McNamara Papers

Contacts
Yugoslavia (1968-1971).

YUGOSLAVIA

YUGOSLAVIA

1.	5/22/68	Ambassador Bogdan Crnobrnja
2.	7/15/68	Marian Cetinic, Member of the Central Committee of the League of Communists Aleksandar Bogoev, General Manager, National Bank of Yugoslavia Zdravko Tlalbasic, interpreter Ambassador Bogdan Crnobrnja
3.	10/4/68	Kiro Gligorov, Vice President, Federal Executive Council Janko Smole, Federal Secretary for Finance Ambassador Bogdan Crnobrnja Sime Karaman, Economic Counsellor, Embassy
4.	1/10/69	Ambassador Bogdan Crnobrnja
	5/2/69	Deputy Minister of Finance Zelic
5.	7/1/69	Ambassador Bogdan Crnobrnja
	7/18/69 (Aspen-Eisen.Ex.)	Muhamed Hadzic, Member of the Executive Council and President, Commission for Economic Affairs, Government of the Republic of Bosnia and Herzegovina, Sarajevo; Professor of Political Economy, University of Sarajevo
6.	10/2/69	Janko Smole, Federal Secretary for Finance Ambassador Bogdan Crnobrnja Ksente Bogoev, President, Executive Council SR Macedonia Ivo Perisin, Governor, National Bank of Yugoslavia Mirko Mermolja, Senior Counselor, National Bank of Yugoslavia
	2/2/70	Ambassador Bogdan Crnobrnja
7.	4/14/70	Ante Zelic, Deputy Federal Secretary for Finance
	5/20-22/70 (Paris)	Representatives and Observers at OECD Conference: Borivoje Jelic, Federal Secretary of National Economy Vasilije Milovanovic, Director General of Economic Affairs to the Secretary of State for Foreign Affairs Dr. Bozidar Franges, Minister Plenipotentiary, Chief of the Permanent Delegation Dr. Dusan Anakioski, Director, Federal Institute of Planning Mme. Milena Kandijas, Permanent Delegation
	9/2/70	Ambassador Bogdan Crnobrnja
8.	9/24/70 (Copen.)	Janko Smole, Secretary of Finance

ALL TRIP MEMCONS EXCEPT TABS 9 and 10 ARE CONTAINED IN ONE COMPOSITE MEMO UNDER TAB 11

9. 10/12/70 (Belgrade)	Prime Minister Mitja Ribicic Janko Smole, Federal Secretary of Finance
"	Janko Smole, Federal Secretary of Finance Ante Zelic, Deputy Federal Secretary R. D. Dodic, Senior Adviser M. Zekanovic, Economist Mrs. B. Jojic, Translator
"	Borivoje Jelic, Federal Secretary for Economy
"	Dr. Rikard Stajner, Director, Federal Planning Institute
"	Tom Granfil, Member, Federal Executive Council in Charge of Economic Affairs
"	Nikola Miljanic, Member, Federal Executive Council in Charge of Economic Affairs
"	<u>Executive Council of Serbia</u> Milenko Bojanic, President Mr. Ikonic, Vice President T. Vlaskalic, Member V. Gajinovic, Secretary of the Foreign Relations Committee
"	Rajf Dizdarevic, Secretary, Central Council of the Federation of Trade Unions of Yugoslavia
"	Rudi Kolak, President, Federal Chamber of Economy
"	<u>Yugoslav Banker's Association</u> Ljubisa Lukic, President, Assn. and General Manager, Boegrad United Bank Milan Ivanovic, Secretary General of the Assn. Dragan Miljkovic, General Manager, Yugoslav Investment Bank Bozidar Linhart, General Manager, Yugoslav Bank for Foreign Affairs Sreten Cvijovic, General Manager, Economic Bank, Beograd Dragutin Sebrek, General Manager, Economic Bank, Zagreb Niko Kavcic, General Manager, Bank of Ljubljana
"	Slavko Baum, General Manager, Export Credit Insurance Fund
"	<u>National Bank of Yugoslavia</u> Ivo Perisin, Governor Bramko Colanovic, Vice President A. Bogoev, General Manager M. Mermolja, Senior Adviser Mrs. Nada Zivanovic, Director Mrs. D. Filipovic, Translator

10/13/70
(Belgrade)

21 May Motor Factory
Dusan Pudja, General Manager, UMI
Djordje Brkic, General Manager, DMB
R. Barisic, Director, DMB
R. Colic, Director, DMB
V. Despotovic, Chairman, Workers' Council
Lj. Nikolic, Chairman, Managing Board
Mr. Rakovic, General Manager, Zastava Auto. Enterprise

"

Agro-Industrial Combine, Padinska Skela
Petar Zecevic, Managing Director
A. Pavlovic, Deputy Managing Director
M. Milosavljavic, Director
V. Ciric, Director of the Research Institute

10/13/70
(Novi Sad)

Executive Council of Vojvodina
Sava Filipovic, Vice President
Z. Cosic, Member of the Council
Milan Janjetovic, Secretary of Agriculture
D. Vlatkovic, Secretary of Finance
V. Probac, Secretary of Information

"

Dunav Tisa Dunay Canal Enterprise and Koprodukt
V. Bulatovic, General Manager
Koprodukt, Trade Association of Livestock Producers and Meat Products Manufacturers
T. Birovljev, General Manager
Lj. Kasikovic, Deputy General Manager
S. Zvekic, Chairman, Workers' Council
Agricultural Institute
T. Vrebalov, Director
Faculty of Agriculture of Novi Sad University
Prof. R. Savic
Prof. S. Reljin

10/14/70
(Ohrid)

Executive Council of Macedonia
Ksente Bogoev, President
K. Crvenkovski, Member
N. Uzunov, Member
S. Hristov, Chairman, Economic Chamber of the Assembly of Macedonia
A. Makraduli, Secretary of Finance
M. Balevski, President of the Assembly of the City of Ohrid
T. Ivanovski, General Manager, Investment Bank, Skopje
S. Moris, Vice President, Chamber of Economy of Macedonia
A. Arsov, General Manager, Chemical Industry OHIS, Skopje
G. Ptrovski, General Manager, Agricultural Combine "Pelagonija," Bitola

10/14/70 (Skopje)	<u>Assembly of the City of Skopje</u> D. Stavrev, President T. Papes, Vice President A. Manevski, Vice President V. Muratovski, General Manager, Department for Reconstruction and Development, Skopje K. Kitanovski, Director, Department for Regulation of River Vardar
10/14/70 (Sarajevo)	<u>Executive Council of Bosnia and Hercegovina</u> Dragutin Kosovac, President S. Lopandic, Vice President Dz. Muminagic, President of the Assembly of the City of Sarajevo Dj. Peklic, Secretary of Finance N. Stojanovic, Director of Republican Institute for Social Planning R. Makic, General Manager of the Investment Bank, Sarajevo
"	<u>"Energoinvest"</u> E. Blum, General Manager R. Selmanagic, Deputy General Manager H. Pitic, Financial Manager I. Papo, Assistant General Manager
"	<u>Republican Chamber of Economy, and Industrialists</u> H. Numic, Vice President S. Tomic, General Manager, Mining and Metallurgy Combine, Zenica F. Gorski, General Manager, Chemical and Oil Industry HENA Lj. Grupkovic, General Manager, ELEKTROPRENOS R. Krunic, Assistant General Manager, Cellulose Factory, Banja Luka
10/15/70 (Dubrovnik)	<u>Meeting on South Adriatic Project and Babin Kuk Project</u> Nikola Gril, Member of the Executive Council of Croatia A. Vetma, President of the Assembly of the City of Dubrovnik R. Lujak, General Manager of the Enterprise "Minceta" I. Bautovic, Director of the Enterprise "Minceta" V. Betica, President of the Tourist Federation N. Vusovic, Coordinator of the South Adriatic Project A. Marinovic, Department Head, Urban Planning Institute
"	<u>UNDP Team</u> Mr. Lujak Mr. Gril A. S. Bam
10/15/70 (Hercegnovi)	<u>Executive Council, Montenegro</u> Zarko Bulajic, President Z. Dragovic, Secretary of Economy Mr. Drecun, Secretary of Finance V. Knezevic, President of the Committee for International Relations P. Stijepcic, President of the Assembly of the City of Hercegnovi M. Cemovic, General Manager, Investment Bank, Titograd D. Grupkovic, Director, Republican Institute for Social Planning J. Sapuric, Director of the catering enterprise "Boka"

10/15/70 (Zagreb)

Executive Council of Croatia
Dragutin Haramija, President
E. Nonveiller, Member
N. Gril, Member
I. Bukovic, President of the Economic Chamber of the Republican Assembly

"

Republican Chamber of Economy and Industrialists
V. Gasparovic, President, Chamber of Economy of Croatia
Ante Markovic, General Manager, "Rade Koncar"
B. Prikril, for the Port of Rijeka
I. Marjanovic, General Manager, Association of Shipbuilding Enterprises "Jadranbrod"
I. Spika, General Manager, Agro-Industrial Combine, Osijek
M. Basic, Vice President, Chamber of Economy, Croatia
I. Pavlisko, General Manager of "INGRA"
M. Cuculic, General Manager of "OKO"
P. Gazi, General Manager of "Podravka"
N. Veber, General Manager of Steelworks Sisak

"

Meeting at the Reception given by Mr. Haramija, President, Executive Council of Croatia
Ivo Supek, Rector of Zagreb University
J. Kolar, President, Assembly of the City of Zagreb
V. Gasparovic, President of the Chamber of Economy of Croatia
Z. Moric, Adviser in the Republican Executive Council
V. Rajkovic, General Manager of the Republican Institute for Social Planning

10. 10/16/70 (Belgrade)

President Tito

"

Industrialists (Serbia)
Z. Mucalov, General Manager of "Energoprojekt"
L. Ljubisa, General Manager of the Community of Yugoslav Electric Power Enterprises
V. Aksin, Deputy General Manager of "Naftagas"
P. Marjanovic, Director of Refinery Pancevo
B. Rmandic, Assistant General Manager of Refinery Pancevo
R. Sutic, Director, Copper Rolling Factory, Sevojno
M. Savicevic, Director, "Generalexport"
Dj. Lezimirac, Director, "Generalexport"
P. Rakovic, General Manager "Crvena Zastava," Automobile Factory

"

Federal Fund for Developing Regions
Aleksandr Radevic, Director

"

League of Communists of Yugoslavia
Kiro Gligorov, Member Presidium

11. COMPOSITE MEMO OF YUGOSLAVIA TRIP

12. MR. MCNAMARA'S IMPRESSIONS OF YUGOSLAVIA (Filed in RMcN office)

13. 1/6/71 Ambassador Bogdan Crnobrnja

14. 2/16/71 Mr. Z. Mucalov, General Manager, Energoprojekt
Dr. Bozidar Linhard, Gen. Mgr. Yugoslav Bank for Foreign Trade

15. 3/10/71 Gavra Popovic, Special Adviser to the Federal Secretary for Finance

16. 4/21/71 Zarko Bulajic, President of the Executive Council of the Socialist Republic of Montenegro

9/21/71 Ambassador Bogdan Crnobrnja - farewell call

17. 10/1/71 Janko Smole, Federal Secretary for Finance
Ante Zelic, Deputy Federal Secretary for Finance
Ratoljub Dodic, Counselor, Federal Secretariat for Finance

18. 6/26/72 Ambassador Toma Granfil; Miodrag Stojiljkovic, Minister Counselor(Economi

7/5/72 Petar Kostic, Eisenhower Exchange Fellow
Milutin Galovic, First Secretary (Economic), Embassy

Emerick
7/5/72 E. Blum, ENERGOINVEST

19. 9/29/72 Janko Smole, Federal Secretary for Finance
Branislav Colanovic, Governor of the National Bank of Yugoslavia
Milovan Markovic, Assistant Federal Secretary for Foreign Affairs
Miodrag Stojiljkovic, Minister Counselor (Economic) at Yugo. Embassy
Ratoljub Dodic, Senior Counselor, Federal Secretariat for Finance

20. 8/1/73 Janko Smole, Finance Minister
Mr. Popovic, Aide to Mr. Smole
Miodrag Stojiljkovic, Minister Counselor (Economics) of Embassy

21. 9/25/73 (Nairobi) Janko Smole, Federal Secretary for Finance
Aleksandar Bogoey, Vice Governor, National Bank of Yugoslavia
Gavra Popovic, Assistant Federal Secretary for Finance

22. 3/5/74 Ambassador Toma Granfil

23. 5/7/74 Ambassador Toma Granfil

24. 6/14/74 Momcilo Cemovic, Federal Secretary for Finance
Ambassador Toma Granfil

25. 10/2/74 Momcilo Cemovic, Federal Secretary for Finance
Ambassador Toma Granfil
Branislav Colanovic, Governor of the National Bank of Yugoslavia
Gavra Popovic, Assistant Federal Secretary for Finance

12/16/74 Ambassador Toma Granfil

26. 3/19/75 Dzemal Bijedic, President of the Federal Executive Council (Prime Min.)
Janko Smole, Member of the Federal Executive Council
Miodrag Stijiljkovic, Assistant Federal Secretary for Finance
Ambassador Toma Granfil

27.	7/8/75	Emerik Blum, Managing Director, ENERGOINVEST, Sarajevo Dane Maljkovic, Mayor of Sarajevo
28.	8/30/75	Momcilo Cemovic, Federal Secretary for Finance Branislav Colanovic, Governor, National Bank of Yugoslavia Gavro Cerovic, Department Head, Federal Secretariat for Foreign Affairs Ambassador Toma Granfil
	10/8/75	Ambassador Toma Granfil (Farewell reception)
29.	10/15/75	Ambassador Toma Granfil Vojislav Bulatovic, General Director, Dunav-Tisa-Dunav Jon Srbovan, Chairman, Chamber of Economy of Vojvodina
	1/6-10/76 (Dev.Cte., Kingston)	Momcilo Cemovic, Minister of Finance
30.	2/26/76	Ambassador Dimce Belovski Naum Ackovski, Counselor (Economic) of Embassy
31.	6/1/76	Blagof Popov, President of the Executive Council of the Republic of Macedonia Stojan Matkaliev, Member of the Executive Council of Macedonia Mr. Zaharievski, General Manager, Stopanska Banka Skopje, Macedonia Ambassador Dimce Belovski
32.	6/8/76	Dzemal Muminagic, Vice President of the Republic Assembly of Bosniz-Herzegovina Anet Sucic, Mayor of Sarajevo Emerik Blum, Managing Director, ENERGOINVEST Ambassador Dimce Belovski
33.	10/6/76 (Manila)	Momcilo Cemovic, Federal Secretary for Finance
	11/22/76	Dinner at the Embassy hosted by Ambassador Belovski
	12/15/76 (New York)	Jaksa Petric, AMbassador to the UN (At luncheon hosted by Amb. Akhund of Pakistan)
34.	4/12/77	Jakov Sirotkovic, President of Exec Council, Croatia Ambassador to the U. S. Dimce Belovski Ante Zelic, Member of the Executive Council
35.	4/25/77	Momcilo Cemovic, Federal Secretary for Finance Miodrag Stojiljkovic, Assistant Federal Secretary for Finance Dr. Tomislav Badovinac, National Bank of Yugoslavia Miljan Komatina, Assistant Secretary, Federal Secretariat for Finance Ambassador Dimce Belovski

36. 9/23/77 (Annual Meeting)
Momcilo Cemovic, Federal Secretary for Finance
Bogoljub Nedeljkovic, President of the Executive Council of the Province of Kosovo
Ambassador Dimce Belovski
Miodrag Stojiljkovic, Assistant Federal Secretary for Finance

2/9/78
Ambassador Dimce Belovski (lunch)

37. 7/18/78
Dragoslav Markovic, President, Assembly of the Socialist Federal Republic of Yugoslavia
Dobroslav Clafic, President, Federal Chamber
Bogdan Crnobrnja, President, Committee for Foreign Econ Relations
Zoran Zagar, President, Cmte for Credit and Monetary System
Momir Kapor, Commission for Elections
Vukasin Micunovic, Cmte for Social Econ Relations
Milos Nikolic, Cmte for Foreign Policy
Mito Pejovski, Cmte for Finance
Ivo Senjanovic, Cmsn for Elections
Milka Scepanovic, Cmsn for Elections
Sait Zatriqi, Cmte for Internal Policy
Janez Lukac, General Secy of the Assembly
Budimir Iazovic, Chef de Cabinet for the President of the Assembly
Jelko Zagar, Counselor to the President for Foreign Policy
Vladeta Zunic, Secy of the Cmte for Foreign Affairs
Bozidar Drnjak, Dep. Chief of Political Admin-Foreign Affairs
Jalena Zimonjic, Chief of Protocol of the Assembly
Olga Bambic, Interpreter
Jeremija Lopatic, Inspector (Body Guard)
and
H. E. Dimce Belovski, Ambassador to the United States

38. 9/22/78
Petar Kostic, Federal Secretary for Finance
Dimce Belovski, Ambassador
Ksente Bogoev, Governor, National Bank of Yugoslavia
Nikola Jelic, Actg. Asst. Fed. Sec. for Finance
Anthony Looijen, Executive Director

39. 2/5/79
Ivan Stambolic, President, Executive Council, Govt. of Serbia
Ambassador Dimce Belovski
Milos Milosavljevic, Vice President, Assembly of Serbia
Rade Colic, Member, Exec Council of Serbia
Miodrag Stojilihkovic, Alternate ED

40. 3/1/79
Ambassador Dimce Belovski
Minister Counselor Milutin Galovic

41. 5/31/79
Petar Kostic, Federal Secretary for Finance
Toma Granfil, Director General, Yugoslav Export Credit and Insurance Fund
Ambassador Dimce Belovski

42. 6/22/79
Milanko Renovica, Pres of Ex. Council of Bosnia
Tarik Ajanovic, Member of Ex. Council of Bosnia (foreign economic relations)
Stanlko Tomic, Pres of Chamber of Economy of Bosnia
Luka Reljic, Member of Ex Council and Director of Ec Planning
Dimce Belovski, Amb.

43. 7/16/79-7/19/79 (Yugoslavia)

Marshal Tito
and
RMcN Notes (Filed in RMcN office)

44. 7/16-19/79 (Yugoslavia)

Peter Kostic - Federal Secretary of Finance
Milovan Zidar - Federal Secretary of Agriculture
Ante Zelic - Federal Secretary for Transportation
Stojan Matkaliev - Federal Secretary of Energy
Milovan Markovic - Vice President, Vice President of Executive Council of Serbia
Bahri Oruci - President of the Autonomous Province of Kosovo
Ivan Stambolic - President of the Republic of Serbia
Blagoj Popov - President of the Republic of Macedonia
Anton Vratusa - President of the Republic of Slovenia

Ljubisa Djuric - Belgrade TV

<u>In Kosovo</u>
Riza Sapundzija, Vice President
Kzemsit Durici, Secretary for Finance of the Privince
Dragan Vlaic, Secy for Agriculture of Kosovo
Ilihaz Ilijazi, President of Kosovska Banka

<u>In Slovenia</u>
Mrs. Milica Ozbic, Secy for Finance
Bogdan Osolnik, President of the Committee for Foreign Affairs
Janko Smole, President of the Ljubljanska Banka

(List of those attending Mr. Kostic's reception filed in briefing book).

9/25/79 — Ambassador Belovski - farewell call

45. 9/29/79 Belgrade

Petar Kostic, Federal Secretary for Finance
Gavra Popovic, Asst. Federal Secretary for Finance
Miodrag Stojiljkovic, Alt. Executive Director
Mr. Mijovic

46. 10/23/79

Bogdan Crnobraja, Chairman, Committee for Foreign Economic Relations of Yugoslav Parliament
Miodrag Stojiljkovic

47. 2/25/80

Ambassador Budimir Loncar, courtesy call
M. Stojiljkovic, Alt. E.D.
Mr. Galovic

48. 5/22/80

Momcilo Cemovic, President, Exec Council, Sov Rep of Montenegro
Mr. Lukovic, Advisor on Foreign Economic Relations
Mr. Dragovic, General Manager, Investiciona Banka Titograd
Mr. Beratovic, Deputy GenMgr, Investiciona Banka
Budimir Loncar, Ambassador to the US
Mr. Stojiljkovic, Alt. ED

49.	7/15/80	Petar Kostic, Federal Secretary of finance Ksente Bogoev, Governor, National Bank of Yugoslavia Budimir Loncar, Ambassador to the US Mr. Looijen, ED Mr. Stojiljkovic, Alternate ED (+ a very large delegation)
50.	10/1/80 Annual Meeting	Messrs. Petar Kostic, Federal Secretary for Finance Bogoev, Governor, National Bank of Yugoslavia Loncar, Ambassador to the US Popovic, Asst. Federal Secretary for Finance Looijen (ED) Stojiljkovic, Alt ED
51.	12/4/80	Nikola Kmezic, President of the Executive Council of the Province of Vojvodina Svetozar Rakic, Member of the Executive Council for Econ Coop Dusan Vlatkovic, President of Vojvodjanska Banka Budimir Lonca, Ambassador to the U.S. Milutin Galovic, Minister-Counselor of the Embassy (Economic)
52.	1/26/81	Petar Kostic, Fed. Secretary of Finance Budimir Loncar, Amb. to the US Stojiljkovic, Alt. E.D. Looijen, (ED)

1

OFFICE MEMORANDUM

TO: Files

DATE: May 24, 1968

FROM: S. R. Cope

SUBJECT: Yugoslavia

1. The Yugoslav Ambassador, Mr. Bogdan Crnobrnja, called on Mr. McNamara on Wednesday, May 22, at 10:00 a.m. I was present.

2. The Ambassador explained that he was calling to pay his respects to Mr. McNamara as the new President of the Bank. Relations between the Bank and Yugoslavia were good, but this did not mean that improvements were not possible, and he hoped that under Mr. McNamara's presidency, it would be possible to streamline some of the Bank's procedures. Mr. McNamara replied that he had understood that there was an active relationship between Yugoslavia and the Bank, which had provided some $300 million for development in Yugoslavia.

3. The Ambassador said that he felt that the association between the Bank and Yugoslavia had been beneficial both to the Bank and to Yugoslavia. The Yugoslav Government was interested in the possibility that some of the Eastern Bloc countries would join the Bank, and it would be to the advantage of all concerned if the Bank's membership could be universal. Mr. McNamara agreed. He said that he welcomed the opportunity of going to Bucharest to attend the ACC meeting, and that he would use the occasion to make clear that the Eastern Bloc countries, if they wished to join, would be welcome.

SRCope:mmr
IBRD
cc: Mr. J. Burke Knapp
Dr. Pieter Lieftinck
Mr. Zoran Zagar

Form No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: May 21, 1968

FROM: S. R. Cope

SUBJECT: Yugoslavia

The Yugoslav Ambassador is calling on you tomorrow at 10:00 a.m., and you might be interested in the attached biographical details about him.

President has seen

H.E. Bogdan Crnobrnja
Ambassador of Yugoslavia

Born December 16, 1916 in Vrgin Most, Yugoslavia. After graduating from a Teacher's College he was temporarily employed as teacher and subsequently completed his studies in Philosophy.

During the War Mr. Crnobrnja occupied various political and military posts in the National Liberation Struggle of Yugoslavia and holds the rank of Colonel in the Yugoslav Army. After the War he was twice elected to the National Assembly, also served as Assistant Secretary for Foreign Trade, Assistant Secretary for Foreign Affairs, Ambassador to India, and most recently Secretary General to the President of the Republic. Acted as Chief Yugoslav Delegate to several meetings of the United Nations Economic Commission for Europe, as well as member of the Yugoslav Delegation to the General Assembly of the United Nations in 1958 and to the Conferences of Non-Aligned Nations in 1961 and 1964.

Mr. Crnobrnja was member of the Executive Committee of the Socialist Alliance of the Working People of Yugoslavia, and is now a member of the Central Committee of the League of Communists of Yugoslavia. He is bearer of high Yugoslav and foreign decorations.

He was appointed as Yugoslav Ambassador in Washington in August 1967.

Mr. Crnobrnja is married and has two children.

Europe Department
May 21, 1968

DRAFT

CONFIDENTIAL

May 3, 1968

BRIEFING PAPER

YUGOSLAVIA

I. OPERATIONS

The Bank has made eleven loans to Yugoslavia for a total amount of $331.0 million of which $296.9 million was outstanding as of March 31, 1968. Loans of $10 million, $10.5 million and $50 million were made respectively in February 1967 for highways, in July 1967 for industrial modernization and in March 1968 for the Belgrade-Bar railway.

Execution of most of the projects has been satisfactory. Progress on the first railway project (361 YU--1963) was delayed last year primarily because of a major increase in its cost which had to be covered by additional contributions from the Federal Government and the Republics concerned. A further cost increase has occurred this year with respect to the second railway project (395 YU--1964) which will almost certainly force a cut back in the modernization plan originally contemplated. The revised project would still be acceptable from a technical standpoint. Work on the highway loans has proceeded very well, the first one (344 YU--1963) was completed on schedule in 1966 and the second one (485 YU--1967) is somewhat ahead of schedule and within the original cost estimates.

The Bank and IFC are presently appraising various industrial enterprises in Yugoslavia for a proposed second loan for industrial modernization of about $13 million. A proposed aluminum project on which discussions started two years ago is no longer under consideration for Bank financing since it proved impossible to attract foreign private participation on appropriate terms for joint financing.

The Bank has agreed to review the Government's plans for both highway and hydroelectric power station construction over the next few years, to examine proposed priorities among various project proposals in these sectors, and if possible to identify projects suitable for Bank financing next year. We are also exploring whether an acceptable project can be prepared for financing imported agricultural machinery.

The Government has continued to have a high regard for the World Bank, not only because the Bank is almost its only source for long-term financing, but also because of the close contacts over the years at the policy and technical levels, and the Bank's objective interest in Yugoslav development problems. We have followed closely such major steps as the 1965 economic reforms, and we are trying, with IFC, to promote the application of a businesslike approach to the conduct of industrial enterprises without the onus of promoting any national or commercial interest. This role of the Bank is perhaps more appreciated by and effective in Yugoslavia, a neutral communist country, than elsewhere.

President has seen

II. BASIC DATA

A. Economic

Population (1967): 20.0 million.
GNP per capita (1967): about $500 (adjusted to OECD national accounts concepts).
Gross foreign exchange reserves (end of 1967):
Convertible currencies - $148 million (at end of February 1968; figure at end of 1967 --$80 million-- was abnormally low owing to rolling over of debts).
Payments agreements - $183 million (total reserves are equivalent to somewhat less than 2½ months of 1967 imports).
External public debt outstanding (December 1967): $1,892 million.
External debt service ratio (as % of 1967 export earnings): 21.5%.

B. Existing Bank Loans as of March 31, 1968

Loan Number	Year	Borrower	Purpose		Amount (US $ million) Bank	Undisbursed
		Loans fully disbursed			160.5	
318 YU	1962	Yugoslav Investment Bank	Power		30.0	.2
395 YU	1964	Yugoslav Investment Bank	Railways		70.0	48.2
485 YU	1967	Yugoslav Investment Bank	Roads		10.0	7.9
504 YU	1967	Yugoslav Investment Bank	Industry		10.5	10.5
531 YU	1968	Yugoslav Investment Bank	Railways		50.0 1/	50.0
		Total			331.0	
		of which has been repaid to Bank and others			34.1	
		Total outstanding			296.9	
		Amount sold		4.6		
		of which has been repaid		1.6	3.0	
		Amount held by Bank			293.9	
		Total undisbursed				116.8

Repayments to the Bank within five years: $46 million.

1/ Not yet effective.

C. Release of Bank 9% and IDA 90%

Bank 9% amounting to $9.6 million released in instalments through July 1, 1971.
IDA 90% amounting to $3.6 million released in instalments through June 30, 1970.

III. POLITICAL SITUATION

Yugoslavia is a federal state where regional loyalties are strong. It is a socialist state where in the "social sector" the means of production are socially owned and managed in trust for society by those who work in them. However there is a large private sector, mainly in agriculture, which supports approximately half the total population. For many years there has been movement towards a more open society with an increasing measure of freedom for the ordinary citizen. The "liberal" movement in politics has been paralleled by a liberal movement in the economy, culminating in the Economic Reform of July 1965, referred to in IV B below. These movements have brought an increasing devolution of authority in political and social affairs from the Federal Government to Republican and local governments and in economic affairs from governments to economic enterprises. The motivation for these changes appears to have been quite largely a sincere attempt to build a political and economic structure which within the framework of the one-party state will be more responsive to the needs and wishes of ordinary citizens. However, pressure for change has resulted also from strong regional loyalties inherited from earlier divisions of the country, and there is the potential danger that separatist tendencies might be carried so far as to impair the efficient running of the country. President Tito, universally respected, is regarded as a unifying factor, and the choice of a suitable successor will not be easy. In these circumstances a strong Communist Party, if it continues to be flexible in approach, could be a valuable force holding the country together.

In external relations Yugoslavia is deeply committed to its policy of non-alignment, but this policy may be subjected to increasing pressure as a result of the emergence and strengthening of large trading blocs (EEC, EFTA and COMECON) from which Yugoslavia has so far remained aloof.

IV. ECONOMIC SITUATION AND PROSPECTS

A. Background

Yugoslavia is well endowed with natural resources. Although the larger part of the country is mountainous, a quarter consists of valley lands and the southern part of the great Hungarian plain, and these areas contain some of the richest agricultural land in Europe. The country has iron, copper, lead and zinc, good bauxite and lignite deposits, oil and natural gas, and a large hydro-electric power potential still to be developed. Yugoslavia also has great natural beauties which support a rapidly expanding tourist industry. Agriculture contributes just over 30% of gross material product, industry and mining slightly more. Population is growing by about 1% annually. Exports are in general well diversified, though exports to the important EEC market are less so, half of the latter consisting of a very few agricultural commodities. Yugoslavia has, over the post-war period, maintained high levels of investment and domestic savings, with capital imports financing only about 2% of investment expenditures in recent years.

B. Recent Developments

Yugoslavia has achieved an impressive growth of output in most years since 1952 with gross material social product rising on average by 9-10% annually. In the past two years, however, growth has slowed sharply (the social product rose by only 1% in 1967), partly as a result of changes brought about by the Economic Reform of 1965. The Reform is designed to achieve a more efficient use of resources, partly by giving greater emphasis to development in those sectors in which Yugoslavia enjoys comparative advantages, thus promoting a greater participation by Yugoslavia in the international division of labor and partly by transferring from political bodies to enterprises (firms) and banks the main responsibility for decisions on the economy. While the objectives of the Reform are sound, and there has been encouraging progress in agriculture, the production of basic materials, and tourism, the reform has posed difficult problems of adjustment for many industrial enterprises. Some have adjusted successfully, but many have not. Substantial changes in the structure and organization of the economy can come about only rather slowly. Also, the adjustment process has been made more difficult by growing barriers to some important exports in foreign markets, particularly the EEC. In supporting the reform measures, the Yugoslav authorities have pursued restrictive credit and fiscal policies and the dinar has been stable in foreign exchange markets. At present, the authorities are moving cautiously to provide some stimulus to economic expansion with special emphasis on export promotion.

C. Bank/IDA Eligibility

Yugoslavia's external debt has risen appreciably in recent years, approximately doubling since 1963. However, with a fast growth of foreign exchange earnings the debt service ratio has risen only moderately. In the past two years the increase in total foreign debt has slowed and the debt service ratio has not risen. With Yugoslavia's heavy reliance on suppliers' credits, however, reflecting the limited availability of longer term loans from the West, debt service in the next four years is heavy, being equivalent on average to about 25% of prospective convertible currency earnings. This figure is high but it must be realized that it represents Yugoslavia's total obligations to Western creditors, not only those of the public sector. There seem good prospects of rolling over suppliers' credits, and in view of this the debt service problem appears manageable. Despite the economic problems now confronting the country, the basic policy objectives of the authorities are sound and the prospects are that growth will be resumed, although in the near future its rate will be slower than in the past. Yugoslavia is considered creditworthy for further Bank lending.

With a per capita income of approximately $500, Yugoslavia is ineligible for IDA assistance. Though the country's dependence on net capital inflows is not great, gross capital requirements in the next several years have been tentatively estimated at about $250 million per annum. In view of the unsatisfactory structure of the country's external debt, new loans with longer maturities are particularly important.

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Files July 31, 1968

S. R. Cope

<u>Yugoslavia</u>

1. On July 15, 1968, Mr. Marian Cetinic, Member of the Central Committee of the League of Communists with the rank of Minister, called to see Mr. McNamara. He was accompanied by Mr. Aleksandar Bogoev, General Manager of the National Bank of Yugoslavia; Mr. Bogdan Crnobrnja, Ambassador; Mr. Zoran Zagar; and Mr. Zdravko Tlalbasic, interpreter. I was present.

2. Mr. Cetinic reviewed the history of the Bank's relations with Yugoslavia and outlined the main features of the current economic situation. He referred to the progress made since the Economic Reform of 1965 and also to the problems of internal adjustment and the increasing restrictions on Yugoslavia's exports, particularly to the EEC countries. He stressed the need for capital from the Bank and mentioned industrial modernization, roads, telecommunications and electric power as sectors for which the Yugoslav Government would like to obtain Bank finance. Mr. McNamara said that the Bank enjoyed good relations with Yugoslavia and that he hoped we could continue to lend in amounts limited only by Yugoslavia's creditworthiness and the availability of sound projects. He suggested that Mr. Cetinic prepare a memorandum outlining the Yugoslav Government's ideas so that the Bank could consider them. Mr. Cetinic finished by inviting Mr. McNamara to visit Yugoslavia: he would be welcomed at any time. Mr. McNamara responded by saying that he would like to come and hoped to revert to the subject some time in the future.

SRCope:mmr
IBRD
cc: Mr. R. Steckhan

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: July 15, 1968

FROM: S. R. Cope

SUBJECT: Yugoslavia

I enclose brief biographical notes on Mr. Marian Četinić and Mr. Aleksandar Bogoev, who, accompanied by the Ambassador, Mr. Bogdan Crnobrnja, and Mr. Žagar, will be calling on you at 6:45 this evening.

Enclosure

SRCope:mmr

BIOGRAPHICAL NOTE

Marin Četinić
(Yugoslavia)

Born in 1915 on the Island of Korcula in Croatia. Industrial worker before the war.

Participated in the National Liberation War from the beginning in 1940, now holding the rank of retired Colonel.

After the war Mr. Četinić occupied various political posts:

Secretary of the Regional Committee of the Communist Party of the Republic of Croatia

President of the Regional Peoples Council for Dalmatia

Secretary for the Economy in the Government of the Republic of Croatia

Vice President of the Executive Council of the Croatian Assembly

More recently, Federal Secretary for Transportation and Communications and at the same time member of the Federal Executive Council since 1956.

Mr. Četinić is a member of the Central Committee of the League of Communists of Yugoslavia.

Mr. Četinić is the bearer of the 1941 Partisan decoration and of other high decorations.

BIOGRAPHICAL NOTE

Aleksandar Bogoev
(Yugoslavia)

Born - December 10, 1914 (Leunovo, Yugoslavia)

Married - three children

Education

State School for Commerce, Skopje

Studied Economic Faculty, Belgrade

Background

1945-49	-	General Manager, National Bank of Yugoslavia Macedonia Head Office
1949-54	-	Deputy General Manager, National Bank of Yugoslavia Belgrade
1955-62	-	General Manager, National Bank of Yugoslavia Belgrade
1962-65	-	Alternate Executive Director, International Bank for Reconstruction and Development and affiliates
1965	-	General Manager, National Bank of Yugoslavia Belgrade

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Mr. McNamara - to see, please.
ABS 10/29

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 10, 1968

FROM: David Richardson DR

SUBJECT: YUGOSLAVIA: Yugoslav Delegation Annual Meeting Interview with Mr. McNamara -- October 4, 1968, 6:30 p.m.

Yugoslav Delegation

Mr. Kiro Gligorov, Vice President, Federal Executive Council (Deputy Premier)

Mr. Janko Smole, Federal Secretary for Finance

Ambassador Bogdan Crnobrnja

Mr. Sime Karaman, Economic Counselor Yugoslav Embassy

Mr. Zoran Zagar, Alternate Executive Director

Yugoslav translator, unidentified

Bank

Mr. Robert S. McNamara

Mr. J. Burke Knapp

Mr. Irving S. Friedman

Mr. S. R. Cope

Mr. David Richardson

1. Mr. Gligorov, in response to Mr. McNamara's inquiry about the Yugoslav economy and the outlook for Yugoslav trade with the Common Market, described briefly the present state and prospects of the economy. Industrial growth this year would be about 7 per cent and next year might reach 9 per cent. Agricultural growth, however, was lower and agricultural exports had decreased, mainly as a result of Common Market policy. Industrial exports to convertible currency markets had increased by 17 per cent, contributing along with tourism receipts, workers' remittances and shipping receipts to an improvement in the balance of payments. The most difficult economic problem at the moment was unemployment. Despite a 7 per cent increase in industrial production, employment had decreased by 1 per cent as productivity had increased. New jobs had to be created. Yugoslavia had sought to open its doors to imports from abroad, and especially from the Common Market, in an effort to make its own industry more competitive, and with positive results. But in order to continue this process, Yugoslavia needed to modernize its industry and to have access to foreign markets for its agricultural and industrial exports. Official negotiations between the Common Market and Yugoslavia would begin on October 15, to continue discussions already under way. No major decisions were expected. Western Europe was the natural market for Yugoslav products. Agreements between a certain few foreign and Yugoslav industrial enterprises had been reached, and more were sought. The first point Mr. Gligorov wished to make was that the overall prospects of the economy were potentially promising and particularly if the World Bank would assist Yugoslavia significantly during the next few years.

President has seen

2. The second topic Mr. Gligorov wished to discuss was the position of Yugoslav industrial enterprises. He explained the results of the economic reform of 1965-1966, the beginning of a market economy in Yugoslavia, and the fact that Yugoslav enterprises were free from centralized control and operated under the principles of competition and profitability. The opportunity existed for foreign investment in Yugoslavia.

3. Yugoslavia needed foreign technical assistance and capital, not only for industry but also for road construction, especially at bottlenecks near the Italian and Austrian borders, and for certain internal links. Mr. Gligorov referred to a number of project proposals under discussion with the Bank, and emphasized that Yugoslavia had no source of long term capital other than the World Bank. Yugoslavia's efforts to attract direct private investment was only just beginning and all sorts of prejudices still existed regarding Yugoslavia, and a lack of full knowledge of the present situation in Yugoslavia following the economic reform. Yugoslavia was grateful to the World Bank for its understanding of the economy, and for its assistance in explaining the true situation to others.

4. It was recognized that the present world political situation was not favorable to foreign investment in Yugoslavia, but nevertheless there were certain good signs, notably the readiness of West Germany and Italy to invest in Yugoslavia. It would take time, however, to attract foreign investment and to develop the most effective methods suited to Yugoslav conditions.

5. Mr. Gligorov welcomed Mr. McNamara's development policy in his statement to the annual meeting, and said it was very important for Yugoslavia to borrow more from the Bank in the future. He recognized the need for having sound projects, with economic feasibility analysis and acceptable rates of return.

6. Mr. Gligorov then offered on behalf of Yugoslavia, and within its limited capabilities, to invest from time to time in World Bank bonds, now at a modest level of $3.5 million. Yugoslavia felt that the World Bank development policy merited the tangible support even of countries with limited resources. Yugoslavia also wished to assist the World Bank in other ways, specifically by lending a sum (which was not specified) to the World Bank linked to purchases made in Yugoslavia under international competitive bidding.

7. Mr. McNamara expressed his appreciation, and said that the Bank would like to explore the proposal to provide funds to the Bank. The Bank would get into touch with Yugoslav representatives on these matters.

8. Mr. McNamara then summarized the Bank's views on lending to Yugoslavia, explaining that in the near term the Bank's greatest interest was in financing roads and that a Bank appraisal mission for this purpose was scheduled for October/November. If all went well, we could make a loan early in 1969. He also explained the Bank's problems concerning the two recent loans for industrial modernization, the burdensome procedures for the Bank, the IFC and the beneficiary

enterprises, and said that a better method had to be found. He believed the best way to provide capital to Yugoslavia at this time was to finance road construction. But because industrial modernization was important in the long run, the Bank wished to explore how it might finance industry.

9. Mr. McNamara then discussed the level of Bank lending for Yugoslavia, noting that the Bank's relations with Yugoslavia had been very satisfactory, and that the Bank had now been successful in raising funds, and concluding that the Bank should be able to do more and expand the level of its lending to Yugoslavia. While recognizing the increase in industrial exports and invisible receipts, the Bank wished, however, to be careful not to overburden Yugoslavia with long term debt. But within these general limits and within the requirement of sound project financing and the complexity of lending to industrial enterprises, Mr. McNamara was optimistic about the Bank's ability to continue lending to Yugoslavia and above the current level.

10. Mr. Gligorov expressed his thanks and made two comments. First, as regards its foreign debts, Yugoslavia has honored all its obligations to foreign countries; it had settled all its foreign debts even those dating from the Ottoman Empire, as well as its debts for nationalized properties. All these debts were being repaid. Second, if Yugoslavia settled its problems with the Common Market on favorable terms, its prospects would be even brighter. What Yugoslavia needed now was a "push"--a stimulus for employment and more rapid development--which in the process would also help Yugoslavia to meet its own obligations.

11. Mr. Gligorov cited an estimated loss of $50 million dollars in potential tourist earnings last year because of the limited road network, particularly near the northern borders, and therefore welcomed the Bank's willingness to consider financing road projects. He agreed that the procedures employed in the two recent loans for industrial modernization had not been satisfactory, and that new methods should be adopted. He was prepared nevertheless to submit for Bank consideration a program or complex of projects for industrial modernization, one such program being for the telecommunications network and linked to production of the required equipment. He believed that favorable prospects existed for such lending and that we would have to agree on new and adequate procedures.

12. Mr. Gligorov returned to the subject of the level of Bank lending to Yugoslavia, and asked Mr. McNamara for some more precise "orientation" on the amount, since Yugoslavia was starting to prepare a new Five Year Plan, and would like to know the amount of foreign resources it could count upon. While Yugoslavia had received enormous help from the World Bank, the current level of lending did not correspond to the present situation, and Mr. Gligorov would like to know the future prospects more precisely.

13. Mr. McNamara answered in general terms, saying that after the Bank had appraised the road project, discussed financing an industrial project, and discussed Yugoslavia's debt repayment capacity, it would then be possible to

fix an order of magnitude for Bank lending to Yugoslavia over the next five years. He emphasized the danger of citing a planning figure, since borrowing countries might be misled into considering any figure a guaranteed amount. Mr. McNamara explained that the Bank must always validate planning figures against the economic policies being followed by borrowing countries and the availability of sound project proposals. However, with these substantial qualifications the Bank would be prepared to increase its lending and to agree on a planning figure.

14. As the meeting ended, Mr. Gligorov invited Mr. McNamara to visit Yugoslavia as soon as possible.

Clearance & cc: Mr. Cope

cc: Mr. Knapp
Mr. Friedman
Mr. Aldewereld
Mr. Fontein
Mr. Simmons/Mr. Wright
Mr. Patterson/Mr. Franco
Mr. Diamond/Mr. Gustafson
Mr. Sadove
Mr. Wouters

DRichardson/pm

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Record Removal Notice

The World Bank Group Archives & Records Management

File Title	Barcode No.
Contacts with member countries: Yugoslavia - Correspondence 01	1771240

Document Date	Document Type
Jan 14, 1969	Memorandum for the Record

Correspondents / Participants
R. B. Steckhan

Subject / Title
McNamara's meeting with His Excellency Bogdan Crnobrnja, Ambassador of Yugoslavia, and Mr. Jagar, January 10

Exception No(s).

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Mr. McNamara to see please
bec 7/7/69

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

STRICTLY CONFIDENTIAL AND PERSONAL

TO: Memorandum for the record

DATE: July 7, 1969

FROM: M. P. Benjenk

SUBJECT: Yugoslavia - International Investment Corporation

Ambassador Crnobrnja of Yugoslavia called on Mr. McNamara on July 1. Messrs. Raj and Benjenk were also present.

The Ambassador's call had two purposes: a) to ask the President whether IFC would be willing to release Mr. Paterson, Director of Investments, Latin America, Europe and Australasia, for a temporary period, to act as head of the new corporation now being set up in Europe under IFC's auspices and b) to find out whether there was any specific reason for the absence of American banks among the equity holders of the corporation.

On the first question the Ambassador told Mr. McNamara that his authorities felt strongly that Mr. Paterson, having worked on the project very efficiently from the very first, in cooperation with the Yugoslav authorities, would be the ideal man to get the new corporation started. He had in mind a period of six months to a year, which would allow the Yugoslav partners to avail themselves of Mr. Paterson's experience while becoming familiar with this type of corporate institution. Mr. McNamara said he would have to think about this suggestion and would want to discuss it with Mr. Rosen upon his return.

With regard to the second point, Mr. Raj explained that there had been a great deal of interest on the part of American banks in the new corporation but that they had all dropped out for different reasons, so that no single factor could be attributed to their non-participation. It should not be assumed that participation by an American institution was definitely excluded.

cc: Mr. McNamara
Mr. Rosen
Mr. Raj
Mr. Lejeune (o/r)

MPB:ab

President has seen

6

Mr McNamara:
to see please
Lee 10/21

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record DATE: October 17, 1969

FROM: Dieter Hartwich DH

SUBJECT: YUGOSLAVIA - Annual Meeting 1969

1. A meeting with the Yugoslav Delegation took place on October 2 at which were present:

For the Bank	For Yugoslavia
Mr. McNamara	H.E. Janko Smole, Federal Secretary for Finance
Mr. Lejeune	H.E. Ambassador Crnobrnja
Mr. Hartwich	Mr. Ksente Bogoev, President Executive Council SR Macedonia
	Mr. Ivo Perisin, Governor National Bank of Yugoslavia
	Mr. Mirko Mermolja, Senior Counselor, National Bank of Yugoslavia
	Dr. Lieftinck.

2. Mr. Smole expressed his Government's appreciation for the great effort which the Bank Group had devoted to setting up the International Investment Corporation for Yugoslavia. His Government was gratified that it had been possible within such a short period of time to bring the Corporation into existence; they expected from the new institution a strong impulse to cooperation between Yugoslav and Western enterprises.

3. Mr. Smole went on to express the Government's satisfaction that the Bank had recruited several staff members from Yugoslavia during the recent months. This was regarded as another token of the close cooperation with the Bank Group.

4. Turning to Bank activities, Mr. Smole said that he was pleased with the large increase in the Bank Group's overall lending volume in the last fiscal year. Lending to Yugoslavia had remained at the average annual level of previous years and he hoped that his country would in future participate in the increased lending. The Bank staff had devoted considerable efforts in recent months to the appraisal of new projects, and if these projects continued to progress well, the level of lending to Yugoslavia would increase considerably next year. He wanted to stress in this connection the importance of further highway financing. The highway program, which had been presented to the Bank in November 1968 and which would form the basis for the proposed Fourth and Fifth Highway Loans, had been worked out after thorough analysis and did represent a selection of high priority roads. Mr. Smole added that these remarks were not intended to minimize the need for long-term planning of the highway investments which would follow upon completion of the present program. He only wanted to dispel the impression that the present program had been unduly influenced by political considerations.

President has seen

5. Mr. Smole said that he also wanted to make Mr. McNamara again aware of the importance of financing tourism in Yugoslavia. The foreign exchange earnings from tourism receipts would for some years to come continue to be the main source from which his country would cover the deficit in other items of the balance of payments. Recent progress had been encouraging in this respect. Gross foreign exchange revenues of $300 million were expected from tourism for 1969; taking into account that Yugoslav tourists would spend about $70 million abroad, the net inflow would be about $230 million.

6. Mr. Smole then raised the question of direct investments by IFC in Yugoslav enterprises. He said that he was aware of the respective provisions in IFC's Articles of Agreement, and he thought that the nature of Yugoslav enterprises had now evolved to a point where they would qualify for financing under the terms of the Articles. He thought that ownership should not be the main criterion for determining whether an enterprise was private or not but rather the way in which it took its decisions and the extent to which these decisions were determined by the market. Another factor to be taken into consideration was the development of a capital market in Yugoslavia. Financial instruments with transferable ownership were being developed; an example were some bond issues in recent years. Mr. McNamara replied that he had great sympathy with the Yugoslav desire to qualify for direct investments by IFC. The matter required careful study. The first step would probably be to define the criteria of what constituted a private enterprise and then to see to what extent the Yugoslav case fitted in. Meanwhile, there were possibilities for IFC to channel funds into Yugoslavia through the International Investment Corporation or other intermediaries which might be appropriate in specific cases. The Bank would also continue to provide funds for Yugoslav industry.

7. Mr. Smole said he would be grateful if the matter could be examined further. He felt that a positive decision would be of great value in stimulating private Western investors to become active in Yugoslavia since they would regard a positive interpretation of the Articles of Agreement of IFC as a recognition of the efficiency of the Yugoslav enterprise system. Dr. Lieftinck pointed out that the Yugoslav system represented a third category in addition to the private and government-owned enterprise systems. The fact that this third category had not existed when the Articles of IFC were drafted justified taking a fresh look at this question.

8. At the end of the meeting Mr. Smole renewed the invitation by President Tito and the Yugoslav Government that Mr. McNamara visit Yugoslavia. Mr. McNamara replied that he had been very much impressed by the far-reaching and realistic economic reforms undertaken in Yugoslavia and in particular by the courage in opening up the economy to international competition. He was very keen to see these things for himself. His commitments during the next months unfortunately did not permit him to come to Yugoslavia but he hoped to follow the invitation as soon as possible.

cc to Mr. McNamara
Mr. Knapp
Mr. Lejeune
Mr. Benjenk
Mr. Paterson
Mr. Richards

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 14, 1970

FROM: Munir P. Benjenk MPB

SUBJECT: Your Meeting with Mr. Ante Zelic

Mr. Ante Zelic, Deputy Federal Secretary for Finance of Yugoslavia will come to see you this afternoon at 3:10 p.m. The purpose of this visit is to convey the appreciation of the Yugoslav Government for the substantial increase in Bank lending this Fiscal Year. In FY 1969 the Bank made two loans for a total of $46 million, while in the present year total lending will amount to $98.5 million ($40 million for telecommunications, $18.5 for industry, and $40 million for highways which is now being negotiated).

Mr. Zelic will also, possibly on behalf of President Tito, invite you to visit Yugoslavia in the near future.

It is not expected that Mr. Zelic will raise any further substantive issues, although he may mention the problems we are currently facing with respect to the financial situation of the Yugoslav railways. The Yugoslavs have requested a postponement by three years of the Closing Date of Loan 395-YU, which was made in 1964 for a modernization program and has been seriously delayed in its implementation through lack of local resources. We have stated that we are prepared to consider this request only if a number of specific measures are taken by the authorities concerned. Mr. Zelic will discuss the implementation of these measures this week with the staff.

President has seen

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 29 1970

FROM: M.P. Benjenk

SUBJECT: YUGOSLAVIA - Mr. McNamara's meeting with Minister of Finance in Copenhagen

Mr. McNamara met with the Yugoslav Secretary of Finance, Mr. Smole, on September 24. This was a courtesy call in view of Mr. McNamara's forthcoming visit to Yugoslavia.

Mr. Smole expressed his pleasure at Mr. McNamara's forthcoming visit and also his satisfaction at the high level of lending achieved by the Bank and Yugoslavia during the past year. He hoped that the current year would also see a high level of Bank activity in Yugoslavia, and said work was now in course on projects which would be submitted to the Bank in the 1972 fiscal year.

Mr. McNamara expressed his own satisfaction at the Bank's active involvement in Yugoslavia and said he looked forward very much to his visit in October.

cc: Mr. McNamara
Mr. Knapp

President has seen

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CONFIDENTIAL

Memorandum for the Record

December 16 1970

YUGOSLAVIA - Mr. McNamara's conversation with the Prime Minister

During his visit in Yugoslavia Mr. McNamara called upon the Prime Minister of Yugoslavia, Mr. Mitja Ribicic on October 12. Also present were Mr. Smole, Yugoslav Secretary of Finance, and Mr. Benjenk.

Mr. Ribicic began by saying that Yugoslavia was a free country which was anxious to cooperate with everybody, including the World Bank, but which was very jealous of its sovereignty and was absolutely opposed to joining any power bloc. He said that Yugoslavia had evolved a unique system of its own from which he hoped some other countries would draw some lessons.

Mr. McNamara told the Prime Minister that he had followed with great interest the Yugoslav economic experiment and that he had been very impressed by the results. He had been pleased that the Bank had been associated with Yugoslavia in some important sectors but the role of the Bank could be considered as marginal when compared to the vast effort made by Yugoslavia itself.

The Prime Minister said that the Bank had made a great contribution to Yugoslavia by propagating efficient criteria of investment. Association with the Bank had been an educational experience for Yugoslavs and the merging of Yugoslav society into an economic whole had been helped by the presence of the Bank. Each of the component republics of Yugoslavia was now anxious to do business with the Bank because of the advantages which this could bring, not only on the financial side but by bringing new methods. In the relationship between Yugoslavia and the Bank there had been some disagreement and many agreements, but on the whole the results were considerable. It had to be realized, of course, that Yugoslavia was no longer the country it had been in 1960. The 1960 average income of Yugoslavia was now available even in the poorest parts of the country. The next step would be more difficult, namely that of raising the income above the present level of $600 a head. He was confident that this could be done by continually enriching Yugoslavia's original economic system with innovations drawn from both the capitalistic and the socialistic world. With increasing efficiency and competetiveness the ultimate aim of convertibility of Yugoslavia's currency would become much easier. This might raise some difficulties with the Eastern bloc since an element of barter trading was still considered by many Eastern countries as being the essence of socialism, but even Eastern Europe was on the move; for example, Hungary was taking economic measures very similar to those of Yugoslavia, and Rumania was openly seeking foreign investments in the West. Still they had far to go to get away from the present situation which provided for a monopoly of raw materials, closed markets and the predominence of the ruble as a trading currency, whereas Yugoslavia sought free exchanges with all countries including Russia. The Western economic system, too, had certain disadvantages for Yugoslavia. There were dangers in the Common Market which might become monopoly-dominated, a fear which Yugoslavia shared with Scandinavian countries. Thus Yugoslavia would choose the best of the various systems and would try to help countries which were even less developed than Yugoslavia and also saw the disadvantages of the two prevailing economic systems. Yugoslavia was always pointing out to such countries the role which the World Bank could play in helping them find their place in the economic world.

President has seen

The Prime Minister then turned to the internal situation in Yugoslavia. He said that the problem for the country was how to have political decentralization and at the same time have national goals. There had already been a suitable amount of decentralization of power from the Federation to the constituent republics, but the Yugoslav Government was determined to do even more in fields such as social welfare, pensions, police, and education. Such decentralization might seem excessive to some and harmful to the national interest but sometimes it was necessary to "disintegrate in order to reintegrate" more effectively. As he saw it the Federal Government should concentrate on foreign policy, national security, preservation of a single and open market, external and internal, and protection of the rights of man, including the promotion of the less developed areas of Yugoslavia and abroad.

Mr. McNamara told the Prime Minister that in its present phase of development Yugoslavia needed increased flows of capital and the Bank was prepared to make a contribution to this need by considerably increasing its own lending. From the annual level of $35 million a year in the period 1964/1968 the volume of Bank lending could be increased to two or three times that level. New fields for Bank financing were being sought, such as tourism, the use of new financial intermediaries and projects in the less developed areas of Yugoslavia, but a time lag was necessary for these projects to come forward and he hoped that the Yugoslav Government would not be disappointed by the slowness of the Bank's procedures. A pipeline of projects was now being built up and this would produce an increased flow of loans before very long. The Bank's present priorities, based on discussions with the Yugoslav Government, and its own analysis of the economic situation, would be infrastructure and tourism and an increase in its activities in the field of industry.

The Prime Minister said that he agreed with this and stressed the importance of industry because Yugoslavia did not want indefinitely to be a pool of labor for Western Europe since this could create political difficulties. He also said he would add power to the list of activities to which the Bank should give attention. The Prime Minister ended by telling Mr. McNamara how glad the Yugoslav Government was to have him as a guest of Yugoslavia.

M.P. Benjenk

cc: Mr. McNamara ✓
Mr. Knapp
Mr. Hartwich
Mr. Horsley

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Files

DATE: November 4 1970

FROM: M.P. Benjenk MPB

SUBJECT: YUGOSLAVIA - Mr. McNamara's meeting with Marshal Tito

Mr. McNamara called on Marshal Tito at the Presidential residence in Belgrade on October 16. Mr. Smole, the Yugoslav Federal Secretary of Finance, and a member of the Presidential Secretariat were present on the Yugoslav side. Dr. Lieftinck and Mr. Benjenk also attended.

Mr. McNamara began the conversation by telling Marshal Tito how impressed he had been by his visit to various parts of Yugoslavia and his conversations with Yugoslav officials, businessmen and workers. He had tried to understand the Yugoslav system which had made possible such an impressive growth in the country's prosperity in the last 15 years, and he was leaving Yugoslavia with a much clearer insight on how the system worked and where the Bank could make a most useful contribution. Mr. McNamara also thanked President Tito for Yugoslavia's contribution to the IDA replenishment and for its willingness to waive certain voting rights.

Marshal Tito commented that a great deal had been done but much still needed to be done. He was very satisfied with the relationship between Yugoslavia and the Bank and was anxious that this should continue. A great priority was attached to infra-structure and in particular to highway construction on which more needed to be done. Amongst the problems which Yugoslavia faced, one of the most crucial was the lack of skilled manpower which was not made easier by the exodus of Yugoslav workers to Western Europe. He had no objection to Yugoslav workers seeking employment outside Yugoslavia but he would prefer unskilled workers to go and in due course return with skills rather than have the best Yugoslav workers leave the country as was frequently happening now. Another source of concern which had implications, not only for Yugoslavia's economy but also for the concept of European security, was the fact that the Common Market was increasingly excluding the products of non-member European countries. Europe was a single continent and Yugoslavia expected fair treatment as a European country.

Mr. McNamara mentioned the Bank's increased activities in the recent period and particularly the Bank's efforts to increase its lending to Africa and the Arab countries. Marshal Tito replied that assistance to Africa was an extremely important and difficult matter and should be given a priority by all. He referred to the recent conference of non-aligned countries in Lusaka and said that all countries represented there stressed the need for increased assistance to African countries. Yugoslavia could play an important role in this connection and Marshal Tito mentioned the extensive technical assistance programs of Yugoslavia on the African continent. Some 200 Yugoslav doctors and hospital administrators were active in Ethiopia and thousands of Yugoslav foremen and workers were doing construction jobs in African countries, including Zambia. Yugoslav technicians could bring new technology and expertise to the less developed countries which needed it so badly without arousing the complexes and suspicions of the Africans who were afraid of "technocratic colonialism" on the part of experts from former colonial western powers. He hoped Western countries would make increased use of Yugoslav firms

President has seen

and experts to avoid this danger and he had mentioned this in his recent talks with Western European leaders.

Mr. Smole mentioned the fact that the Bank was also active in the Arab countries and had recently made a loan to the UAR and was starting to cooperate with Algeria.

Mr. McNamara concluded by saying that he hoped that the Bank's activity in Yugoslavia which was already at a high level, would increase even further in the next few years, and thanked Marshal Tito for receiving him.

cc: Mr. McNamara
Mr. Knapp

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Leif Christoffersen

DATE: December 3, 1970

FROM: Ernest Lamers

SUBJECT: YUGOSLAVIA - Mr. McNamara's Visit

I attach the Memorandum for the Record on the discussions Mr. McNamara had in Yugoslavia during his recent visit. The Memorandum has been cleared with Mr. Benjenk.

As I told you, I have been able to work on this paper only intermittently due to various urgent assignments and missions. Furthermore, since during the discussions a substantial amount of interesting information emerged, the Memorandum is longer than usual. I am afraid it is very dull reading because I attempted to be as detailed as possible. I have checked with Mr. Benjenk and he agreed to give the paper wide circulation. I am therefore sending copies to Messrs. Wm. Clark, Diamond, Glaessner (Tourism), El Darwish (Industry), Hardy (Transportation), and EMENA staff concerned with Yugoslavia.

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record **DATE:** December 2, 1970

FROM: Ernest Lamers

SUBJECT: YUGOSLAVIA - Mr. McNamara's Visit

1. Mr. McNamara visited Yugoslavia from October 11-17, 1970. He was accompanied by Messrs. Lieftinck, Clark, Benjenk, Christoffersen and Lamers. Mr. McNamara's travel schedule, as well as a list of the personalities with whom meetings were held, are attached.

2. While a large number of subjects were discussed during the conversations with the various people (as recorded summarily in this memorandum), two principal foci of interest to Mr. McNamara should be singled out. The mobility of capital in a highly decentralized and even compartmentalized economy such as Yugoslavia's was the first of these. The virtually complete autonomy of the enterprises with respect to the distribution of their net revenue, the limitation on public savings resulting from the lack of fiscal powers of the Federal Government, and the non-existence of a capital market, are all obstacles to a free flow of capital to the most productive uses. It was evident that the problem had been correctly diagnosed by most responsible officials, at least at the Federal level, but that a solution had not been found. In fact, the Federal Government formally requested Mr. McNamara to have the Bank provide assistance in this field. It was agreed that the forthcoming economic mission would devote special attention to this matter and, in cooperation with the Federal Government, would draw up Terms of Reference for a special study to be made by the Bank.

3. The second issue, intimately linked with the first, concerned the requirements for capital by the lesser developed regions to decrease the differences in economic development with the more advanced republics. Little effort had been devoted so far by the Yugoslavs to estimating what these requirements would amount to if certain growth targets were to be met. Moreover, these growth targets for the lesser developed regions had not been defined further than determining that they should be about two percent above the national average. It was further clear that the present mechanisms (the Special Fund and direct budgetary allocations) were far from adequate to secure a substantial transfer of capital from the rich to the poor areas. In this connection, a distinct resistance by the more advanced republics to contribute to the development of the more backward areas could be noted. It would appear that even an outline of a consistent policy has not yet been formulated.

Monday, October 12

4. The first working day of the visit was spent in Belgrade where Mr. McNamara had discussions with various Government officials, representatives of the Trade Unions and a group of Yugoslav bankers.

5. Mr. Smole, Federal Secretary for Finance, who hosted Mr. McNamara's visit, opened the round of meetings with a review of Yugoslavia's economic problems. Among the problems, Mr. Smole emphasized the country's high external debt and its unfavorable structure. He mentioned that presently 53 percent of the debt in convertible currencies had a maturity of less than ten years, and if IBRD lending was excluded the percentage would amount to 75 percent. A further problem Yugoslavia has to cope with lies in the vast regional differences within the country, leading to political difficulties which are aggravated by the large differences in income per capita between the various regions (Slovenia, $1,200; Kosovo, $200). Another factor causing disquiet concerns the Yugoslav labor force abroad. While the remittances of these workers are a healthy support for the balance of payments ($400 million expected for 1970), a sudden return flow would cause severe pressure on the local labor market, particularly in view of the already high unemployment. Finally, Mr. Smole mentioned the unsatisfactory situation with respect to credit facilities for Yugoslav exporters.

6. Turning to Yugoslavia's relations with the Bank Group, Mr. Smole said that his Government greatly appreciated the Bank's substantial increase in lending during the last fiscal year and that he hoped the present level could be maintained. Mr. Smole felt that more direct involvement by IFC would have a very beneficial influence on foreign investors interested in joint ventures. He added that the present legislation on joint ventures was under review, in particular the requirement that 20 percent of the foreign partner's profit has to be reinvested in Yugoslavia was likely to be abolished. In addition to the Bank Group's assistance to attract private capital (via IFC and IICY) for direct investment, Mr. Smole hoped the Bank would help Yugoslavia in its efforts to tap the world's capital markets, starting with a small issue. Mr. Smole concluded by saying that it was not only the Bank's financial contributions that Yugoslavia needed but even more its technical assistance to develop an economic approach to the allocation of scarce resources and improvements in policy coordination. He said that the successful effort in the highway sector was an example of such assistance.

7. In his reply to Mr. Smole's statement, Mr. McNamara said that he had come to Yugoslavia primarily to learn about the fundamentals and operation of its social and economic system, so that the Bank's help could be made more efficient. He said that Yugoslavia's contribution to the IDA replenishment had been greatly appreciated by the Bank, it would serve as an example to the richer member countries. Mr. McNamara further said that he felt that the Yugoslav economy could now absorb more Bank lending than over the 1964-68 period, when the annual average amounted to $35 million. He stressed the importance of identifying and preparing a sufficient number of projects to sustain a higher volume of lending. In particular for FY 1972 problems may arise, but it was possible that the industrial identification mission scheduled for January 1971 could fill the gap. On the question of attracting foreign private capital, Mr. McNamara cautioned that it will take some time before significant results can be expected. During this long gestation period it would be important to seek capital from other sources. In the meantime, the Bank was anxious to help both IFC and IICY to facilitate the inflow of private capital.

8. Mr. McNamara then turned to the problem of regional disparities. He was particularly interested in finding out how capital from the richer areas is mobilized for the lesser developed regions (LDR's), and what growth rate would be required in the LDR's to reach the national average per capita income within a specific time horizon of, say, 20 years, and what investments would be necessary to reach this target. Mr. Smole replied that, at present, about 3 percent of GNP is transferred to the LDR's through the Special Fund for LDR's (to which each enterprise contributes on the basis of a fixed formula) and budgetary allocations. Mr. Smole emphasized the differences in economic performance of the various LDR's;the growth rate of Macedonia was high, but below the national average in Bosnia due to structural problems in the coal and steel industries. He explained that, in addition to the direct transfer of funds, the Government subsidizes the interest rate on capital from the richer Republics invested in the LDR's and provides tax incentives. But the effects of these rather recent policies could not yet be measured. (As said above in paragraph 3, there was no answer on the question of the required growth rates and investments.)

9. The meeting with Mr. Smole was concluded on a discussion on the external debt situation. Mr. Smole felt that the debt service in convertible currencies would probably not exceed 20 percent and decrease in the long run due to increasing receipts from commodity exports and invisibles. The Government also tries to influence the banks to be more selective in signing up suppliers' credits.

10. In his meeting with Mr. Jelic, the Federal Secretary for Economy, Mr. McNamara explored the relationship between the national plan and the (autonomous) enterprises, price policies, and the capital market question. Dr. Jelic commented that, while the enterprises are free to draw up their own development plans, in practice much prior consultation takes place with other enterprises, producers' associations and governmental entities. In particular in monopoly situations (transport, power, etc.), such consultation is the rule. As far as prices are concerned, the Secretary for Economy said that about 40 percent of all prices in the industrial sector are under some form of control, in agriculture prices are free above certain minimum levels. Responsibility for price control is shared mainly between his ministry and the Central Price Office. The latter is charged with the investigation of the reasons why a specific price has risen or why an increase has been requested (cost-push, demand-pull, shortage of supply, etc.). The Office then suggests policy measures which may involve several ministries. These measures can be simple, such as a refusal to grant a price increase, or more complicated, when the factors causing the raise are to be attacked.

11. With respect to the mobility of capital, Dr. Jelic agreed with Mr. McNamara's observation that there was little incentive for an enterprise with surplus funds to deposit these in a bank at a maximum yield of 8 percent when inflation was running at 9 or 10 percent. Dr. Jelic said that Yugoslavia had relied too long on the interest ceiling, but there was considerable opposition to its removal. He felt that there was an urgent need for the development of a capital market although this was a difficult proposition in view of the country's unique social system. A financial instrument would

have to be devised that could be freely sold, provide sufficient incentives to attract savings and yet has no equity features. Dr. Jelic mentioned that recently a large construction enterprise had issued 8-year bonds with a coupon of 10 percent, which had been readily taken up. He added that the attraction lies not so much in the high yield, but the possibility for suppliers of the issuing enterprise to participate in the growth of a company which constitutes their own market. He mentioned Generalexport as an example which invests in various industries to enlarge its own export business. Another way by which surplus funds are transferred consists in mergers of enterprises, a process that had gathered considerable momentum since the introduction of the Economic Reform in 1965. In reply to a question, Dr. Jelic said that mergers are subject to a referendum submitted to all workers of the enterprises in question.

12. The meeting with Dr. Stajner, Director, Federal Planning Institute, was largely devoted to a discussion of the planning process and how it relates to the decision making by the autonomous enterprises. Dr. Stajner explained the history of planning in Yugoslavia, which began after the war with a plan modelled on the East-European system. In 1950, another procedure was adopted, its essence being that the plan does not impose obligations on any enterprise or political entity. The draft plan is based on the individual plans, but the simple aggregation of these can lead in some cases to a less than optimal relationship between the needs of society as a whole and the intentions of the individual enterprises. In those cases, an informal conciliation process is set in motion and when this does not produce the desired results, the Federal Government can, within its limited powers, restrict enterprises in certain fields. Dr. Stajner emphasized, however, that this is preferably avoided, since market forces should guide the investment decisions of the enterprises. The role of the Federal Government has been steadily diminishing, particularly as far as direct investments are concerned. For example, in power its investments have decreased from 80 percent in the early years to 20 percent at present.

13. In reply to a question of Mr. McNamara, Dr. Stajner said that no definite policy existed on the amount of investment required to raise the per capita income of the LDR's to the national average by a given time nor was it clear how much would have to be contributed by the Government and how much by the enterprises.

14. Mr. Granfil, Member of the Federal Executive Council in Charge of Foreign Trade Relations, told Mr. McNamara that Yugoslavia had not yet overcome the problems inherent in its specific social system, which at the same time was market-oriented and socialist. He felt that the Bank could greatly help the trend towards a more efficient economy and the opening of the domestic market to the influences of the world economy. As far as the latter is concerned, Mr. Granfil was optimistic, exports had risen from $550 million in 1960 to $1,485 million in 1969, and he expected that a figure of $1.7 billion would be reached in 1970. In particular, the fact that industrial goods accounted for 84 percent of total exports was encouraging, it proved that Yugoslavia was able to compete in this important market. The picture

with respect to invisibles was equally promising, for 1970 an inflow of $500 million was expected in addition to workers' remittances of about $450 million. Nevertheless, Yugoslavia's balance of payments position was precarious in view of the high and fast-increasing imports and unfavorable debt structure. Mr. Granfil said that in spite of this, the Government was not in favor of restricting imports, for social reasons, and to put pressure on prices. Rather, it was looking for loans on better terms and higher exports (up to 23 percent of GNP); the latter being a precondition to integration in the European market. World Bank assistance through lines-of-credit for export-oriented smaller and medium-size industries could play an important role in this respect.

15. Mr. Granfil stressed the importance of industrial cooperation with other countries through joint ventures. He said that initially there had been some apprehension in Yugoslavia that the country would be flooded by foreign capital. The problem, however, was that not enough had been attracted. Mr. Granfil hoped for an annual inflow of about $30 to $40 million. He said that the Government was also looking forward to direct investment by IFC.

16. Mr. Granfil said that in order to increase exports on the scale required, there was a need of at least $200 million annually for the next five years in finance for export credits. He thought that part of these funds would revolve so that fresh money for the full $1 billion would not be required.

17. Mr. McNamara said that Yugoslavia had accomplished a remarkable combination of a planned and market economy. The Bank felt that Yugoslavia could absorb over the five-year period 1969-73 substantially more Bank funds than the 1964-68 total. To achieve that higher level, a large pipeline of projects would be required. Mr. McNamara added that since the problems with the line-of-credit approach were not likely to be solved soon, early attention should be given to larger industrial projects.

18. Mr. McNamara stressed the importance of the establishment of a capital market to mobilize domestic savings and to attract foreign capital. He promised that the Bank would investigate what assistance it could give. The problem, however, was what financial instruments should be traded in view of the social ownership of the means of production. Mr. Granfil replied that obligations, perhaps with profit-sharing features, would be the main instrument. However, equity investment in joint ventures is a legal possibility and therefore it should not be ruled out that this type of equity could be sold in a capital market to other parties.

19. In his meeting with Mr. Miljanic, Member of the Federal Executive Council in charge of Economic Affairs, Mr. McNamara raised the question how Yugoslavia tries to achieve a balance between the interests of the nation as a whole and the autonomous enterprises, in particular with respect to the development and the transfer of funds to the LDR's. Mr. Miljanic in his reply pointed out that immediately after the war this balance was achieved by a central planning of the economy. He said that this was not prompted by ideological or philosophical motives, but by economic considerations. All available resources

should be concentrated on a rapid breakthrough. After a certain progress had been made, the system lost its impact and led to inefficiencies, so a change was required. But at this time there was an ideological motive: the principle of self-management. While the economic system was now built on the initiatives of the basic units, i.e., the enterprises, these should be guided in such a way as to coincide with the national goals. More in particular, profit maximation should be achieved by the size and type of production required by the nation as a whole. In order to achieve this, the Government had at its disposal economic tools similar to those used in other countries:

a) monetary policy - selective credits, subsidized interest rates, etc.
b) direct investments - mainly in infrastructure
c) fiscal policy - e.g. tax exemptions
d) facilities for obtaining credits abroad.

The basic objective of Yugoslav policy, Mr. Miljanic said, is to open the country to the Western world in accordance with the rules laid down by IMF and GATT. Mr. Miljanic concluded by saying that an improvement in income policy was urgently required, the Government had formulated a number of proposals which would probably come into effect early in 1971.

20. Mr. Bojanic, the President of the Republic of Serbia, gave Mr. McNamara a short account of his Republic's development plan for 1971-75. He said that emphasis on industrialization was the main feature of the plan. Electricity production was to be increased from 10 billion Kwh per year to 17 billion, steel from 1 million tons to 2 million. Automobile production would be raised from 80,000 units in 1969 to 200,000 by 1972, and ultimately to 700,000 in cooperation with Hungary and Poland. Further rapid development was to be achieved in the exploitation of non-ferrous metal deposits (copper, zinc, lead), in crude oil and petrochemicals, and the electronics industry. The program would require heavy investments in transport, and Serbia was hoping for significant assistance from the World Bank in this sector.

21. The role of the Trade Union in the Yugoslav system, and more particularly with respect to the practical application of the principle of self-management, was highlighted by Mr. Disdarevic, Secretary of the Confederation of Trade Unions. Mr. Disdarevic said that in Yugoslavia the role of the trade union was different from other countries. It does not constitute a force of "opposition" nor of "transmission" of decisions taken by the Government. It is an independent organization striving to help achieve the economic and social development goals as determined by the country as a whole. Mr. Disdarevic stressed that independence implies co-responsibility. The trade union initiates discussions on the problems of the workers (employment, income, housing, etc.) and tries to help settle the problems of the enterprises. On the other hand, it insists on higher productivity as the best way to raise workers' incomes.

22. In reply to a question by Mr. McNamara, Mr. Disdarevic said that in Yugoslavia there is no collective bargaining between the Government (or the enterprises) and the trade unions. The Federal Government has no direct

influence on wage levels, although it proposes guidelines which are discussed and approved by the Federal Government. These guidelines, however, are only recommendations. With respect to the differentials in wages by different skills and by enterprise, these are discussed internally by the trade unions which then advise the workers. In fact, only minimum wages are suggested, and the workers remain completely free to determine what wages are to be applied within their respective enterprises.

23. Mr. Disdarevic said that the system of self-management had yielded impressive results. It had contributed considerably to the country's economic growth and the rise in workers' incomes. It had resulted in a humanization of the economy, workers had become responsible for their own situation and the classic opposition between management and labor had almost disappeared. However, some problems had not yet been overcome. There was still resistance from adherents of the old political system, and from so-called "technocrats". In some cases, strikes had occurred because the system of self-management was not applied as it should have been. New problems were to be expected in view of the recent trends toward mergers and the introduction of modern technologies. The danger of workers' alienation would have to be watched closely.

24. Mr. Kolak, President of the Federal Chamber of Economy, explained that his institution represents the "business part" of the economy: all enterprises are members of the Chamber. It is subdivided into territorial branches and by industry. Mr. Kolak said that the Chamber works together with the Government in determining the direction in which the economy has to develop. The Chamber is also invited to give its opinion on all relevant legislation, albeit that such advice is not always taken. But since about 70 percent of the members of the Economic Council (one of the five Houses of Parliament) consist of members of local chambers, the influence of the business community can be exercised in this way. In spite of this, many clashes still occur between the Chamber and the Government. Mr. Kolak felt that in the coming five years less attention, and funds, should be devoted to "non-productive" sectors. Too many investment decisions, although less than before, were taken on the basis of political considerations. Mr. Kolak specifically mentioned the less developed regions in this context. He added that the Chamber had repeatedly protested against the high level of taxation and the share of enterprises' distributable income going to the workers.

25. In a meeting with members of the Yugoslav Bankers' Association, its President, Mr. Lukic, stated that the Yugoslav bankers were looking forward to the expansion of IBRD activities in Yugoslavia which Mr. McNamara had referred to in his airport statement. He stressed the importance the bankers attached to the approval of the proposed line-of-credit and said that Bank lending should give higher priority to industry, which had so far received only 10 percent of the Bank loans,* and tourism.

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* This figure, based on the three industrial "package" loans only, is too low. The Bank's first loans to Yugoslavia (1949-53) totalling $60.7 million, were mainly for industrial projects, which would raise the percentage to around 20%.

26. Mr. McNamara said that if Yugoslavia's good economic performance continues, a substantially larger volume of lending by the Bank could be expected for the 1969-73 period compared to 1964-68. But a pipeline of suitable projects would have to be established urgently. As far as industry is concerned, Mr. McNamara said that a three-fold approach had been agreed upon with the Government: (a) loans for small and medium-sized industry through a Yugoslav financial intermediary; (b) IFC participation in joint ventures; and (c) direct Bank loans for larger projects. The first two methods still presented some problems, in particular it had proved difficult to develop a satisfactory financial intermediary. Also IFC's involvement was complicated by legal issues, but these would be solved ultimately. In the meantime, the Bank would proceed with lending directly for larger industrial projects. Tourism, Mr. McNamara said, will get increasing attention, but there are problems of management and infrastructure.

27. Mr. McNamara inquired how the banks could attract funds when there was an interest ceiling of 8 percent and inflation was running at about 9 - 10 percent. Mr. Lukic replied that in spite of this situation, individual savings accounts increased at a high rate, in particular long-term deposits. Moreover, enterprises are almost forced to keep substantial deposits with their bank if they are to obtain access to credit, which is very scarce. The interest rate they receive is of little importance. The allocation of bank resources for lending, Mr. Lukic said, is based in the first instance on the priorities established in the National Plan and, secondly, on the profitability of the enterprise.

28. The bankers agreed with Mr. McNamara's view that there was a lack of capital mobility, and that a capital market was an urgent necessity. However, there was no clear answer to the question how capital is presently transferred from enterprises with surplus funds to enterprises in need of capital. The bankers stated that this flow was in all cases effected through the banking system, although the recent wave of mergers seems to suggest otherwise.

29. Mr. Baum, General Manager of the Export Credit and Insurance Fund, stated that his institution needed considerably larger resources to help maintain the momentum of Yugoslavia's expanding exports. He said that he knew from his contacts with colleagues in other developing countries that the problem was world-wide and asked whether the Bank could prepare a special study on this subject. Mr. McNamara replied that, while he realized the problem was a real one, the Bank was not in a position to take up this matter. Support for export credit financing was a highly controversial subject and it would be unrealistic to assume that the Bank in the near future would be able to move in this field.

30. In his last meeting of the day, with Dr. Perisin, Governor of the National Bank, Mr. McNamara came back again to the question of mobility of capital. The Governor said that one of the reasons for the lack of mobility was the fact that banks so far had operated only in a limited regional context. However, this situation was rapidly changing, in Belgrade several large banks from other Republics had opened branch offices and Serbian banks had moved into other capital cities. Moreover, there was a process under way of concentration of banks. In two years the number had

dropped from over 200 to 60, and the Governor felt that ultimately this number would be halved. Finally, on the enterprises side, mergers and association in consortia (mainly for large construction projects) contributed to some extent to capital mobility. But these trends, the Governor said, did not alleviate the need for a capital market. As a first step, the Federal Government was considering the financing, in the coming year, of part of its expenditures through bonds and treasury notes. In addition, a proposal had been submitted to the Federal Parliament to allow enterprises in need of capital to issue bonds with profit sharing features. This paper, however, would be sold only to other enterprises and not to individuals. In particular, enterprises that have vital interests in the development of a specific firm (i.e. its suppliers) would constitute the major market for the bonds. In this connection, Mr. McNamara raised the question whether the workers' council of the enterprise that bought such paper would have any power over the affairs of the issuing enterprise. Dr. Perisin replied that this was one of the basic problems. So far, no solution had been found. He thought that perhaps a joint business board could be formed to give the buying enterprise some control.

31. With respect to the mobilization of savings, the Governor said that before the Economic Reform this was accomplished mainly through taxation. Now, the Government wants to encourage individuals and enterprises to accumulate savings and make these savings available for investment. For the moment, the banks would still be the main bridge between savings and investment, but at a later stage a capital market would have to be established. As a prerequisite for an increase in savings, however, the inflationary process would have to be slowed down.

Tuesday, October 13

32. On this day Mr. McNamara visited an industrial enterprise near Belgrade, an agricultural combinat, and had discussions in Novi Sad with representatives of the provincial government and agricultural enterprises.

33. At the 21 May Factory (DMB), the discussion focused on two themes: the comparative cost position of the enterprise and the relationship between management and workers' council.

34. Mr. Brkic, General Manager of DMB, explained that his enterprise is one of Yugoslavia's five engine factories. It produces presently 72,000 engines and the output is expected to reach 200,000 in a few years. The total production is taken up by the Zastava automobile factory. The engines are produced under a license from FIAT, which provides technical assistance and helps ensure quality control. In reply to a number of questions from Mr. McNamara, Mr. Brkic said that the price of the engine produced by DMB is about 10 percent above FIAT's, which is similar to the price relationship between the Zastava-produced car and the FIAT. Cheap manpower and low profits accounted for the relatively low cost of the DMB engine. With production at 200,000 engines, the unit cost was expected to decrease by about 30 percent and total profits to increase from 10 to 15 percent. The

difference resulted from higher taxes and workers' benefits. In particular, the income per worker would go up by about 70 percent. Mr. Brkic said that this increase was not likely to lead to a significantly higher number of workers; labor mobility is low in Yugoslavia because wages are just one factor and other benefits, such as company-provided housing, tend to bind the workers to their enterprises.

35. Mr. Brkic explained that the management structure at DMB consisted of the following layers: Workers' Council, Managing Board, General Manager. The Workers' Council, in accordance with Yugoslav laws, takes the most important policy decisions, among which the production plan figures pre-eminently. It meets normally every two months, but more often if necessary. The Workers' Council has 42 members, 12 skilled workers, 25 highly skilled workers (technicians), and 5 graduate engineers. The president of the Workers' Council is a machine operator. The General Manager and Department Directors are by statute prohibited from being members of the Workers' Council. The Managing Board, an organ of the Workers' Council to which the latter has delegated a number of its responsibilities, meets every week. It consists of 11 members, including the General Manager, four of which are technicians and the remainder university graduates.

36. The General Manager sends his proposals for the distribution of the enterprise's income to the Managing Board two months prior to the date of implementation. The Managing Board reviews the proposals and a draft decision is submitted to the Workers' Council for approval. At present the monthly income of an unskilled worker is about 750 dinars ($60). The incomes of the other workers bear a fixed relationship to the remuneration of the unskilled worker in proportion to their contribution to the manufacture of an engine. The scale is as follows:

Unskilled worker	1
Trained worker	1.2
Skilled worker	1.6-1.8
Highly skilled worker	2.5
Engineers and other professionals	3 and up

If the monthly production plan is not fulfilled all employers receive proportionally decreased salaries.

37. Mr. McNamara next visited PK Beograd, an agricultural combinat. After having shown a movie on the combinat's development, the General Manager, Mr. Zecevic, explained the main features of his enterprise. PKB presently farms 84,000 ha (29,000 only in 1967), had a gross revenue of $184 million in 1969 and employs about 8,000 workers. It produces meat, milk, vegetables, fruit and seeds. The combinat is a vertically integrated enterprise covering production, processing and marketing. It pays special attention to research and training for which it has established its own Institute with a staff of 84 including 16 graduate engineers. The Institute so far has trained 1,600 of PKB's engineers and technicians.

38. Mr. Zecevic said that his enterprise had the following new projects ready for implementation: a plant producing 2,000 fully-prepared meals per day, and three tourism resorts along the Adriatic coast (Hercegnovi, Split and Rovin) totalling 18,000 beds. He said that the tourism projects, apart from offering a direct outlet for PKB's products, would provide an entry to the larger market of the entire coast. For the longer run (10 years) PKB had a development program envisaging further investments ($200 million) in agricultural processing, and tourism and catering. The required funds would be provided by internal cash generation (initially 30 percent, but increasing to 50 percent in the later years), bank credits and joint ventures.

39. PKB, at present, controls 64 different enterprises. Each of these has its own Workers' Council and sends a number of representatives (proportionate to their number of workers and size of invested funds) to the Workers' Council of PKB. As is usual in Yugoslavia, the Workers' Councils of the 64 have delegated by contract a number of responsibilities to the Workers' Council of PKB.

40. In Novi Sad, Mr. McNamara met with members of the Executive Council of Vojvodina. Mr. Filipovic, the Council's Vice President, described the Province's economic situation. He said that since 1956, $550 million had been invested in the development of industry, irrigation systems, export promotion and research facilities. The mainstay of Vojvodina's economy is agriculture: grains, livestock, sugarbeet, sunflowers, fruits and vegetables. Production in this sector had been doubled over the last decade, and Vojvodina had made a major contribution towards converting Yugoslavia from a food-deficit country into a food-exporting one. A deficit of about $100 million annually had been turned into a net surplus of $100 million.

41. Mr. Filipovic said that the backbone of Vojvodina's agricultural sector was formed by 50 combinats (averaging 10,000 ha). Together they accounted for 20,000 tractors, 6,000 combines, 3,000 agricultural engineers, 1,000 veterinarians and 2,000 economists. Per hectare, about 1,000 kg of fertilizers were applied. Mr. Filipovic said that the combinats farmed about 0.5 million ha, and the private farmers 1.2 million ha, the average lot being about 4 ha. He added that his government was actively seeking to help private farmers increase their production, but he expected that in the long run a larger number of them would be bought out by the combinats.

42. Mr. Filipovic concluded by stating that, as far as industry is concerned, Vojvodina's reserves of oil and natural gas would provide a basis for the development of a petrochemical industry.

43. In the following meeting, Mr. McNamara saw representatives of the "Dunav-Tisa-Dunav Canal Enterprise" and of "Koprodukt".

44. The activities of the DTD Canal Enterprise were described by the General Manager, Mr. Bulatovic. The enterprise had been set up to provide drainage for 3.9 million acres, irrigation for 1.1 million acres, inland water transport and industrial and domestic water supply. In a first stage, to be completed by the end of 1972, drainage and irrigation facilities would be built for, respectively, 2.7 million and 0.8 million acres. In addition, 685 km of

inland waterways would be made navigable for ships up to 1,000 tons. In the longer run, apart from the completion of the drainage and irrigation systems, the enterprise would expand into food processing and cattlefeed industries. These investments, estimated at about $127 million, would be financed from internal cash generation (50 - 60%) and loans from local banks.

45. Koprodukt, its General Manager, Mr. Birovljev, explained, is a so-called Trade Association of 27 livestock producers and manufacturers of meat products. The enterprises remain independent, but have delegated to Koprodukt the responsibility for marketing their products. Initially a merger of all member enterprises into one single unit was contemplated, but fell through because the larger enterprises were reluctant to give up their independence, (apparently because some of them feel they will be able to absorb the smaller enterprises and subsequently detach themselves from Koprodukt).

Wednesday, October 14

46. After having spent the previous evening in Ohrid, where a reception was offered by Mr. Bogoev, President of Macedonia, Mr. McNamara visited Skoplje on Wednesday morning and had a meeting with representatives of the City Assembly.

47. Mr. Stavrev, Skoplje's Major, briefed Mr. McNamara on the reconstruction of the city after the 1963 earthquake. He said that a Special Fund had been instituted by the Federal Government to finance the rebuilding. This Special Fund, for which 6.04 billion dinars had been collected, had now been spent almost fully. Mr. Stavrev said that about two-thirds of the Fund had been used to reconstruct the damaged buildings and structures, the remaining third had been reserved for investments in industry to provide employment for Skoplje's fast growing population, which had risen from 208,000 inhabitants before the earthquake to 318,000 at present.

48. As to future development, Mr. Stavrev said that major investments were contemplated in industry (steel, cement, petrochemicals), railways and the Vardar river development. All of these projects would be important not only for Skoplje but for the whole Republic. Mr. Stavrev felt that in particular the Vardar River scheme could be of interest to the Bank. A first report had been completed by the UNDP team and total project costs were estimated at $75 million.

49. After his visit to Skoplje, Mr. McNamara flew to Sarajevo, the capital of Bosnia and Hercegovina, where meetings were held with the Executive Council of the Republic and a number of local industrialists.

50. Mr. Kosovac, President of Bosnia and Hercegovina, said that his Republic was in the unfortunate situation of not only being underdeveloped (GNP per capita $400) but having a lower growth rate than the national average (1952-68: 6.5 percent, against 7.7 percent). The principal reason was BH's particular economic structure, which consisted mainly of coal, steel, power

and timber industries, the prices of which were controlled by the Federal Government. According to a recent study, it was estimated that, because of artificially low prices, BH yearly lost 650 million dinars. Mr. Kosovac mentioned as an example that power had to be sold at a price 40 percent below the world average. There were indications, however, that in the near future a number of prices would be raised.

51. The Republic's draft Plan for 1971-75, Mr. Kosovac said, foresaw a growth rate for BH of 8 to 9 percent. This would be too low in view of the official Federal policy that less developed republics should grow at a 25 percent higher rate than the national average. If that policy were followed, the target should be 10 to 11 percent; Mr. Kosovac felt, however, that it would be unrealistic to aim for such a target, as not enough funds would be available to support it. The new Plan emphasized a restructuring of BH's industry: from extracting to processing. Moreover, mergers would be encouraged to obtain larger and more economical production units. Steel and aluminum production, in particular, would be expanded. Mr. Kosovac concluded by stating that heavy investments in further highway development would be required; he hoped that Bank loans would be available to help finance them.

52. In reply to a question from Mr. McNamara, Mr. Kosovac said that the reconstruction of Banja Luka will cost about $400 million to be spread over five years. About 10 percent of the Republic's Gross Product had been lost by the effects of the earthquake on production facilities.

53. In the following meeting at the Energoinvest headquarters, Mr. Blum, the General Manager, raised three points. In the first place, he said, tender documents issued for Bank-financed projects contain so many details that the outcome of the bidding is almost predetermined. Mr. McNamara replied that this would be contrary to Bank policy. As a matter of fact, the Bank often receives criticism that not enough details are given. He requested Mr. Blum to send to the Bank information about specific cases, which he promised to have investigated. Secondly, Mr. Blum raised the question of Bank support for export-credit financing. He said that Energoinvest had lost a number of sizeable export orders because of the lack of credit facilities. Mr. McNamara stated that while he was aware of the problem he could give no encouragement to the expectation that the Bank would be able to get involved in this field. It was obvious that such a move would not be supported by the Bank's Board of Executive Directors. Turning to his third point, Mr. Blum inquired whether the Bank would be interested in helping to find foreign capital and know-how for the aluminum industry in Mostar. In particular, a financial participation by the Bank in this project would provide the foreign investors with an "umbrella". Mr. McNamara said that in principle this was the kind of project the Bank could consider. He pointed out that since the Bank could not provide the necessary management and marketing know-how, these would have to be provided by a foreign partner. He suggested that such partner be required to provide equity-financing so that his stake in the success of the project would be significant. In reply to a question from Mr. McNamara, Mr. Blum said that he had the following capital structure in mind: 75 percent debt financing, 25 percent

equity, half of which to be provided by Energoinvest and half by the foreign partner. He promised to keep the Bank informed about the status of the project.

54. The last meeting in Sarajevo was spent with a number of industrialists (Zenica Mining and Metallurgy Combine, HENA Chemicals, ELEKTOPRENOS, and Banja Luka Cellulose). Mr. McNamara was briefed about the expansion plans of these enterprises. The Zenica steel mill was planning to increase its present capacity of 1 million tons to 5 million by 1978, of which about 20 percent would be exported. Mr. Numic, the General Manager, said that presently protective tariffs for various steel products ranged between 7-14 percent but he expected that by 1978 the combine would produce at world market prices, making continued protection unnecessary. The development program of the HENA enterprise was built around two major projects: oil prospecting in Bosnia and Hercegovina, for which preliminary investigations indicated favorable conditions, and the construction of a pipeline with a capacity of 20 million tons per year. Present refining capacity of HENA was 2½ million tons of oil, which was to be doubled over the next five years. Mr. Grupkovic, General Manager of ELEKTOPRENOS (the association of electric power producers in BH) described the power supply situation. Present output of Yugoslavia as a whole was 23 billion kwh, to be increased by 1975 to 42 billion kwh and by 1980 to 61 billion kwh. The potential for hydro-power was estimated at 62 billion kwh, of which 22 billion kwh was exploited now. For Bosnia and Hercegovina alone these figures amounted to 16 billion and 3.5 billion respectively. Total potential for thermal power was 70 billion kwh, and present output 20 billion kwh (Bosnia and Hercegovina: 25 billion and 2.5 billion). Mr. Grupkovic said that annual investments of around $200 million were required to implement the development plans.

55. Mr. Krunic, Assistant General Manager of Banja Luka Cellulose, said that his enterprise had now reached 50 percent of the production volume before the earthquake. The plan for expansion aimed at doubling the original production capacity. He felt that a foreign partner was needed to supply the necessary know-how and participate in the financing. He reiterated his enterprise's request for a $20 million loan from the Bank (total investment $40 million). In reply to a question from Mr. Benjenk, he confirmed that IICY was negotiating on Banja Luka's behalf with a Japanese firm and said he was optimistic about the outcome.

Thursday, October 15

56. The program of this day consisted in visits to Dubrovnik, where Mr. McNamara was briefed about the South Adriatic Development Plan and the Babin Kuk project, to Hercegnovi, where a meeting was held with the Government of Montenegro, and Zagreb, where Mr. McNamara had discussions with the Government and a number of industrialists.

57. The discussion in Dubrovnik centered around the problems of infrastructure raised by the development of tourist facilities along the coast and in Dubrovnik itself. Mr. McNamara said he had noted that in the Dubrovnik area alone investments in infrastructure were estimated to cost about $50 million up to 1975. He wondered whether this was physically and financially feasible.

More in particular, he enquired how much of this investment was essential to the Babin Kuk Project. Mr. Lujak, General Manager of "Minceta", the enterprise which is going to construct and operate Babin Kuk, replied that in fact it would be physically impossible to complete $50 million worth of investments before 1975. He felt that about $20 million would have to be invested to allow the optimal exploitation for Babin Kuk. Of this amount, $10 million would have to be spent on improving access roads and city streets, and $9 - 10 million on water supply and sewerage.* He admitted that the financing of these investments had not yet been resolved.

58. In Hercegnovi Mr. Bulajic, President of Montenegro, briefed Mr. McNamara about the economic situation of his Republic. He said that the first significant efforts to develop Montenegro had started only after the Second World War. Income per capita had now reached $300, about half the national average. By 1975, the end of the next plan period, it should reach $500, implying an annual 10 percent growth rate. Mr. Bulajic estimated that to achieve this target yearly investments of about $100 million were required. One-third would come from internal sources, one-third from the Special Fund for Less Developed Regions, and the remainder through an inflow of capital from domestic and foreign enterprises. This distribution would be similar to last year's, when a total of $80 million had been invested. The largest share of the planned investments would be devoted to tourism, industry (aluminum - Titograd) and infrastructure (Belgrade-Bar railway and Bar-Ulcinj highway).

59. Mr. Bulajic felt that particularly in tourism and industry there was ample opportunity for joint ventures between Montenegrin enterprises and other Yugoslav or foreign firms. He said that hotel exploitation was very attractive for Yugoslav enterprises because of the high retention quota for this industry (i.e. the percentage of its total foreign exchange earnings that an enterprise may keep; this percentage varies between industries), and the various subsidies for tourism. He mentioned that so far few mergers had occurred between Montenegrin enterprises because most of them are small and have relatively unsophisticated management.

60. Mr. McNamara inquired about the special features of a joint venture contract, in particular he was interested to know how a joint venture differs from an ordinary enterprise with respect to the distribution of income. Mr. Bulajic explained that there are a number of laws in which the establishment and operation of a joint venture is regulated. These laws, however, were rather flexible and, in fact, leave most points to be decided upon by contract between the partners. While the joint venture is required to have a Workers' Council, the council can cede a number of its usual responsibilities to a so-called Business Board, which is formed by representatives of the constituting enterprises. The contract further establishes at the outset of the joint

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* Investigations by the Bank's appraisal mission indicate that the amount for sewerage and water supply is a realistic estimate of the needs and it is likely that the Bank will make a separate loan for the construction of the necessary facilities. The investment required in roads and streets is likely to be considerably less than estimated originally.

venture how much of the profits will be distributed to the foreign partner. The Workers' Council of the joint venture then decides on the distribution of the remainder between wages and investment.

61. The first meeting in Zagreb was held with members of the Executive Council of Croatia. The Republic's President, Mr. Haramija, opened by a statement on the Croatian economy. Gross Product in 1969 amounted to \$3 billion (at 1966 prices), of which industry represented 39 percent. Per capita income had reached \$800, although in some communes it was as low as \$120. Croatia was Yugoslavia's largest foreign exchange earner, \$500 million or 40 percent of the national total. Exports of ships and tourism were the largest contributors. The 1971-75 development plan for the Republic aimed in particular at unemployment by creating 200,000 new jobs. Gross Product was expected to reach \$4.5 billion and per capita income \$1,100. Major investments would be made in petrochemicals, steel, aluminum, shipyards and tourism. In addition, infrastructure and in particular highways would require vast amounts of financing. Mr. Haramija mentioned in this context the coastal region, the Zagreb-Belgrade highway, the extension of the Zagreb-Karlovac road (financed by the Bank) to Rijeka and to Split. He hoped for considerable Bank assistance for highway construction and tourism facilities.

62. Mr. McNamara inquired about the amount of investment required to achieve the planned economic growth, and from what sources it would be financed. Mr. Haramija replied that over the five-year period about \$4 billion would be invested, of which \$3 billion would come from domestic sources and the remainder from abroad (including suppliers' credits). He added that the rate of domestic savings would have to increase only slightly to achieve the target.

63. To help the less advanced regions within the Republic, Croatia had established a Special Fund which used to provide subsidies to infrastructure investments but which will now be branching out to other sectors too. The Fund would provide incentives to enterprises to invest in these regions, and these incentives would be reinforced further by tax reductions, cheap land and the like.

64. Mr. Haramija concluded by raising the possibility of Bank assistance to export-credit financing. Mr. McNamara replied that he realized that Yugoslavia certainly had a need for credit to finance export sales. However, it was unlikely that the Bank in the near future could be of any help in this field.

65. In the following meeting with Croatian industrialists, Mr. McNamara was briefed about the following enterprises: "Rade Koncar", Port Authority of Rijeka, "Jadran brod", Agro-industrial combinat "Osijek" and "SISAK".

66. Mr. Markovic, General Manager of Rade Koncar, said that his enterprises, consisting of 15 industrial plants throughout the whole of Yugoslavia, produced mainly electrical equipment (generators, transformers, appliances). Total sales last year amounted to \$125 million, of which \$36 million was exported. Rade Koncar employed 13,500 people, including 1,370 university graduates. Mr. Markovic said that the forthcoming Five-Year Plan foresaw a

major expansion of the electrical engineering industry; annual production would be increased to $375 million. There was, however, the fundamental problem of finding the necessary investment funds. Mr. Markovic inquired, therefore, whether IBRD could assist in the financing of the investment plans. In his reply, Mr. McNamara emphasized that he had not come to Yugoslavia to discuss specific projects but rather to educate himself about the country and its economic situation. As far as Bank lending to Yugoslavia was concerned, Mr. McNamara felt that over the period 1969-73 the Bank would be able to lend twice or three times the average annual amount ($35 million) of the previous five-year period. He said that the Bank would concentrate its lending mainly in four fields:

- tourism, particularly in view of the high foreign exchange earnings;
- projects in the less developed regions of Yugoslavia;
- export-oriented industrial expansion;
- infrastructure (roads, power, etc.)

Mr. McNamara added, with regard to industry, that the Bank had no special interest in a particular sector, be it capital goods or something else. The relevant criterion for the Bank was a project's economic return.

67. The General Manager of the Port Authority of Rijeka, Mr. Prikril, described the plans for the building of a container terminal at Rijeka and trunk lines with the hinterland. The purpose would be to develop Rijeka as a central link for container traffic to Eastern Europe. Total cost would amount to $700 million, of which $38 million would be for the terminal at Rijeka.

68. Jadran Brod is an association of six shipyards on the Adriatic coast, representing about 90 percent of Yugoslavia's shipbuilding capacity. Its annual production amounts to $160 million, all of which is exported. The yards have order books which will allow them to work at full capacity through 1973 for a value of $650 million. Mr. Marjanovic, General Manager of Jadran Brod, said that in order to maintain Yugoslavia's market position (according to Lloyd, Yugoslavia is the world's tenth largest producer of ships) major investments were needed for the modernization and expansion of the present facilities. Between 1971 and 1975 about $75 to $80 million would have to be invested to reach a production volume of $350 million in 1975. The major part of these funds would have to be provided by domestic and foreign credits. In this connection, Mr. Marjanovic asked the Bank to consider lending for the shipbuilding industry.

69. Mr. Spika, General Manager of the Osijek Agro-industrial combine, said that his enterprise has presently 60,000 ha under cultivation with various crops (annual sales $100 million). Plans existed for another 25,000 ha of vegetable production, industrial plants for fully prepared meals and a completion of the marketing system. Mr. Spika said that his enterprise had contracts with American firms (FMC and Borden) to help them introduce the latest technology.

70. The SISAK steelworks has been the beneficiary of two IBRD loans. Mr. Veber, the General Manager, said that he definitely hoped for more in view of his enterprise's substantial expansion plans. Present sales amounted to $60 million (of which exports form $7 million) but by 1975 they should reach $140-$150 million. Mr. Veber estimated that investments totalling $40 million ($25 million in foreign exchange) were required to reach the desired level of production.

71. At the end of the meeting, Mr. McNamara raised a number of questions with respect to joint ventures. In particular, he was interested in the division of income, and the rights of the foreign partner. Mr. Markovic of Rade Koncar, which has a joint venture with Zanussi for the production of domestic appliances, was the principal respondent on this subject. He said that the workers' council of the joint venture delegates part of its responsibilities (the extent to which this is done is negotiated between the two partners and spelled out in a contract, which is then submitted to the joint venture's workers' council) to a so-called Business Board, in which both partners are represented. For practical purposes it can be said that the Business Board, the chairman of which has to be a Yugoslav, manages the joint venture. The division of distributable income between both partners, however, is a matter which has been incorporated in the contract establishing the joint venture. The workers' council of the joint venture can only dispose of the funds that remain after the foreign partner has received his share. The determination of what is to be considered profit is also regulated by the contract.

Friday, October 16

72. During the last day of his visit, Mr. McNamara had meetings in Belgrade with Mr. Gligorov, the Fund for Developing Regions, and a number of Serbian industrialists. Mr. McNamara was also received by President Tito and the Prime Minister, Mr. Ribicic. The latter meetings are not reported in this memorandum.

73. Mr. Gligorov, presently a member of the Presidium of the League of Yugoslav Communists, has previously occupied a number of functions in the executive branch of the Government and continues to devote his attention to economic policy questions. The main subject of the meeting with Mr. Gligorov concerned the role of the League in the country and its relation to other political and economic institutions. Mr. Gligorov began by stating that, in the present system, the League has no direct "state" function and exercises no power over any other institution. Its function is ideological rather, and consists in the political and economic education of its members. Nevertheless, its influence is large; all basic issues regarding the development of the country are discussed within the League and these discussions have an important bearing on the people who make the actual decisions. The most important issue now before the League concerns the changes in the Federal structure. Two basic principles will have to be observed:

- to preserve the country's strength, all Republics should feel as equal partners in the Federation;
- the individual Presidency will have to be replaced by a collective organ.

74. In reply to various questions regarding membership of the League, Mr. Gligorov explained that every citizen can become a member. He agreed, however, that proportionally, professional people are overrepresented and that not enough laborers and peasants had joined. He felt that part of the explanation lies in the fact that membership of the League involves quite a lot of obligations, party work, etc. Nevertheless, he expected that the present unbalanced structure would be corrected in the next ten years or so.

75. Mr. McNamara observed that he had noted during his visit the large degree of citizen participation in the functioning of the economy. He assumed that this was the direct result of the decentralization process and the concept of the "withering away of the state". He wondered, however, whether there was not a need for a balance between this concept and the correction of potential excesses arising from the market economy. Mr. Gligorov replied that such a balance was in fact essential. In the first place, foreign relations necessitated certain powers to be attributed to a central government, but also in the economic sphere a number of questions will have to be centrally solved. A complete "withering away of the state" would therefore be an unrealistic postulate. So the problem remained of determining to what extent decentralization should be carried through. In other words, while everybody should participate in the decision-making process, care should be taken to avoid the furtherance of partial interests only. The present system, Mr. Gligorov felt, had not always led to a proper distribution of profit between workers' income and investment, for example. More objective criteria for such proper distribution were necessary. Mr. Gligorov admitted that this problem was as yet unsolved.

76. In reply to a question from Dr. Lieftinck, Mr. Gligorov said that a fiscal and incomes policy were needed. In particular, the question of a just incomes policy was being debated widely in Yugoslavia. Basically, there were to schools of thought: a strict adherence to the market economy, and, while basically adhering to the market economy, the introduction of adjustments where necessary.

77. In the following meeting Mr. Radevic, Director of the Fund for Developing Regions, outlined the Government's policy with respect to Yugoslavia's underdeveloped areas. He said that the basic aim was that all regions should be able to achieve equality, while at the same time an optimal growth rate for the country as a whole should be realized. The Fund is the most important source of external investment funds for the less developed areas. Its contributions amount to roughly 30 percent of their total investment. It is financed by contributions from all Republics which amount to 1.85 percent of GNP. The average term of the Fund's loans amounts to 19.5 years with an average interest rate of 2.1 percent.

78. Mr. McNamara inquired whether there was a time horizon with respect to the elimination of regional differences in per capita income and what investments would be required to achieve such a target. The answer to this question was not particularly clear, apparently no firm policy has been formulated and no estimate is available of the amount of investments needed.

79. Mr. Rakovic, General Manager of Zastava, reported that the second stage of the expansion of his enterprise (to 200,000 vehicles), in which IBRD and IFC are participating, is on schedule. By 1975/76 he hoped to have completed the third stage with a series of 500,000 vehicles. Since Yugoslavia was too small a market to absorb this production, Zastava was undertaking a number of mergers with firms abroad (Poland, Hungary, USSR), through which foreign markets could be penetrated. By 1971, Mr. Rakovic expected to be able to submit his first expansion plans for the third stage to the Bank and IFC and he hoped for continued financial support.

80. Energoprojekt, said Mr. Mucalov, General Manager, provides complete engineering services and even turn-key jobs. Yearly sales amount to $150 million, and contracts worth $260 million have already been signed. It has established subsidiaries in 22 countries (mainly Africa) and about 80 percent of its work is performed abroad. Mr. Mucalov stated that the main factor restraining further expansion was a lack of capital.

81. Mr. Ljubisa, General Manager of the Community of Yugoslav Power Enterprises, said that by the end of 1970, the Yugoslav power plants will have an installed capacity of 7,000 MW and produce about 26 billion KWH. Annual production should increase by 12 percent to keep up with demand and reach 65 billion KWH in 1980. This expansion would require an investment of $2.5 billion in generating and transmission facilities. Mr. Ljubisa hoped that the Bank would resume its lending for power, which it discontinued in the early sixties.

82. The Naphtha Gas Company of Novi Sad is a vertically integrated oil company owning its own distribution network. It produces 750,000 tons of oil (15 percent of total Yugoslav production), 500,000 m^3 of natural gas (50 percent of total Yugoslav production), has three refineries (total capacity 1.6 million tons), 29 oil and gas fields, of which 12 are in production, and 400 km of pipelines. Naphtha Gas's five-year development plan, said Mr. Aksin (General Manager), foresees tripling natural gas production, an additional 200 km pipeline, a doubling of oil refining capacity, and further development of its oil and gas fields. Total investment required for the five years amounts to $230 million and annual sales are projected to reach about $520 million against $90 million in 1969.

83. Mr. Savicevic, Director of Generalexport, said that his enterprise combines the characteristics of a traditional export-import company and an investment bank. Generalexport buys up factories with export potential, increases their production and assists in the marketing abroad. Last year's sales amounted to $370 million, of which two-thirds were made abroad. Another field in which Generalexport was active was tourism. Starting in the early fifties as tour operators, Generalexport got involved in the building of hotels and established its own air charter company. Since hotel capacity is the limiting factor in expanding tourism sales (1969 $19 million) a seven-year development plan has been drawn up providing for 35,000 beds, requiring an investment of $18 million.

84. The Sevojno Copper Rolling Mill has doubled its production in 10 years to 45,000 tons. Mr. Sutic, Director of Sevojno, said that annual sales now amounted to $100 million, of which 65 percent was exported. The five-year expansion program provides for the establishment of an aluminum processing plant (35,000 tons per year) and further development of the copper rolling facilities. Since the IBRD has been involved in Sevojno's first expansion stage, Mr. Sutic hoped the Bank would consider further loans for the next stages.

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85. Mr. McNamara's official visit ended with a reception offered by the Federal Secretary for Finance at the Federal Executive Council Building on Friday evening.

Annex I

Mr. McNamara's Visit to Yugoslavia

Itinerary

Date and Time	Place	Meeting	Remarks
Sunday, October 11	Arrival Belgrade		
16.55	Airport		Statement at airport
18.00	Departure to Hotel Jugoslavija		
20.00	Hotel Jugoslavija	Dinner	Mr. and Mrs. Smole
Monday, October 12	Belgrade		
08.00	Federal Executive Council Building	Mr. Smole	Federal Secretary for Finance
08.45	- " -	Dr. Jelic	Federal Secretary for Economy
09.30	- " -	Dr. Stajner	Director, Federal Institute of Planning; in charge of preparations for Five Year Plan 1971-75
10.15	- " -	Mr. Granfil	Member, Federal Executive Council; in charge of external economic relations
11.15	- " -	Mr. Miljanic	Member, Federal Executive Council; in charge of economic affairs
12.30	- " -	Mr. Bojanic	President of Serbia
13.30	Club of the Serbian Government	Lunch	Mr. Bojanic
15.00	Trade Union Headquarters	Mr. Dizdarevic	Briefing on workers' self-management
16.00	Federal Chamber of Economy	Mr. Kolak	President, Federal Chamber of Economy; voice of the business community in the planning process

Date and Time	Place	Meeting	Remarks
Monday, October 12	Belgrade		
17.00	Headquarters Yugoslav Bank for Foreign Trade		Meeting with bankers
		Mr. Lukic	President, Yugoslav Association of Banks; Director General, Belgrade United Bank
		Mr. Ivanovic	Secretary, Yugoslav Association of Banks
		Mr. Linhart	General Manager, Yugoslav Bank for Foreign Trade
		Mr. Sebrek	General Manager, Privredna Bank Zagreb; former Director of Croatia office of Investment Bank
		Mr. Miljkovic	General Manager, Yugoslav Investment Bank
		Mr. Baum	General Manager, Export Credit Fund; former Assistant Secretary for Foreign Trade
		Mr. Kavcic	General Manager, Kreditna Banka Ljubljana
18.00	Headquarters National Bank	Dr. Perisin	Governor, National Bank of Yugoslavia
Tuesday, October 13	Belgrade, Novi Sad and Skoplje		
07.30	D.M.B. (21 May Factory)	Mr. Brkic Mr. Despotovic	Representatives Workers' Council and Management
09.30	Departure by car to PIK-Beograd		
10.00	PIK Beograd	Mr. Zecevich	Agro-Industrial Enterprise
11.00	Departure by car to Novi Sad		
12.00	Novi Sad	Mr. Filipovic	Vice President, Executive Council Vojvodina
13.00	Novi Sad	Official lunch	Executive Council of Vojvodina

Date and Time	Place	Meeting	Remarks
Tuesday, October 13			
14.30	Novi Sad	Mr. Bulatovic	Tisa-Danube Canal Enterprise
		Mr. Sovol	Koproduct (Association of 27 meat exporting enterprises)
16.00	Novi Sad	Mr. Vrebalov	Director, Institute for Agricultural Research
16.30	Departure by car to airport Belgrade		
18.00	Departure by air to Ohrid		
19.15	Arrival Ohrid		
20.00	Ohrid	Reception	Dr. Bogoev, President Macedonia
Wednesday, October 14 - Skoplje, Sarajevo and Dubrovnik			
07.30	Ohrid		Sightseeing
09.30	Skoplje	Urban Renewal Institute	Briefing on rebuilding of Skoplje after 1963 earthquake
10.30	Departure by air to Sarajevo		
11.30	Arrival Sarajevo		
12.00	Sarajevo	Mr. Kosovac	President, Bosnia-Hercegovina
13.30	Sarajevo	Official lunch	Executive Council, Bosnia-Hercegovina
15.30	Sarajevo	Mr. Blum	Energoinvest
16.00	Sarajevo	Industrialists	Mr. Numic, Vice President, Chamber of Economy
			Mr. Tomic, General Manager, Zenica
			Mr. Gorski, General Manager HENA
			Mr. Grupkovic, General Manager, ELEKTOPRENOS
			Mr. Krunic, Assistant General Manager, Banja Luka Paper Plant
			Mr. Makic, General Manager, Investment Bank Sarajevo

Date and Time	Place	Meeting	Remarks
Wednesday, October 14			
17.30	Departure by air to Dubrovnik Accommodation in hotel; free dinner		
Thursday, October 15 - Dubrovnik and Zagreb			
08.00	Dubrovnik	Mr. Gril Mr. Lujak	Briefing on South Adriatic Development Program and Babin Kuk Project
09.30	Tour of Dubrovnik		
10.30	Departure by car for Hercegnovi (drive along Adriatic Highway, financed by Bank)		
11.15	Arrival Hercegnovi	Mr. Bulajic	President, Montenegro
12.00	Hercegnovi	Lunch	Mayor of Hercegnovi
15.00	Arrival Zagreb		
15.30	Zagreb	Mr. Haramija	President, Croatia
17.00	Zagreb	Industrialists	Mr. Markovic, General Manager, Rade Koncar
			Mr. Spika, General Manager, Osijek Combine
			Mr. Pavlisko, General Manager, Ingra
			Mr. Bubanj, General Manager, INA
			Mr. Marjanovic, General Manager, Jadran Brod
			Mr. Veber, General Manager, SISAK
			Mr. Gasparevic, President, Republican Chamber of Economy
20.00	Zagreb	Official dinner	President of Croatia

Date and Time	Place	Meeting	Remarks
Friday, October 16	Belgrade		
08.30	Headquarters League of Yugoslav Communists	Mr. Gligorov	Member, Presidium, League of Yugoslav Communists; formerly Member of Federal Executive Council in charge of Economic Affairs
10.00	Federal Executive Council Building	Mr. Ribicic	Prime Minister
11.00	Official Residence	Marshall Tito	President, Yugoslavia
15.00	Hotel	Mr. Radevic	Director, Fund for Developing Regions
16.00	Headquarters Energoprojekt	Industrialists	Mr. Sutic, Director, Sevojno
			Mr. Mucalov, General Manager, Energoprojekt
			Mr. Visnjic, General Manager, General Export
			Mr. Aksin, Deputy General Manager, Naphtha Gas
			Mr. Ljubisa, General Manager, Community of Yugoslav Power Enterprises
20.00	Federal Executive Council Building	Reception	Mr. Smole
Saturday, October 17			
09.30	Departure Belgrade airport		

Mr. McNamara's Visit to Yugoslavia

List of Personalities

President of the SFR of Yugoslavia

Marshall Tito

Prime Minister

Mr. Mitja Ribicic

Federal Executive Council

Mr. Toma Granfil, Member
Mr. Nikola Miljanic, Member
Mrs. Vojna Milovanovic, Adviser
Mr. Branko Mikasinovic, Adviser

Federal Secretariat for Finance

Mr. Janko Smole, Federal Secretary
Mr. Ante Zelic, Deputy Federal Secretary
Mr. R. D. Dodic, Senior Adviser
Mr. M. Zekanovic, Economist
Mrs. B. Jojic, Translator

Federal Secretariat for Economy

Mr. Borivoje Jelic, Federal Secretary

State Secretariat for Foreign Affairs

Mr. Momcilo Peles, Head of Department
Mr. G. Popovic, Assistant Head of Department

Federal Planning Institute

Dr. Rikard Stajner, Director

Executive Council of the SR of Serbia

Mr. Milenko Bojanic, President
Mr. Ikonic, Vice President
Mr. T. Vlaskalic, Member of the Executive Council
Mr. V. Gajinovic, Secretary of the Foreign Relations Committee

Central Council of the Federation of Trade Unions of Yugoslavia

Mr. Marijan Rozic, Secretary
Mr. Rajf Dizdarevic, Secretary

Association of Yugoslav Banks

Mr. Ljubisa Lukic, President of the Association and General Manager of the Beograd United Bank
Mr. Milan Ivanovic, Secretary General of the Association
Mr. Dragan Miljkovic, General Manager of the Yugoslav Investment Bank
Mr. Bozidar Linhart, General Manager of the Yugoslav Bank for Foreign Affairs
Mr. Sreten Cvijovic, General Manager of the Economic Bank, Beograd
Mr. Dragutin Sebrek, General Manager of the Economic Bank, Zagreb
Mr. Niko Kavcic, General Manager of the Bank of Ljubljana, Ljubljana

Export Credit Insurance Fund

Mr. Slavko Baum, General Manager

International Investment Corporation for Yugoslavia (IICY)

Mr. Zoran Zagar, Vice President

Federal Chamber of Economy

Mr. Rudi Kolak, President

National Bank of Yugoslavia

Mr. Ivo Perisin, Governor
Mr. Bramko Colanovic, Vice President
Mr. A. Bogoev, General Manager
Mr. M. Mermolja, Senior Adviser
Mrs. Nada Zivanovic, Director
Mrs. D. Filipovic, Translator

"21 Maj" Motor Factory (DMB)

Mr. Dusan Pudja, General Manager of UMI
Mr. Djordje Brkic, General Manager of DMB
Mr. R. Barisic, Director of DMB
Mr. R. Colic, Director of DMB
Mr. V. Despotovic, Chairman of the Workers' Council
Mr. Lj. Nikolic, Chairman of the Managing Board

"Beograd", Agro-Industrial Combine, Padinska Skela

Mr. Petar Zecevic, Managing Director
Mr. A. Pavlovic, Deputy Managing Director
Mr. M. Milosavljavic, Director
Mr. V. Ciric, Director of the Research Institute

Executive Council of the SAP of Vojvodina

Mr. Sava Filipovic, Vice President
Mr. Z. Cosic, Member of the Council
Mr. Milan Janjetovic, Secretary of Agriculture
Mr. D. Vlatkovic, Secretary of Finance
Mr. V. Probac, Secretary of Information

Dunav-Tisa-Dunav Canal Enterprise, Novi Sad

Mr. V. Bulatovic, General Manager

"Koprodukt", Trade Association of Livestock Producers and Meat Products Manufacturers, Novi Sad

Mr. T. Birovljev, General Manager
Mr. Lj. Kasikovic, Deputy General Manager
Mr. S. Zvekic, Chairman of the Workers' Council

Agricultural Institute, Novi Sad

Mr. T. Vrebalov, Director

Faculty of Agriculture of Novi Sad University

Prof. R. Savic
Prof. S. Reljin

Executive Council of the SR of Macedonia

Mr. K. Bogoev, President
Mr. K. Crvenkovski, Member
Mr. N. Uzunov, Member
Mr. S. Hristov, Chairman of the Economic Chamber of the Assembly of Macedonia
Mr. A. Makraduli, Secretary of Finance
Mr. M. Balevski, President of the Assembly of the City of Ohrid
Mr. T. Ivanovski, General Manager of the Investment Bank, Skoplje
Mr. K. Janevski, Director of the Road Fund of the SR of Macedonia
Mr. S. Moris, Vice President of the Chamber of Economy of Macedonia
Mr. A. Arsov, General Manager of the Chemical Industry OHIS, Skoplje
Mr. G. Petrovski, General Manager of the Agricultural Combine "Pelagonija", Bitola

Assembly of the City of Skoplje

Mr. D. Stavrev, President
Mr. T. Papes, Vice President
Mr. A. Manevski, Vice President
Mr. V. Muratovski, General Manager, Department for Reconstruction and Development of Skoplje
Mr. K. Kitanovski, Director, Department for Regulation of River Vardar

Executive Council of the SR of Bosnia and Hercegovina

Mr. D. Kosovac, President
Mr. S. Lopandic, Vice President
Mr. Dz. Muminagic, President of the Assembly of the City of Sarajevo
Mr. Dj. Peklic, Secretary of Finance
Mr. N. Stojanovic, Director of Republican Institute for Social Planning
Mr. R. Makic, General Manager of the Investment Bank, Sarajevo

"Energoinvest", Sarajevo

Mr. E. Blum, General Manager
Mr. R. Selmanagic, Deputy General Manager
Mr. H. Pitic, Financial Manager
Mr. I. Papo, Assistant General Manager

Republican Chamber of Economy, and Industrialists (Bosnia-Hercegovina)

Mr. H. Numic, Vice President of the Republican Chamber of Economy
Mr. S. Tomic, General Manager of the Mining and Metallurgy Combine, Zenica
Mr. F. Gorski, General Manager of Chemical and Oil Industry HENA, Sarajevo
Mr. Lj. Grupkovic, General Manager of ELEKTROPRENOS, Sarajevo
Mr. R. Krunic, Assistant General Manager, Cellulose Factory, Banja Luka

Meeting in Dubrovnik on South Adriatic Project and Babin Kuk Project

Mr. Nikola Gril, Member of the Executive Council of the SR of Croatia
Mr. A. Vetma, President of the Assembly of the City of Dubrovnik
Mr. R. Lujak, General Manager of the Enterprise "Minceta"
Mr. I. Bautovic, Director of the Enterprise "Minceta"
Mr. V. Betica, President of the Tourist Federation
Mr. N. Vusovic, Coordinator of the South Adriatic Project
Mr. A. Marinovic, Department Head of the Urban Planning Institute

Executive Council of the SR of Montenegro

Mr. Z. Bulajic, President
Mr. Z. Dragovic, Secretary of Economy
Mr. Drecun, Secretary of Finance
Mr. V. Knezevic, President of the Committee for International Relations
Mr. P. Stijepcic, President of the Assembly of the City of Hercegnovi
Mr. M. Cemovic, General Manager of the Investment Bank, Titograd
Mr. D. Grupkovic, Director of the Republican Institute for Social Planning
Mr. J. Sapuric, Director of the catering enterprise "Boka"

Executive Council of the SR of Croatia

Mr. D. Haramija, President
Mr. D. Reljic, Vice President
Mr. E. Nonveiller, Member
Mr. N. Gril, Member
Mr. I. Bukovic, President of the Economic Chamber of the Republican Assembly

Republican Chamber of Economy and Industrialists (Croatia)

Mr. V. Gasparovic, President of the Chamber of Economy of the SR of Croatia
Mr. Ante Markovic, General Manager of "Rade Koncar"
Mr. B. Prikril, for the Port of Rijeka
Mr. I. Marjanovic, General Manager of the Association of Shipbuilding Enterprises "Jadranbrod"
Mr. I. Spika, General Manager of the Agro-Industrial Combine, Osijek
Mr. M. Basic, Vice President of the Chamber of Economy of the SR of Croatia
Mr. I. Pavlisko, General Manager of "INGRA"
Mr. M. Cuculic, General Manager of "OKO"
Mr. P. Gazi, General Manager of "Podravka"
Mr. N. Veber, General Manager of Steelworks Sisak

Meeting at the Reception given by the President of the Executive Council of the SR of Croatia, Mr. D. Haramija

Mr. Ivo Supek, Rector of Zagreb University
Mr. J. Kolar, President of the Assembly of the City of Zagreb
Mr. V. Gasparovic, President of the Chamber of Economy of the SR of Croatia
Mr. V. Rajkovic, General Manager of the Republican Institute for Social Planning
Mr. Z. Moric, Adviser in the Republican Executive Council

"Crvena Zastava" Automobile Factory

Mr. P. Rakovic, General Manager

Industrialists (Serbia)

Mr. Z. Mucalov, General Manager of "Energoprojekt"
Mr. L. Ljubisa, General Manager of the Community of Yugoslav Electric Power Enterprises
Mr. V. Aksin, Deputy General Manager of "Naftagas"
Mr. P. Marjanovic, Director of Refinery Pancevo
Mr. B. Rmandic, Assistant General Manager of Refinery Pancevo
Mr. R. Sutic, Director, Copper Rolling Factory, Sevojno
Mr. M. Savicevic, Director, "Generalexport"
Mr. Dj. Lezimirac, Director, "Generalexport"
Mr. B. Markovic, Director, "Generalexport"

League of Communists of Yugoslavia

Mr. Kiro Gligorov, Member Presidium

Federal Fund for Developing Regions

Mr. Aleksandr Radevic, Director

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CONFIDENTIAL

January 7, 1971

MEMORANDUM FOR THE RECORD

Meeting between Ambassador Crnobrnja of Yugoslavia, Mr. McNamara and Mr. Gaud on The International Investment Corporation for Yugoslavia (IICY)

In the course of yesterday's meeting with Mr. McNamara and me, the Ambassador raised several questions with respect to IICY. First, he said that when he last saw Tony Solomon here in Washington he was a little disturbed by Tony's attitude towards Yugoslav enterprises. He seemed to be taking too political a view.

Second, he said that Zagar (and perhaps other Yugoslavs) had indicated that they were rather unhappy with Tony's attitude and were not getting along too well with him. In this connection he said he recognised that Zagar was not an easy man to get on with and that some of the problems might be due to Zagar.

Third, he wondered what our view of IICY was, stating that in his opinion it was neither a great success nor a failure but was doing some good work and needed more time before being judged.

We said we were aware of the fact that Tony and Zagar were having difficulties, and I said in particular that Zagar had expressed himself to me on this subject quite freely and frankly when I was in Dubrovnik. We also said that Tony, while extremely able, is not always as tactful and diplomatic as one would like, and from our own personal experience he sometimes rubbed people the wrong way. However, as Mr. McNamara put it, it is better to have an able man who is sometimes abrasive than an amiable man with less ability. The Ambassador agreed.

With respect to IICY's performance to date, we said we concurred in the Ambassador's assessment, and felt it was too early to say whether and to what extent IICY would be successful.

I told the Ambassador that one issue between Tony and Zagar was the extent to which it was necessary to investigate and analyse potential investments -- Zagar being somewhat inclined to take the facts and figures that were presented to him. IFC has been asked to invest in two joint ventures now being promoted by IICY. We feel that

President has seen

more study and information is necessary with respect to both of them, and we have told IICY and the Yugoslav enterprises that we are not prepared to go forward without more information than is now available. So, I concluded, as far as IFC is concerned, we feel that Tony is correct in insisting on thorough and complete analysis and information.

The Ambassador said that he had not discussed with anyone the views he had put forward to us and did not intend to do so. He felt the matter had to be handled very carefully indeed. We promised to keep in touch and discuss the matter again in the future as occasion might require.

WSGaud:jm

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CONFIDENTIAL

MEMORANDUM FOR THE RECORD

March 16 1971

YUGOSLAVIA : Mr. McNamara's meeting with Messrs. Mucalov and Linhart

Mr. Mucalov, General Manager of Energoprojekt and Mr. Linhart, General Manager of the Yugoslav Bank for Foreign Trade, visited Mr. McNamara on February 16. This was a courtesy call and the whole conversation centered around the work of the consulting firm Energoprojekt in various developing countries. In particular, Mr. Mucalov mentioned the work of his firm in connection with mining in Zambia and Peru and hoped that some of the projects could eventually lead to Bank loans.

Mr. McNamara asked his visitors for their comments on the latest Yugoslav devaluation and stabilization measures -- they seemed uninformed on the subject.

M.P. Benjenk

cc: Mr. McNamara's office.

President has seen

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 16, 1971

FROM: M. P. Benjenk MB

SUBJECT: YUGOSLAVIA - Meeting with Messrs. Mucalov and Linhart

On Tuesday, February 16 at 17.00 hrs., Messrs. Mucalov, General Manager of Energoprojekt, and Linhart, General Manager of the Yugoslav Bank for Foreign Trade, will have a courtesy visit with you. You met both during your visit to Yugoslavia in October. Their headquarters are both located in Belgrade. After your visit, Mr. Mucalov sent you a reproduction of a fresco as a memento. ✓

Energoprojekt is one of Yugoslavia's largest engineering enterprises. Its fields of activity are: hydro, thermo and nuclear power generation; irrigation and land reclamation; industry; architecture and town planning; and tourism.

Energoprojekt has acted as consulting engineers for a few Bank projects (notably in Yugoslavia itself, Ceylon and Zambia) and is currently engaged in the design of the Ibar Multipurpose Water Supply Project, which has been appraised for Bank financing (in Yugoslavia)

The company employs 1,200 professional staff and has at the moment about 8,000 laborers on sites in Yugoslavia and abroad. It has subsidiaries in 20 countries and joint ventures in five.

The Yugoslav Bank for Foreign Trade was set up in 1955 to promote, in the first instance, the country's foreign trade. Early in 1965 the bank was transformed into a commercial-investment bank, but it is still the leader in financing foreign trade.

At the end of 1969 its assets amounted to 14.3 billion dinars ($1.2 billion at the exchange rate prevailing at that time) and its earnings over 1969 were 992 million dinars ($80 million). It is Yugoslavia's fourth largest bank.

The bank concentrates its business in the following sectors: non-ferrous metallurgy, metal-processing, shipbuilding, wood-manufacturing and food processing. It is particularly active in financing exports of the mechanical engineering industries and shipbuilding, which for years it was practically the only bank to support. At present, the bank employs over 2,000 people.

Mr. Mucalov, General Manager of Energoprojekt, is chairman of the Executive Board of the Yugoslav Bank for Foreign Trade.

President has seen

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STRICTLY CONFIDENTIAL

March 16 1971

MEMORANDUM FOR THE RECORD

YUGOSLAVIA : Mr. McNamara's meeting with Mr. Gavra Popovic

Mr. Gavra Popovic, Assistant to the Federal Secretary for Finance of Yugoslavia, called on Mr. McNamara on March 10. Mr. Popovic was in the Bank in his capacity as head of the Yugoslav negotiating team for the Babin Kuk tourism project and will stay in Washington through three other pending negotiations.

Mr. Popovic said that he had been instructed by Mr. Granfil, Member of the Executive Council of the Federal Government of Yugoslavia, to talk to Mr. McNamara about Yugoslavia's intention to promote joint economic ventures with other Eastern European countries, such as Poland, Hungary and Romania. He mentioned joint ventures in the automobile industry with Poland, joint metal working plants with Hungary and oil pipeline and refining projects with Romania. The immediate problem he had in mind was a joint project with Romania, where Romania would send oil through a pipeline to Yugoslavia to produce materials for the plastics industry. The project would contain an oil refinery and a pipeline and plastics factories to be located both in Yugoslavia and Romania. Mr. Popovic's question was whether the Bank could finance such joint projects.

Mr. McNamara began by saying what the Bank could not do. Under its charter the Bank could not finance projects which were not located on a member country's territory and which were not guaranteed by a member country. Therefore, it was out of the question for the Bank to finance any project located in Romania. It might, however, be possible to find a way to finance a joint Yugoslavia/Romania project located on the Yugoslav side, although he could give no commitment on this. Ways would have to be sought to make such a procedure possible. Mr. McNamara said that his negative response on the first point should not be taken to mean that the Bank would not be very interested in Romania's joining the World Bank Group. There had been a number of tentative approaches by Romania on the subject but they had come to nothing. He still hoped that one day Romania would become a member of the Bank.

M.P. Benjenk

President has seen

cc: Mr. McNamara's office.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

For your 3.20 mtg WED.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 8 1971

FROM: M.P. Benjenk

SUBJECT: YUGOSLAVIA: Mr. Gavra Popovic

You have received two letters (copies attached) from the Yugoslav Prime Minister and from Mr. Granfil, both of whom you met during your recent visit to Yugoslavia. The Prime Minister informs you that the Minister of Finance, Mr. Smole, will be writing to you concerning the recent economic stabilization measure and the devaluation of the Yugoslav dinar. To my knowledge this letter has not yet reached us. The Prime Minister also expresses the hope that the four loans we are endeavouring to process this fiscal year will lead to the conclusion of loan agreements.

Mr. Granfil in his letter asks you to receive Mr. Gavra Popovic, Assistant to the Federal Secretary for Finance, who arrived here last week to act as continuing head of the four Yugoslav delegations which will succeed each other in the four loan negotiations, the first of which has just begun. These four loan negotiations will stretch over the next six to seven weeks. You will remember Mr. Popovic as our escort during all of your Yugoslav travels last October. He was then with the Yugoslav Foreign Ministry but has since been promoted to his present position in the Secretariat of Finance, where he is in charge of international economic relations.

Mr. Popovic informs me that his intention is to raise with you, on instructions from his superiors, a question which was briefly touched upon during your stay in Yugoslavia, namely, Yugoslavia's interest in joint projects with other Eastern European countries, particularly Rumania, but also Hungary and Poland, and methods of obtaining World Bank finance for such projects. He has insisted that this topic be kept very confidential.

We know very little about the projects he has in mind except for the oil pipeline project from the northern Adriatic to Hungary, which Mr. Smole mentioned to us when we were there. After he has revealed to us what he has in mind we can think about his problem and meeting with him again later, since he is going to be with us more than a month. Mr. Popovic is scheduled to see you Wednesday March 10 at 3:20. (Mr. Popovic was born in 1923 in Novi Sad, in the present autonomous province of Vojvodina. He studied economics at Belgrade University and served in the National Liberation Army during the Second World War. In 1945, he joined the Ministry for Foreign Trade and in 1951 moved to the Ministry for Foreign Affairs. He has served as the economic minister of the Yugoslav Embassy in Washington and knows the U.S. well, having spent altogether nine years here. He has also been stationed in Brazil and has been a member of numerous trade and financial delegations. He is married and has one child.)

President has seen

Att:

MAR 3 REC'D

FEDERAL EXECUTIVE COUNCIL
OF THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA
THE PRESIDENT

Belgrade, February 23, 1971

Dear Mr. President,

Will you, please, consider this letter as a continuation of the discussions we had during your visit to my country in October last. Impressed by your contribution to the dialogue on that occasion, I wish to thank you once again - at this moment when we are taking important measures to stabilize our economy - for the contribution that the International Bank for Reconstruction and Development has made so far to the economic development of Yugoslavia.

In a separate latter that Mr. Janko Smole, our Federal Secretary for Finance, is sending to you, these stabilisation measures and the devaluation will be explained in greater detail.

May I use this opportunity to express the hope that the International Bank for Reconstruction and Development will be in a position to provide adequate support to Yugoslavia s development programme in the coming period.

My Government and myself hope that you, Mr. President, will take a personal interest, as you have done in the past, in the forthcoming negotiations which will, we hope, lead to the conclusion of an agreement with the International Bank for Reconstruction and Development concerning four loans for infrastructure and tourist resort projects, in which Yugoslavia is greatly interested in the present stage of its economic and cultural development.

Sincerely yours,
Mitja Ribičič
Mitja Ribičič
President of the Federal
Executive Council
of the SFR of Yugoslavia

Mr. Robert S. McNamara,
President,
International Bank for
Reconstruction and Development,
Washington, D.C.

SOCIJALISTIČKA FEDERATIVNA REPUBLIKA JUGOSLAVIJA
SAVEZNO IZVRŠNO VEĆE
KABINET ČLANA SIV-a
TOME GRANFILA

MAR 3 REC'D

Beograd, February 23, 1971

Mr. Robert S. McNamara
President International
Bank for Reconstruction
and Development
Washington, D.C.

Dear Mister President,

I am making use of this opportunity to address to you my cordial greetings. Continually I am having in mind constructive suggestions that you have kindly put forward, during your visit to my country, in connection with possible developments of the relations between Yugoslavia and the World Bank.

Mr. Gavra Popović, Assistant to the Federal Secretary for Finance, is leaving for Washington, D.C. and I would welcome if you could spare some of your time to receive him and to hear from him about the things to which we devote now our great attention. At the same time he could acquaint us with your present thinking about the possibilities to advance still further the openings we jointly explored during your stay here.

With best personal regards,

Sincerely yours,

Toma Granfil

Toma Granfil

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MEMORANDUM FOR THE RECORD

September 14 1971

YUGOSLAVIA : Visit of President of Executive Council of Montenegro
Mr. Varko Bulajic

Mr. Bulajic, President of the Executive Council of Montenegro, who was in the United States on a visit sponsored by the U.S. Government, called on Mr. McNamara on April 21. This was a courtesy call in which the President recalled with pleasure the all too brief visit of Mr. McNamara to Montenegro the previous fall, and mentioned some of the development work which Montenegto was anxious to pursue with the help of World Bank loans. He added that any projects would be sent to the Bank through the Federal Government in the usual way.

Mr. McNamara thanked Mr. Bulajic for his visit and recalled with pleasure the brief hours he had spent with the Montenegran Executive Council last November. He stressed the great importance for the Bank of pursuing an active lending program in Yugoslavia and in particular the developing regions of that country, of which Montenegro was one.

M.P. Benjenk

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: The Record

DATE: October 6,1971

FROM: Norman Horsley

SUBJECT: Meeting of the Federal Secretary for Finance of Yugoslavia with Mr. McNamara - Annual Meeting Discussions

Mr. Janko Smole, Federal Secretary for Finance of Yugoslavia, met with Mr. McNamara in his office on October 1, 1971. Mr. Ante Zelic, Deputy Federal Secretary for Finance, Mr. Ratoljub Dodic, Counselor, Federal Secretariat for Finance, and Messrs. Knapp, Benjenk and Horsley were also present.

In an opening reference to the recent amendments to Yugoslavia's constitution, Mr. Smole said that these political changes would enable his country to pursue more vigorously its policies for development and stabilization. Although decentralization had been emphasized, the Federal Government retained a very important role, particularly in the transfer of funds to the underdeveloped regions and in obtaining or guaranteeing external loans. With regard to the latter, Mr. Smole noted a significant change in that loans to, or guaranteed by, the Federation must now have the prior approval of the Republics. He referred to the special committees of Federal and Republic officials that were being established to deal with all matters on which joint decisions would be required.

Mr. Smole thought that the changed political situation in Yugoslavia now made it possible to go forward with the stabilization program at a much faster pace. His Government had been looking abroad for assistance with the stabilization program, and had been very successful in its approached to the International Monetary Fund. Later that day he would be signing an agreement with the US: at the suggestion of the US, assistance would be largely provided through debt rescheduling since assistance under PL 480 was no longer possible. Italy was to provide some $70 million in aid, and both the French and Japanese authorities had made a positive response. Discussions with Germany on possible assistance had been intermixed with discussions on war indemnification payments: however, he hoped for positive results and further meetings would take place in Bonn within a few days. The Government was also considering an external bond issue, a step which needed very careful preparation. One encouraging feature was the much greater understanding in Yugoslavia of the value to the country of an external bond issue.

Mr. Smole said that there was also now a much better understanding within his country of the need to mobilize savings and to enhance the mobility of capital. The Federal Government had decided to establish a working group on the development of a capital market and looked to the Bank for advice and assistance. He understood that the Bank's forthcoming economic mission would be prepared to work with the Yugoslav group on this subject.

Mr. McNamara said that he was glad to hear that the Federal Government had retained its powers to stabilize the economy; there had been concern in the Bank that this authority would be lost. He was also pleased to note that

President has seen

the Federal Government would have power to determine priorities for the use of external capital. With regard to the mobility of capital, he would be very interested in seeing how greater mobility could be achieved. Mr. McNamara asked what fields of activity should have priority for Bank lending. In response, Mr. Smole referred to the need for the market to play a greater role in the Yugoslav economy, which in turn called for a greater integration of the market and for a better allocation of the remaining economic authority between the Federal and Republic Governments.

With regard to priorities, Mr. Smole placed infrastructure first and referred especially to the power transmission project as one of the highest priority. It would lead not only to much needed integration of power supplies within Yugoslavia but also to interconnection with neighboring countries. Electricity tariff increases would be required to provide for a greater degree of self-financing by the enterprises and to ease the financial strain on the local banks. In the transportation sector, Bank assistance was needed for both railways and highways. Mr. Smole noted the period of postwar neglect of the railways when no new investment had been undertaken and which had resulted in a substantial accumulation of investment requirements. He also noted that the railways employed a large surplus of labor, which it would be difficult to reduce. He informed Mr. McNamara that a further increase in tariffs of 10 percent, effective from October 1, had recently been approved. This brought the total tariff increase this year to 27 percent, the figure proposed by the Bank. Mr. Smole believed that future Bank assistance in the tourism sector should be for infrastructure rather than for hotels. He would like to see the Bank involved in some of Yugoslavia's basic industries, such as aluminium and other non-ferrous metals, and steel. Finally, Mr. Smole referred to the proposed line of credit operation and especially to the need for Yugoslavia to adopt improved criteria for project selection and resource allocation.

Mr. Smole noted that in addition to the Bank projects some 4 or 5 IFC projects were in an advanced stage of preparation. He expressed his Government's gratitude for IFC's recent decision to make direct investments in Yugoslavia. This was important for other potential investors as well as for Yugoslavia itself. Mr. Smole mentioned that he had been having talks with OPIC and hoped that the US authorities would soon decide on the guarantee of non-commercial risks in Yugoslavia.

Mr. Knapp said that he was very glad to hear that there had been a further increase in railway tariffs. He emphasized that there was still a great deal of work to be done to put the railways into a reasonable situation. Mr. McNamara, agreeing with both points, thought the Bank would be able to do something with the railways. However, he believed that Yugoslavia's task with its underdeveloped regions was much greater than that with the railways.

In response to Mr. McNamara's enquiry about projects in underdeveloped regions, Mr. Smole referred to a parliamentary resolution giving highest priority for foreign loans to the underdeveloped regions, provided that the usual criteria for sound projects were met. The rate of contribution to the fund for the underdeveloped regions would now be increased from 1.85 percent of GNP to 1.94 percent, and additional allocations would be made from the Federal budget. Mr. Smole wanted to see more projects from these regions presented to the Bank, especially joint ventures. Mr. McNamara said that the Bank also wanted to find more projects in the underdeveloped regions.

Mr. McNamara pointed out that the Bank did not have a full pipeline of projects for Yugoslavia. As a consequence, its lending to Yugoslavia in the current fiscal year was likely to be less than in the two preceding years. He stressed the importance of concentrating on projects preparation and having a sufficient number of projects ready for Bank consideration. Messrs. Smole and Zelic undertook to do all that was possible to accelerate project preparation in Yugoslavia.

Mr. McNamara expressed his interest in the stabilization program and said that he would later learn from Mr. Benjenk the structure of the program and the extent to which it was proving successful.

cc: Mr. R.S. McNamara (original+ 1 cc)
Messrs: Knapp
Benjenk
Hartwich
Weiner
Fuchs
Koch
Knox
Diamond
Paterson
EK/RG/VD/FH/AE/Div. file
NH