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McNamara Papers

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Contacts with member countries: Yugoslavia - Correspondence 03

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OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: April 14, 1977

FROM: Martijn J. W. M. Paijmans, Director, EMENA I *P*

SUBJECT: YUGOSLAVIA - Visit of Dr. J. Sirotkovic

1. On April 12, 1977 Mr. McNamara received Dr. J. Sirotkovic, President of the Executive Council of Croatia, who was accompanied by Mr. Ante Zelic, member of the same Executive Council, and the Yugoslav Ambassador in Washington, H.E. Dimce Belovski.
2. The visit was in fact a courtesy call during which Dr. Sirotkovic mentioned the important investments which were taking place in Croatia in highways, power, agriculture, tourism, petrochemical industry and pipelines. He and Mr. Zelic mentioned the need for Bank support, in particular for the large future Sava multipurpose project which they said would in fact cover about one million hectares. (This figure of course represents a long term plan for the development of the whole Sava River basin the total area of which is about 96,000 sq. kms - about 37% of Yugoslavia, which may not be completed even by the turn of the century. While the project for possible Bank participation has not yet been defined, it is likely to comprise 2 or 3 polders covering in the range of 40,000 to 60,000 hectares.)
3. Dr. Sirotkovic also mentioned to be now involved at the Federal level and emphasized the importance to be paid to correcting structural imbalances within the Federation.

MPaijmans:gg

cc: Mr. McNamara's office (original and one carbon)
Messrs. Knapp, Knox, Acting RVP, EMENA,
Haynes, Acting Director, EMENA Projects
Kaji

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
THROUGH: Mr. J. Burke Knapp, SVP, Operations
FROM: A. David Knox, Acting RVP, EMN

DATE: April 4, 1977

SUBJECT: YUGOSLAVIA: Visit of Dr. Jakov Sirotkovic, President
of the Executive Council of Croatia

1. At the request of the Yugoslav Embassy, you have agreed to a brief courtesy call by Dr. Sirotkovic on Tuesday, April 12, at 6:30 p.m.

2. A brief biographical sketch of Dr. Sirotkovic is attached.

3. The bulk of our past and prospective lending in Croatia is in conjunction with national infrastructure projects, such as the highways, railways, and power transmission schemes in which Croatia participates. In the immediate future, we expect to appraise the first phase of the trans-Yugoslav highway project which will, on the basis of overall priorities, address the problems of serious traffic congestion around the City of Zagreb and on the immediate sections of roads stretching out from Zagreb towards Belgrade. The Croatian authorities place the highest priority on this project.

4. Dr. Sirotkovic, under pressure from the influential local government of the City of Dubrovnik, might bring up the question of the Bank declining to finance further expansion of the Babin Kuk tourism project; the first phase of which was financed by a Bank loan of \$20 million in July 1971. Our decision is based on the premise that given the competing demands from within Yugoslavia for various high priority projects; the absence of any institutional or other impact to be achieved from financing an isolated tourism hotel project; the likelihood of the enterprise obtaining commercial money for a financially-viable hotel project; the justification for Bank support is dubious.

5. As you know, while Yugoslavia wishes to host the 1979 Annual Meetings, no decision has yet been made on whether the invitation would be for holding the meetings in Dubrovnik or in Belgrade. The major constraint in Dubrovnik is the absence, at present, of any conference hall which could accommodate the plenary session and a hotel adjacent to the hall for use as offices for staff and delegations.

Attachment

GKaji/llj

Cleared with and cc: Mr. Paijmans

Cleared in substance with and cc (para. 5): Mr. Damry

Biographical sketch

Jakov Dr. Sirotkovic - born in 1922, Rab, Yugoslavia

- President of the Executive Council of the Assembly of the Socialist Republic of Croatia and professor of economic planning at the University of Zagreb.

- Took an active part in the People's Liberation War from 1941 until the liberation.

After the liberation held various high positions in Yugoslav Federal Government and Republic of Croatia as well as in socio-political organizations. Representative of the SFR of Yugoslavia in the Committee of experts of the United Nations (Committee for development planning).

- Has been Vice President of the Federal Executive Council and member of the Economic Policy Committee of the Federal Assembly, member of the Economic Board of the Federal Executive Council and Economic Board of the Executive Council of the Assembly of Croatia.

Graduated from the School of Economics, University of Zagreb (1948), where he has received his doctor's degree Ph.D. He also attended the London School of Economics (1954-55) and Berkeley University in California in 1965. Has been Associate in Economics at the School of Economics University of Zagreb in 1951, honorary professor at the School of Economics University of Belgrade 1959, professor at the School of Economics University of Zagreb since 1961. He has been the Dean of the Zagreb University (1966-67).

- Published a large number of studies and books in the field of economic development, theory problems and practice of planning in the system of selfmanagement in Yugoslavia.

Member of Yugoslav Academy of Sciences and Arts, received many honors and awards for outstanding achievements in the scientific field and socio-political activity.

Mr. McNamara:

April 26, 1977

Mr. Burmester,

YUGOSLAVIA

Attached please find the Memorandum for the Record on Mr. McNamara's meeting with Mr. Cemovic.

4/27
Mr. McNamara asked me to raise the issue mentioned in paras 5 and 6 with Messrs. Cargill and Rotberg. I spoke to Mr. Rotberg this morning who was already aware of the matter before Mr. Cemovic spoke to Mr. McNamara. Mr. Rotberg wrote a note to the President on the subject and will now handle further with Messrs. Cargill and Broches.

S

Martijn Paijmans

Attach.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: April 26, 1977

FROM: Martijn J. W. M. Paijmans, Director, EMENA I P

SUBJECT: YUGOSLAVIA - Visit by Mr. Cemovic, Federal Secretary for Finance

1. On April 25, 1977, Mr. Cemovic visited Mr. McNamara. He was accompanied by:

- Ambassador Dimce Belovski
- Mr. Gavra Popovic, Executive Director
- Dr. Tomislav Badovinac, National Bank of Yugoslavia
- Mr. Miljan Komatina, Assistant Secretary, Federal Secretariat for Foreign Affairs.

From the Bank were present Messrs. Knapp, Knox (Acting VP, EMENA), Paijmans.

2. Mr. Cemovic congratulated Mr. McNamara on his reappointment and expressed his pleasure at having Mr. McNamara continue in the presidency. Mr. McNamara said he had been glad to accept the invitation from the Executive Directors. He then referred to the extremely cordial and constructive relations the Bank maintains with Yugoslavia.

3. Secretary Cemovic shared Mr. McNamara's opinion and expressed his own pleasure with the working relations in general and with the staff. He then spoke of Yugoslavia's economic situation. He reported that the favorable trends he had announced in Manila had continued into CY77. Inflation control had remained relatively successful, imports were growing slightly faster than last year but exports were rising much more substantially than last year. Although last year's current balance had been in deficit, the overall payments situation had been in balance and expectations were that this would be repeated in 1977. In the meantime, substantial reserves had been built up. The trend of growth in production was also continuing. The necessary legislative changes, in line with the modification of the Constitution, were progressing well, translation of the new laws was proceeding steadily and would be sent to the Bank as soon as possible; Mr. Cemovic hoped that these could be reflected in the new edition of the book the Bank may publish on Yugoslavia and he mentioned the success the first volume had enjoyed.

4. Secretary Cemovic said that Yugoslavia would rely heavily on the Bank's assistance over the next five years. He informed Mr. McNamara that only ten days ago the Federal Executive Council had agreed on how to distribute the proceeds from our loans over the various Republics and Provinces, and that 66% should be channeled to the less developed regions since these loans were of higher developmental quality than commercial operations. He would send for Mr. McNamara's personal information a schematic presentation of this decision. In particular, the program for Kosovo needed special arrangements which the Secretary was discussing with

Bank staff. In this context, he requested that Mr. McNamara receive the President of Kosovo who will visit the Bank before the Annual Meeting; Mr. McNamara indicated he would be available.

5. When Mr. Cemovic mentioned the build-up of Yugoslavia's reserves, he also said that his Government had decided to keep a portion of these in World Bank paper. He also mentioned that an arrangement had been made with the Bank to have a young Yugoslav work in Mr. Rotberg's department to gain some experience in the management of reserves. Mr. Cemovic then asked whether the Bank would actually manage a small part of Yugoslavia's reserves so that the Central Bank, which had had little experience in this field until now, could learn how this should be done.

6. Mr. McNamara said he was delighted with the arrangement for training a man from the Central Bank. He found the proposal that the Bank would take on the actual management of a small portion of Yugoslavia's reserves interesting and indicated he would be quite willing to see if a way to arrange this could be worked out; but he could give no firm promise as there might be some legal and policy problems which would have to be resolved. Such an arrangement had never been made before but he was in principle prepared to try to work something out in view of the fact that the Bank had experience and skills in this area. He asked Mr. Paijmans to discuss this point with Messrs. Cargill and Rotberg and inform him and Mr. Knapp.

7. Mr. Cemovic then expressed his strong support for the capital increase of the Bank, to which he said to attribute greater importance than to the increase of resources that would be made available to the IMF. He indicated that Yugoslavia was better served with the type of resource transfer operated by the Bank. Mr. McNamara was pleased with Mr. Cemovic's support for a capital increase which he hoped to settle before the year's end, and in no case later than July 1978. In response to questions by Mr. Cemovic on the subject, he indicated that after a general capital increase a real annual increase of 7% in World Bank lending should be possible, and that this constituted a minimum objective.

8. In response to Mr. McNamara's mention of the 1979 Annual Meetings, Mr. Cemovic said that following his earlier letter to Mr. McNamara expressing Yugoslavia's interest in hosting the Meetings, the Federal Executive Council would direct an official letter to Messrs. McNamara and Witteveen in late May or early June. Mr. Cemovic said that when the subject had been mentioned for the first time last year he had not been in a position to indicate whether the location proposed would be Dubrovnik or Belgrade. Dubrovnik was still very interested and the Federal Government supports this interest, but the local facilities might not be adequate, in which case Belgrade should function as a "strategic reserve." In this context he mentioned that during the coming summer the Security Meeting (follow-up to Helsinki) would

be held in Belgrade where a new Conference Center in the center of the city has been completed. Mr. McNamara indicated the degree of urgency in having this matter settled and said that late May/early June would be satisfactory.

9. Mr. Cemovic mentioned an invitation which he said had been sent to Mr. McNamara to speak at an International Financial Symposium to be organized in Yugoslavia. Its timing would be adjusted to accommodate Mr. McNamara if he could accept, which would lend substantial stature to the undertaking. Mr. Witteveen had also been invited. As Mr. McNamara had not received any such letter, Mr. Popovic would trace a copy.* [There is no record in the Region of such an invitation and as of today Mr. Popovic could not clarify the situation, expressing the fear that there is considerable confusion on this issue.]

** McN signed reply 4/15/77 - attached, S.*

cc: Mr. McNamara's office (original and one carbon)
Messrs. Knapp, Broches, Benjenk, Cargill, Rotberg, Damry, Knox, Kaji

MPaijmans:hp

APR 15 1977

Dear Mr. Stanic:

Thank you for your letter and its gracious invitation to deliver a paper on the "Role of the World Bank Group in International Financing" at the World Scientific and Banking Meeting on International Financing in Dubrovnik next September 26 to 30.

I appreciate your thinking of me in this connection and regret that the Bank's own Annual Meeting will take place the following week and it will not be possible for me to be away from Washington at that time.

I do hope you will understand and please accept my best wishes for what will clearly be a stimulating meeting.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. Rodoljub Stanic
General Director
Administration For International Scientific,
Educational, Cultural and Technical Cooperation
of the Socialist Republic of Serbia
Nemanjina 22/111
11124 Beograd, POB 45-26
Yugoslavia

JLMaddux:mwm
April 14, 1977

1.1 World Scientific and Banking Meeting on Int'l Financing
Stanic, R.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
THROUGH: Mr. J. Burke Knapp, SVP, Operations
FROM: Munir P. Benjenk, RVP, EMN

DATE: April 22, 1977

SUBJECT: YUGOSLAVIA: Your Meeting with His Excellency Momcilo Cemovic,
Federal Secretary for Finance

1. You have agreed to see Mr. Momcilo Cemovic for a brief courtesy visit on Monday, April 25, at 5:30 p.m. A biographical sketch on Mr. Cemovic is attached.
2. Mr. Cemovic is visiting Washington essentially for attending the meeting of the Group of Twenty-Four.
3. You may wish to take this opportunity to congratulate Mr. Cemovic on Yugoslavia's success in reversing its balance of payments deficits of about \$1 billion at the end of 1975 into a small surplus by end of 1976 as well as their success in significantly curtailing the rate of inflation from 25 percent during 1975 to 12 percent during 1976. You may also wish to express our appreciation for the fashion in which the Federal Secretariat for Finance is working closely with the Bank in organizing and expediting our operations.
4. We are not aware of any specific issues that Mr. Cemovic would wish to bring up during his call on you. It is possible that, given the favorable reaction to the proposals for expansion in Bank's lending in general and the expectations of a general capital increase, Mr. Cemovic, who has not during his meetings with you over the past two years raised the question of increased lending to Yugoslavia, may express his hopes that some expansion of lending will be considered. It is worth noting in this context that Yugoslavia is embarking on a new Five-Year Plan which calls for a substantial restructuring of its economy and entails a significant level of investments in basic infrastructure and natural resources exploitation, particularly energy. You will recall that we had carried out, at your request, a specific study on Yugoslavia's access to capital markets which had indicated that such access could be expected to remain restricted. Bank commitments on the basis of the current approved (March 29, 1976) Five-Year Lending Program attached would indicate that we would be in a negative net transfer position vis-a-vis Yugoslavia by 1982.
5. In the light of the above considerations and the fact that there will be a relative easing of the constraint on Bank resources, we are developing revised recommendations for the FY78-82 lending program which would be submitted to Management with our forthcoming Country Program Paper in August. While our proposals are not fully developed as yet, I would add that we have, in our deliberations, been guided by the recent paper on the "Future Role of the Bank" as well as the policy paper on "Lending to Higher Income Countries". We have also noticed that a recent P&B document, taking account of the projected level of Bank lending through 1981, had prepared

April 22, 1977

certain country specific projections. I provide below the figures contained in the P&B document /1 and the rough order of magnitude of our own likely proposals.

<u>Year</u>	<u>P&B Projections</u>	<u>Likely Regional Proposal</u>
FY78	228.5	265.0
FY79	293.1	290.0
FY80	360.6	330.0
FY81	421.6	370.0
FY82	--	420.0

6. Mr. Damry advises that while the Yugoslavs have expressed a desire to invite the Bank to hold the 1979 Annual Meetings in Yugoslavia, no decision, to our knowledge, has yet been made as to whether such meetings would be held in Dubrovnik or in Belgrade and, hence, no formal invitation has yet been extended. Selection of either venue requires physical construction of certain facilities and given the lead time required to have such facilities operational by the time of the meetings, a decision needs to be made fairly quickly by the Yugoslav authorities. We would also need the formal invitation in time for consideration by the Governors at the September 1977 Annual Meetings.

Attachments

GKaji/11j

Cleared with and cc: Messrs. Damry, Paijmans

/1 Memorandum dated March 23, 1977 from Mr. Joe Wood, Assistant Director, P&B, to Program Coordinators--Net Transfer to Current Borrowers.

Biographical Sketch

Mr. Momcilo Cemovic

Mr. Momcilo Cemovic was appointed Federal Secretary for Finance on May 31, 1974 when the Federal Government under the new Constitution was installed. During the previous three years he was a member of the Federal Executive Council and Chairman of the Inter-republican Committee for the Monetary System, which coordinated domestic monetary policy. Prior to that, he was the General Manager of Investiciona Banka Titograd. He was born in Montenegro and educated in economics at Belgrade University.

EMDC
April 14, 1977

Population : 21.2 million (1974)
 GNP Per Capita : \$1,010 (1973) ^{1/1}
 Area : 255,804 sq. km.
 Literacy Rate : 85.0% (1973)

YUGOSLAVIA: ACTUAL AND PROPOSED PROGRAM OF LENDING OPERATIONS THROUGH FY81
 (\$ million)

Attachment 1

	Through FY69	Actual					Current FY76	Program					Total FY69-73	Total FY74-78	Total FY76-80	Total FY77-81	Reserve Projects
		FY70	FY71	FY72	FY73	FY74		FY75	FY77	FY78	FY79	FY80					
Agricultural Credit I	IBRD						50.0										
Agricultural Credit II	IBRD								40.0								
Agricultural Credit III	IBRD											50.0*					
Agro-Industries I	IBRD				31.0												
Agro-Industries II	IBRD								30.0								
Agro-Industries III	IBRD												40.0*				
Forestry	IBRD	2.7															
Irrigation - Macedonia	IBRD								30.0								
Irrigation - Lepenac	IBRD											50.0*					
Rural Development (Bosnia)	IBRD											30.0*					
Rural Development II (Croatia)	IBRD																50 (79)
Rural Development III (Bosnia)	IBRD																50 (81)
General Development I & II	IBRD	58.0															
DPC I	IBRD					50.0											
DPC II	IBRD						50.0										
DPC III	IBRD								55.0								
DPC IV	IBRD													70.0*			
Industry I & II	IBRD	26.5															
Industry III	IBRD		18.5														
Industry - Kikinda	IBRD					16.5											
Industry - FOR	IBRD					15.0											
Industry - IMT	IBRD					18.5											
Multipurpose - Ibar	IBRD		45.0														
Multipurpose - Morava I	IBRD						20.0										
Multipurpose - Morava II	IBRD								55.0*		35.0*						
Multipurpose - Metohija I	IBRD												45.0				
Multipurpose - Metohija II	IBRD																
Multipurpose - Sava I	IBRD										50.0						
Multipurpose - Sava II	IBRD												50.0				
Highways I, II & III	IBRD	75.0															
Highways IV	IBRD		40.0														
Highways V	IBRD			35.0													
Highways VI	IBRD					30.0											
Highways VII	IBRD						40.0 ^{a/}										
Highways VIII	IBRD							50.0									
Highways IX	IBRD								50.0								
Highways X	IBRD											50.0*					
Highways XI	IBRD												50.0*				
Oil Pipeline	IBRD							49.0									
Naftagas I	IBRD				59.4												
Naftagas II	IBRD												35.0*				
Ports I - Harbor Bar	IBRD						44.0										
Ports II -	IBRD									30.0							
Railways I to III	IBRD	155.0															
Railways IV	IBRD						93.0 ^{a/}										
Railways V	IBRD								50.0								
Railways VI	IBRD										60.0						
Power I & II	IBRD	60.0															
Power Generation I	IBRD						70.0										
Power Generation II	IBRD											60.0*					
Power Transmission I	IBRD			75.0													
Power Transmission II	IBRD									50.0*							
Power Transmission III	IBRD												70.0*				
Dubrovnik Infrastructure	IBRD						6.0										
Sarajevo Water & Sewerage	IBRD							45.0									
Sarajevo Air Pollution	IBRD							38.0									
Tourism - Babin Kuk	IBRD			20.0													
Tourism - Bernadin	IBRD			10.0													
Communications	IBRD		40.0														
LENDING PROGRAM	IBRD	377.2	98.5	110.0	75.0	90.4	126.0	242.0	215.0	225.0	235.0 ^{b/}	250.0 ^{b/}	260.0 ^{b/}	419.9	1073.0	1167.0	1185.0 ^{b/}
Lending Program in Constant FY74 \$ Million	Number	13	3	4	1	2	5	6	5	5	5	5	5	12	26	26	25
Commitment Deflator (FY74 = 100)		78.6	87.8	98.8	110.7	122.4	132.7	141.9	150.4	158.4	166.4	174.7	183.5	192.6			
Standby Projects	IBRD							55.0		50.0	125.0	250.0	210.0				
	Number							1		3	4	4					
IBRD o/s ^{1/1} Incl. Undis. excl. Undis.		337.7	423.7	523.0	605.4	733.9	833.6	1042.7	1307.4	1491.5	1672.6	1857.3	2045.3	2233.4			
		198.7	225.1	256.5	313.7	401.3	432.0	554.2	666.7	825.2	980.0	1137.4	1298.7	1449.1			
IBRD Gross Disbursements		242.0	34.9	42.1	49.8	48.7	59.4	126.0	139.5	189.3	198.6	207.7	223.2	222.2	199.6	712.8	958.3
Less Amortization		43.3	8.5	10.7	12.0	13.8	15.2	17.5	27.0	30.8	43.9	50.3	61.9	71.9	51.9	134.4	213.9
Equals: Net Disbursements		198.7	26.4	31.4	37.8	34.9	44.2	108.5	112.5	158.5	154.7	157.4	161.3	150.3	147.7	578.4	744.4
Less: Interest & Charges		70.3	11.9	14.3	16.3	21.6	26.4	31.5	38.4	54.2	67.5	80.5	94.1	108.4	74.6	218.1	334.8
Equals: Net Transfer		128.4	14.5	17.1	21.5	13.3	17.8	77.0	74.0	104.3	87.2	76.9	67.2	41.9	73.1	360.3	409.6
Commitments from Other Sources (CNY)																	
Public Guaranteed		125	207	356	484	302	1237	463	460	455	482	521	555	585	1474	3097	2473
Private Non-guaranteed	n.a.		504	948	1132	1328	1988	1320	1798	2360	2632	3042	3420	3602	10098	13252	13096

* Standby Projects

^{1/1} As at end of fiscal year

^{2/2} The exchange adjustment of \$19.3 million, as of June 1972, has been included in these figures.

^{3/3} The exchange adjustment of \$72.1 million, as of June 1973, has been included in these figures, with an increase of \$52.8 million since June 1972.

^{4/4} The exchange adjustment of \$58.7 million, as of June 1974, has been included in these figures, with a decrease of \$11.4 million since June 1973.

^{5/5} The exchange adjustment of \$72.4 million, as of June 1975, has been included in these figures, with an increase of \$13.7 million since June 1974.

^{a/} Though Railways IV \$93.0 million and Highways VII \$40 million were committed in FY75 and 76 respectively they are counted against allocations for the previous fiscal year.

^{b/} Indicative figures.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: J. Burke Knapp *JBK*

SUBJECT: Your Meeting with Yugoslav Finance Minister

DATE: April 25, 1977

4/25

The attached memorandum has some strange figures in paragraph 5. I understand that the "P&B projections" were simply extrapolations to take account of the increased scale of Bank lending capacity, although even on this basis they look odd. In any case, both sets of figures contrast sharply with the guidance which you provided in connection with the Yugoslavia CPP review a year ago, which indicated lending targets of \$200 million in FY79, \$175 million in FY80 and \$150 million in FY81. It is true that these figures have been overtaken by new Bank-wide figures based upon the assumption that we will obtain a general capital increase. It is further true, I think, that attainment of these new Bank-wide targets will be very difficult if we do not maintain very substantial lending programs in the higher income LDCs generally - or, put differently, that a continued high level of lending to the higher income countries will not mean a sacrifice of Bank lending volume to the lower income LDCs, whose absorptive capacity for Bank loans is restricted by creditworthiness and other considerations. On the other hand, without having had the benefit of the Region's forthcoming CPP review, I do not accept that we should be thinking of an expansion of our lending to Yugoslavia much beyond the recent level of, say, \$250 million a year.

cc: Mr. Benjenk


JBKnapp:vm

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OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: September 29, 1977

FROM: Gautam S. Kaji, Chief, EMLDC 

SUBJECT: YUGOSLAVIA: Mr. McNamara's Meeting with Mr. Cemovic, the Federal Secretary for Finance and Mr. Nedeljkovic, President of the Executive Council of Kosovo

1. Mr. McNamara met with Mr. Cemovic and Mr. Nedeljkovic on Friday, September 23, 1977, at 6:00 p.m. Messrs. Cemovic and Nedeljkovic were accompanied by Mr. Belovski, the Yugoslav Ambassador to the U.S.; Mr. Stojiljkovic, the Assistant Federal Secretary for Finance; Mr. Looijen, the Executive Director and Mr. Popovic, the Alternate Executive Director for the Bank. Messrs. Knapp, Chenery, Benjenk, Paijmans and Kaji also attended.
2. Mr. McNamara, in starting the meeting, asked Mr. Cemovic to convey to the Government his great appreciation for the continuing support rendered to the Bank's operations, not only in terms of supporting the capital increase but also in terms of the Fifth IDA Replenishment, the Bank's bond issues and special borrowing arrangements.
3. Mr. Nedeljkovic, after expressing his appreciation for the support rendered by the Bank to Kosovo and the agreements reached for future activities in Kosovo, sketched the outline of Kosovo's Plan and emphasized the decision of the various Republics and Provinces of Yugoslavia to support an enhanced transfer of resources to Kosovo, both from the Federal Fund for the Lesser Developed Republics as well as external sources, most notably the Bank. He particularly stressed the emphasis Kosovo placed on utilizing Bank resources for directly productive projects in industry and agriculture which would utilize Kosovo's natural resources and, most importantly, generate employment. Mr. Nedeljkovic, while recognizing that the terms and conditions of Bank loans were decided on the basis of overall Bank policy, wished the Bank to recognize the burden this placed on Kosovo and requested that the question of easing the terms of Bank loans be reviewed. He went on to express his appreciation for the technical assistance rendered by Bank missions when they visited Kosovo to prepare, appraise and supervise projects and requested that a special effort be launched to educate Kosovans in project appraisal techniques. Finally, Mr. Nedeljkovic, referring to his earlier discussions with Mr. Qureshi, reiterated his desire that IFC play a greater role in Kosovo not only in terms of the funds IFC could provide but perhaps, more importantly, to assist Kosovan enterprises in developing appropriate projects and acting as a catalyst for attracting other sources of finance.
4. Mr. McNamara responded by stating that Yugoslavia was unique in the attention it gave to income redistribution within its constituent

regions and the Bank was happy to assist Kosovo not only because of its relative poverty level but also to demonstrate to other countries what could be achieved. Responding to the questions raised by Mr. Nedeljkovic, Mr. McNamara agreed that the Bank would give special consideration to EDI involvement in setting up a course for project appraisal. As regards the terms of Bank lending, Mr. McNamara stated that it was difficult to improve the terms of Bank loans until the general capital increase had been approved and he hoped that when this capital increase, which Yugoslavia should continue to support, came through it would be possible to improve the terms and conditions of Bank loans. Regarding greater IFC involvement, Mr. McNamara agreed that there could be a special effort and suggested that Mr. Benjenk bring this matter to the attention of Mr. Qureshi. While noting that a list of projects, which would address Kosovo's major developmental constraints, had been prepared and that Kosovo expected to receive a significant inflow of Bank resources, he had some reservations about Kosovo's ability to in fact avail of these resources and particularly mentioned that the Provincial Secretariats for Finance and Agriculture were weak and needed to be buttressed.

5. Mr. Cemovic stated that the Yugoslav Government was happy to continue supporting the Bank's policies and operations. The relations between the Bank and Yugoslavia had in his view entered a new phase wherein there was clear and effective dialogue and understanding which could withstand differences of views on specific issues. He then proceeded to give Mr. McNamara a reading of the current economic situation in Yugoslavia and, in particular, the not unexpected deterioration of the balance of payments situation with rising imports and the worsening of the terms of trade.

6. Mr. Cemovic also expressed the hope that the Board of Governors would accept Yugoslavia's invitation to hold the 1979 Annual Meetings in Belgrade. He then asked whether it would be appropriate for Yugoslavia to seek an increase in its capital subscription in the Bank to bring it on par with its holdings in the Fund. Mr. McNamara responded that while he was not completely clear on the implications of this particular matter, he believed that the most important issue was the speed and size of the Bank's capital increase. How this increase should be shared among the members and the whole question of voting rights was of secondary importance.

7. Mr. Cemovic and Mr. Nedeljkovic renewed the Government's invitation to Mr. McNamara to visit Yugoslavia and Kosovo.


GKaji/llj

Cleared with and cc: Mr. Paijmans

cc: Messrs. McNamara (2), Knapp, Benjenk, Qureshi, Damry, Frost, Chenery

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Munir P. Benjenk, RVP, EMN 

SUBJECT: YUGOSLAVIA: Your Meeting with Mr. Bogoljub Nedeljkovic,
President of the Executive Council (Prime
Minister) of the Socialist Autonomous Province of Kosovo

DATE: September 21, 1977

Introduction

1. You have agreed to meet with Mr. Nedeljkovic at the specific request of Mr. Cemovic, the Federal Secretary for Finance, who will also attend the meeting set for 6:00 p.m. on Friday, September 23, 1977, in your office. Mr. Nedeljkovic is expected to be accompanied by Mr. Riza, the Director General of the Kosovska Banka and Mr. Baccali, President of the Kosovo Chamber of Economy.

2. As I stated in my memorandum of September 12, 1977, Mr. Paijmans and Mr. Kaji were in Yugoslavia last week to meet with all the Republics and Provinces and the Federal Secretariat for Finance to discuss and agree on a list of priority projects which the Bank would consider over the coming five years. In this context, extensive discussions were held with the Kosovo authorities, including Mr. Nedeljkovic personally. This supplementary briefing note has therefore been prepared to reflect the gist of these recent discussions.

The Prime Minister and the Purpose of His Visit

3. Mr. Nedeljkovic, who is in his late 50's/early 60's, had extensive experience in managing major industrial enterprises in Kosovo prior to joining the Provincial administration. He is visiting the U.S. and, particularly the Bank, to emphasize the importance Kosovo places on its ability to obtain and effectively deploy external sources of finance which will in large measure determine its ability to achieve its new Plan targets.

Kosovo

4. The Socialist Autonomous Province of Kosovo is the least developed region of Yugoslavia with a population of about 1.4 million and GMP per capita of about \$430^{1/} which is a third of the national average. The majority of Kosovo's rural population have incomes below the relative poverty income level of the country. Given Kosovo's poverty which, in the Yugoslav context, is perceived as a major blemish on its socialistic premises and aspirations, all the Republics and Provinces of the Federation have agreed on a major resource transfer thrust (domestic and foreign) during the current Plan period. In this context, it has been decided at the level of the Federation that out of the available resources from the Bank, almost a quarter should be channelled into Kosovo over the coming five years. There is a clear recognition in the Federation and in Kosovo

1/ At 1975 prices and exchange rate of Dinars 18.0 per US\$1.00.

that its ability to, in fact, avail itself of such a large proportion of Bank funds made available to Yugoslavia will depend critically on its ability to generate and implement economically, financially and technically viable projects. There is also a clear recognition within Kosovo that if it cannot fully utilize the funds that are made available to Kosovo, it will not only hinder its developmental efforts but may suffer longer-term damage in terms of its credibility vis-a-vis the other Republics and Provinces of the Federation.

Kosovo's Five-Year Plan, 1976-80

5. The Plan stresses the need to concentrate on sectors leading to the fastest growth in incomes and employment. The need to provide adequate employment opportunities is seen as "the most serious problem for the future development of Kosovo". To these ends, the Plan prescribes increased emphasis on the processing of local raw material in the industrial sector (subject to their competitiveness in local and foreign markets), incentives for development of small-scale industry, a rapid growth in agriculture with emphasis placed on processing, and, finally, a rapid growth of the tertiary sectors with their low ICORs and high employment generating capacity.

6. The Plan foresees an expansion of investment in fixed assets by 25.6 percent per annum (9.5 percent for working capital) with a cumulative investment in fixed assets of Dinars 39.6 billion (US\$2.2 billion for total investment including working capital). The principal source of funds for investment is expected to be the Federal Fund for Less Developed Republics providing Dinars 20.7 billion (US\$1.2 billion) or 52 percent of the total, followed by foreign resources Dinars 12.1 billion (US\$0.7 billion --of which Bank would provide roughly 50 percent) or 30 percent and the balance from local sources (18 percent). Thus a key assumption in the Plan is a very significant increase in the use of external resources.

Bank Activity

7. As you know, during the past two years, we have accorded increased emphasis to understanding the constraints faced by Kosovo and addressing them through Bank operations. While continuing to provide support for basic infrastructure through our lending for highways, railways and power transmission, we have through our agricultural credit and industrial credit operations, the Ibar Multipurpose project and the recent Metohija Multipurpose project financed directly productive activities in the agricultural and industrial sectors. During Mr. Paijmans' visit to Yugoslavia last week, our basic approach in specific sectors as well as the design of priority projects has been agreed.

- (i) Agriculture. In recognition that timely availability of water was a very important, though not the sole, constraint to the development of agriculture, we have supported the above-noted two major


multipurpose projects in which the irrigation component was critical. However, there is clear awareness that the heavy investments involved and, additionally, the need to finance out of its limited budgetary resources the recurrent deficits, Kosovo could not expect to proceed too hastily with sequential major schemes. While we expect to be able to finance another irrigation scheme, which would be a continuation of the Ibar Project financed in 1971, we have arrived at an understanding with the Kosovo authorities that the Bank and the respective authorities in Kosovo should also work towards preparing rural development schemes which would attempt to reach the large number of farmers who would undoubtedly remain outside the ambit of irrigation schemes for perhaps the next decade. We would particularly focus on livestock development in the mountainous regions and the development of rain-fed agriculture reaching small individual farmers who are not presently connected with the social sector enterprises. In addition, we expect to support, through a special line of credit, the development of agro-processing capacity which would permit Kosovo to enhance the value of the primary production which it currently markets.



- (ii) Industry. In the industrial sector, while we recognize the necessary emphasis on basic industries, we fully support Kosovo's initiatives in terms of promoting industries based on exploitation of its natural resources but with low cost per job created. In fact, an appraisal mission will be in the field next week to discuss specific projects under the proposed third industrial line of credit. In addition, we have strongly recommended that Kosovo give greater attention to diversifying its industrial structure away from basic industries and integrating it more fully into the overall Yugoslav industrial picture. The basic constraint appears to be the lack of awareness on the part of Kosovian enterprises of opportunities in this area. Kosovska Banka has undertaken efforts in this area and in concert with the Provincial authorities have established a project promotion/identification unit under the wings of the Economic Institute. We propose to support this initiative through provision of funds for technical assistance which would help to develop specific project proposals into investible plans.
- (iii) Transportation. As a natural sequence to our ad hoc financing of specific highway sections in Kosovo and the need for Kosovo to scrutinize further investments it makes in infrastructure, we have, under the eighth highway project, financed the preparation of a master plan which would set out priorities for further highway development. This would include not only primary roads but secondary and feeder roads as well, essentially for supporting agricultural and industrial development. We also continue to support the railway development program through the upcoming railway project.
- (iv) Energy. In the power sector, we intend to limit our current involvement to the financing of the interconnected transmission network. We are awaiting the completion of the least cost development study for power generation before considering further generation projects.

While this study is likely to give priority to exploitation of Kosovo's potential for thermal power generation, using its lignite resources, we believe that given availability of alternate sources of financing, particularly the availability of competitively priced and technically suitable equipment under trade agreements with Eastern Bloc countries, we should not intervene.

8. In addition to these specific efforts to support the individual sectors, we have as part of an overall effort to assist Kosovo in best utilizing the resources available, offered to provide support to the Provincial Chamber of Economy in reviewing investment proposals and applying some standard economic analysis which would take into account not only the financial attractiveness of investment proposals but fully evaluate the impact of such investments on Kosovo's basic developmental aspirations and constraints.

Actions Necessary by Kosovo

9. While the various institutions in Kosovo with which we have dealt, particularly Kosovska Banka on which we depend for the bulk of our activities, are almost on par with other Yugoslav institutions, the Provincial administration stands out in stark contrast to the administration of even the other neighbouring less developed Republics of Macedonia and Montenegro. For example, the Secretariats for Finance and Agriculture lack sufficient experienced staff to provide guidance, continuity and overview and, hence, recruitment and training of personnel, perhaps with the help of the Federal Secretariat for Finance, is essential. 

10. Mr. Nedeljkovic, in his meeting with you, can be expected to make a general plea for "special" considerations for Kosovo in view of the relative poverty. In addition to defining and refining specific investment programs in the specific sectors, which we have discussed above and on which the Bank has spent and expects to continue to spend a considerable amount of manpower, he may raise the question of more lenient lending terms and more local currency financing. Mr. Paijmans, in his recent discussions, has fully briefed Mr. Nedeljkovic on our activities in the various sectors as well as the prospects for directing substantial Bank resources to Kosovo which, in sum, provide the special consideration. As far as the terms of the loans and local financing requirements are concerned, Mr. Paijmans explained the reasons leading to the decisions of the Bank's Management and the Board and emphasized that while it was true that Kosovo received the same terms as all the Republics and Provinces in the Federation, it was equally true that it was because of the strength and creditworthiness of the Federation that Kosovo could look forward to receiving such a large allocation of Bank funds. (The CPP approved July 6, 1977 envisages Kosovo receiving about \$390 million during FY78-82 which translates to \$55 per capita per annum.)  

Attachment (Basic Data)

NE1Tatawy/GKaji:11j

Cleared with and cc: Mr. Paijmans

BASIC DATA

Socialist Federal Republic of Yugoslavia (SFRY)
Socialist Autonomous Province of Kosovo (SAPK)

	<u>SAPK</u>	<u>SFRY</u>	<u>SAPK/SFRY (%)</u>
Census Growth Rate of Population, 1961-71	2.6%	1.0%	260
Natural Growth Rate of Population, 1975	2.8	0.9	311
Birth Rate, 1975	3.5	1.8	194
Family Size, 1971 (persons)	6.6	3.8	174
Population Below Age 20, 1971	52.2	36.4	143
Working Age/Total Population, 1971	48.5%	58.5%	83
Activity Rate, 1971	26.6	43.4	61
Active/Working Age Total, 1971	54.8	74.1	74
Active/Working Age, Male 1971	83.1	86.8	96
Active/Working Age, Female 1971	20.1	58.8	34
Rural/Total Population, 1971	50.2	36.4	138
Active/Rural Population, 1971	27.6	52.2	53
Employed/Working Age, 1971	19.8	34.7	57
Employed/Total Population, 1975	9.8	22.3	44
GMP Per Capita, 1975 (ND, current prices)	7,701	23,316	33
GMP Growth Rate, 1966-75, % (1966 prices)	6.1	5.6	109
GMP Per Capita Growth Rate, 1966-75 (1966 prices)	3.0	4.5	67
Social Sector in GMP, 1975	75.8	85.1	89
Investment Per Capita, (ND) 1974	881	1,428	62
Investment Rate in GMP %, 1974	50	29	172
Fixed Assets Per Capita, 1974			
Social Sector, Economic Activities (ND '000)	9.5	22.8	42
Fixed Assets Per Worker			
Social Sector Economic Activities (ND '000)	104.4	107.8	97
Gross Accumulation Rate <u>2/</u> %, 1974	11.2	19.4	58
Industry/GMP, 1975	37.0	37.0	100
Basic/Total Industry, 1975 <u>2/</u> (% of Industry GMP)	50.2	21.5	233
No. of Persons Per Doctor	1,943	687	35 <u>3/</u>
No. of Persons Per Hospital Bed	348	167	48 <u>3/</u>
Area of Dwelling Per Person (sq.m.)	8.6	13.6	63
% of Dwellings with Electricity	76.5	89.0	86
% of Dwellings with Water Supply & Sewerage	27.2	74.1	37
Illiteracy Rate <u>4/</u>	31.5	15.1	48 <u>3/</u>
No. of Persons Per Passenger Car	47.1	13.9	29 <u>3/</u>

1/ Depreciation plus allocation to enterprise funds/value of fixed assets.

2/ Energy, ferrous and non-ferrous metallurgy.

3/ Inverse ratio.

4/ Percentage of population 10 years and over.

September 21, 1977

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Munir P. Benjenk, RVP, EMN *MB*

SUBJECT: YUGOSLAVIA: Meeting with the President of
the Executive Council of Kosovo

DATE: September 12, 1977

1. On April 25, 1977, during the course of your meeting with Mr. Cemovic the Federal Secretary for Finance of Yugoslavia, Mr. Cemovic requested that you would meet with Mr. Bogoljub Nedeljkovic, President of the Executive Council of the Province of Kosovo who would be visiting Washington and the Bank shortly before the Annual Meeting. You indicated at the time that you would be available to meet Mr. Nedeljkovic. A copy of a memorandum, prepared by Mr. Paijmans, following your April 25 meeting with Mr. Cemovic is attached for easy reference. Reference to the proposed visit of Mr. Nedeljkovic is included in paragraph 4 of the memorandum.
2. The Embassy of Yugoslavia has now notified us that Mr. Nedeljkovic will arrive in Washington on September 20 and has requested a meeting with you on Friday, September 23, 1977. Mr. Cemovic, Governor for the Bank, would accompany Mr. Nedeljkovic and his party. We understand that the Yugoslav Delegation will meet with Exim Bank from noon to 3:30 pm and would meet with you, at your convenience, any time before noon or between 3:30 and 7:30 pm. *9/13*
6 PM
Fin
3. Although we have not been informed officially of the subject of the proposed meeting, it may be assumed that the President of the Executive Council of Kosovo will wish to discuss and express appreciation for the Bank's proposed lending program in the Province of Kosovo, which represents a substantial proportion of our proposed total lending to Yugoslavia. Messrs. Paijmans and Kaji, currently in Yugoslavia, are meeting with officials in Kosovo this week to discuss arrangements for the proposed lending program. A detailed briefing note will be prepared after their return to the Bank on September 19. *9/13*
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4. The Socialist Autonomous Province of Kosovo is the least developed of the eight Republics and Provinces of Yugoslavia and in many respects portrays the development problems and constraints characteristic of a less developed economy. Kosovo's population is about 1.4 million (6.6 percent of Yugoslavia), its GNP per capita is one-third of the national average and the majority of its rural population earn incomes below the relative poverty income level of the country.
5. Given its relative poverty, Kosovo will be the largest recipient of Bank lending to Yugoslavia, its share amounting to 23 percent or some \$390 million of our planned \$1.7 billion lending to the country for the coming five years. To address the special problems of Kosovo, our lending program lays emphasis on the agricultural and agro-industrial projects.

Mr. Robert S. McNamara

-2-

September 12, 1977

In addition to Kosovo's sharing in the national power transmission and railways projects, preparatory work is currently being undertaken for a highway sector loan and possibly a separate industrial line of credit which would be tailored to respond to Kosovo's program for developing processing facilities.

Attachment.

FPovey/jv

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: April 26, 1977

FROM: Martijn J. W. M. Paijmans, Director, EMENA I

SUBJECT: YUGOSLAVIA - Visit by Mr. Cemovic, Federal Secretary for Finance

1. On April 25, 1977, Mr. Cemovic visited Mr. McNamara. He was accompanied by:
Ambassador Dimce Belovski
Mr. Gavra Popovic, Executive Director
Dr. Tomislav Badovinac, National Bank of Yugoslavia
Mr. Miljan Komatina, Assistant Secretary, Federal Secretariat for Foreign Affairs.

From the Bank were present Messrs. Knapp, Knox (Acting VP, EMENA), Paijmans.

2. Mr. Cemovic congratulated Mr. McNamara on his reappointment and expressed his pleasure at having Mr. McNamara continue in the presidency. Mr. McNamara said he had been glad to accept the invitation from the Executive Directors. He then referred to the extremely cordial and constructive relations the Bank maintains with Yugoslavia.

3. Secretary Cemovic shared Mr. McNamara's opinion and expressed his own pleasure with the working relations in general and with the staff. He then spoke of Yugoslavia's economic situation. He reported that the favorable trends he had announced in Manila had continued into CY77. Inflation control had remained relatively successful, imports were growing slightly faster than last year but exports were rising much more substantially than last year. Although last year's current balance had been in deficit, the overall payments situation had been in balance and expectations were that this would be repeated in 1977. In the meantime, substantial reserves had been built up. The trend of growth in production was also continuing. The necessary legislative changes, in line with the modification of the Constitution, were progressing well, translation of the new laws was proceeding steadily and would be sent to the Bank as soon as possible; Mr. Cemovic hoped that these could be reflected in the new edition of the book the Bank may publish on Yugoslavia and he mentioned the success the first volume had enjoyed.

4. Secretary Cemovic said that Yugoslavia would rely heavily on the Bank's assistance over the next five years. He informed Mr. McNamara that only ten days ago the Federal Executive Council had agreed on how to distribute the proceeds from our loans over the various Republics and Provinces, and that 66% should be channeled to the less developed regions since these loans were of higher developmental quality than commercial operations. He would send for Mr. McNamara's personal information a schematic presentation of this decision. In particular, the program for Kosovo needed special arrangements which the Secretary was discussing with

OVER

Bank staff. In this context, he requested that Mr. McNamara receive the President of Kosovo who will visit the Bank before the Annual Meeting; Mr. McNamara indicated he would be available.

5. When Mr. Cemovic mentioned the build-up of Yugoslavia's reserves, he also said that his Government had decided to keep a portion of these in World Bank paper. He also mentioned that an arrangement had been made with the Bank to have a young Yugoslav work in Mr. Rotberg's department to gain some experience in the management of reserves. Mr. Cemovic then asked whether the Bank would actually manage a small part of Yugoslavia's reserves so that the Central Bank, which had had little experience in this field until now, could learn how this should be done.

6. Mr. McNamara said he was delighted with the arrangement for training a man from the Central Bank. He found the proposal that the Bank would take on the actual management of a small portion of Yugoslavia's reserves interesting and indicated he would be quite willing to see if a way to arrange this could be worked out; but he could give no firm promise as there might be some legal and policy problems which would have to be resolved. Such an arrangement had never been made before but he was in principle prepared to try to work something out in view of the fact that the Bank had experience and skills in this area. He asked Mr. Paijmans to discuss this point with Messrs. Cargill and Rotberg and inform him and Mr. Knapp.

7. Mr. Cemovic then expressed his strong support for the capital increase of the Bank, to which he said to attribute greater importance than to the increase of resources that would be made available to the IMF. He indicated that Yugoslavia was better served with the type of resource transfer operated by the Bank. Mr. McNamara was pleased with Mr. Cemovic's support for a capital increase which he hoped to settle before the year's end, and in no case later than July 1978. In response to questions by Mr. Cemovic on the subject, he indicated that after a general capital increase a real annual increase of 7% in World Bank lending should be possible, and that this constituted a minimum objective.

8. In response to Mr. McNamara's mention of the 1979 Annual Meetings, Mr. Cemovic said that following his earlier letter to Mr. McNamara expressing Yugoslavia's interest in hosting the Meetings, the Federal Executive Council would direct an official letter to Messrs. McNamara and Witteveen in late May or early June. Mr. Cemovic said that when the subject had been mentioned for the first time last year he had not been in a position to indicate whether the location proposed would be Dubrovnik or Belgrade. Dubrovnik was still very interested and the Federal Government supports this interest, but the local facilities might not be adequate, in which case Belgrade should function as a "strategic reserve." In this context he mentioned that during the coming summer the Security Meeting (follow-up to Helsinki) would

be held in Belgrade where a new Conference Center in the center of the city has been completed. Mr. McNamara indicated the degree of urgency in having this matter settled and said that late May/early June would be satisfactory.

9. Mr. Cemovic mentioned an invitation which he said had been sent to Mr. McNamara to speak at an International Financial Symposium to be organized in Yugoslavia. Its timing would be adjusted to accommodate Mr. McNamara if he could accept, which would lend substantial stature to the undertaking. Mr. Witteveen had also been invited. As Mr. McNamara had not received any such letter, Mr. Popovic would trace a copy. [There is no record in the Region of such an invitation and as of today Mr. Popovic could not clarify the situation, expressing the fear that there is considerable confusion on this issue.]

cc: Mr. McNamara's office (original and one carbon)
Messrs. Knapp, Broches, Benjenk, Cargill, Rotberg, Damry, Knox, Kaji

MPaijmans:hp

OFFICE MEMORANDUM ✓

TO: Note for the Record

DATE: July 19, 1978

FROM: Martijn J.W.M. Paijmans, EMI S

SUBJECT: Mr. McNamara's Meeting with the President and Delegates
of the Federal Assembly of the Socialist Federal Republic
of Yugoslavia on July 19 (List of Visitors attached).

Mr. McNamara expressed his pleasure with the meeting and the Bank's indebtedness to Yugoslavia for its contribution to Bank and IDA funds as well as for its strong general support.

President Markovic indicated the interest of all delegation members to meet Mr. McNamara and expressed his great satisfaction with the Bank-Yugoslav relations. He asked questions about the Bank's future funding, particularly with regard to the US position on this point and on the Brandt Commission.

7/21
Mr. McNamara explained that IFC funding was now reasonably well assured but that Bank and IDA funding were very much in doubt. Before this year's end, a decision is needed on the Bank's capital if it is to maintain lending at current levels. Mr. McNamara asked for Yugoslavia's support. On the question of the Brandt Commission, Mr. McNamara said that, although it was established at his suggestion, it functioned totally independently. Its broad membership was identifying areas of mutual interest and he felt optimistic about its work.

Mr. Markovic assured the President of his country's support and also at the forthcoming Annual Meeting. Yugoslavia was aware of the need for a change in the field of international relations and was of the opinion that the Bank, until now, had done most in this area. His country expected the Bank to continue.

Mr. Zagar (former Alternate ED) expressed satisfaction with the magnitude of the Bank's operations and the thrust thereof in Yugoslavia with two-thirds of the loans going to the LDRs. He asked how Yugoslavia could best support the Bank.

Mr. McNamara complimented Yugoslavia on its internal efforts to support growth in the LDRs. Support for the Bank could best be couched in the form of statements at the Annual Meetings, use of visits like that of the delegation to broach the subject of the World Bank with colleagues from other countries and through the use of diplomatic channels to convey interest and messages of support.

Mr. Crnobrnja (former Ambassador to the US) mentioned that the People's Republic of China had enquired, earlier this year, about Yugoslavia's experience with the Bank. The Yugoslav reply had been very positive. Mr. McNamara reacted that, with time, he expected China, in view of the increasing need for imports to sustain its economic growth, would feel the need for obtaining foreign financial resources. In closing, he mentioned the important contributions made to the Bank by Messrs. Zagar and Crnobrnja and, more recently, by Mr. Popovic.

cc: Mr. McNamara's Office
Mr. Stern Mr. Benjenk
Division C - EMI

July 12, 1978

Members of Yugoslav Delegation

Dragoslav Markovic	President, Assembly of the Socialist Federal Republic of Yugoslavia (SFRY)
Dobroslav Clafic	President, Federal Chamber of the Assembly of the SFRY
Bogdan Crnobrnja	President, Committee for Foreign Economic Relations
Zoran Zagar	President, Committee for Credit and Monetary System
Momir Kapor	Member of the Commission for Elections and Member of the Committee for Foreign Policy
Vukasin Micunovic	Member of the Committee for Social Economic Relations
Milos Nikolic	Member of the Committee for Foreign Policy
Mito Pejovski	Member of the Committees for Finance, and For Credit and Monetary System
Ivo Senjanovic	Member of the Commission for Elections and Appointments and Member of the Committee for Foreign Economic Relations
Milka Scepanovic	Member of the Commission for Elections and Appointments and Member of the Committee for Foreign Economic Relations
Sait Zatriqi	Member of the Committee for Internal Policy
Janez Lukac	General Secretary of the Assembly of the SFRY
Budimir Iazovic	Chef de Cabinet for the President of the Assembly of the SFRY
Jelko Zagar	Counselor to the President for Foreign Policy Questions
Vladeta Zunic	Secretary of the Committee of the Federal Chamber for Foreign Affairs
Bozidar Crnjak	Deputy Chief of Political Administration in the Federal Secretariat for Foreign Affairs

July 12, 1978

Jelena Zimonjic

Chief of Protocol of the Assembly of the
SFRY

Olga Bambic

Interpreter

Jeremija Lopatic

Inspector in the Federal Secretariat for
Internal Affairs (Body guard)

His Excellency
Dimce Belovski

Ambassador to the United States

Escorting Officer:

Mr. Abruzzi--Assistant to Speaker of the
House Thomas O'Neill

OFFICE MEMORANDUM

*future funding
12/21/83
Brundt Initiative*

DATE: July 12, 1978

TO: Mr. Robert S. McNamara, President
1 JUGH: Mr. Munir P. Benjenk, RVP, EMN *MB*
FROM: Martijn J.W.M. Paijmans, Director, EMI *P*SUBJECT: YUGOSLAVIA: Your Meeting with the President and Delegates of the Federal Assembly of the Socialist Federal Republic of Yugoslavia

1. On Tuesday, July 18, 1978, at 1800 hours you have agreed to meet with the President and Delegates of the Federal Assembly of the Socialist Federal Republic of Yugoslavia. A brief biography of the President and a listing of the Delegation are being provided separately. The following notes highlight the Bank's relationship with Yugoslavia. In addition, Annex I, together with the chart, describes the role of the State in the Yugoslav context.

Size and Nature of Bank Involvement

- 7/14
2. (a) Yugoslavia is one of the Principal Borrowers from the Bank: As of July 11, 1978, the Bank's total lending to Yugoslavia was \$1,981 million, of which \$954 million was undisbursed (including \$353 million not yet effective), ranking Yugoslavia as the fourth largest borrower from the Bank. The Bank has, since the first loan in 1949, made 50 loans.
- (b) Bank lending to Yugoslavia has until now been rising steadily: In FY78 we committed \$328 million and we expect to commit approximately the same amount during the current year. Although the average annual commitment over the last five years (FY74-78) has been \$240 million (\$268 million constant 1978 dollars) and was projected to average \$370 million (\$309 million constant 1978 dollars), during the FY79-83 period, the recent Bank-wide five-year lending program review exercise has reduced this to an average of \$330 million (\$277 million constant 1978 dollars), about a 10-percent reduction from the CPP projections and about a 16-percent reduction in real terms from the FY78 Lending Program. As a result, Bank financing as a percentage of total project cost, which is already low by Bank-wide comparison (about 22 percent in FY78), will be reduced further if we are to maintain the number of projects on our work program which average five per year over the FY79-83 period. Bank lending is, in any case, still expected to continue as the principal source of long-term capital to Yugoslavia, the EIB is the only other institutional lender of long-term capital (\$50 million for FY78 and FY79).

- (c) Bank has financed a large variety of Projects: These have spanned every major sector and have included highways, railways, ports, pipelines, power generation and transmission, rainfed and irrigated agriculture, agricultural processing, large- and medium-scale industry, tourism, water supply, telecommunications and pollution prevention. (The current lending program is attached as Annex II; however, this has not been adjusted to reflect the recent Bank-wide five-year lending program review).
- (d) The Bank is virtually the only long-term source of convertible capital inflow: Between 1973 and 1976, commitments of medium- and long-term capital are estimated to have averaged \$3.2 billion per annum; between 70 to 80 percent of these were commercial credits. These were, however, principally suppliers' credits, and some Eurocurrency credits with maturities of between 5 to 10 years.
- (e) The Bank contributes a significant portion of Yugoslavia's foreign exchange needs: Between 1973 and 1978, commitments of World Bank loans averaged around \$215 million or 8 percent of Yugoslavia's total annual medium- and long-term commitments. The Bank remains the major lender of long-term convertible currency. The Bank is supporting efforts being made by the Yugoslavs to include co-financing in Bank projects. The European Investment Bank made--in close cooperation with us--its first two loans to Yugoslavia for a total of about \$50 million to help finance both our Second Power Transmission Project and the Trans-Yugoslav Highway Project. About 60 percent of the financing for the Naftovod Oil Pipeline Project was obtained from four different countries (Kuwait, Libya, Hungary and Czechoslovakia). About \$30 million in suppliers' and commercial bank credits are being sought under the Second Power Transmission Project, approved on June 28, 1978.

Bank Strategy

3. (a) The main focus of our lending strategy has, since 1976, been aimed at concentrating Bank lending in the less developed republics of Yugoslavia, namely Bosnia-Herzegovina, Macedonia, Montenegro, and in particular, Kosovo. (See Attachment III).
- (i) Justification. The regional disparities in income remain one of the key and least tractable economic problems facing Yugoslavia with a spread of 6 to 1 in per capita income disparities between the most developed republic (Slovenia) and the least developed (Kosovo). (See Table below).
- (ii) Bank Strategy. The Bank's strategy has been to allocate two-thirds of our planned commitments to the less developed republics and provinces. The following regional distribution of Bank resources has been agreed upon with the Government:

REGIONAL DISTRIBUTION OF
BANK RESOURCES, 1978-82

	1976 GNP per capita (% of Yugoslav Average)	Pop. (1976)	Distribution of Bank Resources (%)
<hr/>			
Less Developed Republics			
Kosovo	33	1.4	23
Bosnia-Herzegovina	69	4.0	22
Macedonia	69	1.8	15
Montenegro	<u>70</u>	<u>0.6</u>	<u>7</u>
Sub-Total	62	7.8	67
Developed Regions			
Serbia	85	5.4	13
Vojvodina	121	2.0	5
Croatia	124	4.5	11
Slovenia	<u>201</u>	<u>1.8</u>	<u>4</u>
Total Yugoslavia	<u>100</u>	<u>21.6</u>	<u>100</u>
	\$1,680 /1		

/1 World Bank Atlas Methodology.

The distribution will be one for the period as a whole since it obviously cannot be reflected in individual projects. In line with our emphasis on the less developed republics we have shifted the sectoral pattern of our lending increasingly towards the development of agriculture. The large relative size of, and low level of labor productivity, in this sector in the less developed republics is the major factor underlying the disparities in incomes between republics. In 1977-78, we committed more funds (nearly \$200 million) to agriculture than our total involvement in the agricultural sector since the inception of our lending operations in Yugoslavia. The bulk of these funds is designed to support primary production by small private farmers (85 percent of the agricultural land held by private farmers) and at the same time, the establishment of processing facilities in the social sector to provide a market outlet for their produce. The fact that we have been able to bring the small, private, low-income farmer increasingly into our projects has been an important breakthrough in operations in this socialist country.

- (b) In addition to our regional objective we have oriented our lending activities towards sectors in which Bank involvement could have a significant institution-building impact and support structural reforms through improved coordination.
- (i) Justification. The need to address this problem has been particularly acute in Yugoslavia since 1965 with the decentralization of decision-making power from the Federal Government to the republics and autonomous provinces. This has been further complicated by the progressive diffusion of responsibility to the base of the sectoral institutional pyramid. It quickly became clear when the reforms became effective that the Federal machinery having been largely dismantled at the sectoral economic policymaking level and the various republics and provinces not yet having devised a collaborative framework for coordination, there was a gap in the system with regard to sectoral coordination in areas such as transport, and within the various branches of such a sector, including highways, railways, and ports and pipelines.
- (ii) Bank Strategy. The Bank has been lending to a number of sectors where such issues have been particularly important notably highways, railways and power. The question of inter-modal coordination has been raised and widely discussed with the Yugoslavs. As an essential underpinning for the Bank's continuing dialogue on the question of sectoral coordination with various national and regional authorities, the Eighth Highway Project (April 1977) includes two complementary studies on road-user charges and rail costs. Similarly, in the electric power subsector the Bank has encouraged more effective coordination through the Bank's involvement in the first and second phases of the 380-kv national transmission grid, and through encouraging the Yugoslavs to determine the least-cost power development program. In other areas, under the Second Agricultural Line of Credit (July 1977) Project, the Bank has initiated a study of the role of interest rates in Yugoslavia, to determine the implication of the current structure of interest rates.

Current Economic Situation and Problems

4. (a) The Yugoslav economy has exhibited a remarkable picture of economic achievements attaining a per capita income level of \$1,680 in 1976 (World Bank Atlas). The share of agriculture in value-added is 15 percent and in the active resident labor force: 39 percent.

SELECTED ECONOMIC INDICATORS

	<u>1954-74</u> (% growth p.a.)
GMP	<u>7.2</u>
Industrial output	9.5
Employment in modern (social) sector	3.7
Real personal incomes in modern (social) sector	<u>5.8</u>
Commodity exports	8.5
Fixed assets	8.7

(b) Yugoslavia adopted a new Constitution in 1974 with important economic implications. Most of the principal laws affecting the economy have been changed to reflect the principles of the new Constitution. The main economic impact of the Constitution is to strengthen macro-economic management of the economy (which had been weakened after the 1965 reforms) through the introduction of a new system of planning and use of contractual agreements to regulate such areas as prices, incomes and employment. The changes also strengthen the effective control of workers over their work environment through atomizing the economy into small independent economic units. Many new and fascinating institutional forms and arrangements have been introduced, many of which bear considerable promise, though their ultimate impact cannot be determined at this stage.

(c) The Yugoslav economy does, however, face a number of important problems.

(i) The foreign exchange constraint in Yugoslavia is expected to be considerably more binding in the immediate future: The import bill was increased by \$600 million or 8 percent in 1974 due to the rise in the price of oil. At the same time the restrictions placed by host countries on external migration, resulted in a reflux of Yugoslav workers from abroad, reversing the rising trend in workers' remittances. Between 1968 and 1975, remittances were a principal source of increase in Yugoslav foreign exchange earnings reaching 22 percent of the country's current foreign exchange receipts in 1973. Attempts to expand exports have been only partially successful particularly in light of the weak market conditions in Western Europe. Discussions have been going on for some time with the EEC but with little tangible results in the field of trade. It is expected that the EIB will be authorized to go beyond the \$50 million it has committed (in close collaboration with us), probably up to an amount of \$250 million for a five-year period. The Yugoslav current Five-

Year Plan, 1976-80, foreshadows a significant and somewhat unrealistic degree of import substitution. Thus, one of the implications of the deteriorating conditions surrounding the balance of payments will probably be a somewhat slower overall rate of economic growth in the next five years, as compared to the recent past. The Yugoslavs' Plan foresees a growth of 7.0 percent but our projections indicate 5.5 percent is more realistic.

- (ii) The provision of gainful employment opportunities will be particularly pressing in the immediate future: There remains still a considerable body of workers in the agricultural sector engaged in low income, low productivity employment that seek work opportunities in the modern sector (estimates place such surpluses at between 20 and 30 percent of the agricultural labor force). However, more importantly, between 1967 and 1973, external migration was a principal absorber of labor, with over one million Yugoslavs working abroad by 1973. After 1973, employment opportunities abroad ceased, with nearly 200,000 workers returning in 1974-75. This added considerably to the unemployment problem. The open unemployment rate has been rising rapidly. Furthermore, the regional incidence of unemployment has been very uneven, concentrated in the less developed republics. (In connection with the Bank's third and fourth DFC projects--total \$100 million--approved by the Executive Directors on July 11, a substantial portion of the Bank's funds have been reserved for projects with a low "cost per job generated"; for example \$20 million (20% of loans) will be allocated to subprojects that provide jobs at a cost of no more than \$23,000 per job.)
- (iii) The problem of regional disparities in income will remain as one of the key economic issues facing the country: The current Five-Year Plan, 1976-80, foresees some reduction in regional income disparities. However, progress in this direction is likely to be a rather slow and long-term proposition.

Other Matters

5. (a) The Bank's relationship with Yugoslavia is a mature one based on mutual respect and appreciation of our respective constraints: Our approach towards lending to Yugoslavia has been a flexible one with a growing tendency for the Bank to deal directly with the eight republics and provinces and their respective agencies, as part of the evolution of an effective Federal system in Yugoslavia. This has required considerable patience on the part of the Bank and a learning process on both sides. It is a relationship which can weather periodic differences of views on specific issues and one which augurs well for both the Bank and Yugoslavia. Relationships have, on the whole, been excellent with the Federal Government providing an indispensable guiding role. It is noteworthy that there are no problem projects in Yugoslavia.

- (b) Yugoslavia has always shown considerable support for the Bank: Yugoslavia has been a dependable and vocal supporter of Bank policies and initiatives and has strongly endorsed the need for the Bank's capital increase. It has provided tangible support for Bank operations through the purchase of about \$150 million of the Bank's five- to seven-year notes and subscribing to about \$23 million of the two-year bond issues. Yugoslavia has agreed to contribute \$8.1 million towards the Fifth IDA Replenishment, compared with the \$7.3 million it contributed towards the Third and Fourth Replenishments. Yugoslavia is also strongly supporting the Bank in international forums, particularly in the Group of 77 in which it holds a prominent position. Belgrade will be the host for the Bank's 1979 Annual Meetings.
- (c) New national elections took place in late spring of this year: Country-wide elections for practically all levels of political office took place in May of this year and the usual periodic changes in Government occurred. Mr. Cemovic, formerly Federal Secretary for Finance and IBRD Governor, became President of the Executive Council of the Republic of Montenegro; his successor is Mr. Petar Kostic, formerly Vice-President of the Executive Council of Serbia.

cc: Mr. Stern

FPovey/11j

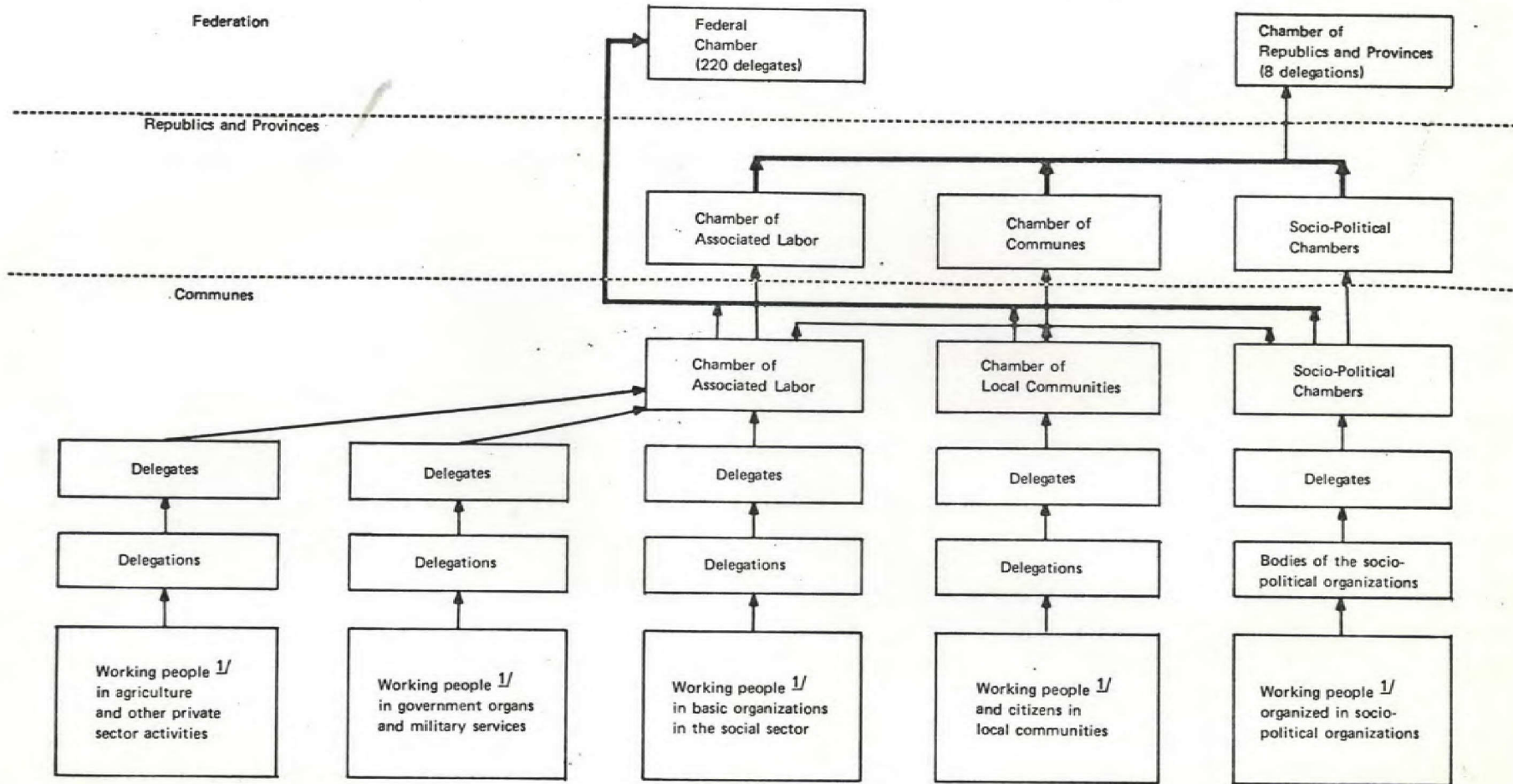
YUGOSLAVIA

The Role of the State

1. The "state" in its widest meaning (parliament, government, administration and budgets) is organized in three layers of "Socio-Political Communities": the Communes 1/, the Republics and Autonomous Provinces 2/, and the Federation. Each layer of the state has its own assembly (parliament), constituted of two or three chambers in which the citizens and working people are represented through their delegations or delegates 3/. Graph 1 gives an overview of the election and stratification of assemblies on the three levels. It is worth noting that, contrary to the ground rules of the system of parliamentary democracy, the assemblies hold both legislative and executive power. The assemblies elect an Executive Council (the "government" in the narrow sense) which is responsible for implementing the decisions of the assembly, and for advising the assembly on decisions which need to be taken. On matters which require a particularly close cooperation among the Federation and the Republics, joint Federal and Interrepublican committees are established among members of the respective Executive Councils. The Executive Councils discharge their duties through the administration, organized in Secretariats, Federal Committees (only within the Federal Government) and specialized institutions (e.g. planning institutes, statistical offices, etc.) who report each to individual members of the Executive Councils.

-
- 1/ Yugoslavia has 510 communes. Their average size is around 40,000 inhabitants, but the range extends from below 10,000 to more than 100,000.
- 2/ Yugoslavia has six Republics. The largest, Serbia, incorporates two sub-regions each having the status of an autonomous province. Serbia, thus, comprises three Socio-political communities at the intermediary level of the State. Notwithstanding, some differences in the size of delegations in the Federal Chamber between Republics and Autonomous Provinces, the latter have largely equal status with the former.
- 3/ The Communes have three chambers. The Republican Assemblies also have three chambers, (a) the "Chamber of Associated Labor", composed of delegates representing the workers and working people, (b) the "Chamber of Communes" whose members are nominated by the assemblies of the communes, and (c) the "Socio-political Chamber". The Federal Assembly is composed of (a) the "Chamber of Republics and Autonomous Provinces" with a delegation for each Republic representing the Republican Assembly as a whole, and (b) the "Federal Chamber" whose delegates are elected by the assemblies of the communes among candidates nominated by the Socialist Alliance.

Graph I
Yugoslavia
Election of Delegates and Delegations to the
Assemblies of Socio-Political Communities



Source: From Yugoslavia Survey, Vol XVIII, No.1,
Febr. 1977

^{1/}
"Working people" are equivalent
to "active persons".

Population : 21.3 million (1975)
 GNP Per Capita : \$1,480 (1975) / 1
 Area : 255,804 sq. km.
 literacy Rate : 85% (1973)

Attachment 1

YUGOSLAVIA: ACTUAL AND PROPOSED PROGRAM OF LENDING OPERATIONS THROUGH FY82
 (\$ Million)

	Through FY66	Actual						Current FY77	Program					Total FY69-73	Total FY74-78	Total FY77-81	Total FY78-82	Reserve Projects	
		FY70	FY71	FY72	FY73	FY74	FY75		FY76	FY78	FY79	FY80	FY81						FY82
Agricultural Credit I							50.0			75.0	75.0								
Agricultural Credit II																			
Agricultural Credit III																100.0*			
Agricultural Credit IV																			
Agricultural Processing I						31.0													
Ag. Processing II-Macedonia								26.0											
Ag. Processing II-Montenegro								24.0											
Agricultural Processing III											75.0		75.0						
Agricultural Processing IV																			
Forestry	2.7																		
Rural Development-Bosnia											55.0								
Regional Development-Morava													30.0						
Regional Development-Kosovo																40.0			
General Development I & II	58.0																		
DPC I							50.0												
DPC II								50.0											
DPC III											60.0*								
DPC -Kosovo											40.0								
DPC IV												100.0*							
Industry I & II	26.5																		
Industry III		18.5																	
Industry-Kikinda							14.5												
Industry-FOB							15.0												
Industry-IMT							18.5												
Multipurpose-Ibar			45.0																
Multipurpose-Morava								20.0											
Multipurpose-Metohija									54.0										
Multipurpose-Sava											80.0	55.0*							
Irrigation-Macedonia																			
Irrigation-Ibar/Lepenac																	80.0		
Drainage-Mostar Blato																50.0*			
Highways I, II & III	75.0																		
Highways IV		40.0																	
Highways V			35.0																
Highways VI							30.0												
Highways VII								40.0											
Highways VIII									56.0										
Highways IX (Trans-Yugo I)										80.0									
Highways X											65.0								
Highways XI (Trans-Yugo II)													70.0*						
Highways XII																	90.0*		
Oil Pipeline								49.0											
Naftagas							59.4												
Ports I-Harbor Bar																			
Ports II								44.0											
Railways I, II & III	155.0																		
Railways IV								93.0											
Railways V										100.0									
Railways VI																	100.0*		
Power I & II	60.0																		
Power Generation I																			
Power Generation-Bosnia								70.0			70.0								
Power Transmission I						75.0													
Power Transmission II									80.0										
Power Transmission III												70.0							
Dubrovnik Infrastructure								6.0											
Sarajevo Water & Sewerage																		45.0	
Sarajevo Air Pollution																		38.0	
Montenegro Region Water Sply													50.0*						
Tourism-Babin Kuk				20.0															
Tourism-Bernardin				10.0															
Communications		40.0																	
LENDING PROGRAM	IBRD	377.2	98.5	110.0	75.0	90.4	128.0	263.0	242.0	240.0	328	300.0	325.0	365.0	410.0	419.9	1201.0	1558.0	1722.0
LENDING PROGRAM in Constant FY77 \$ Million	Number	13	3	4	1	2	5	5	6	5	4	5	5	6	5	12	25	25	25
Commitment Deflator (FY77=100)		769.8	181.7	181.5	110.8	120.2	157.1	302.3	259.7	240.0	302.8	261.1	264.2	277.4	291.2	1364.0	1261.9	1345.5	1390.7
Standby Projects	IBRD											60.0	225.0	220.0	290.0				
	Number											1	3	3	3				
IBRD o/s /1 incl. Undis. excl. Undis.		337.7	423.7	523.0	605.4 ^{/2}	733.9 ^{/3}	833.4 ^{/4}	1092.4 ^{/5}	1221.9 ^{/6}	1432.2	1673.2	1937.1	2202.7	2496.6	2814.0	-	-	-	-
		198.7	225.1	256.5	313.7 ^{/2}	401.3 ^{/3}	432.0 ^{/4}	554.2 ^{/5}	664.3 ^{/6}	767.5	896.2	1054.4	1228.0	1433.4	1627.0	-	-	-	-
IBRD Gross Disbursements		242.0	34.9	42.1	49.8	48.7	59.4	126.0	152.8	133.1	172.2	209.2	243.0	266.3	266.9	199.6	643.5	1023.0	1157.6
Less Amortization		43.3	8.5	10.7	12.0	13.8	15.2	17.5	21.2	29.6	44.0	51.0	50.3	71.0	82.6	51.9	127.5	254.9	317.9
Equals: Net Disbursements		198.7	26.4	31.4	37.8	34.9	44.2	108.5	131.6	103.5	128.2	158.2	163.7	195.3	175.3	147.7	516.0	768.9	839.7
Less: Interest & Charges		70.3	11.9	14.3	16.3	21.6	26.4	31.5	38.0	51.8	53.0	76.3	92.6	111.2	120.0	74.6	210.7	394.9	472.7
Equals: Net Transfer		128.4	14.5	17.1	21.5	13.3	17.8	77.0	93.6	51.7	65.2	81.9	91.1	84.1	44.7	73.1	305.3	374.0	367.0
Comments from Other Sources (CY):																			
Public Guaranteed		125.0	98.5	270.5	391.8	182.7	740.7	360.9	115.0	125.0	130.0	139.1	148.8	167.1	170.4	1,068.5	1,471.6	710.0	755.4
Private Non-Guaranteed		n.a.	503.8	771.6	1169.3	1344.9	2033.8	1453.1	776.0	1581.4	2228.2	2779.3	3067.2	3407.6	3660.2	-	8,272.5	13063.7	11142.5

* Standby Projects
 /1 As at end of fiscal year.
 /2 The exchange adjustment of \$19.3 million, as of June 1972, has been included in these figures.
 /3 The exchange adjustment of \$72.1 million, as of June 1973, has been included in these figures, with an increase of \$52.8 million since June 1972.
 /4 The exchange adjustment of \$58.7 million, as of June 1974, has been included in these figures, with a decrease of \$13.4 million since June 1973.
 /5 The exchange adjustment of \$72.4 million, as of June 1975, has been included in these figures, with an increase of \$13.7 million since June 1974.
 /6 The exchange adjustment of \$50.8 million, as of June 1976, has been included in these figures, with a decrease of \$21.6 million since June 1975.

NOTE: This has not been adjusted to reflect the recent Bank-wide five-year lending program review.

4 LDRs Slovenia Croatia Vojvodina Serbia Montenegro Macedonia Bosnia Kosovo Total

FY '76

DFC II					6.0	11.4	16.0	16.6	50.0
Multi-purpose - Morava				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	242.0
%	62.3	4.5	16.5	2.5	14.2	8.6	4.7	42.1	100.0

FY '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

FY '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	328.0
%	46.8	11.2	20.4	7.3	14.3	2.8	6.0	31.8	100.0

FY '79

Rural Development - Bosnia							55.0		55.0
DFC III/IV					20.0	20.0	20.0	40.0	100.0
Irrigation - Macedonia						82.0			82.0
Highways X			20.0		15.0			30.0	65.0
Totals - FY '79	282.0		20.0		35.0	102.0	75.0	70.0	302.0
%	93.4		6.6		11.6	33.8	24.8	23.2	100.0
Totals - FY '76-79	762.0	59.7	122.1	50.0	118.1	98.5	191.9	305.8	1112.0
%	68.5	5.4	11.0	4.5	10.6	8.9	17.3	27.5	100.0
Totals - FY '77-79	611.2	48.9	82.1	44.0	83.7	77.7	180.5	203.8	870.0
%	70.3	5.6	9.4	5.1	9.6	8.9	20.7	23.4	100.0

June 21, 1978

BIOGRAPHY

Dragoslav Markovic

(Phonetic: Markohveech). President,
Federal Assembly (since May 1978).
Addressed as: Mr. President.

Prior to his current appointment, Dragoslav Markovic had served since May 1974 as President of the Presidency of Serbia. Previously he had been President of the Assembly of Serbia since May 1969 and an ex officio member of the Presidency of Yugoslavia since July 1971. Named to the Council for National Defense matters of the Presidency of Yugoslavia in April 1973, Markovic was elected to the Presidency's new Council for National Defense in October 1974. In addition, he has been a member of the Presidium of the League of Communists of Serbia since May 1974.

Markovic is a former Partisan. Since the war he has held several party and government positions in Serbia and has been a deputy to both the Federal and Serbian Assemblies. He was Ambassador to Bulgaria during 1963-67 and was President of the Republic Chamber of the Serbian Assembly during 1967-69.

Markovic, who was born on June 28, 1920, is married. He speaks French.

July 12, 1978

Members of Yugoslav Delegation

Dragoslav Markovic	President, Assembly of the Socialist Federal Republic of Yugoslavia (SFRY)
Dobroslav Clafic	President, Federal Chamber of the Assembly of the SFRY
Bogdan Crnobrnja	President, Committee for Foreign Economic Relations
Zoran Zagar	President, Committee for Credit and Monetary System
Momir Kapor	Member of the Commission for Elections and Member of the Committee for Foreign Policy
Vukasin Micunovic	Member of the Committee for Social Economic Relations
Milos Nikolic	Member of the Committee for Foreign Policy
Mito Pejovski	Member of the Committees for Finance, and For Credit and Monetary System
Ivo Senjanovic	Member of the Commission for Elections and Appointments and Member of the Committee for Foreign Economic Relations
Milka Scepanovic	Member of the Commission for Elections and Appointments and Member of the Committee for Foreign Economic Relations
Sait Zatriqi	Member of the Committee for Internal Policy
Janez Lukac	General Secretary of the Assembly of the SFRY
Budimir Iazovic	Chef de Cabinet for the President of the Assembly of the SFRY
Jelko Zagar	Counselor to the President for Foreign Policy Questions
Vladeta Zunic	Secretary of the Committee of the Federal Chamber for Foreign Affairs
Bozidar Crnjak	Deputy Chief of Political Administration in the Federal Secretariat for Foreign Affairs

July 12, 1978

Jelena Zimonjic

Chief of Protocol of the Assembly of the
SFRY

Olga Bambic

Interpreter

Jeremija Lopatic

Inspector in the Federal Secretariat for
Internal Affairs (Body guard)

His Excellency
Dimce Belovski

Ambassador to the United States

Escorting Officer:

Mr. Abruzzi--Assistant to Speaker of the
House Thomas O'Neill

Purpose of Visit:

This is the first foreign visit of President Markovic and the composition of the group of very senior officials is indicative of the importance being placed in it by Yugoslavia. The focus will be on the major elements in the strengthened US-Yugoslav relations and reflects the special attention given by Yugoslavia to Vice President Mondale, Deputy Secretary of State Christopher and Defense Secretary Brown during their visits to Yugoslavia during the past year.

The Delegation arrives at Andrews Air Force Base on Sunday, July 16, and will be welcomed by Congressman George E. Danielson, Deputy Majority Whip. During their stay in Washington they will meet with Speaker O'Neill, Chairman Zablocki of the House International Relations Committee, Minority Leader Rhodes, several delegations of the House, Chairman Biden of the Senate Foreign Relations Committee, Acting Secretary of State Christopher and Chairman Schultz of the Council of Economic Advisors. A meeting with Vice President Mondale is also expected. The subjects of discussion will be US-Yugoslav political and economic relations, Yugoslav development and policy and the Middle East situation.

38

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: September 22, 1978

FROM: Gautam S. Kaji, Chief, EMIDC

SUBJECT: YUGOSLAVIA: Visit by Mr. Kostic, Federal Secretary for Finance

1. Mr. McNamara met with Mr. Petar Kostic at Bank Headquarters on September 22 at 4:30 p.m. The Minister was accompanied by His Excellency Dimce Belovski, Ambassador of the Socialist Federal Republic of Yugoslavia; Ksente Bogoev, Governor, National Bank of Yugoslavia; Nikola Jelic, Acting Assistant Federal Secretary for Finance; Anthony Ij. A. Looijen, Executive Director, World Bank; Miodrag Stojiljkovic, Alternate Executive Director, World Bank and Mrs. Gordana Komijenovic, Interpreter. Messrs. Stern, Benjenk, Paijmans, Koch-Weser and I were present.
2. Mr. McNamara welcomed the Minister to Washington and congratulated him on his recent appointment as Federal Secretary for Finance. He went on to express his appreciation for Yugoslavia's continuing support of the Bank both tangible, in terms of contributions to IDA and subscriptions to Bank Bonds and the intangible, in terms of support in international fora and on the Bank's Board. As regards our activities in Yugoslavia, Mr. McNamara expressed appreciation for the constructive dialogue which existed, which enabled the Bank to make a meaningful contribution.
3. Mr. Kostic responded by reaffirming the excellent relations existing between the Bank and Yugoslavia and commented that while there will, of course, be problems arising in the day-to-day carrying out of our mutual activities, these could be resolved with adequate effort on both sides. He further went on to state that the recent cooperation which he regarded as good both in terms of the quantity and quality attested to the closeness of our relationship. He then proceeded to give Mr. McNamara a sketch of Yugoslavia's current economic situation which, in spite of the relatively high balance of payments deficit, he regarded as satisfactory. Returning to the specifics of Bank/Yugoslav activities, he singled out the recent Bank Procurement Seminar and the Basic Economic Report as examples of effective cooperation and he reaffirmed the Government's strong desire to actively pursue cofinancing opportunities in the context of Bank operations. He also expressed the hope that Yugoslavia's representation on the staff of the Bank will increase and that this would provide an opportunity for Yugoslavs to receive on-the-job training in Bank methodology which could be fruitfully employed when they returned to their country. The Minister then turned to the question of our activities in Kosovo and commended the broad strategy for Kosovo's developmental efforts and Bank participation therein as stated in a Bank letter to the Prime Minister of Kosovo in June this year. He proceeded to give a run-down on preparatory efforts already initiated by the Kosovo authorities though he noted that our letter, which raised specific questions, had not yet been replied to.
4. Referring to his forthcoming meeting with Mr. Qureshi to discuss IFC business, the Minister, while prefacing his comments by stating that he

was not going to elaborate on the points that he would bring up at that meeting, did go on to state rather cryptically that, while the Yugoslavs had been generating an increasing number of project ideas, the IFC response was decreasing and did not match Yugoslav enthusiasm.

5. Reporting on the preparation for the 1979 Annual Meetings, the Minister stated that the recent visit from the Secretary's Department did not indicate any problems and that preparatory activities were on schedule. Finally, the Minister said that he was looking forward to Mr. Benjenk's visit to Yugoslavia in October and reconfirmed the Government's invitation to Mr. McNamara to visit Yugoslavia in 1979 when he was expected to visit some neighboring countries.

6. In response, Mr. McNamara accepted the invitation to visit Yugoslavia but stated that the timing would have to be determined subsequently in view of other pressing business on hand, and undertook that early next year we would put forward suggestions to agree on a mutually convenient time. As regards recruitment of Yugoslav staff, Mr. McNamara reaffirmed that we are anxious to recruit more Yugoslavs and noted that, as agreed with the Government, a recruitment mission will be visiting Yugoslavia in December this year. As regards cofinancing, Mr. McNamara welcomed the Minister's clear interest and noted that our own contacts with commercial banks had indicated a strong interest in financing Yugoslavia's development. As regards Kosovo, Mr. McNamara noted that from our perspective, we had yet to see evidence of effective follow-through and build-up of absorptive capacity in Kosovo and suggested that Mr. Benjenk's forthcoming trip would provide an opportunity to take stock. The Yugoslav Ambassador interjected a remark at this time referring to the last Annual Meetings' discussions with Mr. McNamara when Mr. McNamara had particularly singled out the Ministries of Agriculture and Finance in Kosovo as having needed strengthening. As regards performance on projects, Mr. McNamara noted the long delays in getting loans effective and suggested that the Federal Administration should focus on this problem. Finally, Mr. McNamara advised the Minister that the days ahead were likely to be difficult for the Bank while we were striving to ensure a sound financial position. In this context he particularly wished to solicit the Minister's assistance to urge the Board, through their Director, and the Governors, through his own speech at the Annual Meetings, to obtain a quick decision on the Bank's capital increase, as otherwise, in the next year, the Bank would be forced to cut down its lending programs. In addition, he also wanted to solicit Yugoslav participation in, and support for, the Sixth IDA Replenishment which he hoped would be substantial.

7. The meeting ended with the Minister reaffirming his support both for the capital increase and the Sixth IDA Replenishment.


cc: Mr. McNamara's office (original and one carbon)
Messrs. Stern, Benjenk, Pajmans
Koch-Weser

GSKaji/jh

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: February 6, 1979

FROM: Gautam S. Kaji, Acting Director, EMENA CPI SUBJECT: YUGOSLAVIA: Mr. McNamara's Meeting with Mr. Stambolic,
President of the Executive Council of the Republic of Serbia

1. Mr. Ivan Stambolic called on Mr. McNamara at 5:30 p.m. on Monday, February 5. He was accompanied by Messrs. Milos Milosavljevic, Vice-President of the Assembly of Serbia (Parliament), Rade Colic, Member of the Executive Council of Serbia, His Excellency Dimce Belovski, Ambassador to the United States, and Mr. Miodrag Stojiljkovic, World Bank Alternate Executive Director. Messrs. Benjenk, Koch-Weser and I attended. As was expected, Mr. Stambolic's visit was essentially a courtesy call as the main purpose of his visit to the United States related to following up on certain joint venture possibilities with US corporations and developing contacts with US commercial banks and the US Government.
2. Mr. Stambolic expressed considerable satisfaction at the level and quality of Bank activity in Yugoslavia and the Bank's role as it relates to the global developmental question and he particularly mentioned Mr. McNamara's Annual Meeting address which had highlighted the cost of protectionist policies. Mr. McNamara responded by stating how happy the Bank was with its cooperation with Yugoslavia and it is precisely because Yugoslavia is receptive to Bank advice, makes effective use of the Bank's resources and, most importantly, makes considerable efforts of its own to address its problems of regional disparities that the Bank has been able to maintain the high level of lending. He also expressed appreciation of Yugoslavia's continuing support for the Bank's capital increase, its participation in IDA and its general advocacy of Bank policies in world fora.
3. Mr. Stambolic briefly referred to developments within Serbia and the progress being made on the preparation of the Phase II project for the Morava region, the least developed area within Serbia.
4. In the context of Mr. Stambolic's visit to the United States and the various contacts they had made which they regarded as satisfactory, Mr. McNamara specifically enquired as to the US corporations with whom they have had contact. The major corporations that the Serbian delegation had met with were US Steel, Westinghouse, Bendix Corporation, Rockwell, GE, GTE, Honeywell and Combustion Engineering. Mr. McNamara suggested that Mr. Benjenk should convey this information on Serbian efforts to attract joint venture investments to IFC and suggested that it would be appropriate for the Yugoslav authorities to approach IFC to seek its participation in joint ventures if such participation would facilitate the transaction. Ambassador Belovski undertook to make available to IFC, through the Office of the Executive Director, a description of specific projects which had been discussed with each of the US corporations so that IFC might obtain a better feel as to whether its involvement might facilitate joint venture activities in Serbia.

Cleared with & cc: Mr. Benjenk, EMNVP
 cc: Mr. Qureshi, CEX
 Mr. Koch-Weser, EXC
 Mr. Povey, EMIC

GSKaji:gbo

OFFICE MEMORANDUM

244 TO: Mr. Robert S. McNamara.

FROM: Munir P. Benjenk, RVP, EMN. *MB*

SUBJECT: YUGOSLAVIA: Your Meeting with the President of the Executive Council of Serbia

DATE: January 31, 1979

1. Mr. Ivan Stambolic, President of the Executive Council of the Socialist Republic of Serbia, will visit you at 5:30 p.m. on Monday, February 5. He will be accompanied by Messrs. Milos Milosavljevic, Vice-President of the Assembly of Serbia (Parliament), Rade Colic, Member of the Executive Council of Serbia, His Excellency Dimce Belovski, Ambassador to the United States, and Mr. Miodrag Stojiljkovic, World Bank Alternate Executive Director. (See Annex I for biographical data).

2. I understand that this will be primarily a courtesy call since the main purpose of his trip to the United States is apparently bilateral and related to export promotion. He may, therefore, briefly outline the objectives of the newly created Yugoslav Bank for Export Promotion, as well as take the opportunity to touch on the following matters related to Bank operations:

- (a) Bank involvement in Serbia and particularly in the lesser developed regions of that republic. A topic that was discussed by him and his colleagues on the Executive Council in their meeting with me last November in Belgrade. (See paragraph 4 below).
- (b) He may take the opportunity to discuss preparations for the Bank/Fund Annual Meeting in Belgrade, which is the capital of Serbia as well as the Federal capital.
- (c) He may tender a special invitation on behalf of Serbia regarding your tentatively scheduled visit to Yugoslavia this year.

3. The Socialist Republic of Serbia, the most populous and traditionally influential republic politically, has a per capita income very close to the national average of US\$1960 in 1977. In the past, per capita Bank lending to Serbia has also been close to the country average (US\$44 during the period 1967-1975). Since 1975, however, we have been directing more than two-thirds of our lending to the three lesser developed republics and Province of Kosovo, (with the explicit concurrence of the Federal Government and all the republics and provinces). As a result, our lending to Serbia has been declining, (during the period 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 1967-75).

4. One immediate special project, however, is under preparation for Serbia: Phase II of the Morava regional development scheme, a multipurpose project which we hope will not only aid the development of Serbia's two least developed regions, but will serve as a model for regional development in other republics and provinces, particularly the Province of Kosovo. Two rather comprehensive regional development studies, financed under the FY75 Morava I Project, (a project in which Vice-President Milosavljevic was intimately involved during the preparation stages, while he was serving as the Serbian Secretary for Finance), have just been completed by a consortia of Yugoslav research and planning institutes (under the overall coordination of Serbia's own special Fund for Less Developed Regions), and have been discussed at length within the affected areas of Serbia. We have received the reports and a FAO/CP mission has made a first preliminary visit. The Yugoslav studies provide the basis for an overall regional scheme of development and we would expect our project both to focus on the overall plan for comprehensive development and on specific components of a productive nature (income and employment generation) involving agriculture, agricultural processing and small-scale industries. Although our project would only pick-up a relatively small portion of the total investment needs, we have emphasized to the Serbian authorities our desire to see an integrated and coordinated effort, with appropriate planning and coordinating institutions within the context of their self-management system, to ensure that our project, and of course their development program, does not become a shopping list of economically sound but disjointed investments.

cc: Mr. E. Stern.

Biographical Sketch

IVAN STAMBOLIC

Ivan Stambolic, President of the Executive Council of the Assembly of the Socialist Republic of Serbia, was born in 1936 in Brezova, Ivanjica. He completed vocational school at the Industry of Engines in Rakovica and graduated from the Law School in Belgrade.

He worked as a skilled worker (a lathe operator) at the Industry of Engines in Rakovica; at the Factory of Cutting Tools and the "Cer" Company in Cacak. He was Director of the associated enterprises "Technogas" in Belgrade, President of the Chamber of Commerce of Belgrade and Secretary of the Executive Committee of the Presidency of the Central Committee of the League of Communists of Serbia.

He was elected board member of the Assembly of the Municipality of Cukarica; President of the Assembly of the Municipality of Cukarica; Deputy in the Assembly of Serbia where he acted in the capacity of President of the Board for Social Planning and Economic System.

He is now a Member of the Presidency of the Central Committee of the League of Communists of Serbia; Member of the Republican Coordinating Board for Personnel Planning, etc.

He has been awarded the Order of Labor and received the May Prize of the Chamber of Commerce of Belgrade for 1969.

Biographical Sketch

MILOS MILOSAVLJEVIC

Milos Milosavljevic, Vice President of the Assembly of Serbia, was born in 1932 in Cacak, Serbia. He graduated from Law School in Belgrade.

He has discharged various duties both in socio-political and economic organizations. He has been Secretary, Vice President and President of the Assembly of the Municipality of Cacak; Director of the Business Bank and Assistant General Director of the Agricultural Combine "Belgrade". For the past six years he was Republican Secretary for Finance and Member of the Executive Council of the Assembly of Serbia. He attended Bank Annual Meeting in 1975.

He has been member of the municipal and district bodies of the League of Communists and the Socialist Alliance of the Working Peoples. He has been elected Deputy in the Chamber of Commerce of the Federal Assembly.

Last year he was elected Delegate in the Assembly of Serbia where he is now discharging the duty of the Vice President of the Assembly.

Biographical Sketch.

RADE COLIC, Eng.

Rade Colic, Member of the Executive Council of the Assembly of Serbia, was born in 1934 in Potpece, Titovo Uzice. He graduated from the School of Mining Engineering in 1959 in Belgrade. He speaks fluently the English and Russian languages.

He worked as Chief of production in the lignite mines "Kosovo" in Obilic and Director of the Ibar hard coal mines. He was Party Secretary of the Municipal Committee of the League of Communists of Bor; Director of the Institute for Copper in Bor; and since 1974 has been a Member of the Executive Council of the Assembly of Serbia and President of the Committee of the Executive Council for Foreign Relations.

For several years he has been a fellow at the School for Mining and Metalurgical Engineering in Bor where he has been elected assistant professor.

He was awarded the Order of Labor, 1st Class; Order of Labor, 2nd Class and has received Golden Plaque of the Assembly of the Municipality of Bor for the achievements attained in organizing the general people's defense.

40

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: March 2, 1979

FROM: Martijn J.W.M. Paijmans, Director, EMENA CPI

S

SUBJECT: YUGOSLAVIA: Mr. McNamara's Meeting with His Excellency Dimce Belovski, Yugoslav Ambassador to the United States

1. Ambassador Dimce Belovski, accompanied by his Counselor, Mr. Milutin Galovic, called on Mr. McNamara on March 1 to hand over to him the official invitation of the Yugoslav Cabinet to visit their country, hopefully in May. Mr. McNamara candidly explained the problems (capital increase, IDA, compensation) which had necessitated his cancelling a visit planned for next week to the Far East which cancellation, in turn, would affect the timing of his Yugoslav visit. He explained he was grateful for the invitation, that he was firmly committed to go to Yugoslavia and wanted to go, but that at this time he simply could not give any indication as to the timing. Mr. McNamara would inform the Ambassador as soon as possible when he was more clear on this issue and enquire about a timing convenient to the Yugoslav authorities. The Ambassador said he fully understood the situation and mentioned the interest of his leadership in having Mr. McNamara visit Yugoslavia prior to the Annual Meeting.
2. The Ambassador asked whether the Government should invite financial officials outside the Bank/IMF structure to Belgrade. Mr. McNamara advised against this to avoid complications particularly as a broad and well-selected group would already attend the meetings. He reacted favorably to an enquiry from the Ambassador as to whether President Tito or the Prime Minister should use the occasion of the Annual Meeting to initiate some talks with financial leaders from the US, but he advised the Ambassador to also include European and Japanese personalities.
3. The Ambassador informed Mr. McNamara that the Asian Group of the "77" was organizing a meeting in Belgrade on the eve of the Annual Meetings and he further mentioned his Government's efforts to refinance some of its shorter-term debt to take advantage of better terms now available in the market. Mr. McNamara noted both points.
4. Finally, the Ambassador enquired whether graduation was still a burning issue. This was confirmed by the President who explained that some members of the Bank were thinking that lending to higher income countries should either be stopped at a lower level or should shrink and that countries mentioned in this context included Yugoslavia, Romania, Brazil, Mexico, etc. Before July 1, an analysis and proposal on the subject would have to go to our Board of Directors. Mr. McNamara explained that his views differed from those mentioned above and that the Bank, in his view, should help countries that are advancing rapidly but cannot yet fill their financial gaps with private capital although their creditworthiness is not in question. He felt that Yugoslavia came in this category and that for some years to come the Bank should continue substantial lending to that country. If the ongoing analysis would support this issue, this was what

March 2, 1979

we intended to recommend to the Board. Obviously in such a case there would be some controversy and he hoped that his views would get the support from the Bank's membership. The Ambassador indicated that Yugoslavia had already started to muster some of that necessary support.

cc: Mr. Benjenk
Mr. Kaji

MPaijmans:gbo

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 27, 1979

FROM: Munir P. Benjenk, RVP, EMN *MB*SUBJECT: YUGOSLAVIA: Your Meeting with His Excellency Dimce Belovski, Ambassador
to the United States

1. You have agreed to meet with Ambassador Dimce Belovski at his request on Thursday, March 1, at 6:00 p.m. in your office. Mr. Stojiljkovic, Alternate Executive Director, is expected to join the Ambassador in this meeting.

2. We understand that the Ambassador is calling on you at the specific instructions of his Foreign Ministry to hand over to you a formal letter of invitation for your proposed visit to Yugoslavia this summer. It is expected that the Ambassador will attempt to ascertain a possible date for your visit and seek your views on any particular wishes you may have for your program of visit within Yugoslavia.

2/22
3. The Ambassador may also take the opportunity to brief you on Yugoslav activities in international fora, including the recent deliberations of the Group of 77. He may also take the opportunity of advising you of Yugoslavia's efforts, in view of the current liquidity in the international capital markets, to refinance some of its shorter-term debt to take advantage of better terms that are available. I believe he may touch on this latter issue particularly as in our study of Yugoslavia's access to capital markets which we had carried out in 1976 we had detected a concern on the part of commercial banks as to the lack of discipline by Yugoslav banks and enterprises. You may wish to indicate that though Yugoslavia's efforts to refinance this debt has received publicity in the media, to our knowledge there has been no adverse reaction or misunderstanding of Yugoslavia's intentions.

cc: Mr. E. Stern

A1

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: May 31, 1979 *Rec'd 6/14*FROM: Frank Povey, *FP* Acting Chief, EMIDCSUBJECT: YUGOSLAVIA: Visit of Petar Kostic, Federal Secretary for Finance
and Mr. Toma Granfil, Director-General of the newly-formed
Yugoslav Export Credit and Insurance Fund

1. At 2 p.m. Thursday, May 31, Mr. Petar Kostic, Federal Secretary for Finance, and Mr. Toma Granfil, Director-General, Yugoslav Export Credit and Insurance Fund, met with Mr. McNamara. Also present at the meeting were H.E., Dimce Belovski, Yugoslav Ambassador to the US, Mr. Milutin Galovic, Economic Counsellor of the Yugoslav Embassy, Mr. Miodrag Stojiljkovic, Alternate Executive Director, and Mr. Stern, Vice President, Operations.
2. Special Lending Operation to Montenegro following the earthquake disaster. Mr. Kostic asked Mr. McNamara what he could report to his government the World Bank felt it could do to assist the Republic of Montenegro in the reconstruction following the disastrous earthquake of April 15, 1979. Mr. McNamara replied that he felt it was rather too early to make a decision, since after-shocks were still being experienced and no plan for reconstruction had yet been formulated. He understood that the transportation facilities with which the Bank had been substantially involved had been extensively damaged and he felt that it was likely that the best form of assistance would be to this sector. He said that the Bank would keep in close touch with the authorities regarding the appropriate timing for visits by Bank staff following which we could decide the area that would be most appropriate for assistance. He requested that the Yugoslav authorities inform the Bank when they would be ready. *6/13*
3. Annual Meeting - Belgrade. Mr. Kostic reported that arrangements for the Annual Meeting were well in hand and that the new Intercontinental Hotel adjoining the Sava Center was scheduled for formal opening on September 1, 1979 at 10 a.m.
4. Visit to Yugoslavia by Mr. McNamara. Mr. Kostic said the government was looking forward to Mr. McNamara's visit scheduled for July 16-19, 1979, not only to express thanks for the results of the Bank's activities in Yugoslavia but also because of the respect in Yugoslavia for Mr. McNamara's personality and reputation. Mr. Kostic stated that Yugoslavia fully supported the statement made by Mr. McNamara at the UNCTAD meeting in Manila. It was planned that Mr. McNamara should be the guest of the President of Serbia and, in addition to meeting with Federal and Serbian officials, should visit for the first time the Republic of Slovenia and the Province of Kosovo. During the visit the Yugoslavs would wish to discuss a range of practical topics, rather than philosophies, including problems related to the employment of Yugoslav consultants on Bank-financed projects outside Yugoslavia. Mr. McNamara said he was looking forward to the visit and felt the proposed itinerary was excellent. He was amazed at Yugoslavia's accomplishments and would like to learn how they were achieved.

5. Yugoslav Export Credit and Insurance Fund. H.E. the Ambassador introduced Mr. Granfil who explained the objectives of the Fund to promote exports. It was proposed to explore the possibility of participating with the Bank in developing countries and Mr. Granfil was pleased to note Mr. McNamara's emphasis on export promotion in his Manila speech. Following his meeting with Mr. Quereshi, Mr. Granfil was looking forward to receiving assistance from IFC in connection with its proposals for cooperation with the private sector. Mr. McNamara thanked Mr. Granfil for his explanations and wished him success in his efforts. The Bank would be looking forward to finding areas in which to cooperate with the Fund. The fact that the Board had that morning approved two loans aimed at increasing exports (Mexico and Jamaica) could be regarded as indicative of the Bank's interest in export promotion.

cc: Mr. McNamara's offices (original and one copy)
Messrs. Stern, Bart, Karaosmanoglu, Chopra

FPovey/amh

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: May 31, 1979

FROM: Frank Povey, Acting Chief, EMIDC

SUBJECT: YUGOSLAVIA: Visit of Petar Kostic, Federal Secretary for Finance
and Mr. Toma Granfil, Director-General of the newly-formed
Yugoslav Export Credit and Insurance Fund

1. At 2 p.m. Thursday, May 31, Mr. Petar Kostic, Federal Secretary for Finance, and Mr. Toma Granfil, Director-General, Yugoslav Export Credit and Insurance Fund, met with Mr. McNamara. Also present at the meeting were H.E., Dimce Belovski, Yugoslav Ambassador to the US, Mr. Milutin Galovic, Economic Counsellor of the Yugoslav Embassy, Mr. Miodrag Stojiljkovic, Alternate Executive Director, and Mr. Stern, Vice President, Operations.

2. Special Lending Operation to Montenegro following the earthquake disaster. Mr. Kostic asked Mr. McNamara what he could report to his government the World Bank felt it could do to assist the Republic of Montenegro in the reconstruction following the disastrous earthquake of April 15, 1979. Mr. McNamara replied that he felt it was rather too early to make a decision, since after-shocks were still being experienced and no plan for reconstruction had yet been formulated. He understood that the transportation facilities with which the Bank had been substantially involved had been extensively damaged and he felt that it was likely that the best form of assistance would be to this sector. He said that the Bank would keep in close touch with the authorities regarding the appropriate timing for visits by Bank staff following which we could decide the area that would be most appropriate for assistance. He requested that the Yugoslav authorities inform the Bank when they would be ready.

3. Annual Meeting - Balgrade. Mr. Kostic reported that arrangements for the Annual Meeting were well in hand and that the new Intercontinental Hotel adjoining the Sava Center was scheduled for formal opening on September 1, 1979 at 10 a.m.

4. Visit to Yugoslavia by Mr. McNamara. Mr. Kostic said the government was looking forward to Mr. McNamara's visit scheduled for July 16-19, 1979, not only to express thanks for the results of the Bank's activities in Yugoslavia but also because of the respect in Yugoslavia for Mr. McNamara's personality and reputation. Mr. Kostic stated that Yugoslavia fully supported the statement made by Mr. McNamara at the UNCTAD meeting in Manila. It was planned that Mr. McNamara should be the guest of the President of Serbia and, in addition to meeting with Federal and Serbian officials, should visit for the first time the Republic of Slovenia and the Province of Kosovo. During the visit the Yugoslavs would wish to discuss a range of practical topics, rather than philosophies, including problems related to the employment of Yugoslav consultants on Bank-financed projects outside Yugoslavia. Mr. McNamara said he was looking forward to the visit and felt the proposed itinerary was excellent. He was amazed at Yugoslavia's accomplishments and would like to learn how they were achieved.

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cc: Mr. McNamara's offices (original and one copy)
Messrs. Stern, Bart, Karaosmanoglu, Chopra

FPovey/amh

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
 DRAUGHT: Mr. Roger Chaufoeur, Acting VPO
 FROM: Maurice P. Bart, Acting RVP, EMN *MPB*

DATE: May 30, 1979

SUBJECT: YUGOSLAVIA: Visit of Mr. Petar Kostic, Federal Secretary for Finance, and Mr. Toma Granfil, Director-General of the newly-formed Yugoslav Export Credit and Insurance Fund

1. Further to my memorandum of May 22, 1979 you have agreed to meet with Mr. Petar Kostic and Mr. Toma Granfil at 2:00 p.m. on Thursday, May 31. They will be accompanied by Mr. Stojiljkovic and an interpreter. As anticipated in Mr. Benjenk's memorandum of May 11, 1979, apart from reporting briefly on the status of arrangements for the Bank's Annual Meeting in Belgrade, the two topics which Mr. Kostic will wish to discuss with you are:

- (i) a special reconstruction loan following the earthquake damage in Montenegro. It might be expected that Mr. Kostic will, at this time, make a formal request for Bank assistance; and
- (ii) proposals for your visit to Yugoslavia from July 16 to July 19.

2. Special Reconstruction Loan. On Sunday, April 15, 1979, an extremely severe earthquake occurred off the coast of Montenegro. Heavy damage occurred in an area approximately 150 km. long and 60 km. wide extending as far north as Dubrovnik (Croatia), south into Albania and east as far as Titograd. The major portion of the damage was, however, felt in Montenegro particularly along the coast. Recent missions to Yugoslavia have reported severe physical damage not only from the shock waves but from landslides from the coastal mountains. The substructure has moved substantially, both laterally and vertically, resulting in much damage to highways, the railway and the Port of Bar. After-shock waves are still being experienced almost daily, resulting in further increase to the damage. On Friday, May 25, a particularly heavy shock (8 on a scale of 12) centered on Bar is reported to have caused additional severe damage to the Port of Bar. The Yugoslav and Montenegrin authorities are still engaged in the restoration of emergency services, carrying out of emergency repairs to communication services and caring for the homeless estimated to be about 100,000 people. So far it has not been possible to assess and quantify damage but it clearly amounts to many hundreds of millions of dollars. Provisional estimates ranging from \$1.5 billion to \$3.5 billion indicate that the order of magnitude is at least comparable to that suffered by Romania in 1977.

3. The Federal and Montenegrin authorities are extremely concerned over three problems, in addition of course to the rehousing and rehabilitation problems:

- (a) the loss of income earning capacity of the Republic;
- (b) the burden of repayment of loans for assets which no longer exist; and
- (c) the raising of finance for reconstruction.

Bob
 Our experience with reconstruction emergency loans is poor. I have no objection to a modest increase in the FY1980 lending level but it should be for a fully approved work program - in highways, ports, or railways. A composite loan is not desirable. These can be sector type loans, quick disbursing and include rehab - but they should not merely cover emergency repairs with the associated pressure for early commitment.
ES
 5/31/79

May 30, 1979

Financial assistance from the World Bank will be regarded as important not only because of the funds provided but they feel that the Bank's involvement might well act as a catalyst for the provision of other funds.

4. The tourism industry in Montenegro, which represents about 8 percent of the Republic's GNP and 10 percent of social sector employment and 11 percent of fixed assets, has been very severely hit. It is provisionally estimated that over 25 percent of the hotel rooms in the Republic are damaged beyond repair and at least a similar amount will require substantial rehabilitation. The old cities of Budva, Kotor, and Herzegovina which were cultural and tourist attractions may well be totally damaged beyond repair. In addition housing, particularly villages in the hinterland, has been very severely damaged and water supply and sewerage services badly disrupted.

5. In the transport sector which accounts for about 20 percent of Montenegro's fixed assets the Bank-financed projects for the Port of Bar, the Titograd-Bar section of the Belgrade-Bar railway and highways have all received very heavy damage. The Montenegrin authorities expect to have a provisional assessment of the damage to the highways by early June and a Bank engineer will visit the area next week to review the assessment. Similar assessments for the railways and the damage to the Port of Bar are expected by the Montenegrin authorities to be completed in late June/July. The delay in the assessment of damage to both railways and the Port of Bar arises from the need to employ divers to assess underwater damage which will not be possible until after the earth movements subside. If the Bank were to help, it would seem that the best strategy for an emergency lending operation would be to restrict Bank financing to highways, railways and the Port of Bar where we have considerable knowledge of the sectors which would obviate the need for full appraisal. This would be the quickest and most effective way for the Bank to provide funds for the restoration and rehabilitation of the transport sector which is vital to the restoration of the economy.

6. On the basis of the report of the returning missions we would recommend that the Bank should agree to provide an emergency loan to the Republic of Montenegro to assist in the rehabilitation of the damage. In view of the exceptional circumstances, this loan should be in addition to the normal allocation for Yugoslavia, which amounts to \$246 million for FY80. Insofar as the loan amount is concerned, we feel that it would not be appropriate to treat Yugoslavia differently in real terms from its neighbor, Romania, to whom the Bank made an earthquake emergency loan of \$60 million in May 1978 following the earthquake of March 1977. We would therefore recommend that the Bank be willing to consider making a loan of \$75 million for the restoration of the transport sector. Such a loan would be effectively supplementary lending for the projects already financed by the Bank which have suffered damage far in excess of this amount. | X

*we cannot
be responsible
for our
assets in
Perpetuity.*

7. Your Visit to Yugoslavia, July 16-19. The Yugoslav authorities are making detailed arrangements for your visit. In addition to meetings with Federal and Serbian authorities in Belgrade, these plans include a visit to the Province of Kosovo and the Republic of Slovenia which are the only Province and Republic which you have not so far visited. In addition, it is expected that en route from Kosovo to Slovenia, you will stop over in Skopje to visit the site of agricultural facilities being financed by the Bank in Macedonia. We expect that Mr. Kostic will discuss this program with you in more detail.

May 30, 1979

8. Yugoslav Bank for Foreign Economic Cooperation. Mr. Granfil wishes to discuss with you the objectives and operations of this newly-established Bank and to explore areas of possible cooperation for co-financing with the Bank in projects in developing countries. He may also be expected to express his thanks for the cooperation being extended by EDI in the establishment of training facilities in Yugoslavia.

cc: Mr. Stern (o/r), Mr. Benjenk (o/r)

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

FROM: Munir P. Benjenk, RVP, EMN *me*

SUBJECT: YUGOSLAVIA: Your meeting with the President of the Executive Council of Bosnia-Herzegovina

DATE: June 20, 1979

1. Mr. Milanko Renovica, President of the Executive Council of the Socialist Republic of Bosnia-Herzegovina, will visit you at 6:30 p.m. on Friday, June 22. He will be accompanied by Messrs. Tarik Ajanovic, Member of the Executive Council of Bosnia-Herzegovina in charge of foreign economic relations, Stanlko Tomic, President of the Chamber of Economy of Bosnia-Herzegovina (equivalent to Chamber of Commerce in the United States), Luka Reljic, Member of the Executive Council and Director of Economic Planning for Bosnia-Herzegovina, His Excellency Dimce Belovski, Ambassador to the United States, and Mr. Miodrag Stojiljkovic, World Bank Alternate Executive Director.

2. Mr. Renovica has been President of Bosnia-Herzegovina for six years and is one of Yugoslavia's younger generation leaders (age: 45). He was previously a manager of various industrial enterprises and has long played a role in the economic decision-making in his republic.

6/21
3. I understand that this will be primarily a courtesy call since the main purpose of this trip to the United States is bilateral, with an emphasis on export promotion. In addition to expressing appreciation for the Bank's involvement in many projects in his republic, he may wish to emphasize his republic's encouragement of joint ventures with foreign firms, as well as Bosnia's active role in obtaining co-financing in two recent Bank projects (see paragraph 4).

4. As the most populous of Yugoslavia's less developed republics (per capita GNP was about 70 percent of the national average of US\$1960 in 1977), Bosnia-Herzegovina has received the largest amount of Bank funds over the past four years. About 28 percent of Bank lending to Yugoslavia or US\$300 million has been committed for eleven projects in Bosnia, four of which are exclusively involved in that republic: the FY76 Sarajevo Air Pollution Control and Water/Sewerage projects, as well as the FY79 Bosanska-Krajina Agriculture and Agro-Industries Project and the Middle Neretva Hydro Power Project. Bosnia received the major proportion of funds from an additional seven national projects involving highways, railways, power transmission, agriculture and industrial credit. However, due to its large population, per capita lending during the 1976-79 period to Bosnia was about US\$75 (compared to the national average of US\$55), well below the per capita lending of over US\$100 to the other three less developed regions in Yugoslavia. The current five-year lending program allocates about 22 percent or about US\$370 million to projects in Bosnia. Bosnia will participate in the forthcoming Third Agricultural Credit Project (appraised in May) and the Fifth Industrial Credit Project scheduled for appraisal in the fall.

5. Privredna Banka Sarajevo, the main commercial and investment bank in the republic and a borrower under six Bank projects, has recently arranged two major co-financing operations. A loan of US\$20 million designated for the Bosanka-Krajina Agriculture and Agro-Industries Project (Loan No. 1621-YU of November 6, 1978) will be shortly signed with a consortium of one French bank (Caisse Nationale de Credit Agricole) and two Japanese banks (Tokai and Diawa). A loan of US\$35 million designated for the Middle Neretva Hydro Power Project (Loan No. 1561-YU of May 31, 1978) is currently being negotiated with Mitsui Bank of Japan.

6. As you will recall, you visited the city of Sarajevo, the capital of Bosnia-Herzegovina, during your October 1970 visit to Yugoslavia. During your one day stay in Sarajevo you held discussions on the economic development of the republic with the then President of Bosnia, Mr. Kosovac, as well as with other members of the Executive Council of the Republic and a number of local industrialists.

cc: Mr. Stern

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MEMORANDUM FOR THE RECORD

STRICTLY CONFIDENTIAL

By: M.P. Benjenk *W*

July 25th 1979

CONVERSATION BETWEEN MARSHAL TITO AND MR McNAMARA
JULY 19th 1979

Marshal Tito received Mr McNamara on July 19th on the island of Brioni. Mr McNamara was accompanied by Messrs Clark and Benjenk. On the Yugoslav side the meeting was attended by the Secretary for Finance, Mr Kostic, and Messrs Stojilkovic and Popovic.

Marshal Tito began by welcoming Mr McNamara and stating that he was very satisfied with the relations between Yugoslavia and the World Bank. Yugoslavia was very grateful for what had been done and was being done to help the country's economy. Mr McNamara replied that gratitude was not at all called for since the World Bank was doing exactly what was required of it, namely helping those who help themselves. Yugoslavia was an impressive example of the application of that principle.

Marshal Tito said he was extremely worried about the effect of recent economic events on the world's economy, and in particular on the poorest countries. The rising cost of energy would affect Yugoslavia and the industrialised countries quite seriously but it would have disastrous effects on the really poor countries. He asked what Mr McNamara's view of this problem was. Mr McNamara said that there were four things which countries could do which would partially remedy the situation. The first was conservation, i.e. the reduction of consumption, which would lessen pressure on prices. The second was to develop substitutes for petroleum such as nuclear energy, coal, gas and synthetic fuels. The third was for all countries, and in particular developing countries, to explore and develop their own energy resources, which had hitherto been neglected in many cases. A new World Bank programme recently launched would, by 1985, develop energy resources in developing countries equivalent to 2 million barrels of oil a day. The fourth measure would be in the financial area and that would require the IMF, the World Bank and the commercial banks to provide finance for the balance of payments deficits which would inevitably emerge in the next few years. The existing resources were obviously inadequate for that task and, for example in Yugoslavia, the deterioration of the balance of payments caused by the new energy prices would be equivalent to \$600 million a year.

Marshal Tito commented that such a programme could have beneficial effects for many countries but that it would still not be sufficient to meet the needs of the poorest. There were a large number of developing countries which had no energy resources to develop and what they needed in the next few years were grants to keep them going at even the present very restricted standard of

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living. The middle income countries could afford loans to tide them over but this did not apply to the poorest. So far only a few countries had realised the gravity of the situation, in particular the smaller European countries, and he was glad to see that countries like the Netherlands and Sweden were aware of the danger and were ready to help. Marshal Tito said that as far as Yugoslavia was concerned they were taking stringent measures to deal with the energy crisis. Yugoslavia only had 4 million tons a year of local production and had to import 12 million tons of oil every year. They would explore any possible underground resource for additional quantities but this would be very expensive. They would also replace oil with coal in all the power stations in the country and try to use lignite for this purpose, which was plentiful in the country. There would be some unfavourable consequences in terms of the environment in view of the polluting nature of coal, but that was unavoidable.

Marshal Tito went on to say that he had discussed this problem with former Chancellor Willy Brandt who was now drawing up his report on North/South relations, and they had both felt that it would be useful for a meeting to be arranged between the OPEC countries and the oil-consuming developing countries. Mr McNamara interjected to say that he hoped that Mr Brandt in his report would stress that the recent energy increases would have a heavy cost for the LDCs, both directly and indirectly, the latter because of decreased opportunities for them to export goods to the industrialised countries. Mr McNamara also commented that the World Bank would be glad to look at any opportunities to develop essential Yugoslavian oil resources under the new energy programme.

The conversation then turned to China, which, Mr McNamara said, would benefit from membership in the IMF and the World Bank, but had not yet decided to join these institutions. Marshal Tito asked whether China would be accepted if it applied for membership, and Mr McNamara responded affirmatively. Marshal Tito then went on to say that he knew China well and had been there a year ago. He had formed a good impression of the new Chinese leadership. They were more democratic and flexible than the previous leaders, who had done much harm to China, and particularly the so-called "Gang of Four" which had exercised most of the power in Mao Tse Tung's declining years. Many people had been unjustly imprisoned during that period, some of them very able, and they were now being rehabilitated. Marshal Tito spoke about his conversations with Chairman Hua, who was anxious to make up for the time lost in economic development during the Cultural Revolution, and whose original ambitions in that respect seemed a little too high. In recent months China's plans had been scaled down to more realistic proportions. China had a very rich potential and would develop its oil and coal resources as well as nuclear energy but much reorganisation needed to be done, including in the military field. The new leadership had inherited a very bad Army, with 130 military schools reduced to only three by the activities of the "Gang of Four" who believed that China did not really need an Army. Marshal Tito referred to Chairman Hua's recent visit to Yugoslavia and the interest which he had shown in Yugoslavia's special social and economic system. The visit had annoyed the Russians but Marshal Tito had subsequently calmed them down and suggested that they themselves should improve their relations with China, which constituted one-quarter of the human race. He had also advised that the Russians and the Chinese meet together to discuss outstanding difficulties and this was now going to happen. He had also

advised the Russians not to keep such a large Army on the frontiers of China since this placed a very great burden on both the Soviet Union and China.

Marshal Tito also expressed concern at the situation in Cambodia, and particularly at the Vietnamese intervention in that country. While the previous government was a bad one, foreign intervention in a country's internal affairs could not be approved of and a civil war in Cambodia would certainly continue for some time to come. Mr McNamara commented that he had himself witnessed during a recent trip to the Far East the very bad effect which Vietnam's intervention in Cambodia had had in countries such as Indonesia, Thailand, Malaysia, Singapore and the Philippines. These countries feared that the Far East would become the scene of major confrontation between the USSR and China.

Marshal Tito then spoke about the future of the non-aligned countries. He intended himself to go to the next meeting of the group in Cuba in September and he hoped that this would encourage other Heads of State to go too. He intended to take a very strong position against the Cuban idea that non-alignment meant alignment with the Eastern Bloc. He had told President Breznev that this was wrong and would mean a revival of the Cold War against which the non-alignment policies had been originally intended. Marshal Tito said that his two colleagues who had launched the non-aligned movement with him, Mr Nehru and Mr Nasser, were now dead, but, as the last one still living, he would not allow those principles to be violated. The non-aligned countries represented a buffer between the two major groupings and were an element of stability which prevented the possibility of war. In a sense they represented the conscience of the world and were fighting for a new world order. A great deal of harm was being done to the non-aligned movement every time war broke out between some of its members, and he cited the situation between Ethiopia and Somalia, Tanzania and Uganda, and Vietnam and Cambodia.

Marshal Tito briefly referred to the SALT II talks and said he hoped they would be approved, if only to enable negotiations to begin for a SALT III agreement which would have some real impact on a reduction of nuclear arms.

Mr McNamara asked Marshal Tito whether he thought the Eastern countries would help the LDCs more effectively in the future. Marshal Tito responded that so far the Eastern Bloc had preferred strictly bilateral assistance linked to their political relations with individual developing countries.

Returning to the economic situation, Marshal Tito complained of the restrictive attitude taken by the EEC in their trade relations with Yugoslavia. Discussions were being held at the present time in Brussels but they were very narrowly focused because the EEC negotiators had not been given a wide mandate. He had to admit that Yugoslavia's best trading partner was still the Soviet Union, with which Yugoslavia's trade was \$3 billion a year, to which should be added an additional \$2 billion with the rest of the Eastern European countries.

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At the end of the meeting and subsequent lunch Mr McNamara explained to Marshal Tito the political difficulties which were preventing the United States from taking a decisive and more generous attitude concerning aid to the LDCs. He compared the percentage of GNP which was allocated to aid in 1952 with the present share which was 90% lower. Mr McNamara praised the Yugoslav example of transferring income from the richest parts of the country to the poorest areas by setting aside a fixed amount of the national budget to a fund developing the poorest provinces. This same principle should be applied to development of the poorest countries of the world.

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OFFICE MEMORANDUM

TO: Files

DATE: August 3, 1979

FROM: Ram K. Chopra, Division Chief, CPDIC EMENA

SUBJECT: MEMORANDUM FOR THE RECORD - Mr. McNamara's Trip to Yugoslavia

1. Mr. and Mrs. McNamara visited Yugoslavia from July 16-19. They were accompanied by Messrs. Benjenk, William Clark, Koch-Weser, Kaji and Chopra. The program and the list of persons met during the visit are attached.

General

2. The Government had made excellent arrangements both for the substantive meetings and the field trips in Kosovo and Macedonia. All the discussions were held in an extremely cordial atmosphere with sincere expressions of appreciation at every meeting for the Bank's role in Yugoslavia, both in financial and non-financial terms. Officials of the Federal as well as the Republican Governments thanked Mr. McNamara for the valuable assistance that the Bank staff had provided in the development efforts in Yugoslavia. Mr. McNamara in reply thanked the Yugoslav Government for the special support that it had provided to the Bank Group in various fora, e.g. for the capital increase and particularly for their IDA contributions. In addition Mr. McNamara restated Bank support for their successful development efforts and complimented the Government for the pragmatic policies they had followed while a unique socio-economic system was being developed. During various meetings and the field trips, Mr. McNamara showed great interest in discussing how the Yugoslav decision making system worked at the Federal, Republic and individual enterprise level.

3. Among the other main subjects that often came up during different discussions were the issues related to the regional disparities of income, the worsening balance of payments situation, unemployment and World Bank policy towards high income countries.

A. Main Issues DiscussedRegional Disparities

4. The development problems of the Least Developed Regions (LDR's), particularly Kosovo and Macedonia, were discussed in various meetings with Federal and Republican officials. Mr. McNamara complimented the Yugoslavs for their special emphasis on LDR's, particularly the various mechanisms that exist for the transfer of resources at concessional terms from the developed regions to the LDR's, which amount to nearly 3 percent per annum of the developed regions' income. Although there is a continuing commitment to transfer substantial resources to the LDR's, some of the developed regions, such as Serbia and Zagreb, which have unemployment and poverty problems of their own, are beginning to find these high transfers onerous. In this context, Mr. McNamara was told that possibilities for joint venture activities between the developed regions and LDR's are being discussed as

partial substitutes for transfers of funds, particularly for production sectors. Infrastructure projects will largely still have to depend on interrepublican transfers. Possibilities for joint ventures seemed to be particularly worth pursuing between Slovenia and the LDR's, because unlike the other developed regions, Slovenia suffers from labor shortages and has to rely on labor from other Republics and provinces. Mr. Vratusa, the President of the Republic of Slovenia in fact asked Mr. McNamara if the Bank could assist them in developing joint venture activities.

Balance of Payments

5. Mr. McNamara commented on the worsening balance of payments situation and particularly on the poor export performance since 1973. In reply to his question about the government's policies in this area, various Government representatives, particularly Mr. Kostic (Federal Secretary of Finance) and to a lesser extent the Federal Secretaries of Energy and Agriculture and the President of the Republic of Slovenia outlined the main elements of the Government's policies and approach. First, a stabilization program had been launched in early 1979, in support of which the IMF approved a Standby Arrangement of SDR 65 million in May 1979, in addition to compensatory financing of SDR 138.5 million. Secondly, in energy the Government intends to reduce its dependence on imported oil by greater emphasis on hydropower, coal and partly nuclear sources of energy. Thirdly, consistent with their 1976-80 Plan, they are emphasizing import substitution in intermediate and capital goods. Fourthly, they are engaged in a reappraisal of both their overall growth targets and their external indebtedness. There seems to be a growing awareness of the foreign exchange constraints to continue growing at the high rates achieved in the past and the necessity to consider reduced growth targets of 5-6 percent per annum for the future.

Co-financing

6. In the context of this reappraisal of external indebtedness, some Government officials expressed the need to limit their efforts towards co-financing. Mr. McNamara emphasized the need for continued efforts to increase co-financing on World Bank projects to strengthen Yugoslavia's access to external capital markets. In particular, he emphasized the need for co-financing on the Trans-Yugoslavia highways project and Mr. Zelic, President of the Federal Committee for Transport and Communications, agreed with Mr. McNamara.

Employment

7. Mr. McNamara at various meetings asked what policies the Government was considering to reduce the level of unemployment, particularly in the LDR's. This was discussed mainly with Mr. Kostic, Mr. Stambolic (President of the Republic of Serbia), Mr. Oruci (President of the Autonomous Province of Kosovo) and Mr. Popov (President of the Republic of Macedonia). The main

points made by the Yugoslav Government representatives were the following. First, the Government was caught in a dilemma between the need to reduce economic growth targets in view of the balance of payments constraints and the need to expand productive capacity to absorb the unemployed. Secondly, they planned to place greater emphasis on the agricultural sector, particularly with a view to raise the production and employment potential in the individual sector. Thirdly, the development of small scale industries was to be given greater priority in the future.

Policy towards high income countries

8. Mr. Kostic raised the issue of the Bank's policy towards high income countries. Mr. McNamara said that the Bank paper on the subject relaxes the criteria for phasing out high income countries compared to the previous policy. He assured the Government that the process of phasing out would be done gradually and with due consultation with the Governments concerned. He suggested to Mr. Kostic that the Yugoslav Government should contact other Governments, such as Germany, UK, and Canada to fully explain the role that the Bank can play in countries such as Yugoslavia, particularly in difficult periods such as the present when countries are going through painful adjustments to adverse external developments.

B. Other Subjects Discussed During Meetings

Mr. Peter Kostic - Federal Secretary of Finance

9. As Mr. McNamara's host for the visit, Mr. Kostic provided a broad review of the status of the economy, the excellent relations between the Bank Group and Yugoslavia and the program for Mr. McNamara's visit. In addition to the points already covered under the main issues above, Mr. Kostic enquired about possible Bank assistance for earthquake reconstruction in Montenegro. Mr. McNamara said that in view of the urgency of the situation, the Bank would present a loan for reconstruction assistance to the Board by September for specific projects in the transport sector.

Mr. Zidar - Federal Secretary of Agriculture

10. Mr. Zidar indicated that 1979 was likely to be a bad year for wheat but other agricultural production should be reasonable this year. As far as medium term priorities were concerned, he emphasized the improvement of productivity in the individual sector, livestock development and fruits and vegetables production. Mr. Zidar also asked Mr. McNamara if the World Bank would finance agricultural projects in third countries, e.g. Sudan, if Yugoslav Agrokombinats were participating. Mr. McNamara replied that if Sudan so requested, the World Bank would be willing to consider such projects.

Mr. Zelic - Federal Secretary for Transportation

11. The main point of discussion was the declining share of railways in goods traffic and till recently the stagnant volume of traffic. In response to Mr. McNamara's question about the measures necessary to strengthen the financial position of the railways, the Secretary mentioned the recent tariff increases and the need for intermodal coordination. The Minister expressed the hope that the Highways XI loan would be concluded expeditiously.

Mr. Matkaliev - Federal Secretary of Energy

12. In addition to outlining the Government's changing emphasis on energy sources other than oil discussed above, the Government officials gave a very good presentation with the help of charts and graphs of the development of the energy sector. No other major issues were discussed.

Mr. Markovic - President of the Assembly of the SFRY

13. Mr. Markovic, after thanking Mr. McNamara for the excellent support of the World Bank, provided an extremely interesting account of the process of political decision making at the Federal and Republican levels, the solution of differences by a process of consensus and the key role that proposals made by the President and the League of Communists play in helping resolve major differences and providing broad policy guidelines. Mr. McNamara was very interested in this discussion and asked how this process worked in specific areas of decision making such as balance of payments policies.

Interview with Mr. Djuric - Belgrade Radio and TV

14. The interview lasted for about 15-20 minutes and was broadcast on TV the same evening. The questions that were asked related to the record of the long relationship between Yugoslavia and the World Bank, World Bank support for earthquake reconstruction in Montenegro, the topics to be discussed at the Annual Meetings and the overall problem of international financing of economic development.

Mr. Stambolic - President of the Republic of Serbia

15. In addition to the topics already mentioned above, Mr. Stambolic focussed on the underdeveloped parts of Serbia and particularly the need to develop the Morova region. He said that the preliminary studies on Morova would be completed soon, and sent to the Bank by November. He also stated that after a difficult earlier period, the cooperation with IFC had improved considerably. Mr. McNamara pointed out that it was essential for foreign exchange allocations on IFC projects to be treated on the same basis as that on World Bank projects and be exempted from the foreign exchange quota system. He was told that this was under consideration in the Assembly.

Mr. Oruci - President of the Autonomous Province of Kosovo

16. Mr. Oruci provided an account of the basic problems of underdevelopment in Kosovo. He said that they were trying to learn from the difficulties they faced in the Ibar project and using their experiences in the Metohija project. Mr. McNamara expressed the hope that the Government would be able to take some steps in the delicate problem of reducing the growth rate of population in Kosovo. Subsequent to the meeting with Mr. Oruci, Mr. McNamara visited the site of the Ibar and Metohija projects and held discussions with some of the affected farmers.

Mr. Popov - President of the Republic of Macedonia

17. Mr. Popov also presented a historical account of the problems and developments in Macedonia and thanked Mr. McNamara for the valuable support provided by the World Bank. Mr. McNamara, complimented the Government on their successful development efforts, particularly on their emphasis on labor intensive projects, their plans to expand agricultural exports and their success in raising the productivity on individual sector farms. After the meeting and a delightful lunch, Mr. McNamara visited the slaughterhouse and vineyards near Stip.

Mr. Vratosa - President of the Republic of Slovenia

18. As indicated earlier, Mr. Vratosa discussed the need for joint ventures with LDR's in the context of mutually beneficial links between the different regions. He also discussed the adverse effects of EEC restrictions on Yugoslav exports and said that export financing was needed; the Yugoslav Bank for Foreign Economic Cooperation was a useful beginning in this area. He thanked Mr. McNamara for the role of the World Bank in the national projects from which Slovenia had benefitted greatly.

cc: Messrs. McNamara, Koch-Weser, William Clark, Benjenk (o/r), Knox, Karaosmanoglu, El Darwish, Kaji, Kavalsky, Povey.

RChopra/bs

MR. ROBERT MCNAMARA'S ITINERARY IN
YUGOSLAVIA
JULY 16 - 19, 1979

July 16
(Monday)

- 1200 Arrival from Paris via Frankfurt, flight LH 360.
- 1300 Arrival at the villa, Uzicka St. 23.
- 1430 Meeting with Mr. Petar Kostic, Federal Secretary for Finance - Federal Executive Council Building No. 2.
- 1530 Meeting with Mr. Milovan Zidar, President of the Federal Committee for Agriculture, Mr. Dusan Vlatkovic, President of Vojvodjanska Banka, and President of the Association of Yugoslav banks also attended - Federal Executive Council Building No. 2.
- 1615 Meeting with Mr. Ante Zelic, President of the Federal Committee for Transport and Communications. Mr. Nikola Filipovic, General Manager of the Community of Yugoslav Railways and Mr. Lojze Blenkus, President of the Council of Roads Organizations also attended - Federal Executive Council Building No. 2.
- 1700 Meeting with Mr. Stojan Matkaliev, President of the Federal Committee for Energy and Industry Mr. Lazar Ljubisa, General Manager of Yugoslav Association of electric power organizations (JUGEL) also attended - Federal Executive Council Building No. 2.
- 1800 Meeting with Mr. Dragoslav Markovic, President of the Assembly of the Socialist Federal Republic of Yugoslavia - Federal Executive Council Building No. 1.
- 2000 Reception/cocktail and cold buffet, organized by the Host, Mr. Petar Kostic, Federal Secretary for Finance - Federal Executive Council Building No. 1.

July 17
(Tuesday)

- 0800 Interview for the Belgrade Radio and TV with Mr. Ljubisa Djuric at the villa.
- 0900 Meeting with Mr. Berislav Sefer, Delegate of the Assembly and ex-Deputy Prime Minister, at the villa.
- 1000 Meeting with Yugoslav businessmen, bankers, academicians, and prominent government officials - Federal Executive Council Building No. 1.
- 1200 Meeting with Mr. Ivan Stambolic, President of the Executive Council of Serbia, followed by lunch hosted by Mr. Ivan Stambolic (at about 1245).

- 1430 Departure for Pristina by a special Government plane.
- 1530 Arrival at Pristina, met by Mr. Bahri Oruci, President of the Executive Council of Kosovo.
- 1545 Proceed to accomodation at the Grand Hotel.
- 1600 Meeting with the President, Mr. Bahri Oruci. Mr. Riza Sapundzija, Vice President, Mr. Kzemsit Durici, Secretary for Finance of the Province of Kosovo, Mr. Dragan Vlaic, Secretary for Agriculture and Mr. Ilijaz Ilijazi, President of Kosovska Banka also attended.
- 1700 Departure by car for Kosovska Mitrovica and visit to the region of Ibar-Lepenac project.
- 2000 Dinner hosted by Mr. Bahri Oruci.

July 18

(Wednesday)

- 0730 Departure for Metohija by car, accompanied by Mr. Dragan Vlaic, Secretary for Agriculture.
- 0900 Arrival at Prizren and meeting with the individual farmers, accompanied by Mr. Milenko Sataric, General Manager of "Metohija" working organization.
- 1100 Departure from Prizren for Skopje by car.
- 1215 Arrival at Skopje and proceed to accomodation at the villa.
- 1300 Meeting and working lunch with the President, Mr. B. Popov, members of the Executive Council, and Manager of Stopanska Banka at the "Club of the Delegates".
- 1530 Departure for Stip and visit to the AGROKOMBINAT. Discussions of decisionmaking system followed by visits to its selected processing facilities and individual farmers.
- About 1900 Return to Skopje.
- 2000 Arrival at Skopje.
- Evening free.

July 19

(Thursday)

- 0715 Departure for Ljubljana by special Government plane.
- 0845 Arrival at Ljubljana airport, met by Mrs. Milica Ozbic, Secretary for Finance. Proceed by car to the Castle/motel "Strmulj" near the airport.

- 0900 Meeting and breakfast with Mr. Anton Vratusa,
President of the Executive Council of Slovenia, Mr.
Bogdan Osolnik, President of the Committee for Foreign
Affairs, Mrs. Milica Ozbic, Secretary for Finance and
Mr. Janko Smole, President of the Ljubljanska Banka.
- 1045 Departure from Ljubljana airport for Pula.
- 1200 Arrived at Brioni. ~~airport~~
- 1415 Departure from Brioni.
- About 1515 Departure for Rumania by a special Government plane.

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OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: A. Karaosmanoglu, EMI *PK*

SUBJECT: 1979 Annual Meetings, Belgrade: Mr. McNamara's Meeting with
the Yugoslav Delegation

DATE October 4, 1979

1. A meeting was held in Mr. Kostic's office on September 29, 1979 at 6 pm. Present were:

From the Delegation:

Mr. Petar Kostic, Federal Secretary for Finance
 Mr. Gavra Popovic, Assistant Federal Secretary for Finance
 Mr. Miodrag Stojiljkovic, Alternate Executive Director
 of the World Bank

Mr. Mijovic
 and some other members of the Yugoslav Delegation

From the Bank:

Messrs. McNamara
 Benjenk
 Karaosmanoglu
 Koch-Weser

2. Mr. Kostic started with a statement thanking the Bank for the assistance given in the organization of the Annual Meetings, in the publication of the brochure on Yugoslavia and for the publication of the economic report on Yugoslavia. He also expressed his special thanks for Mr. Damry's contribution in the preparation of this year's meetings.
3. Mr. Kostic made some comments on graduation, the World Development Report, migration and refinancing of Yugoslav loans.
4. On graduation, Mr. Kostic reported that as he discussed with Mr. McNamara during the latter's last visit to Yugoslavia, they contacted a number of countries especially those who had "different attitudes" on graduation policies. He also mentioned that he would talk to the ministers from the U.K. and the U.S. during the Annual Meetings on the subject.
5. On the World Development Report, Mr. Kostic said it was an exceptionally useful publication and well worth the efforts put into it.
6. On the question of migration, Mr. Kostic referred to the fact that migration originated from poverty and resulted in movements of very large numbers of people. He suggested that the Bank should participate in the development and elaboration of a "scientific project" with OECD and EEC. It should be, he said, a study on the causes and implications of migration and with the objective of developing some new ideas to cope with the related problems.

October 4, 1979

7. On the refinancing of Yugoslav loans, Mr. Kostic referred to the recent newspaper articles and said that Yugoslavia was doing exactly the same thing as other countries are doing. They are paying in advance and refinancing loans with better terms without affecting the volume of debt. He said that the debt resulting dollar by dollar was the same amount.

8. Mr. McNamara in response said that the World Bank's help in the preparation of the Annual Meetings was very small in relation to what the Yugoslavs themselves did. He said he was grateful for the early vote by the Yugoslavs on the general capital increase and their participation in the Sixth Replenishment of IDA with \$20 million was extremely helpful.

9. On the question of graduation, Mr. McNamara said he did not expect serious problems in the near future but as some problems might arise next year it would be wise to talk to the U.K. and the U.S. as Mr. Kostic suggested while they were there.

10. On migration Mr. McNamara acknowledged that it was becoming a major issue in the world which is taking several forms such as Mexicans in the U.S., the boat people of Viet-Nam, the migration in Africa and in Western Europe. Mr. McNamara agreed that this would have some serious implications but he was not sure how much the Bank could do. He referred to the discussion which took place two days ago in the Board of the Ford Foundation. He said if there is an opportunity to do something in the Bank we will do what we can.

11. On refinancing he said that he had no concern as the Yugoslavs had an impeccable record in this matter but the balance of payments situation looked problematic. He expected the Yugoslavs to follow the situation very closely.

cc: Mr. McNamara's Office
Messrs. Benjenk
Damry
Knox
Koch-Weser
Chopra
Kavalsky

AKaraosmanoglu:sap

Meeting with Mr. Bogdan Crnobrnja, Yugoslav UN Mission, October 23, 1979

Present: Messrs. McNamara, Crnobrnja, Stojilkovic

Mr. Crnobrnja raised the following points:

(i) He was not quite satisfied with IFC's joint venture activities in Yugoslavia; this was not IFC's fault; pressure had to be put on the Yugoslav Government in order to make the system work better; in his view, IFC's activities should be expanded further in Yugoslavia as well as in other developing countries;

(ii) Yugoslavia would become Chairman of the Committee of the Whole; the COW would have to undertake the preparatory work for the next Special General Assembly on new global North/South negotiations; as a first step, a definition was required on what global negotiations meant; first of all, a better working climate had to be created in COW; it was time to get rid of slogans and to act in a mutually agreed fashion; the Bank could help and it would be desirable, for instance, to get for the Third Development Decade an outline of the long-term strategy for the Bank; it would also be useful to receive suggestions from the Bank as to which problem areas should be addressed by the Special General Assembly; and

(iii) He would be interested in Mr. McNamara's views as to the results of the work of the Brandt Commission and as to how these results should be taken into account in future North/South negotiations.

Mr. McNamara replied that the publication of the Brandt Commission's report would be delayed until about March 1980. The report might include some very interesting conclusions. He agreed that it would be useful to identify substantive issues for global negotiations. Among those, energy ought to be discussed where the problem is not so much increase in prices, but the "abrupt-ability" of such increases. Secondly, food issues would have to receive prominent attention. Thirdly, external capital flows, particularly to the poorest countries, had to be addressed. At present, only a very small percentage of ODA--as expressed as a percentage of the GNP of donor countries--was directed at the poorest countries, e.g., at Africa. Greater disaggregation of ODA flows was required. Finally, more intensive discussion of trade issues should be undertaken. Protectionism remained a great danger. Work should be carried out on identifying, on a country-by-country basis, tariff levels on specific projects and the impact of such actions. He suggested that the UN staff be instructed to do "hardheaded work" on these and other issues and not to carry out propagandistic low-quality work. The Bank would be glad to assist the COW in such action.

In response to a question by Mr. Crnobrnja, Mr. McNamara said that ODA flows from the FRG and Japan could probably be increased over the next few years. In the case of the U.S., this would be impossible. However, one might obtain a certain shift in U.S. and French aid towards the poorest countries.

CKW

October 30, 1979

821

Mr. McNamara

October 18, 1979

MEMORANDUM

To: Mr. Caio K. Koch-Weser (EXC)

From: M. M. Stojiljkovic (EDS)

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Mr. Bogdan Crnobrnja has expressed his wish to meet President McNamara sometime during the next week to discuss subjects indicated below.

Mr. Crnobrnja was formerly Yugoslav Ambassador to the United States and at present he holds the post of Chairman of the Committee for Foreign Economic Relations of the Yugoslav Parliament. Prior to his U.S. position he had several posts, including one of Yugoslav Ambassador to India, Deputy Minister for Foreign Trade, Assistant Federal Secretary for Foreign Affairs in charge of Foreign Economic Relations.

Mr. Crnobrnja will be in New York during this week and until November 1, 1979, as a member of the Yugoslav delegation attending the current session of the General Assembly of the U.N.

Yugoslavia is the candidate (supported by the group of developing countries) for the post of the Chairman of the Committee of the Whole. (It is my personal view that Mr. Crnobrnja will be Yugoslav candidate for the post of the Chairman of this Committee,)

One of the subjects Mr. Crnobrnja would like to discuss with Mr. McNamara relates to the various approaches to the international development strategy. As the Committee of the Whole will be in charge of preparations for the next Special Session of the General Assembly of the OUN scheduled for autumn 1980, Mr. Crnobrnja is very much interested in more detailed conversations on the subject Mr. McNamara dealt with in his Address to the WB/IMF Board of Governors in Belgrade on October 2, 1979.

In addition to this Mr. Crnobrnja would like very much to exchange views with Mr. McNamara regarding promotional work and expansion of the joint venture schemes between Yugoslav enterprises and foreign partners.

Your cooperation in arranging this meeting will be very much appreciated.

MMJ:ef

OFFICE OF THE PRESIDENT

Meeting with Ambassador Loncar, Yugoslavia, February 25, 1980

Present: Mr. McNamara, Ambassador Loncar and Messrs. Stojikjkovic, Galovic, Benjenk

The Ambassador conveyed his Government's appreciation for Mr. McNamara's expression of sympathy for President Tito's illness. He hoped that the Bank's role in Yugoslavia would continue to be as important as in the past.

Mr. McNamara pointed to Mr. Benjenk's important role in shaping the working relationship between the Bank and Yugoslavia; Mr. Benjenk was now moving on to new responsibilities. He then commented on what he called the disastrous state of the world economy and the importance of satisfactory OECD growth for both LDC financing and LDC export growth; he pointed to the fact that the Bank was in a reasonably good position for the next two years because both the IDA VI replenishment and the General Capital Increase had been negotiated, and he expressed the hope that the Bank would be able to help focus the world's attention on energy supply and prices and on the need for global agreement on the financing of the skyrocketing LDC current account deficits. In response to a question, he said that the Brandt Commission Report was a good document and that the Bank generally could accept its recommendations. Mr. Brandt was a better politician than he was and had succeeded in coming out with one report; the Report's concept of mutuality of interest might have a chance of success.


The Ambassador said that Yugoslavia had accepted the chairmanship of the UN Committee of the Whole which was a delicate task. The Brandt Report constituted a challenge for both the West and the East. Priority should be given to financing the poorest LDCs. In his view, the North would have to deal with the psychological aspects of the North/South dialogue, namely, the widespread mistrust of the developing countries. He argued that the industrial countries could well accept the concept of NIEO because it was generally understood that this was a goal for decades or even centuries; such acceptance would change the psychological climate between the North and the South. Mr. McNamara said that the UN Committee of the Whole should make use of Messrs. Brandt, Heath and Ramphal in discussing the recommendations of their report.

CKW
February 29, 1980

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 22, 1980

FROM: Mumir P. Benjenk, Vice President, EMENA SUBJECT: His Excellency Ambassador Loncar - Yugoslav Ambassador to the U.S.A.

1. You have agreed to meet with His Excellency Budimir Loncar, recently appointed Yugoslav Ambassador to the United States, at 6 p.m. Monday February 25.
2. This is regarded by His Excellency the Ambassador as a courtesy visit and he may be expected to express appreciation for the Bank's continuing financial support of Yugoslavia and support for the Bank's role and endeavours in support of the less developed member countries.
3. The Ambassador, who was accredited on November 28, 1979, is a career diplomat and a quiet, low key individual, particularly in contrast to his predecessor, Ambassador Belovski.
4. Early in his career His Excellency served for nine years in the Ministry of Foreign Affairs as head of the section responsible for affairs with non-aligned countries. Immediately prior to his Washington assignment, Ambassador Loncar was, for three years, Deputy Minister for Foreign Affairs, principally involved with the non-aligned movement. He was deeply involved with the organization of the recent Havana Conference where, next to President Tito, he was Yugoslavia's principal representative.
5. Outside of Yugoslavia His Excellency has served as Yugoslav Ambassador to Indonesia, where he met you on your first visit to Jakarta, and more recently as Ambassador in Bonn. The Ambassador is very knowledgeable of Bank/Yugoslav relations and the Bank's activities in the country.
6. Ambassador Loncar, a World War II partisan, is a Croatian, born near Zadar, a coastal town about midway between Rijika and Dubrovnik. He is married and has two children.

cc: Mr. Humphrey, Acting Director, EM1

FPovey:am

OFFICE MEMORANDUM

TO: MEMORANDUM FOR THE RECORD

DATE: June 2, 1980

FROM: Ram K. Chopra, ^{Chopra} Division Chief, CPDI IC EMENASUBJECT: Mr. McNamara's Meeting with Mr. Momcilo Cemovic, President of the Executive Council of the Assembly of Montenegro.

1. Mr. McNamara met with Mr. Cemovic at 6.00pm on May 22, 1980. Also present at the meeting were His Excellency Mr. Budimir Loncar, Ambassador to the U.S., Mr. Lukovic, Advisor on Foreign Economic Relations, Mr. Dragovic, General Manager of Investiciona Banka Titograd (IBT), Mr. Beratovic, Deputy General Manager of IBT and Mr. Stojiljkovic, Alternate Executive Director. Messrs. Karaosmanoglu, Koch-Weser and Chopra also attended the meeting.
- 6/2
2. Mr. Cemovic thanked Mr. McNamara and the staff for the quick assistance provided by the World Bank for their earthquake reconstruction efforts. He said that the damage to the Republic was really beyond calculation but was roughly estimated at about US\$4 billion. External assistance, apart from the contribution of the World Bank and Eximbank had been only about US\$50 million. A Special Fund of about \$2.5 billion had been created within Yugoslavia for Montenegro's reconstruction. Although reconstruction efforts were being given priority, the job had only just begun and Mr. Cemovic said he didn't really know how long it would take. He emphasized that their immediate reconstruction efforts needed to be coordinated with their medium term plans. Mr. McNamara thanked Mr. Cemovic for his kind compliments. He said that the World Bank could only help those that help themselves and while the Bank contribution had been modest, he was very impressed by the Government's own efforts.
3. Mr. Cemovic also briefly discussed the overall economic developments in Montenegro and Yugoslavia. He said that there had been rapid economic growth in Montenegro in the last few years, with industrial growth averaging 11 percent per annum during the last three years. The rate of inflation had been unfortunately high over the same period and continued to be high in the first three months of 1980. The situation in Montenegro reflected the overall situation and constraints in Yugoslavia and a period of stabilization was now needed with slower economic growth. Unfavorable international conditions, particularly energy prices, had adverse effects on the balance of payments and inflationary situation in Yugoslavia. He said that he welcomed the concept of structural adjustment lending and felt that such lending would be appropriate for Yugoslavia under present conditions. Mr. McNamara replied that the World Bank had recently initiated structural adjustment loans and that he would be interested to consider such lending in Yugoslavia, particularly in view of Marshall Tito's death and the structural adjustment problems the economy faced.

../.

June 2, 1980

4. Mr. Cemovic concluded by saying that Montenegro needed continued World Bank lending for at least the next five years. Investment priorities over the next five year plan (1981-85) would include infrastructure, energy, industrial and agricultural credit lines, small scale and labor intensive industries, processing industries and tourism. He complimented the World Bank staff for successful past projects, particularly the Cemovsko Polje project. Mr. McNamara said that he supported their investment priorities and particularly their emphasis on labor-intensive industries and foreign exchange earnings. He referred to the small scale and labor intensive industries mission that was due to visit Yugoslavia in June 1980. Mr. McNamara concluded the meeting by saying that per capita lending to Montenegro had been higher than the other Republics in the last five years and that he would be willing to provide continued support for the development of Montenegro.

cc: Messrs. Stern (VPO)
Chaufournier (RVP EMENA)
Karaosmanoglu (EML)
Knox (EMP)
Koch-Weser

RKChopra/bs

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: May 20, 1980

FROM: Maurice P. Bart, Acting Regional Vice President, EMENA. *MPB*SUBJECT: Your Meeting with the President of the Executive Council
of the Assembly of Montenegro - Momcilo Cemovic

1. Mr. Momcilo Cemovic, President of the Executive Council of the Socialist Republic of Montenegro, will visit you at 6:00 p.m. on May 22, 1980. He will be accompanied by Mr. Lukovic, Advisor on Foreign Economic Relations, Mr. Dragovic, General Manager of Investiciona Banka Titograd, Mr. Beratovic, Deputy General Manager of Investiciona Banka, His Excellency Budimir Loncar, Ambassador to the U.S.

2. Mr. Cemovic has been President of Montenegro for about two years. Previously he served as Federal Secretary for Finance from 1974 to 1978. During the three years prior to 1974 he was Chairman of the Interrepublican Committee for the Monetary System, which coordinates domestic monetary policy and prior to that he was the General Manager of Investiciona Banka Titograd.

3. It may be expected that Mr. Cemovic will express thanks for the financial support provided to SR Montenegro, which has represented a substantial portion of the Bank's lending to Yugoslavia. Particular mention is likely to be made of the prompt additional assistance provided by the Bank (\$85 million) and IFC (\$21 million) for the rehabilitation of transport and hotel facilities following the earthquakes of April 1979.

4. SR Montenegro, in common with the other Republics and Provinces, is currently preparing a new Development Plan for 1981-85. Following the extensive damage caused by the earthquakes and the extensive floods which occurred last fall, SR Montenegro is giving emphasis to re-orienting its industrial base and priorities. Particular emphasis is expected to be given to small scale, labor intensive enterprises, particularly those in the private sector and those based upon the utilization of locally produced raw materials. Medium size, labor intensive enterprises involved in wood and aluminum processing are also likely to be given priority. In the field of agriculture emphasis is expected to be placed on year round vegetable production aimed at both domestic and export markets. Special incentives are likely to be provided to the private individual farmers, particularly in Northern Montenegro where the widely disbursed population is remote from the urban and industrial centres.

5. Mr. Cemovic may be expected to request advice and technical assistance from the Bank in the preparation of this Development Plan.

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6. You may wish to inform Mr. Cemovic that a Bank mission to Yugoslavia is planned for the second half of June this year for the purpose of reviewing the role of labor intensive and small-scale industries, their performance and past contribution, and to determine their optimum role and contribution to future development. Another mission which will conduct an individual farm sector survey to assess the impact of agricultural policies on the individual farmers is being planned for late this year.

7. These missions would visit SR Montenegro and would be prepared to accord special priority to the review and discussion of Montenegro's proposed Development Plan in the context of their role. Following these missions the Bank would be prepared to consider the extent and type of further missions to provide advice as may be needed.

8. Montenegro is one of the four less developed republics and provinces in Yugoslavia (per capita GNP was about 70 percent of the national average of US\$2,390 in 1978) and as such has and will continue to receive a considerable amount of Bank funds. In addition to the Belgrade-Bar Railway Loan (\$50 million in 1968) and the Port of Bar Loan (\$40 million in 1974), Montenegro has received an additional \$175.0 million during the last five years (about 13 percent of total Bank lending to Yugoslavia during the period or 7 percent excluding the \$85 million earthquake loans) including a loan for an agriculture and agroindustries project, portions of national agricultural and industrial credit loans, portions of loans for national railways, highways and power transmission projects, as well as the earthquake rehabilitation loans of this year.

9. It is interesting to note that although only 7 percent of regular Bank lending to Yugoslavia over the past five years has been in SR Montenegro, on a per capita basis lending to SR Montenegro has been higher than to any other republic or province (see Appendix). This arises from the small population, about 600,000 out of a total Yugoslav population of about 22 million.

10. The proposed 1981-85 Bank Lending Program is expected to allocate about 7 percent or about US\$120 million to projects in Montenegro which is about the same level as in the past five years. We would expect that, as in the past, the majority of these funds would be provided through national agricultural and industrial credit projects, as well as highways, railways and power transmission projects, and possibly a regional development/agricultural project. A regional water supply development scheme to improve water supplies and to support tourism and industrial activities is currently a "reserve" project pending completion of studies to establish a viable least-cost design.

11. Since the regional allocation of Bank lending has not yet been finally agreed within Yugoslavia it would be advisable not to discuss details of our proposed lending. However, in view of Montenegro's exceptional needs following the natural disasters of 1979, it would be appropriate to indicate our readiness to provide non-financial as well as financial assistance. Following the special sector missions planned for this year we would be prepared to assist in the development of Montenegro focussed projects for possible Bank financing. These matters were discussed with the Montenegrin authorities during the recent visit of Mr. Karaosmanoglu to Yugoslavia.

May 20, 1980

12. During staff visits late last year Mr. Cemovic requested the Bank to consider the provision of additional funding for redevelopment projects in Montenegro, as was provided for earthquake rehabilitation. In view of the regional allocation of Bank financing which is done in accordance with the policy of the Federal Government, Mr. Cemovic was informed that it was unlikely that additional financing could be provided. Since that time, legislation has been passed by the Federal Assembly which will provide the equivalent of about \$2.6 billion to Montenegro for disaster relief and rehabilitation over the next eight years. In the event Mr. Cemovic should again raise the question of additional funding it is recommended that he be informed that in view of the high per capita income of Yugoslavia it would not be possible to increase total Bank lending. If a decision should be reached by the Yugoslav authorities to increase the regional allocation of available Bank funds to Montenegro we would, of course, be prepared to cooperate with the Montenegrin authorities in the development of additional projects suitable for Bank lending.

cc: Mr. Stern

FPovey/RNAnderson/sh

Appendix

Per Capita Bank Lending In Yugoslavia

FY 1976-80

Montenegro

- including earthquake loans

\$337

- excluding earthquake loans

\$188

4 LDRs

\$120

Yugoslavia

\$ 70

OFFICE MEMORANDUM

TO: MEMORANDUM FOR THE RECORD

DATE: July 16, 1980

FROM: Ram K. Chopra, Division Chief, EMIDC

SUBJECT: Mr. McNamara's Meeting with Mr. Petar Kostic, Federal Secretary of Finance of Yugoslavia

1. Mr. Petar Kostic, Federal Secretary of Finance of Yugoslavia met with Mr. McNamara at 6:00 p.m. on July 15. Accompanying Mr. Kostic were: Mr. Bogoev, Governor, National Bank of Yugoslavia; Mr. Loncar, the Yugoslav Ambassador; Mr. Galovic, Economic Counselor of the Yugoslav Embassy; Mr. Zagar, who was the Alternate Executive Director to the Bank in the late sixties and is now a member of Parliament and Mr. Jelic from the Federal Secretariat of Finance. Messrs. Stern, Looijen, Stojiljkovic, Knox and Chopra attended the meeting.
2. Mr. Bogoev briefly mentioned their meetings with US Government officials, including Mr. Miller, and their efforts to seek official support in the US and in other countries for increased borrowing in the private capital markets. Mr. McNamara offered the Bank's assistance in improving Yugoslavia's access to the capital markets, through cofinancing on Bank projects, general contacts and on economic and sector work being made available to commercial banks.
3. Mr. McNamara said that he was interested to hear about the Government's objectives and targets for the next Five Year Plan (1981-85). Mr. Bogoev replied that recent strong stabilisation measures had been taken and the currency had been devalued by over 30 percent. He emphasized the structural problems that the economy faced, including the sharp increase in the oil import bill, the dependence of industry on imports and the need to increase exports. The economic growth rate was expected to be slower, at about 4-5 percent per annum during 1981-85. The Government expected the current account on the balance of payments to be reduced to \$2 billion in 1980 (compared to \$3.7 billion in 1979) and to about \$1 billion by 1985. Mr. McNamara agreed with the emphasis being placed on reducing the current account deficit and said that financing this reduced deficit should not be difficult.
4. Mr. Kostic said that he hoped that Mr. McNamara would continue to play an important part in helping to solve the world's critical problems after his retirement from the Bank. He felt that not only he but numerous other people he had talked to considered that Mr. McNamara's achievements had been outstanding and placed him in the "first level personalities" in the world. He thanked Mr. McNamara for his support to Yugoslavia and expressed complete satisfaction with relations between the Government and Bank staff.
5. Mr. McNamara thanked him for his kind appreciation and praised the Government's efforts in building good relations with the Bank. He said that the role of the World Bank needs to be expanded in response to the serious problems that developing countries face. The Bank's lending program in the last few years, though large, was essentially the same as had been projected in the late seventies. In the meantime, however, inflation had accelerated, energy prices had sharply increased,

July 16, 1980

structural problems had become more acute and the entry of China had further increased the demand on the Bank's financial resources. Mr. McNamara asked for Mr. Kostic's assistance in his capacity as Governor to assist the Bank to increase its lending capacity. He hoped that during the Annual Meetings the Governors will draw attention to the Bank's needs but in a realistic way which took account of the difficulties that countries faced in providing increased support.

6. Mr. Kostic hoped that Yugoslavia can continue to count on substantial lending from the Bank. He also said that the Government was interested in structural adjustment loans. Mr. McNamara said that the Bank intended to continue lending to Yugoslavia on a substantial scale and that structural adjustment loans could be made to Yugoslavia. He added that although he was not fully familiar with details, he felt that such loans could be considered for the energy sector and export related activities.

7. Mr. McNamara pointed out the delays in external debt reporting from Yugoslavia. He said that annual data was outstanding for 1978 and 1979 and the quarterly reporting had broken down. Although the discussion had focussed on wider issues, he felt that it was necessary to draw the Government's attention to these delays.

Cleared with and cc: Mr. Knox

cc: Mr. McNamara's Office
Messrs. Stern
Chaufournier o/r
Kavalsky
El Darwish

RKChopra:am

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: A. David Knox, Acting Vice President, EMENA *AMK*

SUBJECT: *+1/2/80*
YUGOSLAVIA: Addendum to the Brief for the Visit of Mr. Kostic

DATE: July 15, 1980

1. We have received a letter this morning from Mr. Kostic requesting that we give greater priority to the preparation of the Sixth Railway Project, "so that the project appraisal can be completed in time to make the loan effective in 1981." He states in his letter that he has been informed that the Bank's decision to delay the project effectiveness date from 1981 to the first half of 1982 was due to non-compliance with the financial conditions under the Fifth Railway Project. Although we do not know whether he will raise this matter during his meeting with you at 6:00 p.m. today, this note provides the necessary background in case he does.

2. The objective of the financial covenants under the Fifth Railway Project was initially to reduce compensation payments to the Railways from 22 percent of total revenues of all railway enterprises in 1976 to 15 percent in 1980. Although substantial tariff increases have been put into effect (15, 18 and 18 percent increases for passenger traffic in 1978, 1979 and 1980 respectively and 8, 12 and 16 percent for freight traffic in the same years), compensation payments increased to 25 percent of total revenues in 1979, mainly because of higher than expected inflation. Due to continuing high inflation, compensation payments are not expected to decrease in 1980 despite substantial tariff increases that have been announced.

3. We are in the process of preparing Regional proposals on how to approach the compensation issue. Since this matter is still under discussion within the Bank, we recommend that you indicate our continued willingness to find a mutually satisfactory solution with the Government, including the possibility of revising the financial covenants for 1980, if circumstances warrant. ←

4. You may also wish to point out to the Government that delays in the preparation of the Sixth Railways project are only partly related to the compensation issue. The delays have arisen largely due to the need for further project preparation and revisions in the railways investment plans. It should be pointed out that in the case of the Province of Kosovo, for which the Yugoslavs made a special plea for Bank support and where project preparation was more advanced than the other Regions, the Bank is planning to present a Kosovo Railways Project to the Board in FY81. If a mutually acceptable solution can be quickly found on the compensation issue and project preparation in the other Regions can be expedited, we would be ready to appraise the Sixth Railway Project sometime in the middle of 1981. ←

5. We have also been informed that Mr. Kostic will be accompanied by Mr. Zoran Zagar, who was an Alternate Executive Director for the Bank in the late sixties and is now a member of the Parliament in Belgrade.

Cleared with and cc: Messrs. Kavalsky, Elliott

cc: Messrs. Stern, Chopra

RKChopra:am

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. Ernest Stern)
 FROM: A. David Knox, Acting Vice President, EMENA
 SUBJECT: YUGOSLAVIA: Visit of Mr. Kostic

DATE July 11, 1980


1. Mr. Petar Kostic, Federal Secretary of Finance of Yugoslavia will visit you at 6:00 p.m. on July 15. Prior to your discussions with him during the Annual Meetings, you met him during your visit to Yugoslavia in July 1979. He will be accompanied by Mr. Ksente Bogoev, Governor, National Bank of Yugoslavia; Mr. Budimir Loncar, the Yugoslav Ambassador and Mr. Miodrag Stojiljkovic, Alternate Executive Director.
2. Mr. Kostic and Mr. Bogoev, in addition to seeing you and the IMF Managing Director, are expected to call on senior officials of the Government and visit a number of commercial banks in New York. One of the important purposes of their meetings is to gain increased financial support from commercial banks. Discussions have already been held with Mr. Miller, Secretary of the U.S. Treasury, and Mr. D. Rockefeller in Belgrade, both of whom are reportedly supportive of higher commercial bank lending to Yugoslavia. If Mr. Kostic mentions these initiatives, you could perhaps reiterate the Bank's willingness to provide support to the Government in its endeavors, not only through increased emphasis on cofinancing on World Bank projects, but also in offering assistance through our general contacts and economic and sector work in improving the access of Yugoslavia to the capital markets. In this context it may be worth reemphasizing to Mr. Kostic the need for full coordination among the various Regions and banks in Yugoslavia in their approach to the capital markets. Recent lapses in internal coordination with different Yugoslav banks approaching the markets simultaneously and the several attempts to float large amounts in one block rather than smaller amounts in carefully phased tranches may have increased the existing concern among commercial banks about Yugoslavia, which is based on the uncertainties of post-Tito Yugoslavia and the worsened balance of payments situation.
3. In his meeting with you, Mr. Kostic is expected to focus on (a) recent economic developments and future prospects, with emphasis on the stabilization and other measures being undertaken by the Government; (b) past and future World Bank support for Yugoslavia and (c) possibilities of structural adjustment lending to Yugoslavia.
4. While the overall economic growth rate has continued to be high, the balance of payments has come under increasing pressure and inflationary pressures have worsened. The current account deficit on the balance of payments is now estimated at \$3.7 billion for 1979 and consumer prices increased by 22 percent in 1979. Since Mr. Kostic is expected to focus on recent economic developments, the attached annex briefly outlines for your information the major recent measures and developments. You may wish

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 Re \$6 - structural adjustment lending. This is improbable. Moreover, we can get appropriate structural policy changes through other lending.

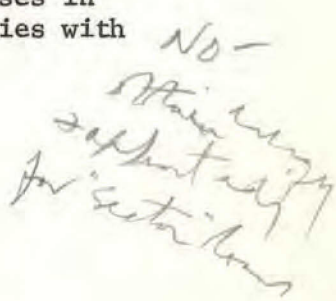
Re \$7 - please note. I am about to get tough with delinquents in debt reporting. We cannot continue to lend in the absence of current info on debt and creditworthiness.

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July 11, 1980

to express the Bank's satisfaction with the measures that have been undertaken and seek further comment on the targets, policies and measures planned for the next Five Year Plan (1981-85), expected to be finalized in early 1981. You may also wish to emphasize the need for a continuing dialogue on balance of payments problems, which was initiated with a special study on Yugoslav exports. Fruitful discussions on the study were held with the Government in June and Mr. Kostic should be thanked for his personal interest in the discussions. 

5. Mr. Kostic is likely to express appreciation for the Bank's support in past years and seek continued, if not higher support, in future. During FY76-80, the Bank committed \$1,542 million. The lending program approved for Yugoslavia for FY81-85 at the April Bank-wide review was \$1,820 million in current dollars. In May 1980, Messrs. Karaosmanoglu and Chopra visited Yugoslavia and had very useful discussions with all the Republics and Provinces on the project pipeline over the next five years. A very satisfactory format for these discussions has been developed between the Government and the World Bank, whereby each Republican Government proposes a list of priority projects to the Bank along with an indication of project preparation status. Discussions based on these proposals have led to a well stocked pipeline of projects, which responds to priorities mutually agreed between the Government and the Bank. You may wish to express appreciation of the Government efforts in this area and indicate continued financial and non-financial support for Yugoslavia. Bank operational objectives, in line with the Government's own objectives, are expected to continue to emphasize lending to the less developed Regions, with increasing emphasis on exports, employment and energy, as well as agriculture, which comprises about 50 percent of the FY81-85 lending program.

6. Government officials, including Mr. Kostic, have shown some interest in structural adjustment lending (SAL) to Yugoslavia. In response to their enquiries about whether such lending would be additional to project lending, we have indicated the difficulties of considering additionality for a high income country. The Government has not as yet indicated whether they would like the Bank to consider SAL even if it is not additional. Possible areas that appear promising for SAL's are export oriented activities and the energy sector. After the special study on exports that has been recently completed and the priority that the Government attaches to exports over the next Plan, it should be possible to reach policy understandings in this area. Similarly in energy, the Government is emphasizing the development of domestic energy resources in its investment allocation and has taken various measures to conserve energy, including substantial increases in domestic energy prices. You may wish to explore these possibilities with Mr. Kostic. 

July 11, 1980

7. In addition to the topics that Mr. Kostic raises, we suggest that you mention recurring recent delays in repayments on World Bank loans, which seem to arise largely due to administrative and procedural difficulties. External debt reporting to the Bank has also been subject to delays. Details of new commitments on external public debt have not been filed for 1978 or 1979 and the system of quarterly reporting of such commitments appears to have broken down. Both these areas would be particularly appropriate to discuss because of the presence of Mr. Bogoev, the Governor of the National Bank.

Attachment

cc: Messrs. Chaufourmier o/r
Karaosmanoglu
Chopra
Kavalsky

RKChopra:am

Yugoslavia: Recent Measures and Developments

1. Yugoslavia announced on June 6, 1980 some significant economic measures. These included:
 - (a) A 30 percent devaluation of the dinar, which changed the rate from 20.3 dinars per U.S. dollar to 27.3;
 - (b) Abolition of the 10 percent surcharge on imports, which partly offset the effect of the devaluation on import prices; the removal of this surcharge would be welcomed by the IMF as a simplification of the exchange and trade system; and
 - (c) A temporary price freeze which applies across the board.
2. These measures, according to the Government, represent the first phase of changes. A second phase will follow during the latter half of 1980. Details of the second phase are not yet available, but it is likely to include the following: a selective defreezing of prices, probably starting with energy prices; enactment of laws to regulate consumption expenditures; and controls on imports. A third phase of measures will be announced in the context of the Five Year Plan, which is due to be finalized in January 1981. These are likely to include restricting of investment and emphasis on import substitution and export expansion activities.
3. These measures are seen by the Government as a continuation of the policies that were already announced during 1979 and the first half of 1980. First, monetary and credit ceilings were announced in 1979 as part of a policy package of stabilization measures in support of which the IMF in May 1979 approved a standby arrangement in the first credit tranche (SDR 69.25 million). During the second quarter of 1979 Yugoslavia also purchased SDR 138.5 million under compensatory financing facilities (CFF) and an additional SDR 138.5 million in February 1980 under the CFF. In early June 1980, the IMF Board approved further standby credits in the higher tranches and lending under the Special Fund Facility totalling SDR 339 million. The IMF staff believes that the measures the Government has undertaken are likely to lead to a significant reduction in the current account deficit in the balance of payments compared to the \$3.7 billion deficit in 1979.
4. Second, in April 1979, an agreement was reached by the Republics and other government entities to reduce/delay planned investments in which they participate. At the end of 1979 a law was passed laying down the minimum participation of enterprises with own funds in investment; the proportion ranges from 10 percent to 85 percent of the value of contemplated investment, with the lowest for investment for export and the highest for investments based on imported oil. A temporary law passed in March 1980 prohibits all "non-economic" investments if they are less than 80 percent complete (an exception is made for hospitals, where the proportion is 50 percent). The monitoring of this law is through the Social Accounting Service. Third, the growth of personal incomes has been successfully controlled. During the first five months of 1980, real personal incomes declined by 7 percent compared to the first five months of 1979. Finally, the Yugoslav dinar has been slowly depreciating against the currencies of the major trading partners during the last few years.

5. Developments in the first five months of 1980 are already showing some encouraging signs. Compared to the first five months of 1979, exports increased by 34 percent in current dollars (12.5 percent in real terms), while import growth has been limited to 16 percent (a cut of about 6 percent in real terms). As a result of the stabilization policies, economic growth seems to be slowing down with practically no growth in real terms in industrial production. However, inflationary pressures are still significant and retail prices increased at an annual rate of 25 percent in the first few months of 1980 (import prices increased by 22 percent).

6. In view of the measures announced and developments in recent months, the Yugoslav Government is in the process of revising some of the major economic targets for 1980. The economic growth target is likely to be revised to 3 - 4 percent (compared to the earlier 5 percent), with some downward adjustment in industrial production and labor productivity targets. The Government has announced its serious commitment to reduce the current account deficit in the balance of payments to \$2 billion, with a 20 percent reduction in the volume of imports and a 12 percent increase in the volume of exports. Finally, the expectations of inflation have been realistically adjusted upwards to perhaps 25 - 30 percent compared to the earlier target of 17 percent.

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OFFICE MEMORANDUM

TO: MEMORANDUM FOR THE RECORD

DATE: October 3, 1980

FROM: Ram K. Chopra, Chief, EMIDC

SUBJECT: Meeting of the Yugoslav Delegation with Mr. McNamara

1. Mr. McNamara met with the Yugoslav delegation for the Annual Meetings at 6:00 pm on Wednesday, October 1, 1980. The Yugoslav delegation included Mr. Kostic, Federal Secretary for Finance, Mr. Bogoev, Governor, National Bank of Yugoslavia, Mr. Loncar, Yugoslav Ambassador to the US and Mr. Popovic, Assistant Federal Secretary for Finance. Messrs. Stern, Chaufournier, Looijen, Stojiljkovic, Karaosmanoglu, LaFourcade and Chopra attended the meeting.
2. Mr. Kostic congratulated Mr. McNamara on his outstanding achievements as President of the World Bank. He said that he was sorry to see Mr. McNamara go and hoped that the troubled world of the eighties could continue to count on Mr. McNamara's contribution in some capacity. He also invited Mr. McNamara and his family to visit Yugoslavia as the first country after his retirement. Referring to Mr. McNamara's speech at the Annual Meeting, he indicated his agreement with the President's analysis of world problems and his Government's support for structural adjustment lending and the Energy Affiliate. Mr. McNamara thanked him for the compliments and the support of the Yugoslav Government for the Bank's initiatives.
3. Mr. Kostic said that in his earlier meeting with Mr. Chaufournier, he had already presented an outline of the Five-Year Plan and the present economic situation. He re-emphasized the importance his Government placed on bilateral contacts they had been having with the US and various European governments in an effort to increase the flow of external financial resources to Yugoslavia. He ended by thanking Mr. McNamara and congratulating Bank staff for the excellent cooperation between the Bank and Yugoslavia.
4. Mr. McNamara returned the compliment for the successful cooperation. While expressing understanding for the difficult economic situation that Yugoslavia was facing, he congratulated the Government for its courage and determination in the far reaching economic measures they had undertaken and were planning to take. He outlined the serious problems facing the world economy in the eighties, the increasing financial needs of developing countries and the more limited ability of the financial markets to meet these needs. In this context, he emphasized the necessity for the Bank to substantially increase its lending and requested Yugoslavia's support in various fora such as G-24 meetings for the future expansion of the Bank.
5. Mr. Kostic said that his Government agreed with the need for expansion of Bank lending and will continue to provide active support in various international bodies.

cc: Mr. McNamara's Office (2)
 Messrs. Stern
 Chaufournier
 LaFourcade
 Karaosmanoglu

RKChopra:am

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OFFICE MEMORANDUM

DATE: December 2, 1980

TO: Mr. Robert S. McNamara
(through Mr. Ernest Stern) 99

FROM: Robert Picciotto, Acting Vice President, EMN

SUBJECT: YUGOSLAVIA: Your Meeting with the President, Executive Council of the
Province of Vojvodina - Mr. Nikola Kmezic

1. Mr. Nikola Kmezic, President of the Executive Council of the Socialist Autonomous Province of Vojvodina, will visit you at 5:15 p.m. on December 4, 1980. He will be accompanied by Mr. Svetozar Rakic, Member of the Executive Council of Vojvodina for Economic Cooperation, Mr. Dusan Vlatkovic, President of Vojvodjanska Banka and His Excellency Budimir Loncar, Ambassador to the U.S.
2. Mr. Kmezic has been President of the Executive Council for about the last eight years. Prior to that, he was a Member of the Federal Executive Council with responsibilities for Economic Cooperation and Agriculture. He has also served as a Member of the Executive Council of the Socialist Republic of Serbia. Mr. Kmezic is in his late fifties and is well respected among the senior politicians in Yugoslavia.
3. Mr. Kmezic is not expected to raise any major policy issues. He is expected to use the occasion mainly to express thanks for the Bank support provided to his Province and seek continued assistance in the future. You may wish to use the occasion to seek his comments on the impact of the present balance of payments difficulties on his Province and the major policies and targets they are considering for the next Five Year Plan (1981-85).
4. As one of the more developed Provinces in Yugoslavia with a population of 2 million and a GNP per capita of \$2,900 in 1979, Vojvodina received only 5.8 percent (\$90 million) of the total lending for Yugoslavia during FY76-80. In this and previous periods, lending to Vojvodina has mainly concentrated on its participation in national projects such as highways, railways and agricultural credit. There has been only limited lending for projects exclusively or largely focussed on Vojvodina. An example of such lending is the gas pipeline project in FY73.

cc: Messrs. Karaosmanoglu, Chopra

RKChopra:am

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OFFICE MEMORANDUM

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DATE: January 23, 1981

TO: Mr. Robert S. McNamara
(through Mr. Ernest Stern, Senior Vice President)

FROM: Robert Picciotto, Acting Regional Vice President, EMENA

SUBJECT: YUGOSLAVIA - Visit of Mr. Petar Kostic

1. Mr. Petar Kostic, Federal Secretary of Finance of Yugoslavia will visit you at 6.00 p.m. on Monday January, 26. Mr. Kostic is expected to be accompanied by Mr. Budimir Loncar, Yugoslav Ambassador to the United States and Mr. Miodrag Stojiljkovic, Alternate Executive Director.

2. Mr. Kostic is returning to Belgrade from New Zealand where he participated in meetings of the Muldoon Committee and he may be expected to report briefly on those meetings.

3. During meetings with you in July last and during the Annual Meeting, Mr. Kostic outlined the economic stabilization measures which had been introduced with a view to reducing the serious current account deficit in Yugoslavia's balance of payments. Mr. Kostic will wish to report on the encouraging results of those measures and the economic and political developments in the first "Post Tito" year.

4. As indicated in the Annex hereto, the Yugoslav Government moved decisively in 1980 to address the serious balance of payments difficulties that had emerged in 1979. You may wish to congratulate Mr. Kostic for the resolve and commitment displayed by the Government over the year in pursuit of its balance of payments goals and express satisfaction at the outcome. You may also wish to express approval of the more austere growth path that has deliberately been chosen in order to facilitate adjustment in the external accounts. Finally you may wish to express your hope that a better performance in the area of prices might be possible in 1981.

5. Appreciation for the Bank's support of Yugoslavia's development efforts is likely to be expressed by Mr. Kostic, together with a request for its continuation.

6. Insofar as our lending program is concerned we are maintaining a continuing dialogue and relationship in a most cooperative atmosphere. You may wish to express thanks for the cooperation being extended at operational levels and for Yugoslavia's continuing support of the Bank and its policies.

cc: Messrs. Chaufournier (o/r) EMNVP
Karaosmanoglu (o/r) EM1
Humphrey EM1

FPovey/bsw

Attachment

+ 17 Aug
H. Picciotto
10/23/81

01/28

Economic Management and Developments in 1980.

1. Economic management in 1980 has been dominated by the goal of reducing the current account deficit in the balance of payments. This had reached \$3.7 billion in 1979, about 5.5 percent of GDP, and the Yugoslavs had set themselves the ambitious target of reducing this to \$2 billion in 1980. It seems likely that the final figures will be close to target, at around \$2.3 billion, or 3 percent of GDP. This goal has been achieved through the purposeful application of a stabilization program over the year. The elements of this program have included a more active exchange rate policy (including a 30 percent devaluation in June), tight monetary policy, an effective incomes policy, targeted cuts in noneconomic investment and some additional incentives offered to exporters. The sharpness and scale of this adjustment has inevitably affected growth and investment. Social product is expected to grow by only 2.5 percent in 1980. There is likely to be a decrease in fixed investment (of about 2 percent) instead of the growth of 9 percent per year experienced in the last four years. Despite this considerable diminution in aggregate demand, inflation has worsened considerably with the social product deflator rising by as much as 30 percent. This in large measure reflects the combined effects of international price trends and the June devaluation, together with a series of administered prices adjustments designed to rationalize the pricing structure, particularly for agricultural products.

2. Concurrent with these measures, Yugoslavia's economic managers have been negotiating the framework for the next (1981-85) Five Year Plan. Notwithstanding disagreements between the republics on a number of issues, particularly the scale, mechanisms and beneficiaries of resource transfers from rich to poor republics, the basic interrepublican accords have been concluded and the plan is expected to be formally adopted in February. The draft plan anticipates a more subdued pace of development than Yugoslavia has hitherto enjoyed, with social product planned to grow at about 4.5 percent over the period, and employment at 2.5 percent. The plan will stress structural change in the external sector, through 8 percent annual growth in merchandise exports and continued import substitution, notably in energy.

3. Accord on the framework for the Five Year Plan has permitted finalization of the Annual Plan resolution for 1981. Here too growth targets are extremely conservative, with GDP planned to grow by not more than 3-3.5 percent, industrial and agricultural production by 4 percent each and employment by 2 percent. A further improvement in the current account deficit, to \$1.8 billion, is to be aimed for. Policy will aim to reduce the ratio of investment to total expenditure still further; however, personal incomes will be allowed to rise slightly after their sharp fall in 1980.

4. Mention should finally be made of capital account transactions in 1980. Yugoslavia concluded a standby agreement with the IMF in May 1980 and drew financing of SDR 330 million against this agreement in 1980. An IMF standby review mission visited Yugoslavia in October, with a staff member from

the World Bank participating as an observer. The IMF team have since revisited Yugoslavia and will propose to their Board approval of Yugoslavia's request for a considerable expansion and a lengthening of the existing standby to a level of 200 percent of quota (SDR 554 million) per year for three years 1981 to 1983. This will be considered by the IMF Board on January 30. In addition the National Bank of Yugoslavia, for the first time in several years, re-entered international capital markets in late 1980 as a borrower, and has successfully concluded an ambitious borrowing program from bilateral and multilateral sources.