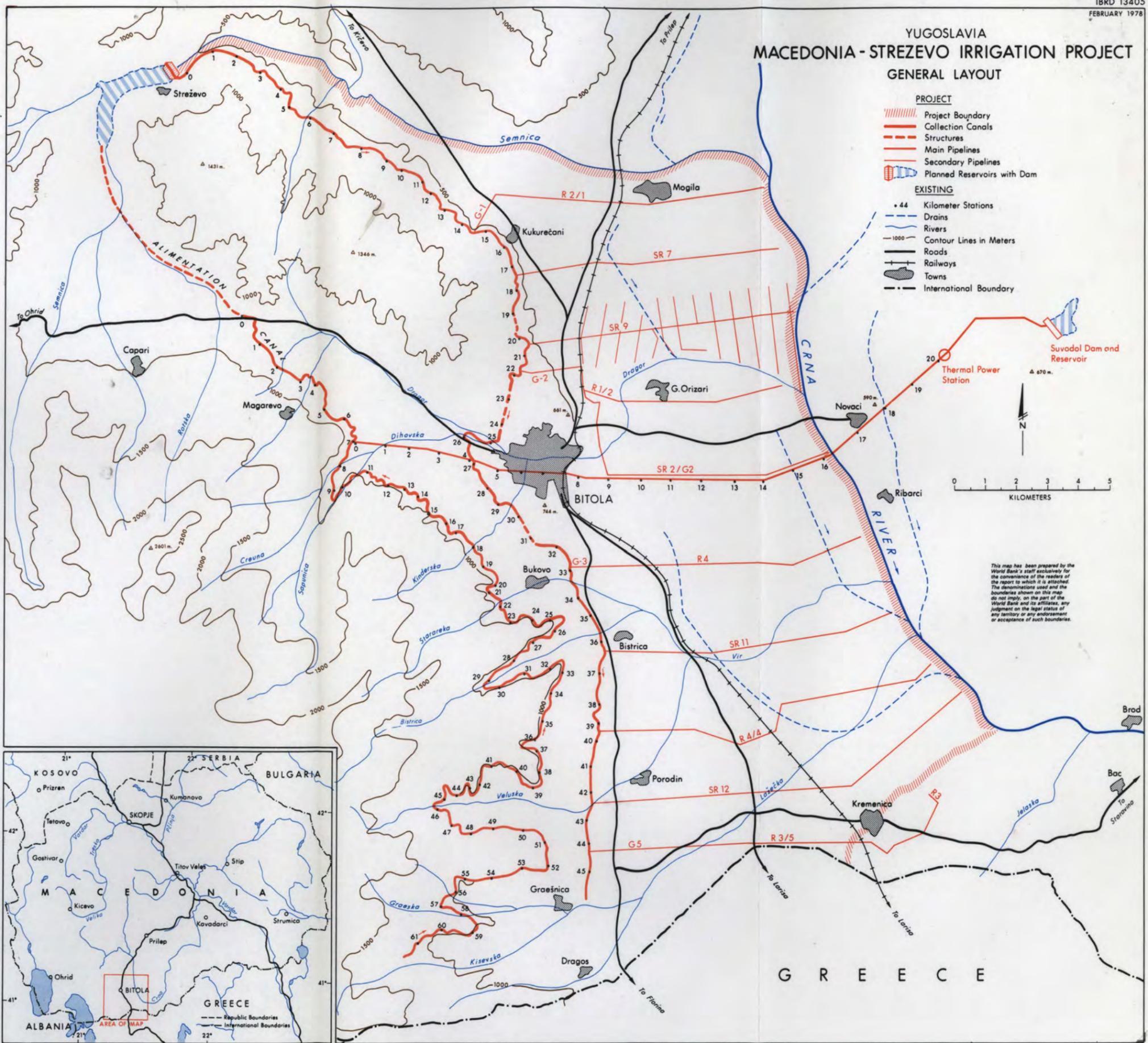
Subproject description: The subproject was the first industrial subproject submitted to the Bank for financing. It provided for the construction over 2 years beginning 1975 of a factory in Stip for the production of electric light bulbs and fluorescent tubes. A Swiss firm "Gluhlampenfabrik", selected through international competitive bidding, was responsible for the construction of the plant, import equipment, technical assistance and training.

The factory's annual production is projected at 6.2 million electric bulbs, 5.5 million automobile bulbs and 160,000 fluorescent lamps. Annual sales are estimated at about Din. 80 million (about US\$4.4 million equivalent), generating net income of about Din. 10 million (about US\$0.6 million equivalent). Cost per job created: \$30,000.

Economic Rate of Return: 19 percent

YUGOSLAVIA
MACEDONIA - STREZEVO IRRIGATION PROJECT
 GENERAL LAYOUT

- PROJECT**
- Project Boundary
 - Collection Canals
 - Structures
 - Main Pipelines
 - Secondary Pipelines
 - Planned Reservoirs with Dam
- EXISTING**
- 44 Kilometer Stations
 - Drains
 - Rivers
 - Contour Lines in Meters
 - Roads
 - Railways
 - Towns
 - International Boundary



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SLOVENIA

I. Historical Overview

1. Slovene tribes began to settle in the northwest corner of the Balkan peninsula in the sixth century. By the eighth century they had submitted to the domination of the Franks. Under Charlemagne, German Catholic missionaries had converted them to Christianity and introduced German culture. The region which is now Slovenia came under the control of the Hapsburgs in the late thirteenth century. From then until 1918 the Slovene lands were an integral part of the Hapsburg domains, save for a brief French interlude (1809-1813); German was made the official language for all government affairs as well as for education, but Slovene national consciousness remained strong, and the masses continued to speak the Slovene language. From 1918-41, Slovenia was a part of the Kingdom of the Serbs, Croats, and Slovenes. At the conclusion of World War II, with Marshal Tito's partisan movement in undisputed control of the country, Slovenia became a Socialist Republic within the Yugoslav Federation (see Map at Annex C(ii)).

II. Socio-Economic Conditions

2. Natural Conditions. The Socialist Republic of Slovenia covers an area of 20,251 sq. kilometers or 7.9 percent of Yugoslavia's territory. It is situated between Italy, Austria, Hungary and the Socialist Republic of Croatia. Its relief is extremely varied, ranging from the Julian Alps to the coast giving on to the Adriatic Sea. The Alps cover the northern part, the highest peak being Triglav (2,863 m). The climate is mainly Central European, except for the coastal region, where it is Mediterranean. The major rivers are the Sava, Drava and Mura, all tributaries of the Danube and the Soca, which flows into the Adriatic. About 48 percent of Slovenia is wooded. The configuration of the land does not allow extensive development of arable farming, which is therefore highly intensive. Good pasturage, however, offers favorable conditions for livestock farming.

3. Population and Labor Force. In 1977, Slovenia had about 1,800,000 inhabitants, 8 percent of Yugoslavia's total population. The majority of the population is Slovene, with only small numbers of other nationalities (Croats, Serbs, Hungarians, Italians). Population growth over the period 1954-77 at only 0.7 percent was below the one percent growth rate for Yugoslavia as a whole. Only 20 percent of the population is involved totally in agriculture, half that of the national average. The active population is 48 percent of the total population in Slovenia, and registered unemployment as a proportion of employment in the social sector is only 1.5 percent, compared to the national average of 12.2 percent.

4. Income. In 1977, GNP per capita in Slovenia was estimated at \$3,802, almost double that of the Yugoslav average. Real growth in GMP and GMP per capita over the period 1954-77 was 7.1 percent and 6.4 percent respectively, both higher than the national real growth rates. The high proportion of

workers in the nonagricultural social sector and relatively low unemployment and underemployment account for this high income level. Distribution of income in the Province is fairly even because of the absence of the dual economy found in most other areas of Yugoslavia.

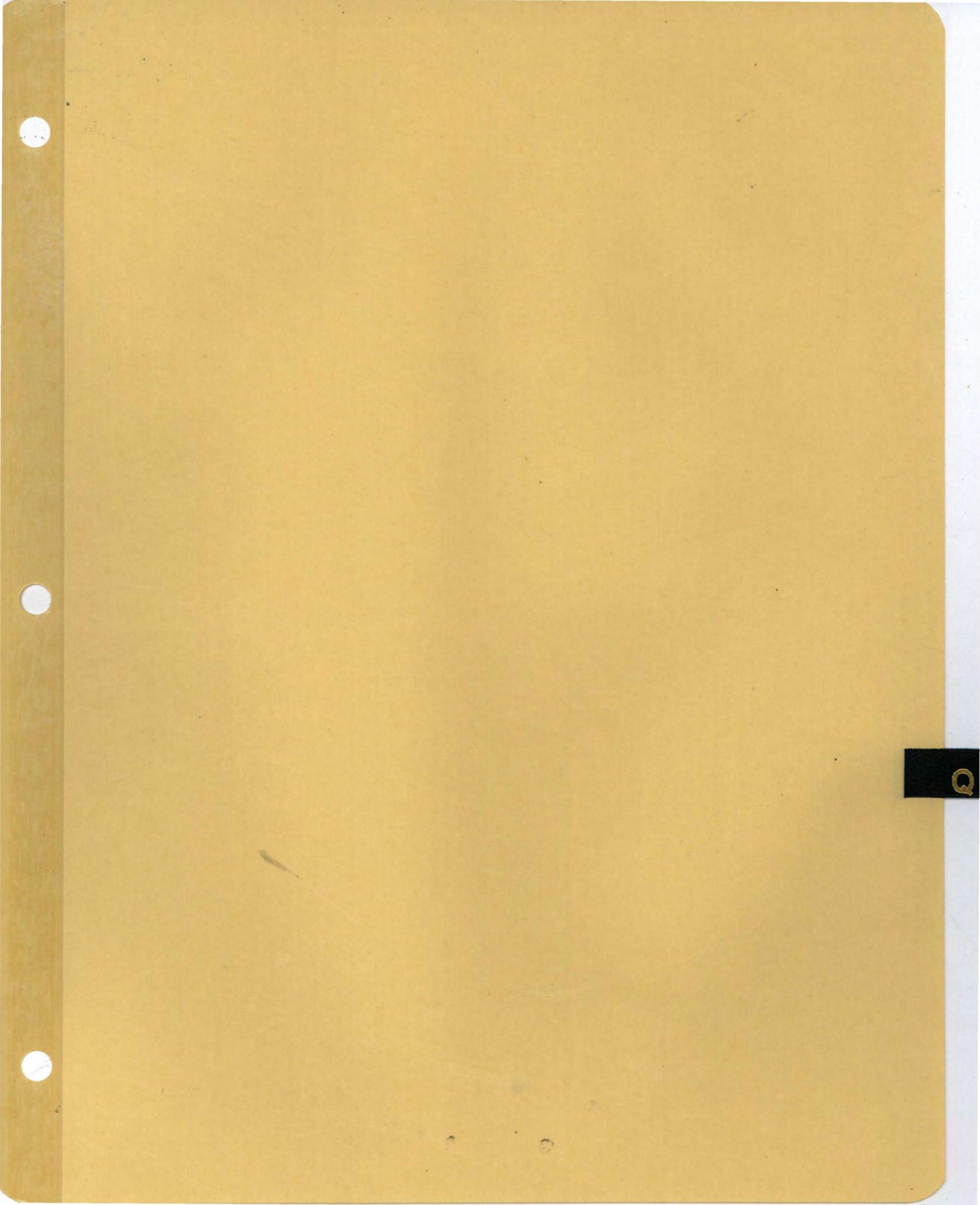
5. Features of the Economy. A well-established infrastructure, favorable geographic position and a productive population with only a one percent illiteracy rate have attracted to Slovenia industries such as engineering, textiles, woodworking, electrical goods, chemical, food processing, electric power production, iron and steel and nonferrous metallurgy. Industry and construction activities together accounted for 57 percent of GMP in 1977. Unlike the rest of Yugoslavia, agriculture in Slovenia plays only a minor part of the Republic's economic activity, accounting for only 6 percent of GMP. On almost all social and economic indicators Slovenia emerges as the most developed region in Yugoslavia and considerably ahead in terms of income and economic development of all other Republics and Provinces.

6. Bank Activity in Slovenia. Bank lending in Slovenia has been confined to participation in projects of national importance (e.g. highways, railways, agricultural credit and power transmission). Future activities may also include financing of joint ventures between Slovenia and one or more of the Less Developed Regions through industrial credit projects (see Annex F(iv), pages 2 and 3, paras. 4-6; and Annex G(viii) (b), page 2).

ADDENDUM

INTERNATIONAL CENTER FOR PUBLIC ENTERPRISES IN DEVELOPING COUNTRIES

1. The International Center for Public Enterprises in Developing Countries (ICPE) was established in Ljubljana in April 1974 as a Yugoslav institute for technical cooperation with developing countries in the light of increasing significance of public enterprises in the developing world and their importance as a factor of socio-economic development. The 1976 Colombo Conference of the Heads of State of non-aligned countries led to the July 1978 transformation of ICPE into a joint institution of 28 developing member countries.
2. ICPE has several permanent research projects relating to public enterprises in developing countries, including education and training of personnel; planning; financing; role of public sector; management of development and transfer of technology and innovation processes; and information and control systems. In addition, ICPE is developing management consultancy information/documentation services as well as studying the role of women as a factor in development.
3. ICPE's annual budget is about US\$1.5 million equivalent, financed through annual membership contributions, UNDP, UNIDO and the Netherlands Government. ICPE also cooperates with regional and inter-regional organizations, ILO, UNESCO, national institutions in developing countries and the Governments of Sweden and Canada.
4. ICPE has cooperated with the World Bank by providing two consultants for a pilot study of 3 to 4 organizations in Yugoslavia as part of a wider study to determine the characteristics of the success of business and managerial practices in public enterprises in several developing countries.
5. Dr. Anton Vratuša, President of the Executive Council of the Assembly of SR Slovenia (see Annex E(ii), page 4) is the President of the Management Council of ICPE. The Executive Director is Dr. Vodušek.



YUGOSLAV RECRUITMENT

BACKGROUND OF ISSUES

1. The Yugoslav authorities have over the years expressed dissatisfaction with the recruitment of Yugoslavs for the Bank and IFC. They have formally requested the Bank to cooperate in a long-term program, including various promotional activities, to improve the situation (memorandum of March 8, 1979, from Gavra D. Popovic, Assistant Federal Secretary for Finance to Mr. Bernard Chadenet.)

2. Recruitment in Yugoslavia is difficult. Given the insistence on Government clearance, we must depend on candidates put forward by our official recruitment contact. A great deal of effort was put into finding candidates for Mr. Clarke's visit in December 1975, which resulted in three appointments out of five offers. However, only one candidate was put forward in 1977; not until the summer of 1978 did we receive further candidates for consideration, most of whom were for the Young Professionals Program, for which needs are strictly limited. Eight Yugoslavs are now on board (seven Bank; one IFC). In addition, two YP candidates were chosen in the last selection.

3. Our official recruitment contacts in Belgrade are bureaucratic and do not appear to understand the type of staff we need, despite extensive briefing. They are further handicapped by the facts of political life in Yugoslavia: the Federal Government is relatively weak and feels obliged to submit an equal number of candidates from each of the constituent Republics.

4. The Bank has gone a long way to meet Yugoslavia's wishes:

- By agreeing only to five-year fixed-term appointments, even quite exceptionally for YP's, we have supported the Yugoslav Government's desire that candidates selected would return home to apply their acquired experience.
- We acquiesced in the return home of three staff members on regular appointments (one high flier ex-YP, one average and one below average performer).
- We have taken one Yugoslav as a summer trainee out of only two suggested (the second had very little English).
- We refused to consider a potentially excellent YP candidate who saw the YPP as a device to evade military service in Yugoslavia.

- We did not renew the fixed-term appointment of a research assistant, who for some reason was persona non grata back home.
- We have not pursued a number of Yugoslav expatriate candidates who did not appear absolutely top flight.

5. The Yugoslavs have assured us that they would consider each applicant strictly on his/her professional merits. Yet, in February 1976, when we sought official clearance for a first class lawyer living and working in Yugoslavia, we met with refusal. The only explanation was that "he would not be a suitable representative of the Bank or Yugoslavia."

ISSUES

Principal Yugoslav Grievances

1. Since 1947, only sixteen Yugoslavs have been employed by the Bank and IFC.
2. The Bank should honor its "gentleman's agreement" to recruit only Yugoslav nationals put forward through official channels. We had violated this agreement twice in 1978 by recruiting two Yugoslav citizens living outside Yugoslavia for a long time. (Mr. Slobadan Mitric and Mr. Peter Miovic.)
3. The recruitment procedure seems to be very "short and speedy" when applied to Yugoslavs living abroad, but lengthy for candidates proposed by Yugoslav authorities.
4. On several occasions the Bank has been hesitant in considering promotion of Yugoslav staff members. If the five-year fixed-term arrangement normally desired by the Government is an obstacle, the Yugoslav authorities would be prepared to recommend that candidates accept a regular appointment.

RECOMMENDATIONS

The Bank's position should be:

1. We welcome the desire of the Yugoslav authorities to have more of their nationals on our staff. We are prepared to cooperate in every way possible to achieve their goal. However, to do so, we must rely on a steady flow of qualified candidates from the Government.

2. We have an obligation to our member countries to seek the best possible people, wherever we can find them, including Yugoslav nationals living abroad. The legal position on this is quite clear: The provisions of the Articles of Agreement establish the principle that the selection and appointment of World Bank staff is the sole responsibility of the World Bank itself, a responsibility that cannot be shared with individual member governments. The World Bank cannot accept the request of a member government that that government's consent be obtained before any of its nationals are employed by the World Bank, since such a request would be inconsistent with the principle stated above and with the international character of the duties of the World Bank staff. (From Pierro Sella's memorandum of December 5, 1975) In any event, we have not done this to excess--two out of eight, excluding one staff member recruited as a messenger in 1963 and promoted professional in 1978.

3. We are concerned by the impression that hiring of candidates presented by the Government takes much longer than for outside candidates. As a result of Mr. Clarke's mission in December 1975, some forty candidates were presented. Despite the time needed for processing among Bank Departments, candidates were invited for interview in February and March, and offers made in March and April. Similarly YP candidates seen by Mr. Sigrist in Belgrade in December were interviewed by the YP Panel in Paris in February and offers made in March.

4. The fixed-term appointment is not a barrier to promotion except perhaps in the case of promotion to a managerial position. We consider the five-year fixed-term arrangement to be in the best interest of Yugoslavia, but hope that the Government will consider sympathetically requests at the Bank's initiative for an extension of the five-year appointment.

5. We could suggest to the Federal Secretariat for Finance that they may wish to use, at their discretion, former Yugoslav Bank staff members to help screen applications of potential candidates.

FGS:psd

July 10, 1979
Personnel Management Department

LISTING OF J-Q STAFF BY NATIONALITY, ORGANIZATION AND LEVEL GROUP
AS OF JUNE 30, 1979

NATIONALITY: YUGOSLAV

BANK

<u>STAFF NAME</u>	<u>E.O.D. DATE</u>	<u>TYPE OF APPOINT.</u>	<u>POSITION</u>	<u>DEPARTMENT</u>
BJELOGRIC, BRANKO	8/31/76	FIX-TRM	HIGHWAY ENGINEER	EASTERN AFRICA PROJECTS DEPT.
GROJIC, BRANKO	7/19/76	FIX-TRM	ECONOMIST	ECON. ANALYSIS & PROJECTIONS DEPT.
JOVANOVIĆ, DJORDJE	3/24/70		ECONOMIST	WESTERN AFRICA PROJECTS DEPT.
MASTILOVIĆ, VUKOTA	2/03/75		POWER ENGINEER	EMENA PROJECTS DEPT.
MITRIĆ, SLOBODAN	8/07/78		TRANSPORTATION SPEC.	EMENA PROJECTS DEPT.
RADAN, IVAN	4/26/63		NIGHT PRINTING SUPERVISOR	ADMINISTRATIVE SERVICES DEPT.
SILBIGER, STEVEN	7/15/69		SR AGRIC. ECONOMIST	EAST ASIA AND PACIFIC FIELD

IFC

SKAPIN, BORIS IVAN	3/01/76	FIX-TRM	INVESTMENT OFFICER	IFC DEPT. OF INVEST.: LAC II
*HROMIĆ, MUHAMED	6/01/76	SECOND	ECONOMIC ADVISER	UNDP ADVISERS STAFF
*STOJILJKOVIĆ, MIODRAG	8/01/78	EXE-DIR	ALT EXECUTIVE DIR CYPRUS, ISRAEL, ETC.	EXECUTIVE DIRECTORS

* does not count in nationality statistics.

R

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 10, 1979

FROM: J. Burke Knapp

SUBJECT: Yugoslavian Contribution to IDA 6

In connection with your forthcoming visit to Yugoslavia I think it would be appropriate for you to ~~express your warm thanks for the Yugoslav pledge of \$20 million equivalent for IDA 6 which was announced by Mr. Popovic at the IDA Deputies' meeting in Brussels in March.~~

7/10
Yugoslavia contributed \$4 million equivalent to IDA 3, \$5 million equivalent to IDA 4 and \$8.1 million equivalent to IDA 5. On the basis of their IDA 5 share their contribution to IDA 6 at the level of \$12.5 billion would have been less than \$14 million equivalent, but they have responded favorably to our request that they increase their share this time and contribute \$20 million equivalent in order to give a lead to other Part II countries from whom we are seeking contributions. (A similar request to Spain is still pending - I have reported my latest talk with the Spanish Minister of Finance on this subject in my memorandum of July 6 to Files, and am preparing a letter for you to send to the Minister on this matter.)

cc: Messrs. Cargill
Benjenk
Vibert

JBKnapp:isk

INFORMATION MEDIA

I. Introduction

1. The relationship between government and press in Yugoslavia lies between the western concept of freedom of the press and the official control usually established in the communist countries of Eastern Europe and elsewhere. No effort is made by the party or government to interfere directly in the daily operation of the press. Most newspapers are published by branches of the Socialist Alliance (comprising most of the workers in Yugoslavia). Each newspaper is an enterprise made of Basic Organizations of Associated Labor (BOALs) with a workers' council elected by the BOALs. The editor-in-chief heads an editorial board which is responsible for the day to day running of the paper. Each newspaper has an Editorial Advisory Council, appointed by the Socialist Alliance, which meets two or three times a year and advises the editorial board on policy but does not dictate it. The Advisory Council is made up of a broad cross section of society the names of which are printed in the paper.

2. While newspaper editors receive policy advice from this council, they have considerable freedom to publish what they like. Although the papers adhere to the broad principles of the Yugoslav system, there is open debate and criticism of particular issues. The press attends meetings of parliamentary committees and reports freely on the differing views expressed by the delegates to the Assembly. The Federal Secretariat of Information supports the independence of the press by refusing to act as an intermediary between newspapers and sources. The press avoids making personal attacks on domestic or foreign political leaders, although editorial criticism of their policies is common.

3. A number of publications, not affiliated with the Socialist Alliance, are published without censorship. These include satirical weeklies in the various republics and several student papers. The latter have frequently published vehement attacks on the government and individual of these papers have occasionally been banned.

4. The major national and regional newspapers give considerable factual coverage of World Bank events such as Mr. McNamara's Annual Meeting speech, and loan announcements.

II. Newspapers

5. By far the most important daily papers are Politika, Borba and the latter's evening paper Vercenje Novosti.

6. Borba is published in the Cyrillic alphabet in Belgrade and in the Latin alphabet in Zagreb, by the Socialist Alliance of Yugoslavia. A large format paper, which was founded in 1922 as the organ of the then outlawed communist party, it is the most serious paper in Yugoslavia and its lack of popular appeal accounts for its falling circulation (currently 60,000). It

has a reputation for providing the most comprehensive coverage of foreign and economic news. Borba's evening paper, Vercenje Novosti, is a tabloid, featuring light news coverage, comic strips and articles on sports and other topics of wide appeal. Today it has the largest circulation in Yugoslavia (370,000).

7. The most popular morning paper, Politika, is the oldest publication in Yugoslavia, having been established in 1904. Before World War II it was owned by the Ribnikar family, a wealthy left-leaning family who hid Marshall Tito in their home in 1941. Although Politika is now the organ of the Socialist Alliance of Serbia, members of the Ribnikar family still work on the paper and it generally takes a more independent position than Borba.

8. Tabloid in format, Politika, has wide popular appeal and has the largest morning circulation (currently: 285,000). It carries lively and extensive coverage of domestic and foreign news, and maintains a staff of approximately ten foreign correspondents. Miroslav Radjojicic, the leading Yugoslav foreign policy commentator, writes for the paper. Politika subscribes to the New York Times News Service, and once a week carries two pages of articles reprinted from the western, communist block, and non-aligned press. It is also one of the 16 newspapers worldwide to carry the monthly supplement "World Paper" (carried in the U.S. by the Boston Globe and the Minneapolis Tribune).

9. In addition to news and features, Politika carries considerable advertising, comic strips and political cartoons and commentary. Its cartoons ridicule the policies of individuals without attacking their personalities. Art Buchwald's column is frequently reprinted and his Yugoslav equivalent, Vladimir Bulatovic, writes under the pen name of VIB.

10. In a recent column about Yugoslavia's tax loopholes, he characterized the colors of the Yugoslav flag as representing "blue for the Adriatic, red for our comrades and white for the villas of the bureaucrats."

11. Regional daily papers are published by the Socialist Alliances of the various republics and provinces with Vjesnik (circulation 90,000) in Zagreb and Delo Sloveniab (circulation 82,000) in Ljubljana, being the most influential. Vjesnik also publishes a popular evening paper, Vecernji List (circulation 300,000). All the regional papers are very competitive and most have some foreign correspondents.

12. The only daily economic paper, Privedni Pregled (circulation 13,250) is published by the Yugoslav Chamber of Commerce. With a readership largely made up of managers of enterprises it is similar in content to the U.S. Journal of Commerce.

13. A fortnightly economic paper, Ekonomska Politika, carries articles by the leading economic writer, Aleksander Lebl, who also writes for several foreign publications including the Financial Times.

14. The most important weekly newspaper is the expanded Wednesday edition of the Zagreb daily paper, Vjesnik u Srijedu, which carries a large number of features and human interest stories. A popular weekly news magazine, NIN is similar to the U.S. Newsweek.

15. More than 30 minority language newspapers are published of which the most influential are the Hungarian daily, Magyar Szo, published in Novi Sad, and the Albanian daily, Rilindja in Pristina.

16. Most major foreign newspapers are freely available on newsstands in the larger cities.

III. News Agency

17. The Yugoslav news agency Tanjug (Telegraska Agencija Nove Jugoslavija) is government-owned and has bureaux throughout Yugoslavia and maintains 30 full-time and 12 part-time correspondents in foreign locations.

18. Tanjug issues approximately 35,000 words daily in Serbo-Croatian to 21 newspapers, seven radio stations and six television stations.

19. Tanjug has been a leading force behind the "Non-Aligned News Pool" which was established in 1975 to provide an alternative to the large international wire services. It was the first agency to act as a regional distribution point for copy from the 40 member news agencies of the "Pool." Tanjug translates approximately 35 "Pool" stories a day into English, French, Spanish and Serbo-Croatian, and redistributes them with about five to ten of its own items.

IV. Radio and Television

20. Although the government-owned Yugoslav Radio Television (Jugoslovenka Radiotelevizija) supervises the operation of all broadcasting stations, actual station ownership is decentralized and operations are similar to those of newspapers.

21. Most radio stations broadcast largely music and light entertainment interspersed with brief news spots. Major stations are located in Belgrade, Ljubljana, Novi Sad, Pristina, Sarajevo, Skopje, Titograd and Zagreb. Some of these have a number of separate programs so that all national minorities are served by local stations broadcasting programs in their own languages. For example, Radio Novi Sad and Radio Pristina broadcast daily programs in Albanian, Hungarian, Romanian, Slovene and Turkish.

22. Television is extremely popular in Yugoslavia and is a major source of news. There are six regional services based in Belgrade, Ljubljana, Sarajevo, Skopje, Titograd and Zagreb with a complex system of 46 main transmitters and 302 auxiliary and repeater stations which bring television programs within reach of 87 percent of the population.

23. Most of the 220 hours weekly program time is made up of joint network broadcasts plus regional alternatives. On average, cultural programs account for 85 hours a week (including films and serials); news and information, 65 hours; light entertainment, 20 hours; education, 19 hours and advertising, 27 hours. Imported programs average about 11 hours a week and originate largely through the Western European Eurovision and the Eastern European Intervision. Yugoslavia also produces programs for these two international organizations. In addition, a number of films and serials on Yugoslav television are imported from the United States.

24. The leading T.V. commentator on domestic and international economics is Mr. Ljubisa Djuric of Belgrade T.V.

World Bank

News Service of the Department of Information and Public Affairs

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- THE NEW YORK TIMES
- THE WALL STREET JOURNAL
- THE CHRISTIAN SCIENCE MONITOR
- THE WASHINGTON POST
- THE JOURNAL OF COMMERCE
-

Tito-Brezhnev Talks Focus Attention on Yugoslav Future

By Michael Dobbs

Special to The Washington Post

BELGRADE, May 16 — Yugoslav President Tito flew to the Soviet Union today, intent on improving badly strained relations with the Kremlin but determined not to sacrifice his country's hard-won independence.

The meeting between Tito, 87, and Soviet President Leonid Brezhnev, 72, is seen here as particularly important since, given the age of the two leaders, it could well be their last opportunity to put relations between their two countries on a stable course for the future. Concern has been expressed in Yugoslavia, which broke away from the Soviet bloc in 1948, about Soviet intentions after Tito's death.

The demotion of one of Tito's closest aides, Stane Dolanc, on the eve of Tito's departure for Moscow focuses attention on the difficulties Yugoslavia will have in assuring an orderly transition to the post-Tito era.

In a surprise announcement late Tuesday night, the official Yugoslav news agency said Dolanc, 53, who was considered by many to be a possible successor to Tito, had resigned from his key post as secretary of the Yugoslav Communist Party, but was retaining his membership on the policy-making party presidency.

While Yugoslav commentators hailed Dolanc's resignation as a major step toward creation of a collective leadership to rule the country, some Western diplomats were skeptical.

The Western diplomats expressed concern that a dangerous power vacuum could be developing within the Yugoslav party hierarchy since, with Dolanc's demotion and the death in February of Edvard Kardelj, the chief ideologist of Titoism, there is now no obvious successor to Tito.

While Dolanc's influence has been severely curtailed, he is clearly not in disgrace since he is still accompany-

ing Tito, as planned earlier, on the week-long visit to the Soviet Union.

Brezhnev greeted Tito at Moscow's Vnukovo Airport today and formal talks between the two are expected to begin Thursday.

Nonalignment is expected to be one of the major topics during their talks, the first since August 1977 when Tito stopped over in Moscow on his way to Peking for his first visit to China.

Addressing Yugoslavia's parliament on the eve of his departure, Tito called on nonaligned countries to strengthen their independence and unity. In the past he has made clear that he believes the Soviet Union is attempting to split the nonaligned movement through the disruptive activities of Cuba and other pro-Soviet nonaligned states.

Western diplomats here expect Tito to urge Brezhnev to exert a moderating influence over Cuba before the next conference of nonaligned heads of government, to be held in Havana in September. It is feared here that Cuban attempts to persuade the non-aligned movement to adopt more overtly pro-Soviet policies would undermine one of the major pillars of Yugoslavia's independent foreign policy.

The problem facing Tito, who celebrates his 87th birthday next week apparently in the best of health, is that he has little to offer Brezhnev in return. The kind of concession demanded by the Kremlin in the past, such as greater access for the Soviet Navy to Yugoslavia's Adriatic ports and participation in Warsaw Pact ideological activity, is simply not compatible with Yugoslavia's continued independence in the post-Tito era.

A senior diplomat representing a European country in a similar position relative to the Soviet Union said: "We can well understand Tito's dilemma. There is a great temptation for the Yugoslavs to concede as much as they can in non-vital areas. But the Russians are tough negotiators. They take what you give them — and then they demand more."

It is a fair summary of the trap in which Tito finds himself 30 years after breaking with Moscow. For political, economic, and ideological reasons, Yugoslavia needs good relations with the Kremlin. But the price demanded by Moscow for real friendship is too high, in Belgrade's view.

The result is an endless *kolo*—a Balkan dance in which the partners shuffle from side to side and never really get anywhere.

The tactics Tito is likely to adopt in Moscow were reflected in his care-

fully constructed speech to the Yugoslav parliament yesterday to mark the swearing-in of the country's collective presidency for a new term of office.

On the one hand, he struck a conciliatory note toward the Kremlin by stressing what he described as "the progressive character of nonalignment" and its policy of anti-colonialism. He said he was going to Moscow in pursuit of Yugoslavia's wish to develop good relations with all countries.

"The more friends a country has, the stronger it is," he said in a reference to his own highly successful meetings with leaders of countries as diverse as China, the United States, North Korea, France, West Germany, Hungary, Algeria, and Iraq over the last 18 months.

But elsewhere in his speech, Tito made clear that Yugoslavia intended to stick to its own interpretation of nonalignment as a force outside the two big powers blocs. He said nonalignment could help strengthen the independence of all countries, but only if the movement's own independence and autonomy was consolidated.

Despite making reassuring noises in public, Yugoslav officials still privately believe that the Kremlin has never given up its hopes of one day regaining control over their country.

In a recently published volume of very candid memoirs, a former Yugoslav ambassador to Moscow and Washington, Veljko Micunovic, cited three reasons to support this view.

First, it would make the Soviet Union a Mediterranean power for the first time in its history. Second, it would again create a monolithic socialist bloc in Europe under complete Soviet control. Third, it would put an end to talk about "independence and equality" in relations between communist parties — an idea first raised by the Yugoslavs.

World Bank

News Service of the Department of Information and Public Affairs

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- THE NEW YORK TIMES THE WALL STREET JOURNAL THE CHRISTIAN SCIENCE MONITOR
 THE WASHINGTON POST THE JOURNAL OF COMMERCE FINANCIAL TIMES

YUGOSLAVIA

By Anthony Robinson, East Europe Correspondent

For 30 years Yugoslavia has presented Europe and the world with an intriguing and successful exercise in non-aligned socialism. The popular mood is optimistic enough even to contemplate a future without the legendary Marshal Tito, now in his 87th year.

YUGOSLAVIA HAS come a long way since the publication on June 28, 1948, of a few lines on the inside pages of a Czech newspaper announced to the world that Yugoslavia had been expelled from the Cominform. Since then it has travelled its own road, pursuing the principles of national independence and non-alignment and its own particular admixture of authoritarianism and democracy.

Just how far Yugoslavia has come since those harsh wartime and post-war years is likely to be spelt out in the speech which Josip Broz Tito, President of Yugoslavia and the League of Communists of Yugoslavia (LCY) is due to make tomorrow, at the opening of the Party's 11th congress. It is expected to be something of a political testament, surveying past achievements and expressing the faith that Yugoslavia will continue along its chosen path under the leadership of the League Communists.

Vitality

Although 86, President Tito still shows extraordinary vitality. He recently completed an exhausting series of foreign visits which took him to the capitals of all three super powers. His visit to China must have been particularly satisfying. After years of vilifying Yugoslavia as arch-revisionist the new Chinese regime has finally recognised the virtues of non-alignment and independence from the super powers—particularly one of them—and has sent several delegations to

study the Yugoslav system of self-management. Even Mrs. Thatcher declared herself impressed by Yugoslav achievements when she visited the country earlier this year.

At home too President Tito still keeps a close eye on political developments, aided by the small group of fellow partisans from the old days like Edvard Kardelj and Vladimir Bakaric. Over the years some of Tito's former close friends and colleagues—such as Milovan Djilas or former secret police boss Aleksandar Rankovic—have fallen from grace and now live in comfortable retirement. But only one relatively young man, Stane Dolanc, the tough but affable party secretary from Slovenia who helped to sort out the nationalist problems in Croatia and Serbia in 1971, has moved into the inner circle alongside General Nikola Ljubicic, head of the army, and General Franjo Herljevic, the Minister of the Interior who is also in charge of the secret police.

But on an organisational level the top decision-making machinery within the LCY is being changed. The old executive committee of the central committee is to be abolished and the presidency of the central committee is to be cut down in size from over 40 to 24 members (three leaders from each of the six republics, two from the two autonomous provinces, one from the army, and President Tito himself). Stane Dolanc, secretary of the old executive committee, is expected to be confirmed as

secretary of the new-look presidency at the congress itself.

As for the top organisation of the Yugoslav Federal State, this has already been reorganised into an eight-man collective presidency (plus President Tito who is president for life). When Tito dies the mainly ceremonial functions of the President of Yugoslavia will be taken over by one of the eight members of the collective presidency on a strict rotation basis, similar to that operating in Switzerland.

All this is a slightly round-about way of saying that the institutional arrangements for the post-Tito period are now known, agreed and ready to function when needed.

They go a long way to answer the question of what happens after Tito goes. Great care has been taken to ensure that the maximum devolution of power and responsibility has been accompanied by the maintenance of a strong core of ideological and political authority which up to now has been backed up by the authority of Tito himself. It was, and still is, an authority stemming from what a British academic once described as "an extraordinary mixture of martial charisma and constitutional informality almost amounting to a political droit

de seigneur"

That right was exercised to great effect in 1971/72 to defuse what was then seen as the most serious challenge to Yugoslavia's unity since the revolution. This was the re-emergence of strong nationalist feelings, particularly in Croatia and Serbia, fuelled by a conviction that their economic development was being held back by excessive centralisation in Belgrade and the siphoning off of foreign exchange and other income to the less-developed republics. (Significantly, these views were expressed both by the then powerful Croatian and Serbian Banks and the unknown, agreed and ready to

versities and—most worrying to Tito—by leading members of the LCY in these republics.)

Tito decided to take drastic action to stop what was clearly conceived as a threat to the unity of Yugoslavia and a thorough purge of the Party, banks and intellectuals followed. Much of what has happened in Yugoslavia since then has

been concerned with exorcising the spectre of nationalism and seeking to satisfy the legitimate aspirations of all the six nations (Serbs, Croats, Muslims, Slovenes, Macedonians and Montenegrins) and 18 different national minority and ethnic groups within a new constitutional framework.

Hence the introduction of a new constitution in 1974 and a veritable cascade of new laws aimed at implementing and institutionalising the self-management principle in the organisation of labour, planning, banking and credit, foreign exchange, prices and incomes policy and the whole gamut of social and economic life.

This vast and complex body of new laws and constitutional arrangements is as much the expression of the aims and ideals of Yugoslav society as a practical guide to how to achieve them. Yugoslav ideologists themselves tend to underline the element of continuity rather than the novelty of the new arrangements.

What has definitely not changed is insistence on the "leading role" of the LCY and the refusal to countenance the creation of a multi-party system. There are those who believe that such a system might eventually evolve in Yugoslavia, but that day seems far off. The fear is that such a system would inevitably degenerate into party divisions on national and ethnic lines which would carry with it the seeds of disintegration, the loss of national unity and independence.

It is at this point that one detects the basic paradoxes in the Yugoslav system. Can the LCY be democratic and authoritarian, in favour of pluralism but opposed to a plurality of political parties, decentralised into a myriad of small cells throughout the economic and social structure of the country, but finally controlled by a small group of ageing men of the heroic partisan generation?

The answer is certainly "yes" while Tito lives and probably for some time afterwards while the partisan generation, which is also ageing, remains. Then it will be the turn of the next generation which will have to come to terms with a Yugoslavia totally different from that which emerged after the war.

But the strong degree of political continuity and economic progress since the war has done much to consolidate

Yugoslavia's "unity in diversity." Having cracked down on a form of nationalism which could have developed into separatism, Yugoslavia's political leaders have had the courage of their convictions and tackled the national question at its roots by devolving many of the former federal functions to the republics and autonomous provinces.

At the same time what Edward Kardelj, the Party's principal ideologist, has defined as the concept of "self-management pluralism . . . or the pluralism of self-managed communities integrated in the system of delegates" has also led to a similar process of devolution of power within the republics and provinces themselves.

BASIC STATISTICS

Area:	98,766 sq. miles
Population:	21.6m
GDP (1975):	YD 503bn
Per capita:	YD 22,820
Trade (1976):	
Imports:	YD 134bn
Exports:	YD 88.8bn
Imports from UK:	£128m
Exports to UK:	£33.5m
Trade (1977):	
Imports:	YD 176bn
Exports:	YD 96.1bn
Imports from UK:	£175m
Exports to UK:	£40.5m
Currency = New Dinar:	
	£ = YD 34.39

lics and provinces themselves.

This is partly expressed in economic de-centralisation, which revolves around the so-called basic organisations of associated labour and their voluntary associations into larger units, and partly in much greater powers for local communities at a territorial level. The idea is that production decisions are best left to the producers, while local community policies in the fields of health, education, culture and welfare are also best looked after by the consumers and producers of such services locally.

What the system is trying to create is a means of direct participation by people as workers, consumers and just plain people in the basic decisions affecting

their lives. It seeks to ensure that such decisions are co-ordinated through a system of delegates to the various higher institutions and kept within the overall ideological parameters by the capillary presence of the LCY.

The theory is that the Party should be an integral part of society, not something above it issuing directives in the authoritarian manner associated with what Yugoslavs call the "management socialism" operating on the Soviet system throughout Eastern Europe.

The amnesty last November to 218 people convicted of political crimes and a further 356 who were awaiting trial is an indicator of confidence that the political system is strong enough to democratise itself in the attempt to catch up with the social and economic progress which has transformed Yugoslav society into a much more sophisticated, better educated and articulated body than the backward, divided, peasant nation of the past.

Grasped

Yugoslavs have enthusiastically grasped their freedom, including that to travel abroad. Over 19m Yugoslavs crossed the frontiers last year. For many these were just tourist or shopping trips—as witnessed by the smartly dressed crowds—for others educational trips to study foreign languages or techniques. For nearly a million Yugoslavs it means working abroad, learning skills and sending much needed foreign currency back home.

Economically the country is developing rapidly, with major investment projects under way. Growth is marred however by inflation, a worrying balance of payments deficit and slow progress in narrowing the huge income differentials between the industrialised North and the South. In spite of the creation of 830,000 new jobs over the

past four years unemployment is still high and average productivity rather low. Over 30 per cent. of the population still lives on the land, although agriculture is being modernised and Yugoslavia is approaching self-sufficiency in basic foods.

A major concern is that Yugoslavia will be pushed into a closer degree of economic integration with Comecon—meaning principally the Soviet Union—if the EEC does not give improved access to EEC markets and other assistance in the new five-year agreement now under negotiation. There are no illusions about the expectation that the Soviet Union will continue to try and increase its influence in whatever way it can, particularly after Tito is no longer around.

This is one of the reasons why Yugoslavia values its relations with the U.S., China, the EEC and its other major trading partners and its role as a leader of the non-aligned movement. Moreover, behind its active foreign policy stand well-equipped armed forces organised for national defence throughout the territory.

But this is all essentially part of Yugoslavia's insurance policy. The general mood is optimistic. Life has got better and, more important, people clearly expect it to get better still. Critics of the self-management system point to the enormous amount of time spent negotiating complex agreements at all levels. But one of the results is a high level of social cohesion.

All this enabled Party Secretary Stane Dolanc to declare recently that "Today Yugoslavia is one of the most stable countries in the world." Keeping it so will require considerable skill. But as the Yugoslavs look round at their neighbours in both East and West, one of them told me, they tend to echo Maurice Chevalier's considered view on life in general: "Not bad—especially when one considers the alternative."

World Bank

News Service of the Department of Information and Public Affairs

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- THE NEW YORK TIMES
- THE WALL STREET JOURNAL
- THE CHRISTIAN SCIENCE MONITOR
- THE WASHINGTON POST
- THE JOURNAL OF COMMERCE
- THE TIMES

YUGOSLAVIA a Special Report

First steps to reconcile dissent with central control

by Dessa Trevisan

Can a plural democracy work in Yugoslavia? The question crops up every time the regime reaches a point at which a new definition of the future is required. Another question is whether Yugoslavia can hold itself together after President Tito. The two questions are hypothetical but interrelated.

Yugoslavia is a multinational country and one where the northern nations are more developed than the southern ones. It is a country in which a great deal of power has devolved on six constituent republics and two autonomous regions. It is run by a single party, although the system is more complex than that expression would suggest.

So, if critics, as well as supporters of Titoism have serious doubts whether a multi-party system could work, it is mainly because they all fear it would quickly degenerate into a contest of rival national, rather than alternative nationwide, policies. The consequences might well tear the country apart.

Having discarded a pluralistic system the moment they came into power, and having dismantled the Soviet model soon after that, the Yugoslavs have invented their own system which differs as much from that of the East as it does from that of the West. Basically, it is a one party system but it operates in a pluralistic society, coping with conflicting interests and, unlike other communist countries, recognizing their existence.

In theory, the party does not rule in Yugoslavia, nor is it a force above society. It is

supposed to guide and influence and to act as a common denominator of what, in Yugoslav political jargon, is known as self-managing interest groups.

In fact, the Communist Party, or League of Communists—as it was renamed 25 years ago—runs Yugoslavia unchallenged and controls all strata of society. Its membership has grown to nearly 1,700,000. Some 30 per cent of its members are under the age of 27, and it shows no signs of withering away.

The question for Yugoslavia is not whether a multi-party system could work but how to do away with the political monopoly of a single party while maintaining central authority intact.

Mr Edvard Kardelj, Yugoslavia's number two man and chief theoretician of Yugoslavia's self-managing socialism, has outlined his ideas on what he calls "pluralism of interests of self-managing communities integrated in the delegates system". The phrase has already become part of Yugoslav political jargon, although no two Yugoslavs agree what it means in practice.

There is widespread confusion over the role the party would play, and that again brings to the fore the old dilemma of fitting what is still a Leninist-type party into Yugoslavia's thriving pluralistic society. Mr Kardelj admitted that the society has outgrown its political system. The time has come for democratization of inner party life.

The party congress is scheduled for June and many ideas, some of them bold, have been floated. A new definition of democratic centralism promises more scope for dissenting groups

and individual members to defend their point of view against majority decisions. This would certainly open the door to real debate but, as it will be strictly confined to the inner party circle, it seems unlikely that ordinary Yugoslavs will read about it in their press. The Yugoslavs are not yet ready to carry democratizing reforms farther than that, so they have again stopped half way.

A reorganization designed to achieve greater mobility and efficiency from top to bottom is also intended to secure more efficient control over enforcement of decisions. The praesidium is to be cut down to only 24 members, each of whom has been a central figure of long standing. The trend is, as Mr Stane Dolanc said, to spread the network of party cells, however small, to every village and school. The party may not rule, but it is determined to make sure that its influence remains unchallenged.

In a way, this is understandable. For, as Yugoslav society grows more complex so do the tasks of running it as well as of running the party.

The crisis of the early 1970s has been weathered. Yugoslavia gives the impression of being a stable and prosperous country with consumerism thriving and the shops bulging with goods. Yugoslav customers, like their country, go on spending more than they earn yet always manage to keep ahead of their creditors.

With President Tito approaching 86, the Yugoslavs are on guard against untested novelty that might disrupt the political calm and quiet. They feel the need to push democratization farther but want to retain the benefit of controlling it. All

options are open, but the predicament remains; as if the once wildly experimental system has grown tired of experimenting.

Nevertheless, there have been some changes over the past year suggesting that a more relaxed trend is under way. The daily outcry against enemies of all colours and creeds, which at times assumed a paranoid obsession, has receded into the background. The press, after enjoying a substantial degree of freedom in the late 1960s and early 1970s, lost its flavour under controls imposed in 1972. Now it has become livelier.

Under an amnesty, a good number of political prisoners were freed, including the dissident writer Mihajlo Mihajlov, whose long prison sentence for publishing critical views in foreign newspapers brought a stream of protests from the West.

But there are still several hundred political prisoners in Yugoslav jails, most of them said to have been associated either with pro-Soviet or separatist organizations advocating the violent overthrow of the regime.

Passports have been issued to almost all persons hitherto denied free travel for political reasons, though Milovan Djilas, Yugoslavia's oldest and most famous dissident, still remains an exception.

All these progressive steps may have been the result of the Belgrade conference and the human rights campaign, but, together with a number of detectable changes such as the easing of the heavy-handed restrictions imposed on cultural activities, life in general is more relaxed than it has been these past few years. That may not be saying much, but, after the freeze of the early 1970s it is something.

Friend of major powers, President vows to keep country secure

Within two months 30 years will have elapsed since Marshal Tito defied President Stalin and Yugoslavia began its lonesome voyage as the first communist country to break away from Soviet domination. Stalin boasted "All I have to do is lift my little finger and there will be no more Tito".

When the finger failed, he reverted to every kind of pressure to bring President Tito down. But the Marshal is still there. And, furthermore, feted and flattered by Moscow, Washington and Peking, on friendly terms with all brands of communism except the Albanian, but committed only to his own, honoured and respected as the last of the founders of the non-aligned

movement. It took a long time and enormous effort to achieve this.

He has just completed a remarkable tour which took him to Moscow—where he received a lavish welcome—and to Peking—where the welcome was even more lavish—the tour began last summer and ended in Washington last month with a new and even more vigorous reaffirmation of American support.

Thus, Yugoslavia joined the small circle of countries whose relations with all three major powers are good. This in itself represents an extraordinary success for Yugoslav diplomacy as it opens up new possibilities in the delicate balancing act, providing additional safeguards for the future as Marshal Tito approaches his eighty-sixth birthday.

For, in spite of verbal declarations and solemnly signed documents whereby Stalin's heirs have undertaken to respect Yugoslavia's independence, the Yugoslavs have no illusions. Hence the Marshal's repeated vows to do everything in his power to render Yugoslavia safe and secure before he leaves the scene. Hence his tireless effort to maintain Yugoslavia's leading position within the non-aligned movement. Hence his continuing voyages

which, within less than a year, took him to all the major capitals, including Paris and London.

Underlying all talk and speculation about the future of Yugoslavia is the assumption

that Soviet aspirations after President Tito are bound to become more aggressive. Suspicion of Soviet intentions is deeply rooted in the minds of Yugoslavs who, in the span of 30 years, saw crises recurring at regular 10-year intervals.

No one seriously believes that Russia would invade Yugoslavia. But no one has any doubt that Russia would jump at any opportunity to extend its influence farther south. Increasing the cost to Moscow of such an adventure is what Marshal Tito is doing, at home by his total defence system, and abroad, by his active diplomacy.

In fact, the history of Soviet-Yugoslav relations since the breach was mended in 1956 has shown that whenever relations became close, Moscow wanted more. This occurred again during President Brezhnev's visit two years ago when he presented the Marshal with a list of demands including greater access for the Soviet Navy to Adriatic ports as well as a more accommodating policy inside the non-aligned movement similar to the role Cuba has assumed.

This was bluntly refused. By that time the Yugoslavs had drawn a lesson from experience and, unlike in the past when such disclosures were made public only when Yugoslav-Soviet relations reached a point of extreme strain, they hurried to let the world know what Russia had demanded.

Insurance policy against Soviet adventures

Nevertheless, this did not deter Mr Brezhnev from trying again when President Tito visited Moscow last summer. On this occasion,

however, the Marshal cut the conversation short. But the very fact that the Russians keep raising such demands shows that they are determined to continue pressure. This is why President Tito's visits to Peking, where not many years ago he was still denounced as the renegade and arch enemy, and Washington were of utmost importance to the Yugoslavs. They were part of an insurance policy against Soviet adventures.

There has, in fact, been no fundamental change in Yugoslav-American relations ever since Washington decided it was worth backing communist Yugoslavia in its bitter conflict with Moscow. There were, however, periods when Washington felt that Belgrade had veered too close to Moscow, or was too readily lining up with the Soviet Union in foreign affairs.

More recently, there were strains because, in American eyes, Yugoslav policy

tended to push the non-aligned world in ways which were not only harmful to American global interests but outright offensive. With the arrival of President Carter's Administration the erosion has not only been halted but relations seem to have been put on a more solid basis. Both sides agree that they have now reached their zenith.

Sweet music to the nation's ears

Evidence of this is the messages exchanged between the two presidents over the past 10 months. President Carter's pledge to support Yugoslavia's unity as well as its independence was sweet music to Yugoslav ears, and last but not least a remarkable increase of American investment in Yugoslav industry as well as of trade in general. This coupled with the sale of arms should help to sustain the balance at a time when,

because of Yugoslavia's problems with the EEC and its soaring trade deficit with the West, economically at least, it has been tilting eastwards.

The new friendship with China caused new problems with Albania even though common interests, in keeping Russia out of the region, have forged a tacit understanding between two ideological foes. The Yugoslavs are not unduly worried by Albania's ideological rupture with its former ally, which Marshal Tito's triumphant visit to China may have contributed to, if not precipitated. Nor are they worried by the ideological campaign the Albanian leader, Mr Enver Hoxha, has stepped up against them. They are aware that Russia would be only too ready to fill in the void, but they also seem confident that as long as Mr Enver Hoxha is in power, this will not occur.

While relations with Yugoslavia's two other Balkan neighbours, Romania, and Greece, continued to improve, the Macedonian issue and the Bulgarian refusal to recognize the existence of a Macedonian minority at home continued to be the stumbling block in Yugoslav-Bulgarian relations, which over the past decade remained cool.

Underneath it all is the old suspicion of Bulgarian territorial aspiration, and a more recent one of Soviet interest in keeping the Yugoslav-Bulgarian bone of contention in reserve. Although much has changed in the Balkans since the days when it was known as the powderkeg of Europe, traditional friends and foes still seem pretty much unchanged.

D.T.

World Bank

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 THE WASHINGTON POST THE JOURNAL OF COMMERCE FINANCIAL TIMES

Foreign policy retains its independence

IRONICALLY, THE international pre-requisites for Yugoslavia's determined foreign policy of national independence and non-alignment were created by a typical act of Great Power arrogance. They stem from the time when Winston Churchill discussing the post-war shape of Europe, tossed over to Stalin a piece of paper on which was jotted "Yugoslavia 50-50?" Stalin nodded agreement. When Tito heard of this he was reportedly livid at being treated as "the short change of international politics."

He subsequently took advantage of this tacit acceptance of a shared sphere of influence to break free from Soviet hegemony without either reneging on the Communist nature of the post-war Yugoslav State or joining the Western Alliance.

Thirty years after the break with Cominform Yugoslavia's influence in the world is infinitely greater than its size, population or resources would themselves warrant. Much of the credit goes to President Tito himself, lone survivor of a world of former political giants and stirring in dangerous times.

His own personal prestige, and by reflection that of the Yugoslavia he represents, reached a new height with his recent official visits first to Moscow and then on via North Korea to Peking and then to Washington with a stop-off in London.

But Yugoslavia's foreign policy goes far beyond the establishment of good relations with all three superpowers, vital though this is to Yugoslavia's equilibrium.

President Tito's experience and prestige as a founder-member of the non-aligned movement also makes Yugoslavia a voice to be listened to in discussions on the North-South dialogue, the Middle East and in many of the conflicts which have broken out between members of the movement.

Behind the voice lies an active and qualified corps of diplomats, and a highly foreign affairs-orientated news agency, Tanjug. In the latest Government reshuffle the former Foreign Minister, Milos Minic, was replaced by Josip Vrhovec, a 50-year-old ex-journalist and former LCY Presidency member from Croatia.

It was largely a reflection of Yugoslavia's position between East and West that Belgrade was chosen for the follow-up meeting to the Helsinki Conference on European Security. There the Yugoslav hosts tried to steer the conference away from a sterile confrontation on the human rights issue, seen as a propaganda contest between the two super powers, and on to a discussion of some of the other issues dear to Yugoslavia's heart, such as measures to reduce military tensions and greater co-operation in the economic field.

It was a disappointment to Yugoslavia that the Belgrade conference was not a great success, although they share the general feeling that with the decision to hold another follow-up meeting in Madrid at least the principle of continued monitoring has been agreed.

Now Belgrade is preparing for another important international meeting — the Ministerial meeting of the non-aligned countries which meets there in July to discuss the agenda for the forthcoming non-aligned summit due to be held in Havana next year.

It promises to be a potentially stormy affair. The Cuban role in Africa will be high up on the agenda, which will also review the recent UN special session on disarmament, a major initiative of the non-aligned movement, and the slow progress in the development of a new world economic order.

But the situation in Africa is likely to dominate discussions, with Yugoslavia in particular making no bones about its own disquiet concerning the apparent conflict between Cuba's role in Africa and its membership of the non-aligned movement. Yugoslavia's views do not differ markedly from those expressed by President Carter and Chancellor Schmidt recently. Both described Cuba's supposed non-aligned status as "a bad joke" in view of its role as an instrument of Soviet foreign policy.

Opponent

The Yugoslav attitude appears to be against any moves to expel Cuba from the movement, as its own experience makes it an opponent of anathema of any kind. Rather can Yugoslavia be expected to argue for the principle of "Africa for the Africans" and against super power interference of any kind in the affairs of the continent.

This of course is partly a question of general principles and partly the result of Yugoslav preoccupation with the principle of non-interference because of its own obsession with the thought of possible future interference by the

Soviet Union in Yugoslav affairs.

It recognises, however, that not all members of the non-aligned movement view Cuban involvement in the same way. Several African and other states tend to view such involvement as a useful means of bringing pressure on the West to step up its commitment to end racist regimes in southern Africa.

It is clear, none the less, that Cuba is likely to come under considerable pressure at the conference to modify its role in Africa as the price of agreement to go forward with the summit meeting in Havana. The conflict between non-aligned states in the Horn of Africa and the Vietnam-Cambodia conflict are also likely to be discussed at some length.

Closer to home, however, Yugoslav foreign policy is currently most concerned about relations with the EEC, and particularly its growing trade deficit with the Community.

The Foreign Ministry points out that Yugoslavia's trade deficit with the Community came to \$2.4bn last year, 60 per cent of its total trade deficit; Yugoslav exports now cover only 39 per cent of its imports from the Community. It argues that a large part of this deficit is due to damaging protectionist moves by the Community.

Critics of the Yugoslav bargaining position, however, while accepting that restrictions on beef, textiles and other goods have affected certain important trade areas, argue that the Yugoslav position betrays its

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old habits of thinking in terms of centrally planned bilateral trading. Part of the problem is that Yugoslavia, like so many other developing countries, first does not produce goods which are needed on developed markets and secondly lacks the marketing skills and aggressiveness to sell what goods and services it does have to offer.

This criticism is partly accepted by the Yugoslavs, but in arguing for a much wider negotiating mandate in the forthcoming EEC - Yugoslav negotiations, they tend to widen the argument. Assuming their role as spokesmen for the developing world, diplomats and trade experts argue that what is at stake are much larger issues of access to markets for developing countries in general. In Yugoslavia's case, they also argue that an ungenerous and narrow-minded economic approach to Yugoslavia's problems could force the country either to reduce its imports from the EEC, or step up its trade with the Comecon countries—or both.

It is loth to increase the proportion of its trade with Comecon for both political and economic reasons. First, it does not want to be in a position where pressure for political or other concessions could be reinforced by economic arguments such as a reduction of oil or other strategic products. Secondly, it believes that the future of the self-management system must lie in increasing the general efficiency and the technical level of Yugoslav enterprises to a Western level.

For this it requires access to Western technology, Western

markets and Western marketing skills. This will never be achieved if an increasing proportion of Yugoslav trade is done with the centrally planned economies with their comfortable long-term purchasing arrangements and lack of stimulus for improvement.

Significantly, Yugoslav officials believe that this point is much more sympathetically understood by American than by the Community, while other trading partners like Japan are also scouring Yugoslavia in search of products to buy in exchange for their increased exports.

Security

Looking around the diplomatic horizon as seen from Belgrade, however, Yugoslavia's principal aim of preserving its security, independence and non-alignment appears to be assured.

The Treaty of Osimo, which finally resolved the frontier between Italy and Yugoslavia, means that Yugoslavia's principal border with the West is now one of the most relaxed anywhere in the world.

Slovene unhappiness with the treatment of its minorities in Carinthia and Burgenland remains an issue in Austro-Yugoslav relations. But those with its direct Comecon neighbours are generally good, except in the case of Bulgaria, where the Macedonian question bubbles beneath the surface.

For the average Yugoslav all this is translated in freedom to travel all over the world without a visa in most cases, if he has the money to do so. No visas are required for foreigners to enter Yugoslavia

either, except in special cases. Visas are required to and from the Soviet Union, for example, because the Russians insist on putting Yugoslavia in the category of a Western country for these purposes.

It all seems very relaxed. Once again, however, behind this genuine desire for maximum freedom and the minimum of bureaucratic intervention the Yugoslav authorities take the security question very seriously. The armed forces are reportedly well-equipped and a decentralised system of "global defence" means that millions of Yugoslav's can be mobilised within hours.

At the same time the secret police keep close tabs on the extremist nationalist groups and suspected Stalinists, both in Yugoslavia and abroad.

One of the leading Stalinists, Mileta Perovic, was abducted outside Yugoslavia, according to his defence lawyer, and then arrested and brought to trial in Yugoslavia on charges of plotting against the State. For this he recently received a 20-year jail sentence. The Yugoslav authorities also responded to the recent West German request for the extradition of suspected West German terrorists from Yugoslavia with a quid pro quo demand for the extradition of Croatia extremists from West Germany.

It is quite clear that the Yugoslavs have taken President Lincoln's dictum that the "price of freedom is eternal vigilance" very closely to heart. This allows Yugoslavia to relax from a position of strength and that is clearly how they intend to keep it.

A.R.

World Bank

News Service of the Department of Information and Public Affairs

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- THE CHRISTIAN SCIENCE MONITOR
- THE WASHINGTON POST
- THE JOURNAL OF COMMERCE
- THE TIMES

Belgrade determined to negotiate better terms with EEC

by Peter Ristic

Over the next weeks and months Yugoslav trade officials will be locked in negotiations with the EEC in Brussels over a new economic cooperation agreement.

On the face of it the Yugoslavs should have few problems reaching agreement. Barely a week goes past these days without some West European politician making yet another statement of support for the Balkan nation. The message is always the same: an independent and thriving Yugoslavia is crucial for peace in Europe.

What makes 1978 different from any other year is that the Yugoslav trade officials are not going to Brussels to hear the same menu of words and pick up a few extra morsels of trade. Judging by the mood in Belgrade, this time they are out to prove conclusively that the heart of the EEC is genuinely where it is said to be. Substantial—and, significantly, long-term—improvements for access of Yugoslav exports are possible. Officials are only too quick to point out that despite the 1976 joint statement of EEC support they have seen few improvements.

The Yugoslavs are making their big push for improvements in access to EEC markets at the same time as anxiety over the future of Yugoslavia is expressed as President Tito approaches his eighty-sixth birthday. But officials believe that there are plenty of reasons independent of the political ones that justify them getting their way. The feeling in Belgrade is that removal of the barriers to their exports is long overdue.

"And if we do not get improvements we will be obliged to look increasingly at other markets", an official said in Belgrade.

Certainly there is an element of bluff in such statements. But Yugoslavia has been consistently discriminating in favour of goods from the EEC at the expense of the United States and Japan. Many of the capital imports now bought from Western Europe could be purchased from these two other markets—especially after the clearly improved relations with the United States since President Tito's visit last month and a step up in Japanese interest in the Yugoslav market as delegations scour the country looking for something to buy to offset their purchases.

Undoubtedly the biggest determining factor in the new mood in Belgrade is the size of the deficit with the EEC. Last year the debt with the EEC reached \$2,400m. Yugoslavia was able to pay for only 36 per cent of its imports from the Community with exports. The EEC is now Belgrade's most important trade partner providing close to 40 per cent of its imports and taking some 26 per cent of its exports.

The large and growing share the EEC has in the Yugoslav market is in part a reflection of geography and history—besides politics. Significantly the Comecon share is less and falling. But it is also a fact—although probably no Yugoslav official would admit it—that the Community won its large share partly as a result of a switch in Yugoslav economic policies more than a decade ago.

Yugoslav markets were then thrown open to competition from the West. The move boosted the earnings of the Western exporters and helped to stimulate the modernization of the Yugoslav economy, but at what many critics would consider an appalling cost. Community countries, especially West Germany, gained all round. They got new rapidly expanding markets for their products and hundreds of thousands of Yugoslav workers streamed on to the labour market and crossed the border to join their production lines.

A top—if what many in Yugoslavia would consider somewhat belated—priority of the Yugoslav officials in Brussels is to get special protection and rights for the *Gastarbeiter* (guest worker), as well as help and training for the thousands who are forced to return home because of unemployment in Western Europe. Two hundred thousand have returned in the past four years, boosting the already large ranks of the unemployed.

On the nuts-and-bolts trade questions the Yugoslav officials will be asking for relaxation of restrictions on its agricultural exports. Officials will focus on the restrictions on beef exports, and industry that the EEC first encouraged Yugoslavia to establish then clamped down on. Yugoslav officials have worked out precise quantities which they say the Community can permit without causing any domestic difficulties.

Arguing that the EEC cannot expect a country at Yugoslavia's stage of development to concentrate on industrial exports alone, officials have other ideas to boost agricultural exports. They want a guaranteed market for a million tons a year of maize, an amount they say that the

Community would have to import any way. They also want a market for fodder, another community import, and a lifting of other discriminatory measures on their exports of food products and wine.

Yugoslavia is also seeking improved markets for its industrial products, especially those produced in cooperation with West European partners. The Yugoslavs clearly hope that the Community will accept the logic of doing something for the profits of its own industrialists. With the obvious intention of both offering the Community a carrot and strengthening this argument it published a new joint-venture law this month making it easier for West European companies to invest in the Yugoslav economy. The keynote is long-term industrial cooperation.

Yugoslav officials will attempt to get something close to special preferences for their industrial exports, although the country's non-aligned status would prevent that. The official argument runs that Yugoslavia is at a distinct disadvantage when competing in West European markets against East European producers.

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The latter operate planned economies and can sell at below market prices.

Officials want removed the large number of quotas and other restrictions limiting the export of such items as electric engines and cables.

"It is unfair that these exports are limited when they employ a large proportion of West European machinery", one official complained before leaving for Brussels.

But trade and the rights of the *Gastarbeiter* are not the only troubles the Yugoslavs have with the Community. There is a vast range of other matters that will tax the resources of the Community officials.

Yugoslavs want clauses in the new agreement ending the discrimination when West European public authorities post for tenders. They are deeply worried over what the effect of enlarging the Community from nine to 12 will have

on their exports, and are determined to win a promise that the Community will consider this formidable question and compensate for the consequences.

The Yugoslavs point out with some justification that Greece, Spain and Portugal have a similar trade structure to that of Yugoslavia. They also want more Community aid for improvement of Yugoslav transport—something that the Community can hardly refuse when its lorries and railway wagons are thundering through the country to the markets of the East.

Not surprisingly, with all these matters on the horizon few expect in Belgrade that the bones of the new agreement will be clear for many weeks. But the overriding mood in Belgrade is a determined one. Although the Yugoslavs have no illusions that the negotiations will be easy, it is widely expected that they will end in success.

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- THE NEW YORK TIMES THE WALL STREET JOURNAL THE CHRISTIAN SCIENCE MONITOR
 THE WASHINGTON POST THE JOURNAL OF COMMERCE THE ECONOMIST

Wage cuts, strikes, credit squeeze. That's Yugoslavia

A total of 600,000 people—every eighth worker employed in Yugoslavia's public sector—faces the prospect of a drastic wage cut from November 1st. Because their enterprises have been operating at a loss both last year and again during the first half of this, the government, under Yugoslav law, can now cut their wages to the level of the so-called guaranteed minimum monthly wage, roughly half of the average wage of about \$150 a month.

The government's case is that Yugoslavia's self-managing enterprises have been paying themselves wages they have not earned. In the first seven months of this year, according to the federal prime minister, Mr Veselin Djuranovic, personal incomes rose by 6% while productivity improved by only just over 3%, a trend which had begun last year. President Tito has been telling workers up and down the

country that higher wages have to be earned, and that enterprises awarding themselves high wages and then hoping to be rescued by society from the fruits of their folly were lacking in socialist solidarity. President Tito also fulminated against the tendency towards "excessive egalitarianism" which, he said, was encouraging skilled workers and engineers to emigrate.

Behind these statements lies the Yugoslav leaders' realisation that their incomes policy, embodied in a series of so-called "social agreements" signed by the enterprises, the unions and the government back in 1976, has broken down. The dam held for a while; then, earlier this year, it became clear that it would not hold any longer. The storm signals came from Croatia, Yugoslavia's most industrialised republic. Strikes occurred in a number of

large enterprises, including a shipyard in Split employing 6,000 workers. There were so many in May that it was called "the month of strikes" in the newspapers. All these strikes were about low pay. There were similar strikes in other parts of Yugoslavia. Phoney productivity deals were arranged and higher wages were awarded to enterprises whose toilers cut up rough.

To hold wage increases down, the government in July also introduced a drastic credit squeeze. In the first six months of this year, it pointed out, the money supply had risen by 28% instead of the planned maximum of 19%. The governor of the central bank said the main reason was too much liquidity in the banks. But why do enterprises have to borrow so heavily, asked the Belgrade weekly *Nin* last week in an angry and quite unprecedented open letter addressed to the federal government? Its answer was that the government was taking away from enterprises so much in taxes and other imposts that they had little or nothing left over for their investments. The purpose of the new legislation on self-management since 1974, wrote the paper, was to give the workers more say in disposing of their enterprises' income, but as a senior Yugoslav trade union official, Mr Neca Jovanov, said in a recent interview in a Zagreb paper, over-taxation makes that principle no more than a pious hope.

Where does the money go? An American observer last year called Yugoslavia "Europe's largest construction site". The snag, as various ministers have reminded the country lately, is that a large part of that investment programme is undertaken without proper cover. At the end of 1977 investment projects in progress were worth some \$33 billion. Of that only 31% was covered from the enterprises' own funds, 26% by import credits for equipment. The rest was "uncovered", i.e. to be borrowed.

The government claims that the bulk of the investment is in the development of basic resources. Besides—and this is not mentioned—there are rising army costs, going up by a quarter in next year's budget.

The rise in the money supply has had predictable effects: Inflation has been

rising ominously into double figures again and is now running at a 15%-a-year level. This is not as bad as in 1975, when it was nearly 30%, but not as good as the 7-8% in 1976-77 when the incomes policy was operating.

The planned wage cut is part of a larger austerity programme in the offing, which will include "economic" rents to replace the admittedly small rents paid by Yugoslav families lucky enough to have flats of their own. The big question facing President Tito and his colleagues must now be whether the workers will wear it. Or could Yugoslavia experience upheavals of a kind that Poland had in 1970 and 1976? The politicians will probably try to avoid a confrontation. A pointer was last week's rejection by the first chamber of the federal parliament of the government's economic plan for 1979.

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- THE NEW YORK TIMES
- THE WALL STREET JOURNAL
- THE CHRISTIAN SCIENCE MONITOR
- THE WASHINGTON POST
- THE JOURNAL OF COMMERCE
-

Tito Fears for Independence of Nonaligned Group

By Michael Dobbs

Special to The Washington Post

BELGRADE—President Tito, the sole surviving founder of nonalignment, has launched a worldwide diplomatic campaign to keep the movement independent of the two big power blocs.

The 87-year-old Yugoslav leader has devoted a remarkable burst of political energy over the last few months to salvaging what he regards as one of the principal pillars of Yugoslavia's hard-won independence from the Soviet Union. For a variety of reasons, however, the signs so far are that he is meeting with only limited success.

Senior Yugoslav officials have made clear that they believe the Kremlin is attempting to subvert the 86-nation movement from within through the disruptive activities of proxy non-aligned states such as Vietnam and Cuba. Also worrying Tito are moves by some Arab countries led by Iraq and Syria to deprive Egypt of its non-aligned status in retaliation for the conclusion of a peace agreement with Israel.

The Yugoslavs fear that attempt, though unlikely to succeed, could irreparably damage the nonaligned movement.

A skirmish between contending forces has occurred at a ministerial-level coordination committee session in Sri Lanka that began Wednesday. The meeting has been called to prepare for a summit meeting of non-aligned heads of government in Havana, scheduled for September.

The choice of Havana for the summit conference has caused grave misgivings among some other nonaligned states who fear an attempt to foist pro-Soviet policies on the movement. Some countries, including Somalia and Zaïre, have indicated they will boycott the Havana meeting or seek its postponement.

Yugoslavia's diplomatic offensive has been led by Tito, who has visited seven key nonaligned countries in the last five months and has sent personal envoys on missions to Africa, Asia and Latin America. In addition, non-alignment was one of the main subjects Tito brought up during his meeting with Soviet President Leonid Brezhnev in Moscow last month.

According to Yugoslav sources, Brezhnev showed little sympathy to appeals for the Soviet Union to exercise a moderating influence over its allies within the nonaligned movement. Instead, he accused Yugoslavia of conducting an unjustified campaign against Cuba and Vietnam and repeated longstanding Soviet assurances of respect for Yugoslav independence.

A senior Western diplomat in Belgrade commented: "Tito's problem is that he has little to offer the Soviets in return, without sacrificing his own autonomy. Given their present mood, the Russians have little reason to want to rein in Cuba. They're quite happy watching Tito stew in his own juice."

Soviet intransigence apart, Tito faces major hurdles in urging the nonaligned movement to strengthen its independence and unity.

The movement is a collection of very diverse states, many at loggerheads with each other. Included in the nonaligned movement (which sometimes votes as a bloc at the U.N. General Assembly) are states as ideologi-

cally diverse as Argentina and Saudi Arabia on the right and Angola and Libya on the left with the Central African Empire and Equatorial Guinea on the maverick fringe.

At the last count there were at least half a dozen major rows brewing simultaneously within the movement, including armed conflicts involving Vietnam and Cambodia, Ethiopia and Somalia, and Tanzanian troops leading the drive to oust Idi Amin in Uganda.

It is hardly surprising, therefore, that few other nonaligned members share Yugoslavia's obsession with the Kremlin, which stems from Yugoslavia's experience of being the first communist country to break away from the Soviet Bloc. Other non-aligned countries have different preoccupations nearer home.

One reason is that the first non-aligned summit coincided with a reconciliation between Yugoslavia and the Soviet Union.

Today Yugoslav-Soviet relations are quite strained but the Yugoslavs have not been able to update the slogans of the movement accordingly.

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- THE NEW YORK TIMES
- THE WALL STREET JOURNAL
- THE CHRISTIAN SCIENCE MONITOR
- THE WASHINGTON POST
- THE JOURNAL OF COMMERCE
- LONDON TIMES

The way Tito has kept Russia out

On the corner of the street in Sarajevo where Archduke Ferdinand of Austria was assassinated, there has been carved into the stone an official inscription in Serbo-Croat: "On this spot on 28th June in the year 1914 Gabriel Princip with the shots he fired expressed the nation's protest against tyranny and the age-long yearning of our people for liberty".

The assassin is remembered, not the victim. Despite the catastrophe that followed for western Europe, the event is celebrated as an expression of Yugoslav independence. Just like the brightly coloured paintings of fighting partisans which decorate the rooms of the Federal Assembly in Belgrade, the past is being used in an attempt to guarantee the future.

There is no doubt that Yugoslavia is fiercely attached to the idea of her own independence. Well aware of her vulnerability, she has pursued a three-fold policy of self-reliance, the cultivation of international contacts, and the effort to avoid creating—or reviving—national grievances within the country. There is national military service (varying from 11 to 18 months, with regular follow-up training); weapons are widely distributed through the country. The Soviet Union knows that, were she to invade, she would have a guerrilla war on her hands.

At the same time, Yugoslavia's policy over the past 20 years of building up the block of non-aligned countries—the so-called "Group of 77"—and claiming a role of leadership has also served to discourage foreign intervention: Yugoslavia could not disappear without anyone noticing. There is a joke in Belgrade that there can be no life on Mars because there is no record of a delegation ever being received from there. The Yugoslavs receive delegations from everywhere and the visit of Chairman Hua Kuo-feng must be seen in the context of this policy of making friends with everyone, rather than as a calculated provocation to the Soviet Union.

There must be much, however, about Yugoslavia that is provoking to the Soviet Union. The country is remarkably open. The dinar is convertible. Visas are not required to visit the country, nor is permission required to leave it. There are almost half a million Yugoslav workers in West Germany alone. Foreign newspapers and books are freely imported. Television is received from Austria and Italy, and many of the programmes on the national networks are taken from Britain or the United States, including while I was there, at peak viewing time, the *Dick Cavett Show*.

But, as things now stand, the Soviet Union has no way to get a grip on Yugoslavia: no pro-Soviet element would dare declare its sympathies. The Soviet Union would need a local opportunity for any intervention in Yugoslavia, but the opportunity they need is one they have not yet had—namely, divisions in the country which they could exploit. Yugoslavia's independence depends on her maintaining unity and integrity.

In fact, there are probably more factors operating in favour of the unity of the country than are generally recognized. For a start, there is the League of Communists which provides a strong centralized framework of one and a half million members, committed to their national achievement and generally respected for their lack of corruption. Such a body is bound to act powerfully against the centrifugal and potentially chaotic forces of the national minorities, and of self-management in industry.

Both the peace and the prosperity which Yugoslavia has enjoyed since the war must provide powerful disincentives to serious internal disturbances. It must be remembered that 10 per cent of Yugoslavia's population was killed in the last war. Recently, Yugoslavia's industrial production has been increasing annually by close to 10 per cent. Over the past five years her real

gross domestic product (GDP) has grown much faster than in most OECD countries. She is more than self-sufficient in food production. She is not obviously less prosperous than Italy, although, like Italy, has great differences in wealth between the north and the south. With efforts being made to narrow the differences, there are no obvious seeds of economic discontent.

But, if Yugoslavia has not been economically stagnant, she has not been politically stagnant either. To deal with the rivalries and sensitivities of the multitudinous nationalities, an intricate system of checks and balances has been established.

The overall policy has been to avoid any one group acquiring excessive dominance over the others. The classic danger of Serbian dominance—there are eight million Serbs out of a total population of 22 million—has been reduced by the creation of the two so-called autonomous provinces of Vojvodina and Kosovo out of what was formerly Serbian territory. For the rest, with remarkable punctiliousness the policy has been to involve the six republics and two provinces in all aspects of federal policy and to involve them, where possible, equally.

The Constitution, promulgated in 1974, provides for a "Presidency" of eight members, each one to be elected as a representative of the assembly of each republic and province, plus Tito, for as long as he lives. No one may serve on the Presidency for more than two consecutive five-year terms. On Tito's death, these eight members will elect a President, known as the President of the Presidency, who will also be the President of the Republic, but for a term of one year only. In other words, the constitution provides for the succession to Tito to be held, on a one-year, rotating basis, by representatives of the different regions in turn.

The republics and provinces must also, under the constitution, be equally represented in the Federal Executive Council, equivalent to a cabinet of mini-

sters, and they even have an equal share of ambassadorships abroad.

At regional level, each assembly has a Committee of Foreign Affairs, and even a Minister of Foreign Affairs, in order to involve the republics and provinces in the making of federal foreign policy. In the regional assemblies everyone has the right to speak and listen in their own language, and this can mean instantaneous interpretation into as many as five languages. Everything therefore has been done to avoid any minority accumulating resentment for the future.

In such a way Tito has tried to construct and maintain a constitutional system which gives the country its greatest chance of retaining its unity—and hence its independence—after his death. Whether in the long run the delicately balanced system will be upset, how it will take the strains of competing personal ambitions among Tito's successors, depends on factors which are not now foreseeable; but it would be most surprising if any major change occurred immediately.

In our recent official visit as European parliamentarians to Yugoslavia the authorities at all levels made plain to us that they wanted more capital from western Europe for joint investment ventures, and more open markets both for their agricultural and their manufactured products. In Europe there are difficult vested interests exerting strong protectionist pressures to deal with, and no doubt everything is not administratively as simple as they claim. But there can certainly be no doubt that the West has every interest in doing what she can to support a strong and independent Yugoslavia.

Hugh Reay

The author has been a Conservative member of the United Kingdom delegation in the European Parliament since 1973. He is a member of its Political Affairs Committee and recently visited Yugoslavia as a member of the European Parliament's first official delegation to that country.

World Bank
News Service of the Department of Information and Public Affairs

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Westward ho!

The latest dispute between the Soviet Union and Yugoslavia, sparked off by the visit of China's Chairman Hua to President Tito in August, could well prove to be one of the worst rows since Yugoslavia and Russia first fell out in 1948.

Before the Chinese visit, the Yugoslavs were leaning over backwards to avoid giving the Russians a pretext for displeasure. So much so that the thirtieth anniversary of the breach with Russia (June 28th—a historic date in postwar Yugoslavia's history) was completely ignored in the Yugoslav press, presumably on President Tito's own instructions. But the president himself broke the ban in a speech last month and has followed this up with the decision, recently leaked in Belgrade, to cancel his planned visit to the Soviet Union this year.

Apart from the unexpected violence of the Soviet reaction to the Hua visit, there are two other things that may have led President Tito to abandon, at least for the time being, his own hopes of making a grand deal with the Russians to ensure Yugoslavia's continued independence after his death. One is the new flare-up of the quarrel with Bulgaria over Macedonia. This has reminded the Yugoslavs that they have a vulnerable flank exposed towards the Soviet block. The other is the military build-up in the Warsaw pact countries. Rumours of tighter military

integration within the pact and of increased pressure on Rumania, Yugoslavia's friend among the pact members, may have contributed to Yugoslav anxieties. And the Yugoslavs are deeply worried about the direction Soviet policy may take after Mr Brezhnev has left the scene.

President Tito's reaction has been uncharacteristically bold. He sent strong military delegations to China and the United States—a move certain to infuriate the Russians further. But Yugoslavia needs those sophisticated anti-tank and anti-aircraft weapons which its defence minister was requesting in Washington last week. It still has to depend on Russia for all its advanced military hardware. A Pentagon spokesman indicated most of the requests had been approved.

Jugoslavia's relationship with the EEC is almost as important to its future as improving its defences. The Nine are its biggest customers and provide the bulk of its foreign exchange earnings. Negotiations for a new comprehensive agreement to replace the five-year trade agreement expiring this autumn have now reached a critical stage. The EEC commission has drafted a scheme that is a compromise between a mere trade agreement (which the Yugoslavs no longer consider adequate) and an association agreement (with awkward political overtones).

Under the proposed agreement, the EEC would double the amount of Yugoslav exports that can enter the community free of import duty or other restrictions. This would both give Yugoslavia a chance to cut down its huge trade deficit with the community, which stood at \$2.4 billion at the end of 1977, and make it, in economic terms, more independent of the Soviet block.

World Bank
News Service of the Department of Information and Public Affairs

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FBI Investigating Yugoslavian Tie In L.A. Violence

Los Angeles Times

LOS ANGELES, June 9 - The FBI is investigating whether Yugoslav secret agents are waging a campaign of extortion and violence against ethnic Croats in Los Angeles and other major U.S. cities.

At the same time, the bureau has publicly denied rumors, widely circulating among Croatian separatist groups, of FBI collusion with Yugoslavian President Josip Tito's secret police.

The extraordinary gesture came in the form of a four-page statement issued Thursday by Herbert D. Clough Jr., special agent in charge of the FBI's Los Angeles office and former chief of counterintelligence operations here.

Since last summer, when extortion letters were mailed to about 50 prominent Croats from a self-styled separatist group claiming to be based in Paraguay, there has been a rash of bombings and shootings directed against those who balked at paying from \$5,000 to \$15,000.

One letter recipient, Kris Brkic, president of a coalition of 19 Croatian community organizations, was shot to death Nov. 22 on the lawn of his home in Glendale.

On April 6, bombs exploded at the Rossmore home of Mario Forgiarini, Brkic's successor, and at the Cerritos residence of Frank Striskovich, another Croatian community activist.

On May 23, Croatian nationals Zvonko Simac, 25, and Mario Rudela, 21, were killed when a pipe bomb they were transporting accidentally exploded in their pickup truck in San Pedro.

In his statement, Clough said the FBI and other law enforcement agencies have been "hampered by the unwillingness of many Croats to provide information" about the case.

There are about 100,000 people of Croatian descent living in the Los Angeles metropolitan area, many of them in and around San Pedro.

Their unwillingness to cooperate with investigators, said Clough, "apparently stems from the widespread belief among Croats that any acts of violence committed against Croats are the work of the Yugoslav secret police, commonly referred to as UDBA, and many Croats apparently believe the FBI routinely provides information to UDBA."

Characterizing that claim as "absolutely not true," Clough declared that the FBI maintains no contacts with UDBA nor has it furnished any information to it.

On the other hand, Clough lent some credence to another suspicion in the Croatian community—that Tito's agents have infiltrated Croatian separatist groups and are sowing the seeds of internecine conflict to render those organizations impotent.

Clough revealed that the investigation is centering on "radical elements" within a Croatian organization known as OTPOR, a Croatian term for resistance. The two men killed in the San Pedro blast were believed to have been members of the organization.

Noting that investigators were hard put to explain why the violence was directed against Croats by Croats, the FBI official added: "A possible explanation lies in the widespread belief among Croats that OTPOR has been infiltrated by Yugoslav agents who are directing the violence . . ."

In an interview with the Los Angeles Times, Clough declined to elaborate on his reference to possible infiltration by Yugoslav agents and refused to say whether the FBI had independently established any links between Tito's secret police and the recent violence.

"But," he added, "we are not ignoring that or any other possibility."

An official at the Yugoslav embassy in Washington denied that UDBA agents were operating in this country.

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BELGRADE '79

**Institutional Investor's
handy guide for surviving
the IMF/World Bank meetings /**



photo by Image Bank

A survival kit for Belgrade

It's not too early to start preparing for this year's IMF/World Bank meetings in Yugoslavia. For, as this handy guide reveals, delegates may find rooms and transportation a nightmare. But there will be some highlights, too.

by John Dornberg

There's one piece of advice that will make things a whole lot easier for anyone embarking for Belgrade and this year's IMF/World Bank meetings. Before you cross Yugoslavia's frontiers, put any preconceived notions and attitudes you may have into storage. This is a country that defies the handy descriptions with which one can pin down other lands and their capitals in a few stock phrases or images.

Yugoslavia is often called a "halfway house" — halfway between Occident and Orient, between Christendom and Islam, Communism and Capitalism, Balkan indolence and European industriousness. And certainly it is something of a late bloomer. "Keep in mind that our first paved highway wasn't built until 1936," says Bozidar Linhart, former president of Jugobanka and now governor of the Slovenian National Bank. It ran 25 miles between Ljubljana and the Slovenian mountain resort of Bled, where Yugoslavia's prewar kings had their summer residence — and was designed to permit foreign diplomats, detraining from the famed Orient Express, to visit Yugo-

slavian royalty by car.

Then too, Yugoslavia is officially a communist country, but its economy is now "publicly owned, worker self-managed," and operates on market principles. A better name for the Yugoslav system, however, would be "laissez-faire socialism." And the country is so uneven in terms of development, so decentralized and so responsive to the needs and parochial aims of its six constituent federal republics — peopled by a dozen nationalities and ethnic groups speaking a half score of languages written in two alphabets — that Belgrade is a capital in name only.

Superficially, of course, a visitor will find bankers and financial officers who think and talk in terms no different from those in London, Frankfurt or New York, with executive suites the atmosphere and decor of which is indistinguishable from those in the West. But in many parts of the country, five centuries of Ottoman Turkish rule have left an indelible mark that makes doing business there akin to buying and selling rugs in the bazaar. Moreover, the

approach that brings success in, for example, westward-looking, industrialized Slovenia could be disastrous in exotic Macedonia.

Glaring contrasts

Yugoslavia's contrasts and contradictions have never appeared more glaring than in the context of the months leading up to the IMF meeting in October. On the one hand, there is Belgrade's architecturally stunning new Sava Centar, where the meetings will be held. Built in less than a year's time to host a 1977 meeting of the Conference on European Security and Cooperation, as well as last July's conference of nonaligned countries, Yugoslavs boast that it is the world's most modern, efficient, convenient and attractive convention complex. This correspondent, after an exhaustive guided tour of it last winter, concluded that the pride is fully justified.

Located only twenty minutes from the airport and a scant five minutes from Belgrade's bustling, historic center (unless you make the trip during rush hour), it is situated

Belgrade's two-year-old Sava Centar (below) is a no-nonsense blend of steel, tinted glass, concrete, marble and rosewood. The main auditorium, in which the IMF/World Bank meetings will be held, seats 4,000 in air-conditioned, armchair comfort. There are ten other conference halls, each with built-in color TV and lighting equipment, 500 direct dial telephone lines — plus numerous coffee shops, restaurants and bars, and parking space for 1,500 automobiles.

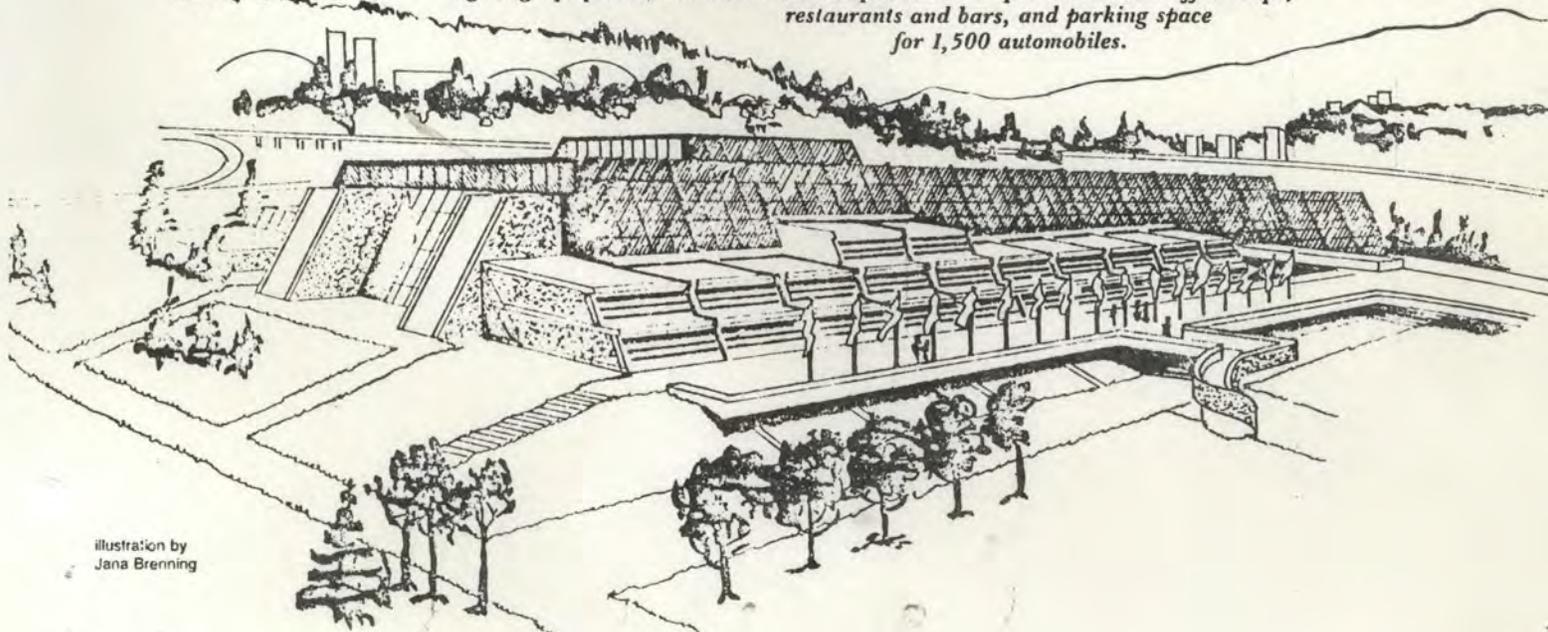


illustration by
Jana Brenning

on the left bank of the Sava, Yugoslavia's longest running river, just a mile upstream and within view (unless it is hazy, which is most of the time) of its convergence with the Danube. The center's decor is a soothing, dignified, esthetic, no nonsense blend of steel, tinted glass, concrete, marble, rosewood, black leather, modern tapestries and murals, pile carpeting, perfect sound-proofing and acoustics and air conditioning.

The main auditorium seats 4,000 in armchair comfort. Ten other conference halls, the largest with space for 1,000, have further accommodations for up to 2,000. The simultaneous interpretation system can operate in ten languages on ten channels concurrently. Each hall has built-in color television cameras and lighting equipment, both for broadcasting and internal transmission to monitors placed throughout the building. Movable walls allow for setting up 300 private offices.

The technical services division is equipped to print, bind and deliver all conference documents within an hour. Photocopying and in-house teletype machines are placed strategically throughout the complex. Some 500 direct-dial phone lines connect the Sava Centar with all of Europe and the Middle East, and as Danica Momčilović, head of the convention organizing department, assures, "all non-dial overseas calls can be placed in three minutes." Typewriters in all world languages and alphabets and an arsenal of

office equipment are available. So are multilingual secretaries, typists, guides and translators, most of them bright young students from the University of Belgrade, which has an enrollment of 60,000. There are also numerous restaurants, coffee shops, bars, stores, service shops, a bank, post office, a travel bureau and tourist information center and parking facilities for 1,500 cars.

The press facility is a journalist's dream come true — booths, desks and typewriters for 204 correspondents, 36 teletype machines for the intrepid who know how to use them, fourteen phone booths for instantaneous international connections handled by multilingual operators, the indispensable press bar with seating capacity for 80, TV monitors and a briefing room with simultaneous interpretation.

So far so good, except that, on the other hand, things may not be quite what they seem. The grand occasion has already been postponed from September to the first week of October — an action virtually unprecedented in IMF history — reportedly

because the joint IMF/World Bank secretariat in Washington concluded that the 462 room *Intercontinental* hotel, being built adjacent and with direct access to the Sava Centar, would not be completed in time. It is an allegation to which Yugoslav sources have protested vehemently and indignantly, pointing out that the Sava Centar itself was built and ready for use within eleven months. "When they assign priority to something," says one Western diplomat in the Yugoslavs' defense, "they can move heaven and earth to do it."

But two close inspections of the con-



Belgrade, with only 3,463 "luxury" hotel rooms, will be bursting at the seams during the October meetings. And with privileged bankers jostling for accommodations, delegates with "visitor" accreditation could well have a problem. The average vice president, says one observer, may have to settle for a cold-water room in some Serbian peasant's farmhouse.

struction site by *Institutional Investor*, the first in mid-October 1978, when the foundation was not yet finished, and again in December, left the impression that the secretariat is probably right. Even if it is wrong, the extra time will at least give the hotel staff an opportunity to subject other guests, not IMF delegates, to the inevitable shakedown period.

The bed problem

Of course, some attendees may welcome any kind of service. Even including the luxury-class *Intercontinental*, 140 rooms of which may end up being converted to offices because the Sava Centar's 300 won't suffice. Belgrade, with a population of 1.3 million and bursting at the seams, has a critical hotel shortage normally. And it will be exacerbated by the fact that the IMF session will be the largest meeting ever held in the city.

There are only 3,463 rooms — or 5,822 beds — spread over two "luxury" hotels (the other being is the nearby Jugoslavija). Of the next best hotels, six are in

the "A" category and fifteen are classified as "B". The most notable difference between "A" and "B" is that although all rooms in both have showers and some even bathtubs, only the higher-grade establishments provide curtains around the shower stalls. A minor detail, to be sure, but as this correspondent knows from years of traveling in Yugoslavia, it results in a major problem of bathroom flooding every day.

At any rate, IMF-Belgrade promises to be a tight fit. As one resident Western observer put it: "The city is booked solid, and the average vice president is just out of luck unless he's willing to triple up in a bed or settle for a cold-water room in some Serbian peasant's farmhouse." Indeed, junior diplomats in some Western embassies predict somewhat dourly that they will probably be given pup tents to pitch in Belgrade's historic Kalmegdan Park so that their apartments can be turned over to high-powered visitors and delegates from home.

The mad push to squeeze into the city shapes up as a tale of jockeying and jostling for privileged accommodations and substantial under-the-table payments of *baksheesh* to get them. One U.S. bank reportedly paid a huge deposit for an entire floor of the *Intercontinental*, only to lose its money when Yugoslav authorities stepped in last August and declared all such early reservations invalid. Another bank attempted to book up the colorful *Ima Dana* restaurant in Belgrade's bohemian Skadarlija quarter for the entire week of the meeting. Others have tried to rent entire villas only to flinch when they discovered that rents in Belgrade are among the highest in Europe and that, for all their apparent devotion to Marxism, Yugoslavs know only too well how to turn a quick capitalist profit.

One West European bank head, according to a reliable source, is seriously considering renting a houseboat, floating it down the Danube from Vienna, then docking it at a pier near the Sava Centar. One famous U.S. banker, in fact, reportedly has threatened to sleep in his plane and have it circle Belgrade all night unless he can get the accommodations to which he feels entitled.

Both the Washington secretariat and the Sava Centar's management have been trying to untangle the confusion, and establish some ground rules. According to the Sava Centar's Danica Momčilović, they are as follows: Some 2,500 rooms, containing 3,500 beds, have been turned over to the Washington secretariat. It, in

turn, will handle requests and assign these rooms to all those in the delegate, special guest, observer, staff and journalist categories. "We no longer have anything to do with that," Momčilović says, with a smile and an audible sigh of relief.

But what about everybody else, that is those 2,000, possibly 3,000, with "visitor" accreditation, most of them commercial bankers, managers and treasurers, below the rank of president or chairman? They must apply for reservations, no later than June 30, to an official Yugoslav travel agency called Centrotourist, which has been assigned the remainder of Belgrade's available hotel space for the duration of the IMF session. The joker question, being raised by resident Western businessmen and diplomats, was whether Centrotourist is up to accommodating all of a yet unknown number of visitors.

The Yugoslavs, to be sure, are hardly neophytes in the tourism and travel trade. More than 5.6 million foreigners converged on this country of 22 million inhabitants last year, most of them along the sunny Adriatic coast with its balmy climate and crystal clear waters. Belgrade hosts numerous congresses, conventions and trade fairs, and both the CSCE and the nonaligned nations conferences at the Sava Centar demonstrated that the city can handle large international meetings efficiently.

But one as large as the IMF?

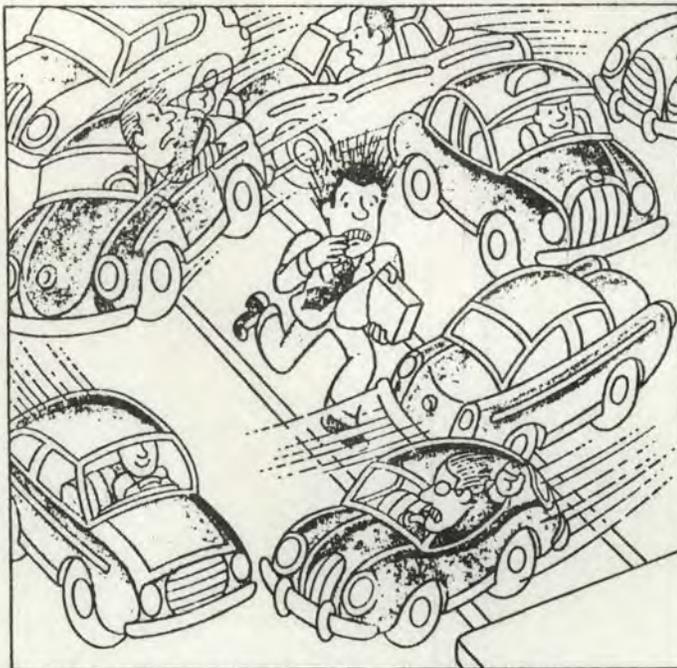
The people at Centrotourist, at least, seem undaunted by the task. They are considering the quick construction of a number of sumptuous villas to house large bank delegations, and as one representative says: "In a crunch, we can also draw on a number of private flats and smaller hotels or motels in the vicinity of Belgrade. Everyone will be accommodated."

Hotel review

Under the circumstances, there seems little point in advising on which hotel to book. Nevertheless, delegates to the meeting may be interested in getting a preview of the prospective billets and what they offer. All 23 hotels that have been requisitioned are clean, comfortable and adequate, although some are more adequate than others. This correspondent, for example, still prefers a good "A" category location or, in a pinch, even "B" on the right side of the Sava in the old-world bustle of teeming downtown Belgrade. The "luxury" class *Jugoslavija* and *Intercontinental*, despite their modern comforts, are both located on the left bank in Novi

Beograd — New Belgrade — which, despite some spectacular architecture and being home of the main Communist Party and government headquarters, is still the capital's mass-housing appendage and looks like a Balkan version of huge high-rise developments.

The traditional businessmen's hotel in Belgrade proper, the postwar, 206-room, "A" category *Metropol* on Bulevar Revolucije, is just a little too neo-Stalinist in style and more than merely a brisk walk from the Sava Centar. But for what it's worth, it is the *Metropol's* worker-



Coping with Belgrade traffic can be a nightmare. Though Yugoslavia has only 2.5 million registered vehicles, more than 5,000 people were killed in traffic accidents last year and 65,000 injured — the highest rate in the world. And motorists and pedestrians are in a constant state of war.

managers who have assumed catering responsibilities at the Sava Centar's excellent restaurant and coffee shops.

The "A" category *Excelsior* on stately Kneza Milosa (Prince Milosh) Avenue, where most government ministries and foreign embassies are located, is a small (81 rooms) but very pleasant hotel in the discreet style of the turn-of-the-century. The renowned old *Majestic*, with 92 rooms, is also classified as "A," and is located in the very heart of the city — just off Republic Trg. (Square), a block from the head office of United Beogradska Banka, the country's largest bank. The hotel has plenty of charm but a distinct disadvantage — almost no parking spaces nearby. The "B" category *Union* has 74 rather seedy, musty rooms, the best of which face narrow noisy Kosovska Street, as well as the press rooms and distribution platform of *Borba*, the semi-official party daily, printed at night. The other rooms look out on backyards of surrounding office and apartment buildings. But what the *Union* may lack in basic creature comforts it more

than compensates for with its swinging bar and red-plush restaurant, one of the city's best. There is also the indisputably elegant "A" category *Palas* (74 rooms and fifteen suites) on Toplicin Venac, a small, quiet side street near Kalmegdan fortress in Belgrade's oldest and quaintest district. If you're booked there, consider yourself lucky.

This correspondent's favorite has always been the "A" category *Moskva* on Terazije, the main shopping street and within easy walking distance of almost everything except the Sava Centar. Perhaps it's nostalgia, for the *Moskva* used to be the hotel in which most foreign correspondents had their offices and bureaus. In those days, to be sure, it was a rat trap: in the literal sense of the word, not to even mention the cockroaches. Now, the menagerie has disappeared, for in the early 1970s the 70-year-old *Moskva* was not only thoroughly fumigated but re-decorated and converted into one of the city's finest hotels.

The *Moskva's* turreted yellow and green facade is still one of Belgrade's landmarks. The plumbing is also so old and so complex that, not infrequently, when you flush the toilet steaming hot water gushes into the bowl. To take advantage of the *Moskva's* awesomely high ceilings, most of the 132 rooms, furnished with baroque replicas, have been turned into split-level duplexes with sofa, armchairs, desk, small bar downstairs and the bedroom area and bath on an upstairs balcony. There are also a number of opulent suites, replete with crystal chandeliers and Oriental rugs. Fountains splash in all the hallways. The service is impeccable. The hotel's cafe, with its outdoor terrace in summer, is the city's most popular, renowned not only for its thick, black, sweet Turkish coffee and its selection of creamy rich pastries, but for its string orchestra. The restaurant, by consensus, is one of the best in town.

The menu, please

Though Yugoslav food may not rank with the world's greatest, Belgrade boasts 1,000 restaurants and cafes. The thing to know is which ones are best, where to find them and what to order. A *bistro* is a tavern serving wine, beer and *rakija* — distilled spirits, of which the most famous is *slivovica*, a plum brandy ranging in strength from 50 to 90 proof. A *kafana* is a coffee house or cafe, selling Turkish coffee, which Rudyard Kipling once described as "black as night, strong as hell and sweet as sin." These establishments also offer al-

coholic beverages of all kinds, sometimes sandwiches and usually cakes and pastries. They invariably team with jabbering customers. A *poslastičarniža* is a pastry shop where one can also get coffee to go with the sweet, rich cakes. And a *restoran*, which comes out looking like *pectopah* in Cyrillic, is exactly what it sounds like. It serves full meals with all beverages and is usually open from noon to 4 p.m., then again from 6 p.m. to 1 a.m. Some, however, serve all day long and a few are open around the clock.

Yugoslav food is considerably more varied and sophisticated than is reputed. The only reason why the country's very respectable wines haven't made more of an impact abroad is that the best are drunk, in prodigious amounts, at home. Waiters in the best restaurants will not only describe dishes on the menu in considerable detail, but gladly advise on wines, most names of which are unknown and unpronounceable to foreigners.

Hors d'oeuvres, both cold and hot are considered key. The best cold ones, besides a mixed platter that varies greatly from restaurant to restaurant, are smoked Dalmatian ham, smoked filet of beef from the district of Uzice; Gavrilovic salami; sheep's cheeses such as *kackavalj* or creamy *kajmak*; *pik-tinje* — pork or duck in aspic — and pates named *pihtije*. Hot appetizers include grilled mushrooms, breaded *kackavalj* or *kajmak* cheese and *zeljenica*, a spinach strudel.

Serbian cuisine is best known for its charcoal-grilled meat specialties such as *cevapčići*, *ražnići*, *pljeskavića*, *muckaliče* and *culbastija*. But don't ignore the roasts — lamb, veal and suckling pig. Stuffed cabbage, stuffed peppers and *djuvec*, a mixture of eggplant, carrot, potato, rice, meat and roasted with grated cheese, are also delicious. And Serbian veal and bean soups rate high on any gourmet's list, as do *brodet* and *alaska corba*, a fish soup.

Yugoslavia's best salad, in one diner's opinion, is called *šopska* and consists of tomatoes, cucumbers and green peppers, covered with grated white sheep's cheese. Its best desserts are strudels, apple and otherwise, and the crepes called *palačinka*, covered with various sauces, especially chocolate.

Restaurant guide

To list all of Belgrade's really good restaurants would fill a book, and the Tourist Association has promised to ready one in time for the meeting. But this corre-

spondent confesses to some favorites in advance. Besides those in the hotels, of which the *Moskva* rates tops, there are those in the Skadarlija district, Belgrade's "Latin Quarter," which vibrates with music, dancing, verse-reading poets, portrait-painting artists, Gypsy violinists and merriment every night, especially in the warm months. This is Belgrade as it used to be, and the restaurants in this area, within walking distance of most of the downtown hotels, are some of the oldest and best in the city. The cavernous *Dva*



Belgrade boasts 1,000 restaurants and cafes. And even if the country's cuisine doesn't rank among the world's greatest, it is more varied and sophisticated than most people believe. Hot and cold hors d'oeuvres, charcoal-grilled meat specialties, roasts, strudels and crepes are among the most interesting.

Jelena (meaning To the Two Elks) at Skadarska Street No. 32, was the favorite hangout of nineteenth century artists, poets and actors. The *Zlatni Bokal* (Golden Pitcher), three house numbers up, and the *Tri Sesira* (Three Hats), across the street, are more intimate. The *Ima Dana* (There Are Days) at No. 38 is probably the most famous of the district. Tito has been known to celebrate New Year's Eve there until dawn, and the food is impeccable. In each of these spots, there are small string ensembles and vocalists performing traditional Serbian music.

One of Belgrade's quaintest cafes and restaurants, located in one of the city's oldest houses, is the "???" at No. 7 Jula Street near the Kalmegdan and across from the cathedral. Built in Balkan style, its owner in the nineteenth century dubbed it the "Inn at the Cathedral." The bishop objected, called the name a mockery of religion, and the police removed the sign. The owner, not knowing what else to call it, put up a huge question mark, which has been its name ever since.

For more excellent dining in an old-world atmosphere, the visitor should try the *Club of Cultural Workers* at No. 27 Obilicev Venac, near the *Majestic* hotel. Though a private club of writers, artists, performers and musicians, it is open to the public, and even accepts Visa cards. Milo, the manager and maitre, who looks like a shortened version of Adolphe Menjou and speaks a half dozen languages fluently, will advise you what to order. Another good bet is the *Writer's Club* on Francuska Street.

And some 25 kilometers out of town, in the village of Grocka, on the vine-covered hills overlooking the Danube, there's a restaurant you shouldn't miss — the *Vinogradi*. The Serbian specialties are excellent and the ambiance — wood beamed ceilings, huge fireplace, rustic decor — memorably pleasant.

Sitting around

With only a fraction of delegates and visitors — and those booked into the *Intercontinental* — close enough to the Sava Centar to walk to sessions, the next obvious question is how to get around in Belgrade. The Sava Centar will provide some 250 limousines, 50 sedans, 30 coaches and fifteen minibuses for in-town transportation and some of these will ply regular routes between the hotels and the meeting hall. Presumably, too, member countries' embassies will make vehicles available. But both sources shape up as insufficient.

In general, getting around the country is always a challenge. Domestic air service is minimal. Between Belgrade and Zagreb, the capital of Croatia and Yugoslavia's second largest city, for example, there are only two flights daily. The train ride takes five to six hours. To drive that 380-kilometer distance on the infamous, two-lane *Autoput* is a suicidal undertaking and no faster than the train.

Within Belgrade itself, matters are not much better. Public transportation consists mostly of buses, a streetcar and no subway, so it tends to be slow and rather crowded. Taxis in Belgrade, however, can be considered a bargain: 10 dinars (about 55 cents) to start, 6.50 dinars (about 36 cents) per kilometer, and a flat 200 dinars (approximately \$11) from and to the airport. A 10 per cent tip is standard policy, except when the driver is also the owner, a distinction not always readily discernible.

A surprising number of cabbies speak English, and even more have a useful knowledge of German, having worked there as *gastarbeiter*. But all are indistin-

"One famous U.S. banker has threatened to sleep in his plane and have it circle Belgrade all night unless he can get the accommodations to which he feels entitled."

guishable from most of their brethren around the world — rude and quick-tempered. Moreover, as Yugoslavs in general, they drive like kamikaze pilots, so if you have edgy nerves, an unstable stomach or weak heart, think twice before taking a cab. On the other hand, all this advice may be purely academic, for finding or hailing one, especially during rush hours or when it rains, can be a greater test of stamina than in New York or London.

One alternative is to rent a car for the duration, though a firm reservation well in advance is imperative. Last December, in off-season, this correspondent called three rental agencies to no avail before finally procuring a larger car than he wanted.

On the road

You'll find both Hertz and Avis as well as a number of indigenous Yugoslav agencies with counters at Belgrade Airport and downtown. Because competition is written large in this land of *laissez-faire* socialism, rates vary considerably, ranging from around \$11 per day plus 11 cents a kilometer for a small Yugoslav-made Zastava version of a Fiat 128 to more than \$25 plus 25 cents a kilometer for a compact-size West European model, such as a Ford-Taunus, Opel or Fiat 2000. You pay for the gas, and a gallon of 98 octane costs \$2.16. Some companies, including Avis, have chauffeur-driven cars. A medium-sized compact, an Opel-Rekord, for example, costs \$66 for eight hours with 160 free kilometers, plus \$25 daily subsistence for the driver. The price goes up from there at a rate of \$3.30 per hour and 35 cents a kilometer.

Driving in Belgrade, however, can turn into a frustrating experience. The city is a labyrinth of narrow, one-way streets, bristling with no left turn and no parking signs, a virtual armada of cars all being driven like Formula-1 racers and a horde of pedestrians who recognize no difference between sidewalks and roadways. Belgrade traffic is therefore worse than in any other East European city and, perhaps with the exception of Paris and Rome, any West European one. Rush hours come at unlikely times because the Yugoslav economy operates on the old adage that the early bird gets the worm. All factories start work at 6 a.m., offices at 7 a.m. Quitting time is between 2 p.m. and 3 p.m. Thus, in the afternoons, the drive from the Sava Centar across the river into downtown, normally no more than a five-minute jaunt, can turn into an hour's torture of being stuck in a morass of madly honking cars.

Then there are the roads outside Bel-

grade. Granted, things have improved since 1936, though it remains a fact that only 40 per cent of the country's 60,000 miles of roads have an asphalt, concrete or cobblestone surface and there are less than 100 miles of four-lane highways. And in its more underdeveloped areas, Yugoslavia is still that land "beyond which the pavement ends." But even worse than the roads is the Yugoslavs' performance on them. "It's our form of Russian roulette," a Belgrade driver explains. Though the country has only 2.5 million registered vehicles, more than 5,000 people were killed and 65,000 injured in traffic accidents last year. The rate, by official admission, and in which some foreign observers detect a note of pride, is the world's highest.

Much of the blame is ascribed to a national penchant for getting behind the wheel after imbibing staggering amounts of wine or fiery *slivovica*. But even under conditions of total sobriety, driving in Yugoslavia is a matter of high suspense and drama, heightened by the custom of erecting crosses and placing wreaths at the scene of each fatality — a modern version, some believe, of the medieval Serbian wayside graves for fallen warriors. Even the "falling rock" signs seem to be painted with more drama than elsewhere in Europe; they resemble volcanoes erupting.

The two parts of any Yugoslav car that wear out soonest would seem to be the horn and accelerator. Brakes must last forever due to nonuse. Motorists and pedestrians, not to mention other forms of warm-blooded locomotion — oxcarts, donkeys, horse-drawn wagons, bicyclists, pigs, geese, chickens, kids playing soccer, grazing sheep, cows and goats — are in a state of permanent war, each presuming total ownership of the road. Hitchhikers usually stand in the middle of the highway, their arms flailing, in a desperate effort to flag down whatever comes along. The law prohibits animal-drawn vehicles on the roads after dark, but the Yugoslavs, anarchists by nature, frequently disobey it.

Parlez-vous Yugoslav?

A more pressing problem than getting around may well be office space and secretarial help. The Sava Centar is reserving offices for official and international delegations, but those in the "visitor" category must beg Centrotourist for offices, meeting rooms and even cocktail facilities. According to Danica Momčilović, all necessary clerical help and equipment, however, can be obtained from the Sava Centar. In a city with so many multilingual students, it is claimed, there will be plenty eager to earn

extra money. (One's hotel and local embassy staffs, as well as Yugoslav banking and business partners, can also be of help in hiring.)

The going rate for free-lance translators is 800 dinars (\$45) a day. But language will be less of a problem than expected. Hotel staffs are all multilingual, as are most waiters and waitresses and menus. So are store clerks in those shops catering largely to tourists. Large department stores, such as the Beograd chain, with branches all over the city, all have information booths with multilingual clerks on their ground floors. In general, vast numbers of Yugoslavs speak a foreign language: French or German among the older generation, English among the younger. Bear in mind, that since the early 1960s, a million Yugoslavs have worked abroad — in West Germany, France, the Netherlands and Scandinavia.

Unlike most other communist capitals, however, in Belgrade you *can* keep abreast of what is happening in the rest of the world. Although they usually are a day late, the major European newspapers, including the *Financial Times*, *International Herald Tribune*, *Guardian*, *Frankfurter Allgemeine*, *Neue Zürcher*, *Le Monde*, and others are sold at newsstands in the Sava Centar, the *Intercontinental*, *Jugoslavija* and *Metropol* hotels, at some of the kiosks on and in the pedestrian passageways under Terazije and Marsala Tita Avenue and in the dozens of bookshops downtown.

Cash seems to be going out of style in Yugoslavia almost as rapidly as in the U.S. Major credit cards are accepted in all hotels, most restaurants, virtually all department stores, a surprising number of smaller shops and boutiques, travel bureaus, car rental agencies and JAT, the Yugoslav airline. Moreover, those executives based in Europe and familiar with the system will be happy to know that Eurocheques, validated with a check card, are accepted at all branches of Beogradska, Jugo, Invest and Ljubljanska banks as well as some others. This correspondent has frequently entered Yugoslavia for month-long assignments with less than \$50 cash.

And while Belgrade may not rate with the posh and chic capitals of Europe, it is nevertheless, a city in which to go shopping. There are, first of all, traditional Yugoslav handicrafts: lace, embroidery, colorful rugs and carpets, peasant costumes, hand-carved wooden artifacts, copperware from Sarajevo and handmade silver and gold filigree jewelry, most of it from Kosovo. But Yugoslavia has also become a major manufacturer and exporter of quality leather goods and textiles. In Belgrade, you'll find luggage, handbags, briefcases, shoes, gloves, furs, men's and women's sheepskin coats, a wide assortment of knitwear, women's fashions, haberdasheries and tailor-made clothing at bargain prices, despite the hardening of the dinar against the dollar. It is also a good

"A five-minute drive to Sava Centar could drag out to an hour."

city for buying ceramics, crystal, art, icons, books and records, which are cheaper in Yugoslavia than anywhere in Europe.

Shopping tips

The Belgrade Tourist Association is preparing a booklet listing what can be bought in shops, which languages are spoken by clerks where, what credit cards are accepted and explaining regulations for export of cultural and artistic treasures. It is supposed to be ready in time for and available at the IMF meeting. In case it isn't, here are *Institutional Investor's* tips on where to shop: The main shopping streets, forming virtually a straight line through the center of the city from the Kalmegdan fortress and park are Knez Mihajla (closed to traffic), Terazije and Marsala Tita. The two biggest branches of the Beograd department store are on the Terazije, across the street from the Moskva hotel, and in the ultra-modern, 29-story Beogradjanka Building, Belgrade's highest, at the corner of Marsala Tita and Generala Zdanova Streets.

The best of what Yugoslavia has to offer in fashions, furs, leather goods and men's furnishings will be found in the

Jugoexport stores, of which there are four in easy walking distance of each other: at No. 10 Kneza Mihajla, No. 7 Terazije (at the corner of the Albanija Building in which United Beogradska Banka has its headquarters), No. 4 Makedonska Street and No. 1 Kolarceva. But by comparison, they are expensive. For more moderately priced clothing, but still quite a cut above the average in quality and style, try the Srbija Tekstil chain, whose largest and best store is on Terazije, up the street from the Moskva. Filigree jewelry from Prizren in Kosovo is sold in the Filigran stores at No. 27 Terazije and 14 Bulevar Revolucije, across and down the street from the Metropol hotel.

The Amfora shop on Terazije, halfway between the Moskva and the Beogradska Banka, is the best place to find ceramics, crystal and porcelain. A chain called Narodna Radinost, with branches on Knez Mihajla, Terazije and in the larger hotels, specializes in a wide assortment of folk handicrafts. Phonograph records are sold in numerous specialty shops on Makedonska Street and in the large bookstores of which the biggest is Jugoslovenska Knjiga, in the Albanija (Beogradska Banka) building. In addition, there

are nearly two dozen other bookshops along the two-kilometer Kneza Mihajla-Terazije-Marsala Tita axis.

In the countless little arcades and side streets leading off the three main avenues there are also scores of privately owned shops and artisans — cobblers, furriers, milliners, tailors, seamstresses, jewelers, luggage and purse makers.

Belgrade stores are open from 8 a.m. to 8 p.m. weekdays, 8 a.m. to 5 p.m. Saturdays. Many smaller establishments close for a combination lunch and siesta from noon to 4 p.m., but those that don't sport a sign on the door reading, in English: "Non-Stop."

On your own

As to sightseeing, Centrotourist will be offering numerous excursion packages. Some of them strike this correspondent as too expensive, especially since you can do them on your own. An orientation tour by bus of Belgrade is probably useful, but beyond that, it's a city for walking. Outside the city, a one-day trip by hydrofoil down the Danube to Djerdap — the famous Iron Gates gorge — with a view of Trajan's memorial tablet, set into the cliffs, is fascinating, time permitting. So is the 50-mile round-trip to Smederevo, the capital of Serbia in the fifteenth century. The ruins of the huge fortress there, built in 1430, are what remains of what was once one of the largest castles of the Middle Ages. One

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also ought to take a river cruise around Belgrade — either a short one by day or one including dinner and folk music at night.

Of interest to art lovers is the fact that Yugoslavia in recent years has become renowned for its "naive" painters, whose works now sell for exorbitant sums and hang in museums and private collections around the world. An entire village of these self-taught artists — "naive they certainly aren't," says one Belgrade critic — can be found at Kovačiča, 30 miles north of Belgrade in the Voivodina region and another at Oparić, about 90 miles southeast, along the main road to Nis. Centrotourist will offer IMF visitors special trips, at around \$30 per person, to these villages. But since all the artists open their homes and studios to visitors on weekends, and are eager to sell, the trips can also be made by car or train on one's own.

To go back in time, Yugoslavia was where Byzantine ecclesiastical art flourished most. And nowhere in southern and eastern Europe are there so many basilicas and monasteries, many of them hidden and walled against the Ottomans, or as many magnificent, perfectly preserved frescoes, as in southern Serbia and Macedonia. To protect the frescoes from destruction and to conform with Islamic rules prohibiting exterior and interior decoration of churches, the Serbs and Macedonians daubed masses of white and blue paint on them. Most were

not uncovered until after World War I, in some cases after World War II, and what restorers found were breathtaking works of art, their colors as brilliant and dazzling as when first painted by eleventh to fourteenth century masters.

Centrotourist and two other agencies, Putnik and Inex-Turist, are offering IMF delegates one- to four-day bus trips to the best of them at prices ranging from \$42 to \$144. The itineraries also happen to include some of the most scenically spectacular parts of Yugoslavia, as well as some of its most underdeveloped areas.

A number of weekend arrangements and post-congress trips will be offered by bus and plane to the coast, Croatia, Slovenia and Bosnia-Herzegovina. The excursion that takes the least time, needs no advance arrangements, can be done on your own, and offers a chance to see much of the country, is a ride on Serbia's spectacular new "link to the sea," a rail line from Belgrade to Bar.

Dream railroad

Opening a new railroad in the last quarter of the twentieth century may seem anachronistic to all but the Yugoslavs for whom this route to the Adriatic, inaugurated in May 1976, is a 100-year-old dream come true. It grew out of the landlocked Kingdom of Serbia's nineteenth century desire to have access to the sea and reduce its vulnerability to economic and political

pressures from Hapsburgian Austria-Hungary and the Ottoman Empire. But when the Serbs developed their dream in the 1860s, no one had the technology to build the railroad through some of Europe's most rugged and impassable terrain. By the time actual construction began in 1950, both the Hapsburg and Ottoman regimes were gone, and many experts were saying that a good highway would be cheaper and more efficient. But the Yugoslavs chose the railroad.

The line is an incredible engineering feat. Though only 295 miles long, it rises some 3,000 feet, passes through 254 tunnels and over 237 bridges. One bridge, the Mala Rijeka, which spans the breathtaking Moraca Canyon, is 1,650 feet long and 700 feet high, making it the longest and highest railway trestle in Europe. The route, which passes through lands containing long neglected but vast stores of natural resources, also provides some of Yugoslavia's most magnificent and picturesque countryside. Four trains daily in each direction — two at night and two in daylight — make the nine-hour trip between Belgrade and Bar at a bargain round-trip price of only \$26 plus \$12 for a sleeping compartment. And for those in a hurry, it can be done in 24 hours.

And for delegates to the IMF/World Bank meetings, there's one special feature to this extraordinary railroad. Much of the \$3 billion it cost to build it was financed by the World Bank. ■

Bulletinboard
A report to investors

Datapoint Reports Record Third Quarter

SAN ANTONIO, May 15, 1979 — Datapoint Corporation has reported net earnings (unaudited) of \$6,667,000 or \$1.54 per share for the three months ended April 30, 1979. This compares with net earnings of \$3,999,000 or \$1.03 per share for the comparable period a year ago. For the nine months ended April 30, 1979, net earnings were \$18,015,000 or \$4.18 per share, which compares with earnings of \$10,411,600 or \$2.95 per share for the first nine months of fiscal 1978.

Revenues for the nine-month period were \$166,321,000—an increase of 45.2 percent over the \$114,519,000 reported for the comparable period in fiscal 1978.

Harold E. O'Kelley, chief executive officer, said that orders during the third quarter were strong, and above the second quarter as well as the comparable period a year earlier, with momentum building throughout

this fiscal year.

Citing first quarter orders below the traditionally strong fourth quarter of fiscal 1978, O'Kelley noted that, because of this order timing, shipments were slightly below the record second quarter level, although up significantly in the year-to-year comparison.

Backlog was at an all time high, and substantially ahead of the level at the end of the prior quarter, according to O'Kelley, and he expects a substantial increase in shipments during the fourth quarter.

Datapoint Corporation produces general purpose computer systems for business data processing and communications management applications.

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See page 11

T

GUIDE TO THE PRONUNCIATION OF THE SERBO-CROAT ALPHABETI. VOWELS

a pronounced as a in father but in a more frontal position and with a greater tensing of throat muscles

e " e in bed

i " i in ink (always short i NEVER long i as in find,)
or ee in green

o " o in hot
or aw in saw

u " oo in loot

AND r

which is sometimes a vowel and therefore must be rolled like a Scottish, or Italian, "r" and must be given proper duration so as to allow it to carry tonic stress as in Crna Gora (Montenegro), the first word Crna being composed of two syllables the tonic stress falling on the first (Cr-)

II. CONSONANTS

Except for those consonants given below, the pronunciation of Serbo-Croat consonants approximates that in the American usage.

III. EXCEPTIONS

c = ts as in lots of pots

ć = ch (but more palatalized than ch in cheese. In fact, somewhere between the palatalized t of the English pronunciation of "tune", as opposed to the American pronunciation which sometimes sounds as if the word were written "toon".)

č = ch (but less palatalized than ch in cheese.)

dj = j (but more palatalized than j in jay. See above explanation for c and compare "tune" with "dune".)

đ = j ditto This is an alternative form of dj

dž = j (but less palatalized than j in jay.)

g	=	g	always hard as in <u>g</u> arden (NEVER soft as in <u>g</u> em
h	=	h	always aspirate as in <u>h</u> ard
j	=	y	as in <u>y</u> ard. Very important as a palatalizing agent, v. <u>dj</u> above and <u>lj</u> and <u>nj</u> below.
lj	=	l	as in <u>l</u> ute or <u>l</u> ure but even more palatalized
nj	=	n	as in <u>n</u> eutral but even more palatalized
r	=		Italian or Scottish "r" - vigorously rolled
s	=	sh	as in <u>s</u> hut, but less palatalized
z	-	s	as in <u>pl</u> ease <u>r</u> e, <u>le</u> is <u>u</u> re, or <u>me</u> as <u>u</u> re
		or sh	as in Dr. <u>Z</u> hivago, but less palatalized

NB: Palatalization means the involvement of the palate in the pronouncing process. For instance, unpalatalized "t" is pronounced with the tip of the tongue curled up and pressed against front upper teeth, while palatalized "t" is pronounced with the tip of the tongue pressed against the bottom of lower teeth and the body of the tongue cleaving to the palate. The same is true of palatalized "d", "l" and "n".