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McNamara files :

Contracts  
Yugoslavia ( 1972-1976 )

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18.

## OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Dieter Hartwich

SUBJECT: Visit of Yugoslav Ambassador

DATE: July 3, 1972

The Yugoslav Ambassador Mr. Toma Granfil visited Mr. McNamara on June 26, accompanied by Mr. Stojiljkovic, Economic Minister at the Embassy. Mr. Hartwich was present at the meeting.

The Ambassador expressed his Government's satisfaction at the \$75 million loan for the power transmission project which had been approved by the Board on June 13. Since this was the only Bank loan to Yugoslavia in FY72, the amount of annual lending was below that of the preceding years but the Government was aware that this was due to difficulties on the Yugoslav side. However, matters had very much improved in Yugoslavia recently and a higher rate of Bank lending was hoped for again in the coming years. The Ambassador said that he would soon go to Yugoslavia and was therefore interested in Mr. McNamara's assessment of Yugoslav/Bank relations.

Mr. McNamara expressed his satisfaction at the very efficient handling of the power transmission project on the Yugoslav side and the great efforts made by the Yugoslav authorities which finally made possible the effectiveness of the four FY71 loans. Operational relations therefore seemed to be coming back to normal. On a more general level, he wanted to make two observations. Firstly, he had a question whether the trend towards decentralization, which he recognized was essential for Yugoslavia, left sufficient responsibility to the Federal authorities in those matters which by their nature had to be decided for the country as a whole, such as price and incomes policies. Secondly, it seemed that the rate of growth in the less developed regions of Yugoslavia had slowed down in recent years so that the gap in per capita incomes to the developed republics was no longer narrowing. This was a serious problem although he realized that other countries faced the same situation.

The Ambassador agreed that these were two important problems. On decentralization, he said that recently the trend had changed from one-way to two-way traffic. In other words, in essential areas the new constitutional provisions had been defined in such a way that there could be effective federal action. He explained briefly the situation with regard to price controls and elaborated somewhat on the attempts to create an incomes policy through social agreements among all parties concerned. With regard to the second question, he agreed that the gap in per capita incomes had not narrowed recently. However, he said that major efforts were being made in that direction. He described the contributions presently being made to the less developed regions and mentioned that the new 5-Year Plan which would probably come into effect in July would place great emphasis on this matter.

President has seen.

July 3, 1972

The Ambassador said that the question of allocating Bank funds among the republics and provinces was a delicate one. Certain proportions had been worked out by the Yugoslav authorities in which the various parts of Yugoslavia should benefit from Bank lending. The formula was rather flexible and to be realized over a period of years only and not in any single year. The Yugoslav authorities also foresaw emphasis on the less developed regions but did not exclude the more developed republics. Mr. Hartwich remarked that the Yugoslav formula as such was not known to the Bank. Mr. McNamara replied that the main point was that there was emphasis on the less developed regions and flexibility in applying any formula. Given this, it should be possible to work out a mutually satisfactory lending program.

The Ambassador then described the manpower surplus, largely of unskilled labor, in the less developed regions and asked whether the Bank would be prepared to lend for education in these regions in order to upgrade the quality of their manpower. Mr. McNamara replied that this was an objective which he fully supported and that the Bank would be glad to consider suitable projects in the education sector which the Yugoslav authorities might put forward.

The Ambassador reiterated once more how pleased his authorities were with the close and fruitful cooperation with the Bank and the efforts the staff had made, and that they hoped FY 1973 would be a successful year which would also to some extent make up for the shortfall in lending in FY72.

Mr. McNamara's office (2 copies)

cc to Mr. Knapp  
Mr. Benjenk o/r  
Mr. Horsley

DHartwich:rpo

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Dieter Hartwich *DH*

SUBJECT: YUGOSLAVIA: Your meeting with the Ambassador

DATE: 22 June 1972

1. You are meeting with H.E. Toma Granfil, Ambassador of Yugoslavia, at 11.40 a.m. on Monday, June 26, at his request. He will be accompanied by Mr. Miodrag Stojiljkovic, Minister Counselor (Economic) at the Embassy. The Ambassador's primary purpose is to have his first formal meeting with you since his appointment to Washington in October 1971.

2. The matters likely to be raised by the Ambassador are:-

(a) The difficulties experienced with Bank operations in Yugoslavia in 1971 will probably be briefly touched upon.

These problems, and their causes and solutions, are summarized in the attached memorandum which Mr. Benjenk approved before his departure. You may wish to express understanding for Yugoslavia's past difficulties, while pointing to the staff time they absorbed and the doubts about Yugoslavia's ability to utilize our loans that they created. The Bank is pleased that its operations are now again being handled more effectively, but the consequences of a repetition of the 1971 situation should be emphasized.

(b) The volume of Bank lending that Yugoslavia can expect in the next few years.

Your Report on the Power Transmission Project (P-1081, dated June 1, 1972) expected lending to Yugoslavia to continue at an annual average level of \$100 million. This was also the figure mentioned to the Federal Secretary of Finance by Mr. Knapp during his recent visit to Belgrade. FY 73 might be higher than the average to compensate for the lower level attained in FY 72 (\$75 million), and it seems at present that sufficient projects could be ready for this.

(c) Sectoral priorities for Bank lending as seen by the Bank.

The Bank proposes to concentrate its lending on infrastructure, especially to support structural reform and country-wide coordination; agriculture, especially to improve the productivity of the small farmer; tourism, with increasing attention to infrastructure; and industry, through a line of credit, with direct lending for individual projects after FY 73 confined to projects of national importance.

(d) Education in the less developed regions, especially Kosovo, may be presented as being of high priority for Bank lending.

*President has seen*

The Bank's latest economic mission was impressed by the need for more technical education in Kosovo, both to meet the Province's needs and to enhance the possibilities for migration to industrial areas elsewhere in Yugoslavia. We plan to make a special study of Kosovo during the next economic mission (in September) and will have this in mind.

(a) Regional distribution of Bank lending. The Ambassador may make the point that the more developed Republics have their own less developed areas and therefore require continuing Bank support.

We intend that an increasing part of Bank lending over the next few years should go to the less developed Republics and Provinces. We will be guided by the levels of per capita income, which in the less developed regions are considerably below the national average of \$650, and the relative levels of lending in the past few years. The more developed Republics are on the whole able to take care of their less developed areas.

3. You may wish to compliment the Ambassador on the Yugoslav handling of the power transmission loan negotiations and preparation for Board consideration. There are no other issues that I propose should be pursued at this time.

4. A brief biography of Ambassador Granfil is attached.

Attachments

cc: Mr. Knapp

NHorsley:jg

## OFFICE MEMORANDUM

TO: Mr. R. S. McNamara

FROM: <sup>24</sup> M. P. Benjenk

SUBJECT: YUGOSLAVIA - Light at the end of the Tunnel!

DATE: 21 June 1972

The Yugoslav Ambassador, Mr. Toma Granfil, has asked to see you in the near future. Before you meet him, I think it useful to give you a picture of the Yugoslav situation, and particularly Bank relations with Yugoslavia, as we now see it.

Introduction

We were all much concerned during 1971 and the early part of 1972 with the lack of progress with Bank operations and with the economic situation. Essentially, the problem with our operations was that they were trapped between political change and dispute on the one hand and economic stabilization measures on the other. The situation appeared deplorable, but it deserved understanding from the Bank since it arose from efforts to improve upon a unique political system and simultaneously to correct an unhealthy economic situation. There was no lack of interest in Bank activities on the part of the Yugoslavs. On the contrary, they worked very hard to resolve the problems, and were much concerned by the delay in implementing important projects and by the potential impact on their credit standing of a decline in Bank lending.

The Political Situation

The two most important factors in the situation were the principle of self-management and regional nationalism. While decentralized decision-making is the main objective of the self-management principle, it is also to some extent an attempt to develop a political system that both recognizes the country's regional differences and accommodates them. The gradual movement towards decentralization since the early days of Yugoslav Communism has been marked by a series of distinct steps, each followed by a period of adjustment. The most recent step was the constitutional reform of July 1971, which re-emphasized self-management, transferred many powers from the Federation to the Republics and Provinces, and created a collective Presidency.

There are two main constraints to excessive decentralization in Yugoslavia. The first is the requirement for cohesive fiscal, monetary and incomes policies in a modern interdependent economy. The second is the widespread awareness that Yugoslavia is a strategically located buffer state. This, more than President Tito's continuation in office, prevents decentralization from becoming fragmentation.

The events of 1971 can be seen in this perspective. Recognizing that he could have no comparable successor, Tito initiated steps to modify the constitution early last year. The principal objective was to further increase self-management so that decisions could be taken at the level of



those most affected by them. In achieving this, many political conflicts might be confined within the borders of the Republics, reducing the possibility of conflict between nationalities. To further reduce this possibility, Federal decisions were to be made largely on the basis of unanimous agreement between the Republics. A collective Presidency composed of representatives of the Republics and Autonomous Provinces was to be created to direct the Government and to resolve major policy issues. The public and parliamentary discussion on the proposed constitutional changes was vigorous, open and occasionally acrimonious. Many old animosities were allowed to bubble to the surface and be vented. Nevertheless, the tone of the debate was constructive and the amendments were adopted.

In some respects, the amendments were broadly stated and left important problems to be resolved by subsequent interpretation and implementing legislation. In the early fall, the new Government began to clarify the new arrangements and to deal with the outstanding problems. However, the nationalist sentiments that had emerged during the debate on the constitution now began to inhibit inter-Republican agreement and to thwart constructive Government action. The worst offenders were the Republic of Croatia and the Province of Kosovo.

By December this obstruction had made it so difficult for the Government to act, and concern over the lack of Federal decisions on urgent economic questions was so widespread, that the League of Communists of Yugoslavia (LCY) undertook a thorough examination of the situation. Croatia, where the situation was at its worst, was chosen as the example. Some Croatian party leaders had sought to base their political strength on nationalist forces but, in effect, had lost the political initiative to those forces. The threat thus posed to the Federation was not tolerable to the party. Following intensive discussions in the LCY Praesidium, the case was taken to the Croatian party membership which met, considered the issue and voted several of its leaders out of office. Having thus lost the support of the party, the Croatian Prime Minister also resigned. He was succeeded by Mr. Perisin, then Governor of the National Bank.

With the resolution of the immediate problem, the LCY Praesidium began to consider the party's future role. In the Yugoslav system it had had responsibility for basic political questions. An important LCY conference in January of this year defined the future role of the party to be both to hold the decentralized state together and to ensure that it could operate efficiently. A new, streamlined and more important Executive Bureau of the Praesidium has since been taking an increased interest in broad policy issues. The party is now acting as a watchdog to ensure that there are not undue delays in either policy making or policy implementation.

Although few important governmental decisions could be taken until the settlement of the Croatian issue in December, the Federal Executive Council (FEC) has become the main focus of government decision in the period following the constitutional changes. To facilitate national decision by consensus, FEC has developed a system of inter-Republican coordinating committees, each covering one of the major policy fields. They are chaired by members of FEC and are composed of appropriate members of the Executive

Councils of the Republics and Provinces. The committees are the main forum for Government policy discussion: once agreement has been reached in a committee and it has been approved by the FEC, the issue is generally settled. Consequently, both the Presidency and the Federal Assembly have been playing secondary roles. With the changed political climate most of the outstanding policy questions have been resolved. These include such important and contentious issues as the five-year plan, the foreign exchange regime, responsibility for price controls, and funding the less-developed regions, especially Kosovo. The work of the inter-Republican committees has been so effective that the organization and function of the Federal Assembly has been called into question. With the essential agreement being reached in the committees, there is little for the Assembly to debate, and too much dispute could damage the delicate decision-taking machinery that has now been established.

The political problems of last year have been settled, at least for the moment. The greatly improved atmosphere that has facilitated decision-taking should continue, although regional differences and rivalries will also continue, as they do with less publicity in many other countries, and there are still many political difficulties for the Yugoslavs to overcome.

#### Economic Situation

The recent marked improvements in the economic situation, the result of effective Government stabilization measures, are fully documented in the latest economic report (EMA-84a, dated May 26, 1972), and, especially, in your Report and Recommendation to the Executive Directors on the Power Transmission Loan (P-1081, dated June 1, 1972). I have nothing to add, except to note that the new system seems to permit more effective economic management than we had feared, and the improvement in the balance of payments has been maintained, but that there are, and will continue to be, difficulties in the way of stabilizing prices and incomes.

#### Bank Operations

As I have noted above, for most of 1971 and the early part of 1972, our operations in Yugoslavia were caught in the web of constitutional change, political conflict, serious economic problems and stabilization measures. These were matters that obviously, and necessarily, occupied much of the time and attention of the Governments. This situation was complicated by uncertainties in interpreting the new constitution and by the need for a large volume of implementing legislation. The Republics and Provinces had also to make consequential revisions to their constitutions and pass much implementing legislation. Moreover, the regional Governments had to weigh their new financial responsibilities and measure them against the resources likely to be available. The Governments were under pressure and distracted from their normal business. Understandably, they found it difficult to give their full attention to matters affecting the Bank's operations.

Delays in loan effectiveness. Although some ongoing projects, especially the railways, and the presentation to the Bank of prospective projects were affected by the situation last year, its most obvious impact was in delaying the effectiveness of the four loans approved in June 1971.

The constitutional amendments that most affect Bank operations are those transferring economic responsibilities from the Federation to the Republics and Provinces, and those requiring that consultation with and agreement between the regions must precede most Federal decisions and actions. As a consequence of these changes, the Bank's loan and guarantee agreements with the Federation must be ratified by the Assemblies of all the Republics and Provinces before they can be ratified by the Federal Assembly. Republics and Provinces in which Bank loans are made must now give a guarantee to the Federation before it can ratify its guarantee. These new arrangements have inevitably slowed Federal decision making and the processing of Bank operations. However, recent experience, especially with the power transmission project, shows that they do not necessarily cause undue delay.

The difficulties and delays that we experienced last year were not so much inherent in the new machinery as a consequence of its mis-use. Croatia's obstruction and almost complete refusal to agree with the other regions on any issue held up the Federal ratification of all four FY 71 loans. Superimposed on this problem was Kosovo's attempt to obtain the domestic financing for the Ibar project from the other regions in order to conserve its allocation from the Fund for Less Developed Regions for other projects. Croatia was the only Republic refusing to participate in this funding, and Kosovo in turn refused to ratify any of the Bank loans until its objective was attained. With the settlement of the Croatian political problem, that Republic agreed to join in financing the Ibar project, and Kosovo ratified all four loans. Proposals for Federal ratification, which had several times been laid before the Assembly when agreement seemed near, and withdrawn when it did not materialize, were finally approved in February.

A cause of even longer delay was the transfer of responsibilities from the Federation to the Republics. It took them some time to assess their new financial burdens and their new resources. While other projects, particularly the railways, were affected, the principal victims were the tourism projects, because the responsibility for interest subsidies for tourism projects had been transferred to the Republics. For the Bernardin project, in Slovenia, the delay in the end was not serious, although uncertainty over payment of interest subsidies held up the acquisition of land and the employment of architectural consultants. For Croatia, the problem was much more serious because it implied payment of the large majority of the former Federal subsidies, a very heavy drain on its budget. Although its Executive Council had undertaken to provide the subsidies for the Babin Kuk project in lieu of Federal subsidies, it proved impossible to take the matter to the Assembly during the period of political turmoil in Croatia. Once that period ended, appropriate measures were worked out and presented to the Assembly. They ran into serious opposition, but intensive lobbying went on throughout and finally, in mid-May, the Assembly gave its approval. As with the Bernardin project, the delay in passing subsidy

legislation held up for a time the employment of architects and management consultants and the acquisition of land. The project sponsors, however, took the risk of entering into interim contracts with architects and consultants and acquiring the project sites.

Completely unexpected problems in obtaining a vital part of the site for the Bernardin project arose and further delayed the effectiveness of that loan. A similar, and also unexpected, difficulty with the Babin Kuk project did not cause any additional delay. Once our agreements had been ratified by the Federal Assembly there were no substantive issues to delay effectiveness of the Fifth Highway and Ibar loans. It took some time, however, to approve and sign the related subsidiary loan agreements, relending agreements, financing decisions, supply contracts and the like, and to submit them to the Bank together with the legal opinions. One last delay to the effectiveness of the Ibar loan was caused by a smallpox epidemic which prevented the Provincial Assembly from meeting to approve certain of the subsidiary documents.

All four loans were made effective at the end of May and the beginning of June. The achievement of this had required tremendous efforts in Yugoslavia and a great deal of work on the part of Bank staff. Additional time had to be spent on other issues which arose, but did not further delay effectiveness. We must regard some of the time spent on these projects in the past year as wasted, but it must be remembered that the substantive problems would have required our time and attention regardless of whether they arose before or after Board approval. If we regard the settlement of the political dispute in January, rather than Board approval in the previous June, as the date on which action to make the loans effective could begin, then the record, while not remarkably good, is by no means hopelessly bad.

Other Operations. The financing of the Bank's ongoing railway projects has been affected by the transfer of responsibilities to the Republics, by Government action to stabilize the economy and by the economic situation, especially the liquidity crisis. In the case of the Belgrade-Bar railway, satisfactory financing to cover the increased costs has been arranged through a successful public bond issue for the Serbian portion and special Federal budgetary funds and National Bank loans for the Montenegrin portion. The financial problems of the Modernization project are much more difficult and are associated with serious problems of management and operations. We are now discussing with the authorities concerned measures to salvage the railways from their present troubles. A most encouraging feature of these discussions is the general acceptance in Yugoslavia of the recommendations of the consultants employed by the Bank to make a thorough examination of the situation of the railways. In connection with the proposed loan now under consideration to complete the railway modernization program, we shall try to build on the precedents established under the power transmission loan. It is likely, however, that their application to the railways will be even more difficult than it was to the power sector.

Good progress has been made in a number of other directions. Our concern over the lack of projects in the pipeline has been abated by the recent presentation of a list of thirteen project requests. This list has been

agreed by all the Republics and Provinces, as is necessary, and was approved and presented by the Federal Government. We now have an adequate pipeline for the time being, project preparation is going quite well, and more new projects are on the way. Agreement in principle has now been reached in Yugoslavia on a line of credit operation, an operation that has been under discussion for several years. We expect to receive more detailed proposals very shortly. Satisfactory progress is being made towards the establishment of a project appraisal training institution: the first two teachers are now taking the EDI Industrial Projects Course. We propose to involve project analysis personnel from the Yugoslav banks concerned in the field appraisal of appropriate projects. The capital market study is going well and the work is being done almost entirely by Yugoslavs. We expect to discuss the results of the first phase with them in September. Progress with the coordination of highway planning and evaluation is also encouraging.

Perhaps the best evidence of the improvement in the Yugoslav side of our operations lies in the Power Transmission Project. Little more than a year has elapsed from receipt of the feasibility study to approval by the Board. This is a remarkably short period for so complex a project. The massive Yugoslav delegation to the negotiations was well-briefed and fully prepared. The negotiations in Yugoslavia were well-organized and most expertly conducted. In the following month a very large number of approvals and documents had to be gathered from the nine Governments, six banks, eleven enterprises and four power associations involved. In many cases this required meetings of Executive Councils, workers' collectives or councils and boards of management. Yet all this material was collected, translated and presented to the Bank in time for Board consideration two weeks ahead of the original schedule. During this period, new legislation concerning responsibility for price controls, electricity price increases and JUGEL was passed. JUGEL and the enterprises also entered into an agreement for coordinated operation, maintenance and expansion of the transmission system.

Underlying all this activity was the critical fact that agreement had been reached between the Federal and Republic Governments, JUGEL and the power enterprises on a number of very difficult issues. Those concerning rate increases, responsibility for price controls, coordinated procurement and planning and the role of JUGEL were especially delicate. The ground had been carefully prepared by the Bank, but it was the impressive efforts of the Yugoslav parties that, in the end, made success possible. The end result is that the provisions of the loan documents are better than we intended and very much better than we had expected to negotiate.

On the whole, progress with Bank operations in Yugoslavia in the past four or five months has been remarkably good. Business with Yugoslavia seems to have settled back to the normal level of difficulty. This does not mean that we shall not have renewed upsurges of nationalism in some Republics in the future and tensions resulting from unpredictable frictions between the Republics. However, in the light of the marked improvement in the

situation, I see no necessity to follow up on your suggestion, made at the last CPP review, to have monthly meetings with the Ambassador on the progress of operations. I had a long working meeting with him on June 12 and reviewed current and prospective operations and problems. He has undertaken to pursue with his Government all the more important issues. I propose to have similar meetings with the Ambassador at intervals of six months or so.

cc: Mr. Knapp  
Mr. Hartwich

NHorsley:jg

Attachment II

GRANFIL, Toma: Ambassador of Yugoslavia

Toma Granfil was born in Vrsac (Serbia) in 1913. He graduated from the Law School of Belgrade University in 1935. Mr. Granfil took part in the People's Liberation War in 1941. He was appointed member of the District Command of the People's Liberation Movement of the Srem area and of the Regional Command for Northern Banat during the war. He became a member of the Communist Party of Yugoslavia in 1941.

His official positions include: President and Secretary of the Regional People's Committee for Northern Banat, Secretary of the Provincial People's Liberation Committee for Vojvodina, Assistant Commissioner and subsequently Commissioner for Trade and Supplies of the Executive Committee (Government) of the Autonomous Province of Vojvodina, Assistant Minister of Trade and Supplies of Serbia, Minister of State Acquisitions of Serbia, Director General, Head Office for Serbia of the National (Central) Bank, Director General of the Yugoslav National Bank, Vice President of Executive Council of Serbia since 1965. Member of the Federal Executive Council from 1967 to 1971. He was appointed Ambassador to the United States in October 1971.

He is a member of leading bodies of political and social organizations, and was elected to the Federal Assembly of Serbia on several occasions. Granfil has had considerable experience in financial affairs, commercial negotiations and foreign trade matters. He has been a perennial participant in meetings of the International Chamber of Commerce (ICC) and served as president of the Yugoslav National Association of the ICC from 1953 until 1965.

In addition to holding the foregoing posts Granfil has been a member of the following organizations: the Editorial Committee of Ekonomika Politika (August 1952-October 1956); the Belgrade University Economics Faculty Council (October 1954); the Serbian Concert Bureau (February 1956); the Editorial Council of Politika (January 1960); the Main Committee of the Socialist Alliance of Working People of Serbia (November-May 1967); and the Presidential Board of the Federal Foreign Trade Chamber (January 1961).

Little is known about Granfil's personality or private life. He has travelled widely in Europe, South America and the Middle East and has visited the United States on at least two occasions in 1959 and 1960. He has received the Order of Merit, first class, and the Order of Work, first class.

19.



## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 11, 1972

FROM: Norman Horsley X

SUBJECT: Meeting of Mr. Janko Smole With Mr. McNamara - General Discussions

Mr. Janko Smole, Yugoslav Federal Secretary for Finance, met with Mr. McNamara in his office on September 29, 1972. Accompanying Mr. Smole were Messrs. Branislav Colanovic, Governor of the National Bank of Yugoslavia, Milovan Markovic, Assistant Federal Secretary for Foreign Affairs, Miodrag Stojiljkovic, Minister Counselor (Economic) at the Yugoslav Embassy, Ratoljub Dodic, Senior Counselor in the Federal Secretariat for Finance, A. Rinnooy Kan, Executive Director, and Branko Mijovic, Alternate Executive Director. Messrs. Knapp, Benjenk, Chenery, Votaw and Horsley were present at the meeting.

Mr. Smole opened by referring to the improved economic results attained in 1972, which were reflected in the Yugoslav balance of payments. A degree of control over inflation had been established, there had been a large increase in exports and invisible earnings, especially tourism, and a consequential increase in the country's foreign exchange reserves. These reserves were, however, still low in comparison to Yugoslavia's needs. He also pointed to a number of important issues on which agreement between the Republics had been reached recently, particularly a new five-year plan, a new foreign exchange system and a list of projects for consideration by the Bank.

Mr. McNamara noted the excellent progress Yugoslavia had made in improving its balance of payments situation, but said that inflation still continued to be a major factor in the economy. He asked to what extent the Federal Government could control wages and prices in the present situation. Mr. Smole replied that much thought had been given to these matters. Prices had been frozen for a long period and strong price controls were now in effect. He thought that the Federation now had more effective power to control prices than formerly. Responsibility for wage controls rested with the Republics, but the Federation was working to achieve agreement with them for common criteria and guidelines. The Republics had found this a difficult problem for any one of them to solve, and were pressing for Federal action and handing over some of their authority to the Federation. Incomes policy was still being studied, but the general attitude was very favorable and much progress had already been made.

Mr. McNamara enquired what economic progress was being made by the less-developed regions relative to the wealthier regions. In reply, Mr. Smole said that they had not been catching up with the progress of the wealthier Republics and they would therefore have larger allocations from the Fund for the Less-Developed Regions in future. The new five-year plan called for an economic growth rate in Kosovo that would be 40 percent

October 11, 1972

above the national average; in the other less-developed regions it would be 25 percent higher.

Mr. Smole said he was pleased that there was now a good pipeline of projects for Bank financing, and indicated that his Government would submit a new list of projects for possible Bank financing in FY75 and later. Mr. McNamara also expressed his satisfaction with the enlarged pipeline. However, he also pointed to the need to reduce the difficulties that impeded Bank operations in Yugoslavia and to expedite project work. In reply to Mr. Smole, he said the Bank would be ready to go above its average annual lending to Yugoslavia in FY73, subject to sound projects being ready and to continued good performance.

With regard to the proposed line of credit operation, Mr. Smole concluded that, following the long discussions between Yugoslavia and the Bank, the best course would be for the Bank to make credit available through banks in the less-developed regions, especially Kosovo. He also asked for Bank support in providing credit and marketing assistance to farmers. He mentioned that he had asked for the assistance of the International Finance Corporation in introducing Yugoslavia to the world's capital markets.

Mr. Smole complimented the Bank on its handling of the Power Transmission project, and particularly applauded the special treatment of the less-developed regions in the allocation of the loan. He thanked the Bank for the Transmark Railway study, which had been widely distributed and much appreciated. A coordinating committee had been established at a high level to move the railways' development program forward. Mr. Knapp pointed out that there was an urgent need for decisions to be taken on matters affecting the railways' future, many of which were long overdue. Mr. McNamara emphasized that while the Bank could supply answers to technical problems, it was up to the Government to take the difficult political decisions. He urged that they should be taken quickly.

cc: Mr. McNamara (2)  
Messrs. Knapp, Benjenk, Chenery, Votaw,  
Wapenhans, Pollan, Haynes, Mahoney,  
Wyatt, Dubey (o/r), Köpp, Kato  
Ijichi, Horsley

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## OFFICE MEMORANDUM

TO: Files

DATE: Typed September 11, 1973

FROM: Gregory B. Votaw, Country Programs Director, EME-I

SUBJECT: YUGOSLAVIA - Visit of Mr. Smole, Federal Finance Secretary, with  
Mr. McNamara on August 1, 1973

1. Mr. Smole called briefly on Mr. McNamara during his stay in Washington to attend monetary talks sponsored by the IMF; Messrs. Stojiljkovic and Knapp were also present.
2. Smole was proud to announce the decision of the Federal Republic, after careful study, to support the Fourth IDA Replenishment with a contribution of about \$5 million. Official notice would be sent from Belgrade shortly. Mr. McNamara expressed his gratitude for Yugoslavia's contribution, for while it would represent a smaller percentage share than Yugoslavia's contribution to the previous Replenishment, the country's support was important politically at this crucial time in the whole Replenishment exercise. Mr. Smole explained that Yugoslavia would have liked to keep up its percentage share but had decided to support other international development agencies in addition to IDA and therefore could not do as much for IDA alone as might have been possible otherwise; he added that his government was grateful for Mr. McNamara's personal interest in IDA matters and was looking forward to being represented at the post-Nairobi seminar on IDA policies.
3. Mr. Smole then asked if the McNamaras would consider visiting Yugoslavia in 1974, particularly if they were planning other travel in the area (e.g., to Romania). The earlier visit had been very helpful by making IBRD better known and "in other ways" (i.e., by encouraging important decisions to be taken more promptly than otherwise). Mr. McNamara responded that he and Mrs. McNamara had very fond memories of the last visit, which was both enjoyable and instructive. But he could not answer the invitation now (since travel plans were still uncertain) and was unlikely to answer in the affirmative because of his policy, only rarely violated, of seeing all member countries at least once before making second visits to any. Mr. McNamara would try to give Smole a more definite answer in Nairobi.
4. Mr. Smole then said that he was delighted at the way the Bank's activities in Yugoslavia had increased in the last several months. Diverse projects in several sectors had been approved or were well advanced. Negotiations and other important activities were scheduled throughout the year; not just in one peak season. Smole was grateful for the acceleration in Bank lending which was foreseen and for sound advice on subjects such as energy policy, steel programs and agricultural planning.
5. Smole emphasized two new items to which the Federal Government attached urgent priority:
  - a) A line of credit for agriculture, to be administered by the Vojvodina Bank since it was familiar with banking needs of the most active center of agricultural production in Yugoslavia. Votaw observed that this request had come from government only a few days back in brief general terms; the Bank staff welcomed it enthusiastically in principle but needed far more detail before

saying whether or not (and when) a bankable project could be developed. Smole acknowledged that formal notification of Yugoslavia's interest in an agricultural line of credit had been sent only recently and promised, now that the Bank confirmed it had no objection in principle, to see that more detailed project preparation would be launched from the Yugoslav side. Mr. McNamara welcomed the line-of-credit idea and urged quick action on anything that would help the agricultural population (36 percent of total) and accelerate tractorization, and use of fertilizers and other essential modernization.

b) Financing for an oil pipeline from an Adriatic Port (handling Mideast oil) through Yugoslavia to Hungary and Czechoslovakia, who would both finance parts of the project. Smole confirmed Votaw's comment that this pipeline had never before been mentioned to the Bank. Nevertheless it was urgent. Mr. Knapp observed that the Bank had financed few pipelines since there seemed to be abundant private oil money available for such purpose which therefore did not need IBRD financing.

6. The meeting ended as Smole reported tremendous improvement in the Railways and steps taken to improve coordination and speed up decisions as well as implementation.

CC: ✓A. Ljungh  
N. Horsley

GBVotaw:kh

## OFFICE MEMORANDUM

TO: Mr. R. S. McNamara  
FROM: Gregory B. Votaw *gv*  
SUBJECT: YUGOSLAVIA - Visit of Federal Secretary for Finance Smole,  
August 1, 1973

DATE: July 31, 1973

1. Smole, who is equivalent to Minister of Finance in the Federal Government, will pay a courtesy call on you at 11:15 August 1. He is here for Fund talks; you have met before on several occasions.
2. IDA Contribution: A major purpose of Smole's visit is to announce to you the decision of the Yugoslav Government to support the Fourth Replenishment at a level higher than the Third. I have asked Sir Denis to provide background on this, and he informs me that P & B will brief you directly. My understanding is that Yugoslavia's three-year contribution will increase from \$4 million to \$5 million; I find this token increase not at all satisfactory, since I believe Yugoslavia should be expected to increase its percentage share, but I am told that, since this contribution from a Part II country is entirely voluntary, we should be most grateful.
3. My personal preference would be for a courteous acknowledgement followed by a firm statement of how important IDA Replenishment is to the really poor member countries and how significant really generous support from Yugoslavia could be in persuading parliaments (generally, but especially the U.S. Congress) to replenish promptly and amply.
4. Lending program: I expect Smole to express satisfaction at progress we have made in strengthening the pipeline of prospective loans during the last 9-12 months. There is a good prospect of lending well over \$100 million (probably \$140-150 million) in FY74 (compared to \$90.4 million in FY73, \$420 for the five fiscal years '69-'73 and \$175 million in the preceding five years, '64-'68). Moreover, we are already working on a good batch of projects for FY75/76. Negotiations are scheduled at several points throughout the year, not bunched in the spring, as in the past. After many months' delay we received the agreed list of projects for FY76-78/9 from Yugoslavia a few weeks back, are reviewing it within the Bank and will discuss with Smole and his subordinates, both this week and in Nairobi, so as to agree on tentative schedules for preparation and appraisal.
5. Overall relations have improved steadily in recent years, and the Bank's image in Yugoslavia is quite good. Operational difficulties we experience are caused more by deficiencies inherent in the decentralized Yugoslav system of administration than by any lack of good will. Our main problems are:
  - a) Proposed projects generally lack adequate preparation by Yugoslavia and are presented poorly, even when good background information is available in Yugoslavia; and

President has seen

July 31, 1973

- b) Financial plans are particularly weak and firming up local financing has proved anywhere from time-consuming to impossible in several important instances.

6. With apparent full support from Smole and his colleagues, the Bank remains committed to lending primarily in backward regions of Yugoslavia; our economists believe this emphasis does not impose any significant penalty in terms of overall national economic growth (a hypothesis which is currently being restudied). Major reforms have been brought about as a result of Bank railway lending (new proposal to go to Executive Directors within a few months). After many fruitless efforts to start a DFC in Yugoslavia, we think a workable solution has been developed (thanks largely to Smole in Yugoslavia and Pollan/Horsley here) through major commercial banks; an initial loan is being appraised, which would provide term finance for industries in backward areas such as Bosnia, Kosovo, Macedonia and Montenegro.

7. Visit: Smole will almost certainly invite you and Mrs. McNamara to visit Yugoslavia again in 1974. Your last visit was October 11-17, 1970. Another visit would undoubtedly be helpful to our operations and could encourage useful reforms within Yugoslavia, some of which will be urged in the Basic Economic Report (of which a draft was sent to Government several weeks ago for review). However, among my countries I would consider a visit to Romania and possibly Iran of somewhat higher priority and do not think Yugoslavia would be offended if you went to Bucharest and not Belgrade. Generally, Yugoslav officials sympathize with your desire to visit all member countries once before returning to any, but hope you will make an exception for them.

8. I plan to join you and Smole for the 11:15 meeting. I expect Popovic (Smole's aide), Stojiljkovic (from the Embassy) and possibly the Alternate Executive Director, Mijovic, will be with Smole.

Attachment

cc: J. Burke Knapp  
A. Ljungh  
W. Wapenhans  
E. KØpp

EKØpp/GBVotaw:jw

Annex

SMOLE, Janko - Federal Secretary for Finance:

Mr. Smole has been Federal Secretary for Finance for more than six years. Prior to that, he was Governor of the National Bank and has a commercial banking background. Was born in Ljubljana in 1921 and speaks English. Joined the Peoples Liberation War in 1941 and became a member of the Communist Party of Yugoslavia (now the League of Communists) in 1944. After the war he worked as Secretary for Propaganda Activity in the Central Committee of the Communist Party of Slovenia; Secretary of Coordination Department in the Government Presidency of the Peoples Republic of Slovenia; Director of the Institute for Economic Planning in Ljubljana; Secretary of the Committee for Economic Affairs of the Federal Executive Council; Deputy Executive Director of the World Bank; and Governor of the Yugoslav National (Central) Bank. Has been President of the Committee for General Economic Affairs of the Executive Council of Slovenia since 1962 and President of the Executive Council of Slovenia since 1965. Is a member of the Central Committee of the League of Communists of Slovenia and has been awarded several decorations.

July 31, 1973



3135  
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 31, 1973

FROM: John H. Adler, Director, P &amp; B AA

SUBJECT: Yugoslavia's Contribution to the Fourth Replenishment

1. Sir Denis has asked us to prepare a short note on Yugoslavia's contribution to the Fourth Replenishment as background for your meeting with Mr. Smole, the Finance Minister of Yugoslavia.
2. Yugoslavia is one of the original Part II members of IDA, and released the remaining 90% portion of its initial subscription (\$3.636 million in 1960 dollars) in convertible form in three instalments beginning June 30, 1968 -- Ireland, Israel, Jordan and Spain are the only other Part II countries that have released the entire 90% portion of their initial subscription in convertible form.
3. Yugoslavia was one of three Part II countries -- the others were Ireland and Spain -- that made voluntary contributions to the Third Replenishment. Yugoslavia contributed \$4.04 million in 1960 dollars (equivalent to \$4.87 million in 1973 dollars); this amount represented 0.17% of total contributions to the Third Replenishment.
4. Yugoslavia has been represented at all meetings that have been held so far in connection with the Fourth Replenishment. At the Washington meeting, the Yugoslav representative stated that "Yugoslavia has been giving active and sympathetic consideration to the question of its support for the Fourth IDA Replenishment as a Part II member." Yesterday, Mr. Smole advised Sir Denis that Yugoslavia would contribute \$5 million to the Fourth Replenishment. This amount would represent an increase of about 25% over the original level of Yugoslavia's contribution to the Third Replenishment; it would also mean, if the total annual level of the Replenishment were \$1500 million, that Yugoslavia's share would be only 0.11% (as compared with 0.17% of Part I contributions to the Third Replenishment).
5. Sir Denis feels that in view of Yugoslavia's status as a Part II country, its low per capita income (\$730 in 1971), and recurring balance of payments problems experienced in the past, it would be inappropriate to press for an increase in the proposed level of Yugoslavia's contribution. Rather, it would be desirable to express appreciation for the support that Yugoslavia continues to give to the Association, and to indicate the political importance of this contribution.

cc. Sir Denis Rickett  
Mr. Benjenk/Mr. Votaw

FXColaco:em

21

September 27, 1973

Memorandum for the Record

YUGOSLAVIA - Annual Meeting, 1973: Note of Mr. McNamara's Meeting with the Yugoslav Delegation on September 25, 1973

1. Present: Mr. Smole (Federal Secretary for Finance), Mr. Bogoev (President, Executive Council for Macedonia), Messrs. Popovic, Mijovic, Rinooy Kan, McNamara, Knapp, Benjenk, Votaw, Ljungh and Chaffey
2. Lending Program: Mr. Smole expressed appreciation for the increase in Bank lending in FY73 compared with FY72. He looked forward to the volume of lending reaching \$150 million in FY74 and an equivalent sum in FY75. Over the longer term he hoped to see Bank lending concentrated more in sectors like energy and transportation and on lines of credit for industry and small-scale agriculture. Responding to a point in Mr. McNamara's address to the Governors, he pointed out that, in Yugoslavia, the "social sector" provides a structure for channeling credit to small farmers. Mr. Bogoev reminded the meeting that a line of credit for private farmers in Macedonia had already been established by the FY73 Agro-Industries project.
3. Mr. McNamara paid tribute to the efforts of the Yugoslav authorities which had made possible the increase in lending and confirmed that there was a satisfactory pipeline of projects for the next two years.
3. Oil Pipeline: Mr. Smole reported that Yugoslavia had now reached agreement with the Hungarian and Czechoslovakian governments on the construction of an oil pipeline from the Adriatic (which will add 700 km of pipeline to Yugoslavia's existing 330 km). He said that the Hungarians had agreed to provide some finance in convertible currencies, either as equity or as a loan. The Austrian and Polish governments were also interested in the project. While details of the financing plan remained to be worked out, and would be made available to the Bank, Mr. Smole said that he would welcome an early indication whether or not the Bank would be prepared in principle to participate in financing the pipeline, since without Bank participation it would be very difficult for Yugoslavia to raise sufficient funds from Western sources on reasonable terms.
4. Mr. McNamara reminded the delegation of the Bank's position as a lender of last resort. It was his understanding that there was normally no shortage of private finance for oil pipelines. However he stated that, subject to being satisfied that Yugoslavia had developed a sound national program for the utilization of its energy resources and that Yugoslavia was unable to raise all the finance necessary for the pipeline from other sources, the Bank would be prepared to consider participating. Mr. McNamara added that he hoped to determine quickly whether or not full commercial financing was likely to be available, and that he would inform Mr. Smole of the Bank's decision, in principle, to participate in the financing before the week was out.

President has seen

5. Study of Capital Markets in Yugoslavia: Mr. Smole said that the initial proposals of the working party, set up with IFC's help, would be available shortly.

6. Export Credit Guarantees: In response to a question from Mr. Smole, Mr. McNamara mentioned that, following a request from the Israeli authorities, a paper on the problems of underwriting developing countries' export credit facilities had been drafted but would need considerable more work before being ready for Board discussion later in the financial year.

7. Visit to Yugoslavia: Mr. Smole reiterated his earlier invitation to Mr. McNamara to visit Yugoslavia. Mr. McNamara mentioned that he had been invited to visit Romania and, although no time had been set, he would plan to visit Yugoslavia on the same trip.

cc: Messrs. McNamara, Knapp, Ljungh, Benjenk, Gill, Votaw, Wapenhans, DeMan and Horsley

Cleared: G. B. Votaw

<sup>a.</sup>  
JChaffey: jw



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 5, 1974

THROUGH: Mr. J. Burke Knapp, Senior Vice President, Operations

FROM: Willi A. Wapenhans, Acting RVP, EMENA Region

SUBJECT: YUGOSLAVIA: Visit of Yugoslav Ambassador

1. His Excellency Toma Granfil, Ambassador of the Socialist Federal Republic of Yugoslavia, will be visiting you at 5:45 p.m. today. (Curriculum Vitae is attached as Annex 1).

2. Purpose of Visit: We understand that the purpose of the visit is to discuss the proposals for a special fund to channel surplus funds from oil-producing countries to the less-developed countries. It would appear to cover the same ground as Mr. Knapp's meeting with the Ambassador on February 28, 1974. No new developments in Yugoslavia appear to have taken place since then. A copy of Mr. Knapp's memorandum on the meeting is attached as Annex 2.

3. Proposed Bank lending over the next five years (FY75-79), as established in the Five-Year Program, totals \$900 million. It is expected to increase from \$170 million in FY75 to \$200 million in FY79. (Attachment 1 of the draft CPP is attached as Annex 3).

4. The proposed lending would result in gross disbursements totalling about \$648 million over the same period. They would increase from \$93 million in FY75 to \$154 million in FY79. The net transfer would increase from \$39 million in FY75 to \$46 million in FY79. (Details are shown on page 2 of Annex 3).

5. Energy Situation: The impact of the recent events in the international oil sector on the Yugoslav economy is explained in the attached memorandum (Annex 4). The overall effect is likely to remain manageable because most energy (77 percent on a calorific basis) is provided by domestic resources. In spite of the relatively low dependence on imported oil, oil price increases are bound to affect the balance of payments. Oil imports in 1973 amounted to an estimated \$226 million, or 5.3 percent of merchandise imports. For 1974, incremental oil import payments may tentatively be estimated at \$225 million at \$60 per metric ton (\$8 per barrel); this would be 4.0 percent of imports. There was already little prospect for a substantial current account surplus in 1974 at previous oil prices: the incremental oil import payments will therefore probably create a current account deficit, or add to it.

6. The indirect consequences of the energy problem for Yugoslavia are unclear at this stage. On the positive side, the fact that factories and thermal power plants still largely use coal should improve the country's international competitive position. On the other hand, job opportunities for Yugoslavs working abroad would diminish if economic growth in Western Europe would slow down. Returning migrant workers would exacerbate the unemployment and housing problems and workers' remittances, which have played a dynamic role in the economy, might suffer. Moreover, a stagnation in the economic activity abroad might reduce the country's export possibilities. The rise in the cost of automobile and air

March 5, 1974

transportation may unfavorably influence tourism, although it is also conceivable that the country would attract tourists who would otherwise have gone to more distant destinations, and that the tourist sector would gain on balance.

7. Financial assistance of about \$90 million from Kuwait is expected for the proposed oil pipeline project. A Yugoslav delegation, which recently visited the Bank for discussions of the project, indicated that the terms and conditions of the credit were not yet finalized. The credit could be provided as suppliers' credit for pipes, as a financial credit or in the form of crude oil supply, or any combination thereof. The maturity is expected to be 13 years including a 3-year grace period; the interest rate has not yet been specified. Kuwait reportedly would rely on the Bank's appraisal of the project to make its final decision.

Attachments

FHeidhues/llj





Files

May 9, 1974

W. A. Wapenhans

Visit of the Yugoslav Ambassador

1. On May 7 at 5:30 pm His Excellency Toma Granfil, the Ambassador of Yugoslavia, called on Mr. McNamara to extend a formal invitation of his Government for Mr. McNamara to visit Yugoslavia. As broad topics for discussion, the Ambassador suggested:

- (a) the Bank's work on the energy situation and related problems, and more specifically the results of the UN Special Assembly including its possible significance for the Bank's work; and
- (b) relations of Yugoslavia with the Bank and its future operations in the country in view of the changes under way and the deliberations of the party congress.

In elaborating on the latter point, the Ambassador expressed his satisfaction with the existing relations and with the results of the current fiscal year, as evidenced by loans already approved and negotiated.

2. In response, Mr. McNamara thanked the Ambassador for the invitation of his Government. However, he felt that because of urgent commitments lasting well beyond the Annual Meeting, he could not yet formally undertake to visit Yugoslavia in the near future. There ensued a general discussion on the need for resource transfers, both by the Bank and others, to alleviate the balance of payment burden resulting for many developing countries from recent oil price increases. The relationship between the special program of the UN, embodied in the resolution of the UN Special Assembly, and the Bank was also briefly touched upon.

cc: Mr. McNamara ✓  
Mr. Benjenk  
Mr. Votaw (o/r)  
Mr. Horsley (o/r)

WAWapenhans:rs



## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: June 18, 1974

FROM: J. Chaffey *al.*SUBJECT: YUGOSLAVIA: Note of Mr. McNamara's Meeting with  
Mr. Momcilo Cemovic, Federal Secretary  
for Finance, on June 14, 1974

1. Mr. Cemovic, the new Federal Secretary for Finance, who was in Washington for the Committee of Twenty meetings, paid a courtesy call on Mr. McNamara on Friday, June 14. He was accompanied by His Excellency Toma Granfil, the Yugoslav Ambassador to the United States, Mr. Rinnooy Kan (Executive Director), Mr. Mijovic (Alternate Executive Director) and an interpreter. Mr. Chaffey was also present.

*4/20*  
2. Mr. Cemovic thanked Mr. McNamara for receiving him and expressed his government's appreciation of the cooperation that had been developed between Yugoslavia and the Bank. Mr. McNamara said that he was pleased to welcome the new Federal Secretary, whom he had met in Yugoslavia during his visit there four years ago, to the Bank. He also viewed with satisfaction the development of the relationship with Yugoslavia and he looked forward to an increase in the volume of lending over the next five years.

Railways IV

3. Mr. Cemovic made a special plea for the Railways IV project to be presented to the Board before the end of FY74. He said that every effort had been made in Yugoslavia to make this loan possible during the current fiscal year. Mr. McNamara replied that it was merely a procedural question whether the loan was presented late in June or early in July. He assured the Federal Secretary that, in any event, the loan would be made at the prevailing interest rate of 7-1/4 percent and that, since the preparation of the project had been completed in FY74, it would count as an FY74 project regardless of when it was presented.

Oil Pipeline

4. On the proposed oil pipeline project, Mr. McNamara reminded the Federal Secretary that he had advised Mr. Smole, during the Annual Meetings last September, that bank support for the project was conditional upon the Yugoslav authorities preparing a national program for the utilization of the nation's energy resources. The Federal Secretary expressed his appreciation of Bank support for this project. He said that the Yugoslav authorities had recently reached agreement with the Kuwaiti Government with respect to securing a substantial part of the financing for the project.

Invitation to Visit Yugoslavia


5. The Federal Secretary concluded the meeting by reiterating an invitation to Mr. McNamara to visit Yugoslavia. Mr. McNamara thanked the Federal Secretary for the kind invitation and said that, due to other commitments, he was not able at this juncture to say when he would visit Yugoslavia again.

cleared with and cc: Mr. Ljungh  
cc: Messrs. Knapp, Benjenk (o/r), Bart, Votaw, Wapenhans, Wyatt,  
Eccles and Horsley

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: June 14, 1974

FROM: Munir P. Benjenk, RVP, EMN SUBJECT: YUGOSLAVIA: Your Meeting with Mr. Momcilo Cemovic,  
Federal Secretary for Finance

- 6/14
1. Mr. Momcilo Cemovic, who took over as Federal Secretary for Finance from Mr. Smole at the end of May, and who is in Washington for the Committee of Twenty meetings, will be calling on you at 6:30 p.m. today. He will be accompanied by His Excellency Toma Granfil, the Yugoslav Ambassador to the United States. I have asked Mr. Chaffey, Senior Loan Officer for Yugoslavia, to attend the meeting on my behalf.
  2. I attach a copy of the briefing note prepared for a meeting I had with Mr. Cemovic earlier this week and a copy of the note of that meeting. Although Mr. Cemovic has asked to see you primarily as a matter of courtesy, I would emphasize two points.
  3. The first is that, at the end of May, there took place in Yugoslavia what we could call a change of government. Mr. Smole, who has served the maximum period of two terms (each of four years) as Federal Secretary for Finance, remains on the Federal Executive Council with special responsibility for Yugoslavia's relations with the European Economic Committee. Mr. Cemovic is probably anxious to take this opportunity, the first since his accession, to assure you that the good relations with the Bank will be maintained. I imagine he would also like to feel that he will inherit the welcome Mr. Smole always enjoyed in the Bank.
  4. Secondly there is a question of whether the Railways IV project will be presented in fiscal 74 or early in July (see paragraph 3 of the briefing note and paragraphs 3 and 4 of the note of meeting). Mr. Cemovic will press for an assurance that the Railways IV project will be presented during the current financial year.
  5. I understand Mr. Cemovic is catching a plane later this evening so I believe the meeting need last no more than ten minutes or so.

Attachments

cleared with and cc: Mr. Votaw  
cc: Mr. Wapenhans

JChaffey/dl

## OFFICE MEMORANDUM

TO: Files

DATE: June 14, 1974

FROM: J. Chaffey, Acting Chief, EMLDC 96

SUBJECT: YUGOSLAVIA: Note of Mr. Benjenk's Meeting with Momcilo Cemovic,  
Federal Secretary for Finance

1. Mr. Cemovic, the new Yugoslav Federal Secretary for Finance, who is in Washington for the Committee of Twenty meetings, called on Mr. Benjenk on June 11. Mr. Cemovic was accompanied by Mr. Popovic, Assistant Federal Secretary for Finance, Mr. Mijovic, Alternate Executive Director, Mr. Ackovski, Economic Counsellor of the Yugoslav Embassy and Mrs. Jankovic, Federal Secretariat for Finance. Mr. Chaffey was also present.

2. Mr. Cemovic stated he was familiar with the Bank's activities in Yugoslavia. He had met with Mr. McNamara and Mr. Benjenk during their visit to Yugoslavia in October 1970. Mr. Cemovic expressed his satisfaction with the excellent relationship which had been established between Yugoslavia and the Bank.

Lending Program:

3. Mr. Cemovic expressed his appreciation for the amount of lending approved thus far during the current fiscal year. <sup>1/</sup> He was particularly pleased with the industrial credit projects, the first of their kind that the Bank had mounted in Yugoslavia. Mr. Cemovic added that he would like to be assured that the Railways IV project would be presented to the Board before the end of this month, since it had already been assumed in Yugoslavia that this would be the case.

4. Mr. Benjenk replied that it was purely a procedural question whether the railway loan would be presented during the last week of June or the first week in July. A decision would be taken by Mr. McNamara probably before the end of this week. Mr. Benjenk assured the Federal Secretary that, in any event, the loan would be presented no later than the first week of July before the Board considered a proposal to increase the Bank's lending rate.

5. The Federal Secretary briefly surveyed some of the projects of particular interest to the Yugoslav authorities for the forthcoming financial year and immediately thereafter. In his inventory he listed all the projects currently in the Operations Program for FY75 together with the Jaz and Morava projects. Mr. Benjenk assured the Minister that all the necessary steps were being taken to implement the FY75 lending program and for processing the Morava project in FY76.

6. On the Jaz project, Mr. Benjenk said that the Bank's experience with tourism projects in Yugoslavia had thus far been disappointing and the Bank was inclined to the view that the Yugoslav authorities and the Bank should concentrate more on those sectors where their joint efforts had been

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<sup>1/</sup> Six loans totalling \$128 million

June 14, 1974

more effective. However, in response to a recent appeal from Mr. Smole and others, the Bank had undertaken to reconsider whether to proceed with the Jaz project. The Federal Secretary, who comes from Montenegro, commented that the tourism sector played an important part in the contribution of "invisibles" to the nation's balance of payments. Recent data on overnight stays during the current year showed a 12 percent increase over last year despite the gloomy forecasts that the energy crisis might affect the Yugoslav's tourist trade. The Federal Executive Council had recently renewed its interest in promoting selected tourism projects, most noticeably Babin Kuk, Bernardin and Jaz.

Energy Sector Survey:

7. Mr. Benjenk reminded the Federal Secretary that, during the Annual Meetings last year, Mr. McNamara had pointed out to Mr. Smole that Bank participation in the oil pipeline and other energy sector projects was conditional upon the Yugoslav authorities preparing a comprehensive plan for the utilization of the nation's energy resources. Mr. Benjenk added that work was proceeding on both the oil pipeline and power projects for fiscal year 75. However it was important that these loans be appraised against the framework of a national energy plan. Mr. Benjenk therefore reminded the Federal Secretary that it would be most useful if the Yugoslav authorities could formally communicate to the Bank details of the policy measures being taken in the sector.

Disbursements:

8. Mr. Benjenk pointed out to the Federal Secretary that, during the recent Board presentation of the Industrial Credit projects, a question had been asked about the high level of undisbursed loans (currently over \$400 million). Mr. Benjenk urged the Federal Secretary to do all in his power to ensure that the rate of disbursements picked up during the coming months.

Meeting with Mr. McNamara:

9. The meeting closed without any reference being made to the Federal Secretary's original request to pay a courtesy call upon Mr. McNamara.

cleared with and cc: Mr. Benjenk  
cc: Messrs. Tolbert, Votaw, Wapenhans, Wyatt and Horsley

JChaffey/dl

## OFFICE MEMORANDUM

TO: Mr. Munir P. Benjenk  
FROM: Gregory B. Votaw *GV*  
SUBJECT: YUGOSLAVIA: Meeting with Mr. Cemovic

DATE: June 11, 1974

1. Mr. Momcilo Cemovic, the new Federal Secretary for Finance, is currently in Washington for the Committee of Twenty Meetings. Through Mr. Popovic who is accompanying him, he has asked for an opportunity to call on Mr. McNamara. At your meeting with Mr. Cemovic at 3:00 p.m. today, I imagine he will be accompanied by Messrs. Milovic and Popovic. Mr. Chaffey will be in attendance.

2. Mr. Cemovic took over from Mr. Smole on May 31, 1974. He has been on the Federal Executive Council for the past three years serving as Chairman of the Interstate Committee for the Monetary System. Previously he was, for some years, Chairman of the Investment Bank in Titograd. He was born in Montenegro, has an economics education and speaks a little English. I have met Cemovic only once, briefly, with no chance for substantive discussion. Mr. Horsley believes he has also had such a meeting; but Cemovic is at this stage clearly not an 'old friend' of the Bank.

3. I believe Mr. Cemovic wishes to call on Mr. McNamara primarily as a matter of courtesy during this his first visit to the United States as Federal Secretary. But, prompted by Mr. Popovic, I have no doubt he will take the opportunity to express his thanks for the increased volume of lending the Bank has committed to Yugoslavia this year and to urge that the Railways IV project should be presented to the Board before the end of this month. You will recall that, earlier this year, we brought considerable pressure to bear on the Yugoslav authorities, through various channels including Ambassador Granfil, promptly to take the necessary steps with respect to changes in the railways' tariff structure, so that preparation of the project could be completed in this financial year.

4. I have no other inkling about what the Minister may wish to say. Attached is a short briefing note on some of the points that may come up during your discussion.

Attachment

cc: Mr. Wapenhans

JChaffey/GBVotaw:jw

## YUGOSLAVIA

Meeting with Mr. Cemovic,  
Federal Secretary for Finance

### Briefing Note

#### Lending Program

1. Six loans have been approved to date in FY74 totalling \$128 million. If Railways IV is approved in FY74 the total will rise to \$221 million. If Railways IV is postponed to FY75, the lending program for FY75 would total \$248 million (six loans), a figure which may increase when inflation is properly allowed for after project appraisals. Total lending of \$903 million is planned for FY74-78, compared to \$419.9 million for FY69-73. The annual lending rate is expected to rise from an average level of about \$150 million in FY75 to \$250 million in 1979.

#### Status of Processing of FY75 Projects

2. Agricultural Credit I (\$50 million) is scheduled for appraisal in September; the Government's preparation report was promised for mid-June and is thus expected shortly. Issues may be the allocation of loan proceeds between regions and between state and private farms; this and succeeding agricultural credit projects are principal elements of Bank strategy to give special emphasis to the development of the private agricultural sector.
3. A \$30 million loan for construction of an oil pipeline and marine terminal is scheduled for appraisal in October 1974. The feasibility report, being prepared by INA/Energoinvest/Naftagas, was to be sent to the Bank on May 31, but has not yet been received. Yugoslavia has already arranged very substantial complementary financing, most notably from Kuwait and East European beneficiaries.
4. Preparation of remaining FY75 projects is well on schedule:
  - a) Negotiations for Dubrovnik Infrastructure (expansion of water supply and sewerage) and Harbor Bar expansion are scheduled for August 1974;
  - b) The appraisal mission for Sarajevo Pollution Control is in the field;
  - c) An identification mission for Highways VII visited Yugoslavia in May and appraisal is scheduled for October;
  - d) A pre-appraisal mission for Power Generation I is in the field.



(June 11, 1974)

### Energy Crisis

5. Since Yugoslavia meets two-thirds of her energy requirements from her own resources and has other raw materials and industrial capacity which will benefit from increased export prices, the impact of the recent increase in oil prices is mitigated. The main problem for Yugoslavia is that the balance of payments, which would anyway have gone into deficit in 1974 after two years in surplus, will get worse. Incremental oil payments are expected to total about \$600 million in 1974. Total oil payments will be about \$900 million, equivalent to 12 percent of total imports.

### Energy Sector Review

6. During the Annual Meetings in Nairobi last year Mr. McNamara told Mr. Smole that, as a condition of Bank participation in the oil pipeline project, he would expect the Yugoslavs to prepare a comprehensive program for the development of the country's energy resources. We already have had several contacts with the Yugoslav authorities on this and have provisionally scheduled a Bank mission to review the energy sector in the fall, whose principal task would be to pull together the information currently being assembled by the Yugoslavs. You may wish to take the opportunity to ask the Federal Secretary what measures are currently being taken in Yugoslavia in response to the energy crisis.

### Fourth IDA Replenishment

7. Yugoslavia has notified the Bank that it will contribute 75 million dinars (\$4.5 million) to the Fourth IDA replenishment. The Bank plans to ask Yugoslavia for an advance contribution, and the staff will be in touch with the Executive Director on this matter.

### Visit of Mr. McNamara

8. As you know the invitation for Mr. McNamara to visit Yugoslavia has recently been reactivated and rejected. The new Federal Secretary may reiterate the invitation, since the new Government is anxious to meet Mr. McNamara and believes he will be in the area for the U.N. Population Conference in Bucharest this August.

### Regional Studies

9. You may wish to inform the Federal Secretary that we are proposing to launch a third in the series of studies of the less-developed regions. Mr. Schrenk is scheduled to take a team to Macedonia in the fall provided that this is acceptable to the authorities concerned. You may wish to remind the Federal Secretary that we have not yet received any reaction to the Kosovo report. A summary version in Serbo-Croatian is being prepared.

### Future Program

10. In June 1973 the Federal Government sent the Bank a list of some 40 projects. Of these about one-third (mostly infrastructure) have already been

(June 11, 1974)

included in the Operations Program, seven have been rejected (tourism projects, forest roads, industrial and agricultural projects of dubious viability and unsuitable for Bank financing), and decisions are pending within the Bank on the rest. These include several agricultural processing projects whose evaluation awaits the outcome of a study being made under the Bank's first loan for agro-industry (Loan 894 of 1973).

11. Except on an ad hoc basis, we have not officially informed the Yugoslavs which projects we cannot finance. Mr. Horsley was to have made the rounds earlier this year but was prevented by illness from doing so. You may care to inform the Federal Secretary that we are aware of the fact that this task is outstanding and that, for high priority projects the Bank cannot finance, the republican authorities concerned will be encouraged to seek financing elsewhere.

12. One of the projects which had been dropped was the Jaz tourism project. The Montenegro authorities had considerable difficulty in completing the financing plan, difficulties now apparently overcome. The Yugoslav authorities have appealed strongly for the project to be kept in the lending program and Mr. Heidhues, currently in Yugoslavia, is looking into the matter. We mention this detail only because the new Minister, Mr. Cemovic, comes from Montenegro!

JChaffey/GBVotaw:jw



## OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Norman Horsley, EMIDC

SUBJECT: Meeting of Yugoslav Secretary for Finance  
with Mr. McNamara - Annual Meeting, 1974

DATE: October 22, 1974

1. Mr. Momcilo Cemovic, Federal Secretary for Finance and Governor in the Bank for Yugoslavia, met with Mr. McNamara at the Sheraton Park Hotel on October 2. Mr. Cemovic was accompanied by Mr. Toma Granfil, Ambassador to the United States, Mr. Branislav Colanovic, Governor of the National Bank and Governor in the Fund, Mr. Gavra Popovic, Assistant Federal Secretary for Finance and Alternate Governor in the Bank, Mr. Alfred Rinnooy Kan, Executive Director and Mr. Branko Mijovic, Alternate Executive Director. Messrs. Knapp, Benjenk, Paijmans and Horsley attended the meeting.

2. After an exchange of greetings at the beginning of what he described as a courtesy visit, Mr. Cemovic said that Mr. McNamara's speech at the Annual Meeting had expressed views on assistance to the developing countries that were identical with Yugoslavia's. In keeping with these views, Yugoslavia looked forward to continuing support from the Bank. On the previous day he had had extensive discussions with the Bank's representatives on future lending to Yugoslavia. His Government wished to have further discussions with the Bank in Belgrade, so that agreement could be reached on a program of lending in preparation for Yugoslavia's next Five-Year Development Plan (1976-80). Mr. Cemovic said that he had been successful in persuading Messrs. Benjenk and Paijmans to visit Yugoslavia for this purpose during the first half of 1975; their visit would, of course, be in addition to the visit to be made by Mr. McNamara!

3. Mr. Cemovic noted that Yugoslavia expected a balance of payments deficit of \$700-1,000 million in 1974, largely as a consequence of the increased cost of oil. The principal objective of development policy now was to invest as much as possible in alternative sources of energy. Other priority sectors, in which Bank assistance was also sought, were infrastructure, agriculture and tourism. Having observed that it had taken a long time to get Yugoslavia over the hurdle of \$200 million a year of Bank lending, Mr. Cemovic suggested that it should be much easier to overcome the \$300 million hurdle. Mr. McNamara responded that the problem would be to sustain Bank lending to Yugoslavia at a level of \$200 million a year. The present shortage of capital for development resulted in growing pressures to ensure that such capital would go where it could be quickly utilized. In the case of Yugoslavia, he had difficulty in explaining to the Executive Directors why projects moved so slowly. While recognizing the problems that arose from Yugoslavia's decentralized political and economic system, he urged that measures be taken to accelerate the effectiveness and disbursement of loans. Mr. Cemovic gave assurances that such measures would be effectively applied.

October 22, 1974

4. Mr. Cemovic raised the question of Yugoslav representation on the staff of the Bank, noting that there were still only four or five staff members after more than twenty years of cooperation. Mr. McNamara replied that the Bank wanted more Yugoslavs, but that there had been difficulties in setting up an effective mechanism for recruitment. He assured Mr. Cemovic that there was no ideological barrier to Yugoslav recruitment, and said that he would discuss the matter with Messrs. Benjenk, Chadenet and Clarke shortly.

NHorsley/llj

Cleared with and cc: Mr. Paijmans

cc: Messrs. Ljungh, Knapp, Benjenk, Chadenet, Clarke,  
Wapenhans, Haynes, Pollan, Wyatt, Snoy  
Miss Han

Biographical Sketches

Momcilo Cemovic (B)

Appointed Federal Secretary for Finance on May 31, 1974 when the Federal Government under the new constitution was installed. During the previous three years he was a member of the Federal Executive Council and Chairman of the Interrepublican Committee for the Monetary System, which coordinated domestic monetary policy. Prior to that, he was the General Manager of Investiciona Banka Titograd. He was born in Montenegro and educated in economics at Belgrade University. He has had limited international responsibilities until now. He visited the Bank and had a brief meeting with Mr. McNamara in June 1974 (during the IMF Committee of Twenty meeting).

Gavra Popovic (B)

Responsible for external economic relations in the Federal Secretariat for Finance and is the Bank's principal contact in Yugoslavia. He was formerly the Economic Counselor at the Yugoslav Embassy in Washington and is well known in the Bank. He speaks fluent English.

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## OFFICE MEMORANDUM

TO: For the Record

DATE: March 21, 1975

FROM: Martijn J.W.M. Paijmans *P*SUBJECT: YUGOSLAVIA - Mr. McNamara's Meeting with the Prime Minister

1. On March 19 Mr. McNamara met with H.E. Dzemal Bijedic, President of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia, at Blair House. H.E. Toma Granfil, Ambassador of Yugoslavia, H.E. Janko Smole, Member of the Federal Executive Council, Mr. Miodrag Stojiljovic, Assistant Federal Secretary for Finance, and I were present.
2. The Prime Minister expressed satisfaction with the Bank's activities in Yugoslavia. He said that while Yugoslavia could no longer be considered a poor country, it certainly was still a developing country which counted on the Bank's continuing assistance. Being a developing country, the government recognized that several mistakes had been made in the investment field but great efforts had been and were being made to correct these mistakes and to avoid new ones. A basic Five Year Development Plan was being elaborated and it had been decided that emphasis would be on the development of energy, the ferrous metal industry, food production, chemical industries and transportation.
3. Mr. McNamara expressed his support for the priorities established by the government and indicated that the Bank was anxious to listen to what the government wanted it to do in Yugoslavia. He also said that, although there had been more recently some improvement, there still were very clear problems with the utilization of funds for projects approved by the Bank. He explained that on various occasions the Board of Directors of the Bank had questioned the need for authorizing new loans when previously allocated funds had not yet been used.
4. The Prime Minister recognized with pleasure that improvement had taken place and said that great efforts were being made to improve further the Yugoslav performance in this respect and he acknowledged this matter to be of great importance. He said that a review was in process to see the degree of utilization of funds by various enterprises and entities which had benefitted from Bank financing. The units that had a notably bad performance in this respect would not be allowed to borrow again from the World Bank.
5. The Prime Minister mentioned the importance that his government attaches to the oil pipeline project on which the Bank is now working. A number of countries had promised support in this project (Libya \$70 million, Kuwait \$130 million, Hungary and possibly Czechoslovakia). Mr. Smole expressed hope that the Bank might be able to finance \$50 million (note: the current lending program envisages \$30 million).



6. The Prime Minister and Mr. McNamara exchanged views about the role of the Bank in the development field. The Prime Minister attached the greatest importance to this role and indicated that his government was strongly in favor of the thrust of the Bank's activities and would give the Bank all possible support.

cc: Messrs. Knapp  
Burmester  
Bart, Acting Vice President, EMENA  
Wapenhans  
Horsley

MPaijmans:gg/sap

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President  
THROUGH: Mr. J. Burke Knapp, SVP, Operations  
FROM: Maurice Bart, Acting RVP, EMN *MB*

DATE: March 17, 1975

SUBJECT: YUGOSLAVIA: Your Meeting with Mr. Dzemal Bijedic, Prime Minister

1. Mr. Dzemal Bijedic, President of the Federal Executive Council (FEC) of Yugoslavia, (i.e. Prime Minister), will meet with you on March 19 at 4:45 p.m. in Blair House. Mr. Bijedic will be accompanied by His Excellency Toma Granfil, the Yugoslav Ambassador to the United States, Mr. Janko Smole, a member of the FEC and formerly both Federal Secretary for Finance and Governor for Yugoslavia and Mr. Miodrag Stojiljkovic, Assistant Federal Secretary for Finance and Alternate Governor for Yugoslavia. Mr. Lazar Mojsov, Deputy Federal Secretary for Foreign Affairs, who is a member of Mr. Bijedic's party is not expected to attend the meeting. Brief biographies are attached (Annex I).

Background

2. Mr. Bijedic arrives in Washington on the evening of March 18. His visit is the result of a long-standing invitation from the U.S. Government, renewed by Secretary Kissinger last fall. It is probably a prelude to a visit by President Ford to Yugoslavia and adjacent countries later this year. It will be a working rather than a state visit, concentrated on economic and political discussions with the U.S. Government. The Prime Minister will lunch with President Ford, dine with Secretary Kissinger (if in Washington) and meet with the senior officials of the State and Commerce Departments, EXIM Bank and OPIC, and also with Mr. Witteveen. After two days in Washington, Mr. Bijedic will spend a day in New York, meeting with Secretary-General Waldheim of the United Nations and American bankers and businessmen. He leaves New York on the evening of March 22. Whilst in Washington, Mr. Smole is expected to have discussions with State Department on international issues on which Yugoslavia and the U.S. do not see eye to eye.

Matters to be Raised by Mr. McNamara

3. There are no issues of substance concerning relations between Yugoslavia and the Bank that you need to raise with the Prime Minister. You may, however, wish to express once more your thanks for Yugoslavia's strong support of the Bank's programs and policies in such forums as the Development Committee and G-24. This was the main theme of Mr. Benjenk's meeting with Mr. Bijedic in Belgrade last November. You may also wish to offer your personal congratulations to Mr. Stojiljkovic on his recent appointment as Alternate Governor (see Annex II).

Matters to be Raised by the Prime Minister

4. We expect that Mr. Bijedic will wish to discuss three topics with you:

- (a) Bank-Yugoslav cooperation: Mr. Bijedic will probably give you a Yugoslav view of cooperation between his country and the Bank. He can be expected to express his country's satisfaction with,

*1. relations good*  
*2. size of program - signed*  
*3. show implementation*  
*4. requirements*  
*5. commitments*  
*6. help FR by support*  
*layer*  
*only*  
*4 support*  
*3rd*  
*Thanks*  
*for support*  
*JBK*

*work's attendance - 73 1.42*

March 17, 1975

and appreciation for, Bank assistance to Yugoslavia in the past, and may stress the importance to his country of its continuing status in the Bank as a developing country. He may show special appreciation for the work on both sides that has led to a reasonably firm program of loans for the next five years or more, a situation that the Yugoslavs regard as particularly useful and helpful, and a great improvement on year by year programing. In the context of the emphasis given by both Yugoslavia and the Bank to helping the less-developed regions of the Federation, Mr. Bijedic might take the opportunity to repeat the hope expressed to you by other senior officials that Bank lending might rise well above the present level of \$200 million a year.

A copy of the current Operations and Lending Programs for Yugoslavia is attached (Annex III). The annual totals are based on a decision that you took in January 1975 on the level of Bank lending to that country. In the past, your response to Yugoslav requests for a reasonably quick increase to a level of \$300 million has been to point to the difficulty of sustaining the \$200 million level in the face of criticism by the Executive Directors of Yugoslavia's slowness in making loans effective and in making withdrawals (see Annex IV). There has recently been a noticeable improvement in these respects, and the Yugoslav authorities are doing all that they can to effect further improvements. Bank lending reached \$200 million in FY74 and should do so again in FY75, but there is no doubt that Yugoslavia could fruitfully use substantially more Bank money for high priority development projects. For example, as a result of inflation the three remaining projects in the FY75 Lending Program could each absorb much larger Bank loans (in one instance, we shall be financing only 26 percent of the project), and the pipeline of projects is overflowing. Consequently, in the coming weeks we may have to consider the possibility of a reduced number of loans as an alternative to continuing the present relatively low level of Bank involvement in each project.

- (b) Some recent developments in Yugoslavia: It is probable that the Prime Minister will wish to report to you on the implementation of Yugoslavia's new constitution, and on the consequential changes in institutions and the Federal organization. He may explain the changes that have taken place in the system of planning (a new five-year plan for 1976-80 is being prepared) and refer to the long-term development program (to 1985) that is now under discussion. In this context, he may wish to explain the new "social contracts" \* and their significance as a basis for planning in Yugoslavia.

\* A social contract is an agreement between one or more enterprises and one or more Socio-political organizations (e.g. Republic, commune or trade union) to regulate matters which in most countries would be determined by legislation (e.g. development programs and price controls). Although a voluntary agreement it has, de facto, the force of law. Yugoslavia has adopted this device to ensure maximum participation and consensus among all affected by each contract, and to gradually eliminate the role of the state in decision making.

(c) The role of international financial institutions: This is, perhaps, the main point that Mr. Bijedic's wishes to discuss with you. He can be expected to discuss the economic problems now facing the world and the Yugoslav view of the role of the international financial institutions in resolving them. As you know from the support given to your programs, Yugoslavia favors an expanded role for the Bank and other international bodies. It seems certain that the Prime Minister will seek your views on the future role of the Bank, and he may well seek your guidance on how Yugoslavia can help the Bank to make its case in international discussions.

*avoid fragmentation  
support new institutions  
by BK  
incl LDC's + "liberal  
D's" (Sweden) to  
support*

Attachments:

cc: Messrs. Knapp, Benjenk (o/r), Bart, Paijmans, Wapenhans,  
Burmester, Horsley

NHorsley/dl






## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: July 7, 1975

FROM: Munir P. Benjenk, RVP, EMN SUBJECT: YUGOSLAVIA: Your Meeting with Mr. Emerik Blum,  
Managing Director of Energoinvest, Sarajevo

1. You have accepted Mr. Blum's request for a meeting, which is scheduled for 6:00 p.m. on Tuesday, July 8, 1975. Mr. Blum will be accompanied by Mr. Dane Maljkovic, President of the City Assembly (i.e. Mayor) of Sarajevo, the capital of Bosnia-Herzegovina, and by Ms. Branka Danon, interpreter. If you so wish I will attend the meeting, accompanied by Mr. Horsley.

2. You have met Mr. Blum before, most notably in July 1972, when he asked you if the Bank would help to finance the Sarajevo Pollution Control project. He is the very dynamic head of one of the largest enterprises in Yugoslavia, and has been the subject of lengthy articles in "Fortune" and "Time" magazines. Brief biographies of Messrs. Blum and Maljkovic are attached (Annex I).

Purpose of Visit

3. We understand that Mr. Blum's primary objective in seeking a meeting with you is to enquire as to the Bank's policy and possible interest in assessing the health care system in Sarajevo, with a view to helping finance improvements to that system. Similar enquiries have been made by Ministers and officials of the Republic and City Governments to Dr. Lee and Mr. Horsley on various occasions since the fall of 1972. In view of the then prevailing Bank policy on health projects, the responses have been consistently negative. It is significant that during Mr. Pajmans' mission in April last to complete the discussions with each Republic and Province on the priority projects that the Bank would consider for financing in the next five years, the health project was not among the eight priority projects listed by the Government of Bosnia-Herzegovina. However, it is most likely that at their meeting with you Messrs. Blum and Maljkovic will speak with the authority of the Governments of the Republic and City.

4. Since we have not in the past encouraged enquiries concerning the health project, we know very little about it. From the brief conversations that Dr. Lee and Mr. Horsley have had on the subject, we understand that its purpose is to effect a much-needed improvement in the health care delivery system in Bosnia, and especially in Sarajevo. It would probably comprise a new teaching hospital with related clinical and outpatient facilities in Sarajevo, and might also include a health care delivery system elsewhere in the Republic. A note prepared by Dr. Lee on the present state of the health care system in Bosnia and Sarajevo, and a suggested course of action for the Bank is attached (Annex II).

July 7, 1975

5. A decision by the Bank to consider financing a project of this kind would, of course, be a major policy decision. If the Bosnians are prepared to withdraw one of their two or three highest priority projects from Bank consideration, it is possible that the health project could be included in one of the later years of the current five-year operations program for Yugoslavia. I recommend that we consult with the Bosnian and Federal Governments with a view to making this substitution if the Bosnians wish it.

#### Other Matters

6. Mr. Blum has a keen interest in two other projects now being processed in the Bank: the Sarajevo Pollution Control and the Oil Pipeline projects. He may enquire as to progress, which is as follows:

Sarajevo Pollution Control Project--designed to abate both air and water pollution, and thereby reduce serious health hazards, in Sarajevo and adjacent areas. It includes the construction of a natural gas distribution system, the conversion of heating plants to burn gas, a gas transmission line, and the rehabilitation and expansion of the water supply and sewerage systems. Appraisal of the project was completed in February 1975, and we expect to begin negotiations on July 15 and to present the proposed loan to the Executive Directors in late September. The total cost of the project is \$169 million (excluding interest during construction) of which the foreign exchange component is \$76 million. A Bank loan of \$85.5 million has been recommended to the Loan Committee (compared to \$83 million in the current operations program). This amount includes \$13.5 million to finance that part of the gas pipeline located in Serbia, which is presently part of the Naftagas pipeline project (Loan 916-YU) but which must be eliminated from it because of huge cost overruns. A brief note on the project is attached (Annex III).

Oil Pipeline Project--to convey crude oil from the Adriatic coast to Yugoslavia's five inland refineries and to Hungary and Czechoslovakia. The principal components are 728 km. of pipeline, pumping stations, storage tanks, and port facilities. Appraisal of the project was completed in January 1975. We expect to begin negotiations about July 17 and to present the proposed loan to the Executive Directors in September. The total cost of the project is \$377 million (excluding interest during construction), of which the foreign exchange component is \$193 million. A Bank loan of \$50 million has been recommended to the Loan Committee (compared with \$30 million in the current operations program; to offset this increase, there would be a corresponding reduction in the loan



July 7, 1975

amounts for other projects). Co-financing, totalling \$245 million, is being provided by Czechoslovakia, Hungary, Kuwait, and Libya. A brief note on the project is attached (Annex IV).

Attachments

NHorsley/llj

cc: Mr. Knapp  
Mr. Baum  
Mr. Wapenhans

Cleared with and cc: Messrs. Asfour, Lee, Chaffey, Lowther

Biographies

- Emerik Blum - Managing Director, Energoinvest, Sarajevo. Born in 1911 in Sarajevo, Mr. Blum was originally a mining engineer. He had risen to be Under Secretary of Electric Power by 1951, when he resigned and started designing electric-power plants. In 1955, he founded Energoinvest, which provided financing, research, quality control and access to worldwide markets for Yugoslav factories producing machinery and materials for the electric power industry. Energoinvest affiliated with a number of enterprises and has grown into an industrial conglomerate that grosses \$160 million annually. It now includes 41 industrial units, employs 23,000 workers worldwide, spans four continents, and maintains 32 foreign marketing offices to sell products varying from refrigerators to transformers, and aluminum rivets to electronic automation equipment. Energoinvest includes research and development centers, an automation division and a central financial department.
- Dane Maljkovic - President of the City Assembly (Mayor) of Sarajevo. Born about 1930, Mr. Maljkovic is an electronic engineer by profession. He is also a professor in the Electronics Faculty of the School of Technical Engineering at the University of Sarajevo, of which he was President prior to becoming Mayor two years ago.

Yugoslavia

A Note on the Health Care System in  
Sarajevo and Possible Bank Action to Help Improve that System

1. The following note has been prepared by Dr. James A. Lee, Environmental and Health Adviser, VPSEH.
2. Background: On my first visit to Sarajevo, the Vice President of the Executive Council of Bosnia-Herzegovina approached me with regard to the "appalling conditions at the hospital and medical school institutes in Sarajevo." While I discussed the matter with a genuine substantive interest, I informed him that the Bank was not in a position (at that time) to be of assistance.
3. During the course of preparing the Sarajevo Pollution Control project, I had numerous occasions to visit the medical school for discussions with staff members on health problems associated with air and water pollution. My observations quickly revealed that the school was poorly equipped in every respect to provide quality training for physicians and the allied health professions. The facility was built shortly after World War II and is hopelessly inadequate by all standards.
4. I also had occasions to visit the hospital (the last visit in winter of 1974-75) where conditions are, as the Vice President stated, "appalling." The hospital was built in the nineteenth century during the Austro-Hungarian occupation of Sarajevo. It was designed (by the then prevailing standards) to serve a population of 60,000. Today, the population of Sarajevo alone is approaching 400,000, and the bulk of cases throughout the Republic (population 3.8 million) requiring hospitalization are referred to it. My inspection of the facilities revealed it to be hopelessly inadequate and totally obsolescent in every respect. In several wards I found three (3) patients to a single bed. Equipment was old and not a few pieces dated from the beginning of the hospital. The facility provides very, very limited opportunities for the physician-in-training. Medical students, interns, nurses, and para-medics cannot be accommodated, thereby denying them the patient contact so vital to their clinical training.
5. As would be expected, the out-patient facilities are similarly inadequate to handle the ever-increasing patient load. By way of example, patients begin to queue up at 5 a.m. in hopes of being seen for diagnosis and/or treatment by 10-11 a.m., or later. Some patients are never seen and must make a return visit. This makes conditions for the elderly, infirm, and children particularly difficult, involving, as it does frequently, the use of public transportation, etc., or long difficult treks in from all parts of the Republic.
6. Thus, there is no denying the fact that the condition of the hospital and institutes serving the University Medical Center, the City of Sarajevo, and a considerable portion of the population of Bosnia is desperate.

7. One can only wonder what would happen in the event of a disaster (earthquake, fire) or major epidemic under such conditions.

8. Of equal importance, however, is the state of the health care delivery system in the Republic, outside of Sarajevo. With the exception of several small secondary hospitals at such places as Banja Luka, Jajce, Mostar, and Zenica, the populace is totally dependent upon Sarajevo for all diagnostic and clinical matters requiring more than a general practitioner's limited facility. The true state of the Republic's health care system is unknown to me but according to public health officials I have talked with it, too, is greatly in need of reform.

9. In a partial attempt to meet these perceived needs, the citizenry in a referendum held in late 1972, voluntarily agreed (by a wide margin) to impose a tax of 2 percent on their gross earnings, to be used in improving health care. This, to me, is indicative of the people's expressed desire to do something about the ever-worsening health care system. In my many conversations with people in Bosnia, I heard repeatedly their fear of going to the hospital; of their frustration at waiting for hours to be seen by a doctor; of the hopeless inadequacy of the laboratory to conduct tests, X-rays, etc. And, the professors at the Medical Center, along with the students, see only the prospect of limited training and little clinical experience under the prevailing conditions.

10. Possible Action: Given the conditions described, several possible opportunities present themselves. First, the high degree of interest and cooperation present in Bosnia would suggest this would be a highly suitable place for the Bank's Office of Environmental and Health Affairs (OEHA) to initiate a pilot health sector survey and health care systems study, as called for in the Office's recently issued Terms of Reference. Hopefully, this could be initiated in FY76 or early FY77 with a view to recommending a possible project(s) suitable for Bank financing. Alternatively, WHO might be persuaded to undertake such studies with a view to recommending a Bank project. Further, and in parallel with the above, OEHA, in cooperation with the Education Projects Department and possibly WHO, could examine the needs of the medical school, its institute, and the teaching hospital with a view to a possible project for financing what would ostensibly amount to new clinical facilities. These two activities could be the basis for a reformed health care delivery system designed to serve the needs of the people of Bosnia, and a clinical teaching facility integrated with an urgently needed major hospital to service Sarajevo and all the Republic.

11. If my memory is correct, Bosnia and Sarajevo would be prepared to finance one-half of the project costs. Also, I believe the City of Sarajevo may have entered into an arrangement with the Eggers Partnership of New York (an internationally recognized firm for planning and design services for health facilities) to assist it.

July 3, 1975

YugoslaviaSarajevo Pollution Control Project

1. Background. In July 1972 Mr. McNamara was visited by Mr. Emerik Blum, the Director General of Energoinvest. During his visit Mr. Blum informed the President of the severe air and water pollution problems of the city of Sarajevo, and requested the Bank's advice and financial assistance in overcoming them. The staffs of the Office of Environmental and Health Affairs and the EMENA Region subsequently advised city officials on preparing solutions to the problems, and assisted with the preparation of an integrated air and water pollution control project. The Federal Government formally requested Bank assistance for the project in early 1973.
2. The Project. The feasibility studies for the resolution of Sarajevo's pollution problems identified a project that provided the least cost solutions that would meet acceptable air and water quality standards. The project comprises the construction of new wells, reservoirs, and pumping stations; the installation and replacement of water pipes; control systems; the construction of new collectors and main sewers; the replacement of sewer laterals and connections; the construction of a sewage treatment plant; the construction of a 250-km natural gas transmission line from near Belgrade to Sarajevo; the construction of a natural gas distribution system in Sarajevo; the conversion of 300 central heating plants to burn natural gas; and the installation of 10,000 house connections. That part of the gas transmission line located in Serbia presently forms part of the Naftagas system in Serbia, which is included in the Naftagas Pipeline Project being financed under Loan 916-YU. This project has suffered from huge cost overruns and it will be necessary to reduce the scope of the project. One item proposed for deferral in the pipeline from Belgrade to the Bosnian border. However, this section is essential to the Sarajevo project, and its foreign exchange costs are therefore included in the proposed loan.
3. The project was appraised during several missions which were completed in February 1975. Its total cost is estimated at \$169 million, of which \$76 million is the foreign exchange component. A Bank loan of \$85.5 million is proposed: this would finance 50 percent of the project cost and about 92 percent of total foreign exchange requirements (including interest during construction). Related works not included in the project would cost \$16 million. As noted above, the loan would provide supplemental finance to Naftagas for a part of the gas transmission line in order to ensure that gas supplies will be available when needed in Sarajevo.
4. Negotiations for the proposed loan are expected to begin on July 15, and consideration by the Executive Directors is tentatively scheduled for late September.

Yugoslavia

Oil Pipeline Project

1. Background. For some years the three principal Yugoslav oil enterprises discussed several possible pipelines to carry crude oil from the Adriatic to their five inland refineries. In 1971, a Bank transport sector survey helped to determine the most suitable pipeline system. Finally, in 1973, the three enterprises (Energoinvest, INA and Naftagas) reached agreement on a common pipeline to serve their needs, and also to transport oil to Hungary and Czechoslovakia. They established an enterprise, Jugoslavenski Naftovod, to implement the project and, through the Federal Government, sought the Bank's assistance in its financing. During the 1973 Annual Meeting, Mr. McNamara agreed to consider a relatively small Bank loan in order to encourage other external financial sources to participate. Bank staff assisted in the preparation of the project, and its appraisal was completed in January 1975.
  
2. The Project. Studies have shown that the project would provide by far the most economical solution to the problem of conveying crude oil to Yugoslavia's inland refineries and to Hungary and Czechoslovakia. Compared to the expansion of the existing means of transport, the rate of discount at which both cost streams are equalized is 50 percent. The project would consist of the construction of an oil port near Rijeka, tugs and loading arms, 728 km of pipeline, storage tanks, pumping stations, a control system, ancilliary equipment and engineering services. It would enable 20 million tons of oil to be pumped annually by 1979, of which 6.6 million would go to Hungary and Czechoslovakia. The pipeline and terminal facilities would be of sufficient size to handle, with additional pumping and storage facilities, 34 million tons by 1990. This would meet the projected demand for oil imports at that time and permit the transit of 10 million tons to Hungary and Czechoslovakia.
  
3. The estimated total cost of the project is \$377 million, of which \$193 million is the foreign exchange component. Interest payments would add \$23 million to the foreign exchange financing requirements during the construction period. The amount allocated to the project in the current operations program is \$30 million. However, a loan amount of \$50 million has been recommended to the Loan Committee, both because this seems the minimum level of participation that would enable the Bank to secure adequate influence over the technical standards that should be maintained for the project and because the Yugoslavs have asked for this amount, even at the expense of other projects. A compensating reduction of \$20 million in the allocations to other projects in the FY76 program would be made. (The Yugoslavs have asked the Bank to consider advancing \$20 million from the FY77 program, should the financing needs of FY76 projects make

this desirable). Co-financing is to be provided by Czechoslovakia (\$25 million), Hungary (\$25 million), Kuwait (\$125 million) and Libya (\$70 million). The Kuwaiti loan would include the supply of 73,000 tons of pipe (in value, equivalent to 42 percent of the loan), and the Czechoslovakian loan would include both pipe and construction for the section of pipeline from Sisak to the Hungarian border. Interest rates on the foreign loans range from 8.25 to 1-1/2 percent above the London Interbank Rate, and amortization periods from 9 to 11 years.

4. There have been considerable delays in the preparation of the project and the negotiations with the Kuwaitis and the Libyans took longer than expected. As a result it is imperative that project construction should get under way as soon as possible. If Naftovod fails to meet its contractual obligations to start deliveries to both the domestic and foreign offtakers by May 31, 1978, it will incur serious penalties.

5. Negotiations for the proposed loan are expected to begin on July 17, and consideration by the Executive Directors is tentatively scheduled for September.





## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: September 5, 1975

FROM: Norman Horsley ~~X~~ Chief, EMLDCSUBJECT: Governor for Yugoslavia's Meeting With  
Mr. McNamara: Annual Meeting, 1975

1. Mr. McNamara met with Mr. Momcilo Cemovic, Federal Secretary for Finance and Governor in the Bank for Yugoslavia on August 30, 1975. Mr. Cemovic was accompanied by Mr. Branislav Colanovic, Governor, National Bank of Yugoslavia and Governor in the Fund, Mr. Toma Granfil, Ambassador to the USA, Mr. Gavro Cerovic, Department Head, Federal Secretariat for Foreign Affairs and Temporary Alternate Governor in the Bank, and Mr. Gavra Popovic, Alternate Executive Director. Messrs. Knapp, Benjenk, Wapenhans, Paijmans, Burmester, and Horsley attended the meeting.
2. Mr. Cemovic began by noting that Yugoslavia had enjoyed a good year of cooperation with the Bank and IFC. Everyone concerned was well satisfied with the progress being made, and looked forward to further successful cooperation in the future. It was not only the transfer of capital that was appreciated, but also the understanding shown and help given by the Bank. There had been some difficulties, but these had been, or would be, overcome. Apart from Albania, Yugoslavia was the only underdeveloped country in Europe; they had hoped for more help from their richer neighbors, which they believed were responsible for much of the economic difficulty now being experienced by Yugoslavia. Mr. Cemovic pointed out that cooperation with the Bank could lead to cooperation with other countries. He had discussed co-financing with Mr. Benjenk and now believed that this matter must be carried further. Yugoslavia would have to borrow heavily in the next five years and counted on the Bank to lend it increasing amounts; as they were now completing the preparation of a new five-year plan, it would be useful to know what the amounts would be. There would be a substantial restructuring of the Yugoslav economy, particularly with respect to food, energy, and raw materials, which would require heavy investment in infrastructure, especially transportation. Two forms of Bank lending had proved very successful; the lines of credit for agriculture and industry, which enabled funds to be used much more quickly than was the case with other loans. He expected the Bank to continue to give priority to the less-developed regions and to those projects to which Yugoslavia attached priority. Expressing an entirely personal criticism, Mr. Cemovic said that there were too many quotas by fiscal years; he asked if it was really necessary to adhere so closely to them, especially for lines of credit which could be larger in amount and function more automatically.
3. In response, Mr. McNamara said he wished that he could give a figure for the amount of future Bank lending to Yugoslavia. However, the Board had only approved a restricted lending program for FY76 and not a

September 5, 1975

program for the five-year period ahead. Members of the Board were divided on the question of an appropriate level of lending by the Bank, because of its impact on the Bank's capital structure; some members wanted to hold down the level. Mr. McNamara believed that it was essential to increase the Bank's lending capacity; he favored two stages, a selective increase in capital subscriptions to be followed by either a general increase or a change in the Articles making such an increase unnecessary. Yugoslavia could help itself and other developing countries by discussing the problems arising from this issue in the G-24, OECD (especially with the USA), at the Board and in any other suitable forum. It was most important that OECD countries should understand what was needed. Referring to his criticism of quotas, Mr. McNamara observed that if Mr. Cemovic thought they had been bad in the past he could expect them to be worse in the future, because of the strict limit imposed on lending in FY76 by the Board. He noted that the lending program for Yugoslavia was very large, and that no country of Yugoslavia's size benefitted from Bank lending on such a scale. The size of the program showed the Bank's confidence in Yugoslavia's ability to use funds productively, to help itself, and to give special emphasis to assisting the poorer parts of the country. The large program was justified, but it could not be made larger. The Bank was operating within a limit and so had to ensure that the allocation of its resources was fair; Yugoslavia was already receiving four times the per capita average of Bank lending.

4. Mr. Cemovic observed that there was no single cause of the world's economic difficulties, and that not only the Bank but all international institutions should contribute to their solution. At last year's meeting with Mr. McNamara he had said that he would give full support to the Bank and its policies in G-24 and elsewhere, and he had done so. He was confident that the G-24 meeting currently in progress would express continued support for the Bank. Mr. McNamara said that he was most grateful for what Yugoslavia had already done and would be equally grateful for further support. He noted that negotiations for the Fifth IDA Replenishments were to begin in November. The needs for IDA resources were greater now than ever before. Average IDA lending was only \$1.5-2.0 per capita (compared with Bank lending to Yugoslavia of about \$12 per capita); this was totally inadequate for the poorest countries which had been most affected by increased oil prices, recession, and other adverse economic factors. Yugoslavia had been most helpful in the past, both with its own contributions and its support for IDA, and Mr. McNamara said he would greatly appreciate its continued support. The relationship between Yugoslavia and the Bank had been very cooperative. Mr. Cemovic assured Mr. McNamara of his country's continued support. He believed that the Bank should strengthen its role and that the size of its lending program should be increased, for the benefit of others as well as Yugoslavia. Full consideration would also be given to the needs of IDA.

5. Mr. Cemovic renewed his invitation to Mr. McNamara to visit Yugoslavia, welcomed Mr. Knapp's forthcoming visit and invited others present to visit. Mr. McNamara expressed his gratitude for the invitation, which

September 5, 1975

he hoped to take up one day, but pointed out that he still had some forty member countries to visit for the first time before he could begin to visit countries for a second time.

NHorsley/llj

Cleared with and cc: Mr. Paijmans

cc: Messrs. Knapp, Benjenk, Cargill, Wapenhans, Wyatt, Goodman,  
Burmester (2), Kaji, Schrenk

Biographical Sketches

Momcilo Cemovic:

Appointed Federal Secretary for Finance on May 31, 1974 when the Federal Government under the new constitution was installed. During the previous three years he was a member of the Federal Executive Council and Chairman of the Interrepublican Committee for the Monetary System, which coordinated domestic monetary policy. Prior to that, he was the General Manager of Investiciona Banka Titograd. He was born in Montenegro and educated in economics at Belgrade University. He has had limited international responsibilities until now.

Miodrag Stojiljkovic:

Assistant Federal Secretary for Finance. A very able and experienced diplomat who has had many overseas posts, including four recent years as Minister-Counselor for Economic Affairs at the Embassy in Washington. He knows the Bank well. In December last he replaced Mr. Gavra Popovic (who is now Alternate to Mr. Witte) in his present post and in July also replaced him as Alternate Governor for Yugoslavia.

Gavra Popovic:

Alternate Executive Director since April 1975. Previously responsible for external economic relations in the Federal Secretariat for Finance and was the Bank's principal contact in Yugoslavia. He was formerly the Economic Counselor at the Yugoslav Embassy in Washington and is well known in the Bank. He speaks fluent English.

Milos Milosavljevic:


Secretary for Finance, Republic of Serbia since June 1973.

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## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 16, 1975

FROM: Gautam Kaji, Acting Chief, EMIDC SUBJECT: YUGOSLAVIA: Mr. McNamara's meeting with the Yugoslav  
Ambassador and Members of a Delegation from Vojvodina  
Visiting the United States

1. Mr. McNamara met with His Excellency Toma Granfil Ambassador for Yugoslavia to the United States, Mr. Vojislav Bulatović, General Director, Dunav-Tisa-Dunav and Mr. Jón Srbovan, Chairman, Chamber of Economy of Vojvodina on Wednesday, October 15, 1975 at 12:15 p.m.
2. The visit was essentially a courtesy call on Mr. McNamara and Mr. Bulatovic presented him with an album of photographs commemorating Mr. McNamara's visit to Vojvodina.
3. During the course of the conversation Mr. Bulatovic mentioned that they had a very good agricultural year in Yugoslavia with a record corn crop of 10 million tonnes (exceeding the previous record by almost 25 percent). This record crop was due to exceptionally high yields (exceeding 100 tonnes per hectare) resulting from good weather and improved technical management including application of irrigated water, fertilizers and better seed selection. In response to questions from Mr. McNamara, Mr. Bulatovic indicated that they expected further increases in yields over the next three to four years and that such increases were most likely to come from the private sector which farmed 63 percent of the cultivated land. Compared to the social sector the private sector yields were very low and it was hoped that over the next three to four years the yield on privately farmed land would be increased by 40 to 50 percent. Towards the end of the discussion Mr. Bulatovic mentioned that Vojvodina expected to submit a 100,000 hectare irrigation scheme to the Bank for its consideration.

cc: Messrs. Wapenhans, Paijmans (o/r), Köpp, Horsley (o/r),  
Le Moigne, Burmester (2)

GKaji/dl

EMENA files  
Division files



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: February 25, 1976

FROM: Martijn J.W.M. Paijmans, Acting RVP, EMN

SUBJECT: YUGOSLAVIA: Meeting with Ambassador Belovski

I understand that Mr. Dimce Belovski, the newly appointed Yugoslav Ambassador to the United States, will be paying a courtesy call on you tomorrow afternoon and I felt that the attached brief biographical sketch might be of interest to you.

As you know, Mr. Wapenhans visited Yugoslavia from February 15 to 22 and although we do not have the full report on the discussions that Mr. Wapenhans had, we understand that during his discussions with the Acting Prime Minister the Yugoslavs reaffirmed their strong and active support for the Bank's capital increase and the next IDA Replenishment.

Attachment

FPovey/GKaji:llj



Biographic Sketch

Dimce Belovski

Yugoslav Ambassador to the United States  
Born 1923  
Member Assembly of Macedonia--from beginning  
Minister of Construction--Macedonia  
Director of Normacedonia ("New Macedonia" newspaper)  
Director Yugoslav Permanent Delegation to UN  
Ambassador to Canada 1961-65  
Assistant Secretary of State, Foreign Office 1965-69  
Member Federal Assembly 1969-74  
Member of Council of the Federation  
Vice President of Social Alliance of Yugoslavia  
Deputy Minister, Ministry of Foreign Affairs

Europe, Middle East and North Africa Region  
February 24, 1976



## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: June 8, 1976

FROM: Gautam S. Kaji, Chief, EMLDC

SUBJECT: YUGOSLAVIA: Mr. McNamara's Meeting with the President of the  
Executive Council of the Republic of Macedonia

1. Mr. McNamara met with Mr. Blagoj Popov, President of the Executive Council of the Republic of Macedonia, on June 1, 1976 at 6:00 p.m. at the Bank. Mr. Stojan Matkaliev, a Member of the Executive Council of Macedonia; Mr. Zaharievski, General Manager of the Stopanska Banka Skopje, Macedonia; and His Excellency Dimce Belovski, Ambassador of the Socialist Federal Republic of Yugoslavia to the United States, were present. I attended the meeting.

2. Mr. Popov, who was visiting the United States as the head of a Macedonian delegation exploring various commercial and joint venture possibilities, was calling on Mr. McNamara essentially to convey his satisfaction at the level of cooperation that exists between the Bank and Macedonia and to express hopes for continued increase in the level of cooperation.

3. Mr. McNamara congratulated Mr. Popov and his colleagues for Macedonia's creditable economic performance and commented that while he noticed that Macedonia's incomes were rising faster than that of Yugoslavia overall, the gap between the lesser-developed republics and the more-developed republics of Yugoslavia was not narrowing. He queried what prospects did the Macedonian officials foresee for any narrowing of the gap. Mr. Popov and the Ambassador, responding to this question, stated that even with the special measures taken by Yugoslavia including the creation of the Federal Fund for the Lesser-Developed Republics and the assistance provided by the Bank, Macedonia still had to work at attracting more capital from the more-developed republics to support investments in the energy, natural resource development, and private farming. Mr. McNamara commented on our general satisfaction with the way in which Bank projects were being implemented and expressed confidence in continued good relationship in the future.

4. In closing, Mr. McNamara warmly recalled his experiences during his visit to Macedonia, in particular their very generous hospitality.

GKaji/11j

cc: Messrs. Wapenhans (o/r), Paijmans, Horsley, Burmester

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President  
THROUGH: Mr. J. Burke Knapp, SVP, Operations  
FROM: Willi A. Wapenians, RVP, EMN

DATE: May 27, 1976

SUBJECT: YUGOSLAVIA: Visit of Mr. Blagoj Popov, President of the  
Executive Council of the Republic of Macedonia

1. You have agreed to see Mr. Popov on Tuesday, June 1, 1976, at 6:30 p.m. at the specific request of the Yugoslav Ambassador, His Excellency Dimce Belovski. We understand that Mr. Popov is heading a delegation of Macedonian officials who are visiting the United States to explore various commercial and joint venture possibilities. Mr. Popov's call on you is expected to be essentially in the nature of a courtesy visit. Mr. Gautam S. Kaji of EMENA CP I will be available to attend the meeting.

2. A brief biographical sketch on Mr. Popov is attached (Annex I). I had, during my recent visit to Yugoslavia, occasion to meet with Mr. Popov and a large number of Macedonian officials.

3. We have recently completed work on the Regional Study of Macedonia which is a part of a series of four regional studies we have undertaken for the less-developed regions of Yugoslavia. Extracts from the summary and conclusions of that report as well as some basic data on the economy of Macedonia are attached (Annex II). We were very gratified that the Macedonians provided significant cooperation in the preparation of the study and evidenced strong interest in its findings.

4. We have on hand a number of projects which are wholly or partly directed at Macedonia. These include part of the \$50 million Second Industrial Line of Credit which <sup>is to be</sup> ~~was~~ approved by the Board on May 28, 1976. We are currently appraising an Agro-Industries project, part of which would be for Macedonian components. We are also actively preparing a Macedonian irrigation project and hope to appraise a Macedonian road section within the frame of the forthcoming Eighth Highways project.

5. We have a number of ongoing projects in Macedonia, all of which are proceeding very smoothly. The ongoing Agro-Industries project (Loan of \$31 million made in May 1973) is particularly noteworthy in that it initiated provision of credit to private farmers. Credit for good performance should go to the Stopanska Banka which is the institution most actively involved in this project and our ongoing Industrial Credit I and Agricultural Credit I projects. The Macedonians might generally raise the question of the amount of funds allocated for the individual projects, particularly for the proposed irrigation project. We have always maintained that amounts earmarked for individual projects must be viewed in the context of the total amounts made available to Macedonia and the amounts available for the use of Yugoslavia as a whole.

Attachments

Cleared with and cc: Mr. Horsley  
cc: Mr. Paijmans  
GKaji/11j

Biographical Sketch

Blagoj Popov

President of the Executive Council of the Assembly of the Socialist Republic of Macedonia.

Born in 1919 in Kochani, Yugoslavia.  
Married; has two daughters.  
Graduated from the School of Economics, University of Skopje.

In 1941 he took an active part in the People's Liberation War, in which he participated until the liberation; for his participation he was awarded a prestigious "Spomenica 1941" (Memorial 1941).

After the liberation of Macedonia (end of 1944), he held several high positions in the Republican and Federal administrations: Member of the Republican Government of Macedonia, Minister for Industry, President of the Council of Economy.

1963-69: Mayor of the City of Skopje, which at the time suffered a disastrous earthquake.

1969-74: Member of the Federal Executive Council of the SFR of Yugoslavia and Federal Secretary for Transport and Communications.

1974-Present: President of the Executive Council of the Assembly of the Socialist Republic of Macedonia.

Member of the Central Committee of the League of Communists of Macedonia and member of its Presidency.

The Socialist Republic of Macedonia: Yugoslavia

Historical Overview

1. Macedonia was settled by Slavic tribes in the early Middle Ages. Although developing quickly into a center of Slavic-Orthodox culture it remained, with a brief interlude of political independence, for centuries the object of controversy between the competing endeavors for overlordship of its powerful neighbors: Byzantium, Bulgaria, and Serbia, until all of them were absorbed into the Ottoman (Turkish) empire during the late 14th century. However, during the five centuries of Ottoman rule Macedonia remained basically Slavic in ethnic linguistic make-up and orthodox in religious outlook. The Ottoman rule lasted until 1912 when the ethnically Macedonian area was carved up between the Kingdoms of Serbia, Bulgaria and Greece. Only during World War II one part of ancient Macedonia, the present Socialist Republic of Macedonia (SRM), was created as an independent state within the Socialist Federal Republic of Yugoslavia (SFRY).

Natural Conditions

2. Macedonia is the most southern Republic of Yugoslavia. To the east it borders Bulgaria, to the south Greece, and to the west Albania. Macedonia is predominantly mountainous, and only about one quarter of the total surface presently qualifies for agricultural use. The fertile valleys, particularly in southern Macedonia with dominating mediterranean climate, provide favorable conditions to intensive agriculture if precipitation is sufficient and supported by irrigation. Macedonia is a link in the trans-European communication system, connecting central Europe and the rest of Yugoslavia with Greece and the Eastern mediterranean countries.

Population

3. In 1973 Macedonia had 1.7 million inhabitants (about 8 percent of total Yugoslavia); about 70 percent reported Macedonian as nationality, another 17 percent Albanian and 7 percent Turkish. The demographic momentum of the immediate postwar period has largely subsided, and the census growth rate has averaged at about 1.6 percent after 1961. However, fertility--the most decisive indicator of the demographic dynamics--has stabilized at a level of almost 3 (live births per women during child-bearing age) since the late 60s, still substantially above the "stable population level" of about 2.1.

4. The demographic evolution in the postwar period was accompanied by large migration flows, between the communes and from rural to urban settlements within Macedonia, between the Republics of Yugoslavia, and a large migration abroad. 1/ The rural/urban transfer, with or without physical movement, reflects the fundamental transformation of the society which took place over the last two decades: the share of rural population declined from 61 percent in 1953 to 40 percent in 1971.

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1/ The latter component--mostly young males with a low standard of education and from rural background--is officially considered as temporary.

Labor Force and Employment

5. The ratio of employment to population, which basically measures the labor force absorption of the social sector, has successively increased over the past two decades. However, in 1973 it amounted to 17 percent and still lagged behind the Yugoslav average of 21 percent by almost a decade, reflecting greater labor redundancy in the rural sector and problems of open and disguised unemployment. <sup>1/</sup>

Macro-Economic Characteristics

6. In 1973, the social product (GMP) of Macedonia amounted to \$1,135 equivalent, <sup>2/</sup> representing 5.8 percent of total Yugoslav GMP. The sectoral composition of its GMP is presently largely comparable to that of the country as follows:

GMP by Sector, 1973

	<u>Percent Share</u>		<u>SRM as % of SFRY</u>
	<u>SFRY</u>	<u>SRM</u>	
Agriculture and Forestry	19.4	23.8	7.1
Industry and Mining	36.0	35.8	5.7
Construction	11.0	11.1	5.8
Transport and Communication	7.8	6.0	4.5
Trade and Tourism	22.1	20.4	5.3
Handicraft	3.2	2.4	4.4
Communal Services	0.5	0.5	5.5
<u>Total Economy</u>	<u>100.0</u>	<u>100.0</u>	<u>5.8</u>
Social Sector	81.6	80.6	5.7
Private Sector	18.4	19.4	6.1

<sup>1/</sup> At 1973 prices and exchange rate of 16.7 Dinars per U.S. Dollar.

Macro-Economic Characteristics

7. The salient features of Macedonia's growth over the past two decades may be summarized in the following: (a) Between 1952 and 1973, GMP grew, in real terms, at an average annual rate of 8.3 percent, thus surpassing the rate of 7.6 percent realized for the country as a whole. Due to the higher rate of population growth, the rise of GMP per capita, however, was somewhat dampened to 6.8 percent as compared to 6.5 percent for total Yugoslavia. Though outstanding among the less developed regions, the real per capita income disparity in Macedonia narrowed

<sup>1/</sup> With various assumptions, the proportion of un- and under utilization of the labor force is estimated at 30-48 percent.

<sup>2/</sup> At 1973 prices and exchange rate of 16.7 Dinars per U.S. Dollar.

only slowly from 68 percent of that for Yugoslavia in 1952 to 73 percent in 1973. (b) The growth of both social and individual sectors exceeded the Yugoslav average for the entire period but the latter fared comparatively better in Macedonia especially on the early years of its development. (c) The concentration on social sector activities and especially industry was most evident since the sixties, and by 1973 the share of industry in GMP had matched that of the country. Macedonia has developed a relatively diversified industrial structure with emphasis on natural resource oriented and labor intensive industries. As compared to other less developed regions and to the country as a whole, it has favorable capital/output and capital/labor ratios. (d) Although agricultural land represents about one half of the total surface of Macedonia, the cultivated area comes to only one fourth, with irrigation as the major constraint to further development.<sup>1/</sup>(e) With the emphasis on the commodity sectors and given the overall scarcity of capital resources, the growth of infrastructure sectors and especially transport and communications lagged somewhat behind the Yugoslav average.

#### Investment and Sources of Financing

8. In 1973, the investment ratio in Macedonia amounted to 24 percent of GMP and was somewhat higher than that of the country as a whole. Investment per capita and fixed assets per capita, however, represented 78 percent and 74 percent respectively of the Yugoslav averages, reflecting the lower level of development and the historical shortage of capital resources. With respect to investment financing, savings of working organizations and Federal Fund Credits <sup>2/</sup> each account for about one fourth. The other half is financed through bank resources <sup>3/</sup> and other local resources earmarked for social development and grants from the Federation for current expenditures and investment in non-economic activities.

<sup>1/</sup> In terms of land use, almost 50 percent of agricultural land is under cereals, yet in total Yugoslavia, Macedonia has an absolute advantage in the production of rice and cotton and rice and a comparative advantage in the production of vegetables, fruits and grapes which are mostly grown by private farmers and on irrigated land.

<sup>2/</sup> The Federal Fund for the Accelerated Development of Underdeveloped Republics and Autonomous Province of Kosovo.

<sup>3/</sup> From mobilized private savings (both dinar and foreign exchange), compulsory deposits of borrowing enterprises, contributions to various funds, foreign financial and suppliers credits.



Guidelines of the Social Development Plan of Macedonia, 1976-80

The Plan is still in preparation and is expected to be completed and presented to the Assembly of the Republic for adoption in June 1976. The contours of the Plan appear to be already well defined, however.

In global terms, the Plan aims to achieve an overall annual growth rate of social product of 8-9 percent, <sup>1/</sup> about equal to the rate envisaged for the previous Plan. Given the estimated ratio of realization of the 1971-75 Plan (7 percent) and the present balance of payments constraints for the country as a whole, this rate of growth is probably somewhat optimistic. Social sector employment is estimated to grow by 3.8-4.8 percent which, if realized, would be hardly sufficient to absorb the expected natural increase of the labor force.

The investment ratio is envisaged to rise to about one third of GMP, with almost 70 percent of total fixed asset investments being in economic activities. Of total fixed asset economic investments, industry would account for 59 percent--with emphasis on energy and raw material production--agriculture 14 percent, transport and communications 13 percent and trade and tourism 8 percent.

During the World Bank mission in April, it learned that many of the issues raised in the Macedonia Regional Economic Report, especially with respect to the development strategy and the relative emphasis on heavy vs. processing industries in the 1976-80 Plan period were actually the subject of discussion among the Macedonian authorities. Provisions were also being made in the Plan, ensuring that the bulk of local and Federal Fund resources will not be pre-empted into basic industries at the expense of processing industries. With respect to energy, its development--especially thermo power generation--was accorded the highest priority in view of the fact that Macedonia is a large deficit region and in view of the recent discovery of large lignite reserves. A community of interest has been established encompassing both users and suppliers of energy and a social contract has been concluded providing for the sources of financing the envisaged five year investment program for energy from domestic and foreign resources (in the ratio of about 60 percent and 40 percent respectively). As to other basic industries, the largest proportion of financing is to be through already contracted foreign loans and credits.

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<sup>1/</sup> With rates of 9-10 percent for the social sector, 10-11 percent for industry and 4.5 percent for agriculture.

## BASIC DATA 1/

	<u>SRM</u>	<u>SFRY</u>	<u>SRM/SFRY (%)</u>
<u>Demographic Features</u>			
Census growth rate of population; 1961-71, %	1.59	1.02	156
Natural growth rate of population; 1972	1.49	0.91	164
Crude birth rate, 1972	2.27	1.83	124
Fertility rate, 1972	2.85	2.34	122
Infant mortality rate, 1972	7.55	4.44	170
Family size, 1971, persons	4.68	3.82	123
Population in agriculture, 1971, %	39.6	38.2	104
Population below age 20, 1971, %	43.0	36.5	118
Workers abroad/active population, 1971 %	7.9	6.6	120
<u>Labor Force</u>			
Agriculture/total, 1971, %	43.9	47.0	93
Working age/total population, 1971, %	56.6	58.8	96
Active/working age population, 1971, %	67.6	73.6	92
Active/total population, 1971, %	38.3	43.3	89
Active/working age, males, 1971, %	86.6	87.1	99
Active/working age, females, 1971, %	45.2	58.7	77
Employed/working age population, 1971, %	29.4	33.7	87
Employed/total population, 1973, %	17.7	20.5	86
Unabsorbed labor force, 1971 (% total labor force)	30-48	/2	
<u>Income Distribution</u>			
GMP per capita, 1972 (Din, current prices)	8,154	11,820	69
Pers. income/worker, social sector, economic, 1972 (Din, current prices)	24,841	30,028	83
Pers. income/capita, agriculture, 1972 (Din, current prices)	/2 4,296	5,033 /2	85
Pers. income/capita, individual sector agriculture, 1972 (Din, current prices)	/2 3,681	4,348 /2	85
Pers. income/capita, non-agriculture, 1972 (Din, current prices)	/2 6,695	9,941 /2	67
<u>Macro-economic Features</u>			
Growth rate GMP, 1972-73 (1966 prices)	8.3	7.6	109
Growth rate GMP per capita, 1952-73 (1966 prices)	6.8	6.5	105
Productivity of labor, soc. sector, 1972, Din.	48,327	59,573	81
Investment per capita, soc. sector, 1972 Din.	2,487	2,831	88
ICOR, social sector, economic, 1960-70 (1966 prices)	2.18	2.58	85
ICLR, social sector, economic, 1960-70, 1000 Din.	138	195	71
Capital stock per capita, soc. sector, economic 1972 (Din. current prices)	12,528	18,942	66
Capital stock per cap., soc. sector, non-economic, 1972, (Din. current prices)	1,803	2,085	87
Gross profit rate (accumulation/fixed assets), social sector, economic, 1972, %	11.3	13.0	87

1 The figures for Yugoslavia (SFY) include Macedonia (SRM). Since SRM's share is in no case negligible in the total, a comparison between Macedonia and "rest of Yugoslavia" would generally show wider discrepancies.

2 Mission estimates.

	<u>SRM</u>	<u>SFRY</u>	<u>SRM/SFRY (%)</u>
<u>Intra-Regional Discrepancies</u>			
NMP p.cap. richest commune SRM, 1972, Din.	10,800	10,500 /1	103
NMP p.cap. poorest commune SRM, 1972, Din	2,900	10,500 /1	28
<u>Agriculture</u>			
Cultivated land/total surface, 1973, %	25.9	39.5	66
Arable/agricultural land, 1973, %	42.6	50.9	84
Cultivated land/agr. labor force, 1971, hectare	2.4	2.6	92
GMP/agr. labor force, 1971, Din.	8,536	9,021	95
GMP/cult. land, 1971, Din/hectare	3,579	3,507	102
Social sector: share in cultivated land, 1973, %	20	14	143
Social sector: share in agric. GMP, 1973, %	30	23	130
<u>Industry</u>			
Share of basic industries in GMP, 1972, %	24.4	28.9	84
COR (fixed assets/GMP), 1972	2.29	2.26	101
CLR (fixed assets/worker), 1972, 1000 Din.	105	120	88
Gross profit rate (accumulation/fixed assets), 1972, %	10.0	13.1	76
<u>Tertiary Sector</u>			
Labor force/1000 inhabitants, 1971	113.7	121.0	94
Fixed assets/capita, 1972, Din.	6,754	10,330	65
Active in handicraft/1000 inhabitants, 1971	25.0	19.7	127
Active non-ec. services/1000 inhabitants, 1971	38.7	40.5	96
<u>Construction</u>			
Housing units completed/1000 inhabitants, 1973	4.8	6.5	74
Percent private ownership of completed units, 1972	64.7	66.9	97
<u>Transport and Communication</u>			
Paved roads/1000 sq. km, 1973	77	97	79
Regular guage railways/1000 sq. km. 1973	25	40	63
Communication, GMP (Din. per cap.) 1973	55	144	38
<u>Education</u>			
Illiteracy rate, above age 10, 1971, %	18.1	15.1	120
Illiteracy rate, age 10-19, 1971, %	4.0	3.1	129
Primary school age attendance ratio, 1972/73, %	96	99	97
Secondary school age attendance ratio 1972/73, %	42	39	108
<u>Health</u>			
Inhabitants per doctors, 1972	2,696	1,471	55 /2
Hospital beds per 1000 cap. 1972	5.03	5.56	90
Fixed assets in health per capita, 1972, Din.	343	419	82
Expenditures of health organizations, p. cap. 1972 1972, Din.	388	505	77
Infant mortality, (per 1000 live births) 1972	75.5	44.4	59 /2

/1 Yugoslav average.

/2 Inverse ratio.



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President  
Through: Mr. J. Burke Knapp, SVP, Operations  
FROM: Martijn J.W.M. Paijmans, Acting RVP, EMN

DATE: June 7, 1976

SUBJECT: YUGOSLAVIA: Your Meeting with Yugoslav Delegation

1. A high level delegation from the City of Sarajevo will be in Washington, D. C., June 8, 1976 for the signing of the loans for the Sarajevo Air Pollution Control and Sarajevo Water Supply and Sewerage Projects. You have agreed to meet briefly with the Delegation at 1:00 P.M. Tuesday, June 8, 1976. The meeting was arranged at the Delegation's request and the purpose is essentially to express their thanks to you personally for the support the Bank has provided for these two Projects.
2. The principal members of the Delegation are:
  - (a) Mr. Dzemat Muminagic, Vice President of the Republic Assembly of Bosnia-Herzegovina--previously mayor of the City of Sarajevo whom you met in Sarajevo on your October 1970 visit to Yugoslavia;
  - (b) Mr. Ante Sucic, President of the City Assembly of Sarajevo (equivalent to mayor);
  - (c) Mr. Emerick Blum, Managing Director, Energoinvest--you met Mr. Blum on several occasions since your visit to Yugoslavia. Mr. Blum's visit with you in July 1972 initiated Bank involvement with these Projects which officially began when Dr. James A. Lee visited Sarajevo at your request in October 1972.
3. The Yugoslav Ambassador to the U.S., His Excellency Dimce Belovski may be present. I will be available to attend the meeting.
4. There are two matters on which you may want to compliment the Delegation:
  - (a) the high degree of local involvement and participation which has been mobilized for these Projects and which has resulted, inter alia, in about 55 percent of total project costs being financed by the citizens of Sarajevo through special tax levies and contributions to communal funds;
  - (b) the energy and effort that went into resolving the complex financial and gas supply problems involved with the natural gas transmission line, being partly financed under this loan and which is an extension of the natural gas system being partly financed under a previous Bank loan (Naftagas Gas Pipeline Loan 916-YU, 1973); problems largely resulting from conflicts of a political and economic nature among several republics over the utilization of Yugoslavia's limited supplies (both imported and domestic) of natural gas.

NAnderson/gp



*Mr. McNamara's Office*

# Boards of Governors · 1976 Annual Meetings · Manila, Philippines

INTERNATIONAL MONETARY FUND

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

Manila, Philippines  
October 6, 1976

Prior to August 30, 1976:

Mail Address:

JOINT SECRETARIAT - ANNUAL  
MEETINGS  
IMF - IBRD AND AFFILIATES  
WASHINGTON, D. C. 20431 U.S.A.

Cable Address:

INTERMEET  
WASHINGTONDC (USA)

Telex Addresses:

(RCA) 248331 IMF UR  
(ITT) 440040 FUND UI  
(WUI) 64111 INTERFUND

## MEMORANDUM

TO: Memorandum for the Record

FROM: Martijn J. W. M. Paijmans *P*

SUBJECT: 1976 Annual Meetings - YUGOSLAVIA  
McNamara's Meeting with Mr. Cemovic,  
Federal Secretary for Finance, October 6, 1976

1. Mr. Cemovic explained that although there had been a number of achievements recently, the economic situation in Yugoslavia continued to have several problems. The improvements were the reduction of inflation, improvement in the terms of trade, reduction of imports, increase in reserves. However, the growth rate was low this year -- 2-1/2 percent for the first eight months. There was a worrying prognosis for the world economy for the end of the decade. Yugoslavia had now formulated its new five year plan, a 10-year framework as well as a new economic planning system under its new constitution.

2. The Minister said that unfortunately there have recently stories been circulating about Yugoslavia which were not conducive to the country's growth prospects. There was much talk about the post-Tito era in the framework of a wider campaign against Yugoslavia. In this context the Minister said not to be satisfied with a step that was undertaken by the Bank, mentioning discussions that took place with private banks.

3. Mr. McNamara reacted immediately that it was definitely not the objective of the Bank to harm Yugoslavia in any way, that it wanted no part in any campaigning against the country, and that he wanted the Minister to go to the bottom of this matter in his forthcoming discussions with Mr. Benjenk. He added that Mr. Knapp, Mr. Benjenk and himself had talked this very morning on recent Bank work about how the Bank could best extend assistance to Yugoslavia to help the country with its extensive needs for foreign borrowing. If, after the discussions with the Region, the Minister was not satisfied he should come back to see Mr. McNamara.

10/14  
After August 30, 1976:

Mail Address:

JOINT SECRETARIAT - ANNUAL  
MEETINGS  
IMF - IBRD AND AFFILIATES  
P. O. Box No. 7510  
MANILA INTERNATIONAL  
AIRPORT  
PHILIPPINES

Cable Address:

INTERMEET  
MANILA (PHILIPPINES)

Telex Addresses:

(RCA) 7227613  
(ITT) 7420400  
(WUI) 7227613

4. Mr. Cemovic said that on "wider issues" he fully agreed with the direction for the Bank taken by Mr. McNamara and that he would like to have Mr. McNamara's comments on the future of the World Bank. Mr. McNamara responded that the suggestion that the Bank reduce its lending in real terms during a period of inflation -- a suggestion contained in the \$5.8 million ceiling as a nominal amount on Bank lending -- is clearly contrary to the interests of the developing world.

5. Mr. McNamara further explained that the entire issue of Bank growth in the light of the developing world's needs simply had not yet been sufficiently discussed by the Bank's membership, and he indicated that such future discussions might bring about a considerable degree of agreement. He added to be very much aware of, and grateful for, the support Yugoslavia gave to the Bank in various ways and in particular the strong verbal support that is given in various Councils. Mr. Cemovic said that Yugoslavia will continue to provide that support as it is fully in line with its own philosophy. He indicated Yugoslavia's future role in this area by mentioning its selection -- following the Colombo meetings -- as one of the six non aligned countries to work on a committee to define a further course of action for this grouping.

6. Mr. Cemovic mentioned that Yugoslavia would be happy to welcome the next outside Annual Meeting in Dubrovnik, but that Yugoslavia would not be able to provide the luxurious surroundings enjoyed in Manila.

7. Mr. McNamara said to understand that the Secretaries of the Bank and the Fund will visit Yugoslavia shortly. He said to be personally in favor of a Dubrovnik meeting, adding that there would be two specific questions asked from Yugoslavia on which a written statement would be requested:

1. that no money should be spent especially on the World Bank Meeting, i.e. on buildings and meeting facilities;
2. that all Bank members will be admitted to the country.

MPaijmans:gg

cc: Mr. McNamara's office (2), Messrs. Knapp, Benjenk, Damry,  
Burmester, Kaji