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**SYSTEM OF APPRAISAL OF INDUSTRIAL
PROJECTS IN YUGOSLAVIA**

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Chapter I

SALIENT FEATURES OF THE YUGOSLAV ECONOMIC SYSTEM

An attempt will be made to present briefly the more essential features of the Yugoslav economic system, primarily those having significance and influence on project appraisal.

The fundamental features of the Yugoslav economic system consist of: society-owned production facilities, distribution of national income according to work accomplished and self-management by the manufacturer as to the social reproduction process.

The system of administrative economic control has been abandoned in Yugoslavia in favour of the system of workers self-management. In conformity with the general orientation toward decentralization, both politically and economically, the allocation of investment funds has been and is being carried out in such a way that the major part of those funds is left to the enterprises i.e. direct producers. The role of banks is becoming more important, as they administer the common fund of social reproduction on behalf of the social community. The banks are not only the distributors of funds, deposited with them by the social-political communities, or executors of their orders, but are also becoming institutions doing business on the basis of economic principles. All these measures are aimed to show more respect for market impulses in production, elimination of bureaucratic state relations to encourage more interest in profit-making, increase of productivity as well as to create conditions required to conform to the international division of labour.

I Principles for Project Design

Provision for the design of investment projects has been enacted in a special federal law. On the basis of that law, the socialist republics (there are six of them) enacted their laws and other regulations, further elaborating the basic principles of the federal law, and, thereby, indicating the particularities of each republic.

✓ Basic Law on Construction of Investment Project (Official Gazette FPRY No. 45/61 of Nov. 15, 1961).

1. Investment Decision Making

The law mentioned above stipulated that the investment decision (i.e. decision concerning construction) is made by the workers' council of an enterprise (the highest management body of an enterprise). When an enterprise does not yet exist, the decision concerning the investment is made by the social-political community (republic, region, province, district or commune.)

By that act the working collectives have been given great rights and great responsibilities at the same time. It means practically that it is up to them to decide what will be constructed and when, as well as that their decision is not subject to any approval. The consequences of such decisions are far-reaching as far as the enterprise is concerned. The very fact that the decision is not subject to any approval, emphasizes the duty of the working collective to study the problem in detail before making the investment decision. The working collective can make such decision only on the basis of a well-prepared economic and technical documentation. According to earlier regulations, such documentation had to be submitted to a special control commission for approval (as an organ of the social-political community). The documentation, submitted by the enterprise, had to be approved by that commission and, after the receipt of approval, construction could be undertaken. After the abolition of such approval, the working collective becomes the only factor in decision-making, for it is presumed that if a working collective knows how to manage an enterprise, it will be fully cognizant of the need to expand, reconstruct and modernize its plant as well as how, when and to what extent it should be done.

The results achieved after the abolition of administrative control by state organs, show that the enterprises are operating more successfully and with greater responsibility.

The working collective can immediately implement its investment decision if there are funds available. If there are no sufficient funds, they apply to the bank for credit. In that case the investment decision can be realized only if the credit is approved by the bank. It should be emphasized that the bank does not make the investment decision, but only approves or disapproves the decision already made as the bank is only participating in the financing of a project as determined by the investor. If the bank denies its approval, the enterprise can implement its decision after providing the missing funds, either from their own or from another bank's funds.

2. Other Basic Principles Concerning Investment

Among the more important principles, the following should be emphasized:

a/ the difference should be made between two types of documents pertaining to investment, i.e.: investment programme and investment technical documentation. The legal definitions of those elaborate documents read as follows:

- The investment programme is a document determining the investment project to be constructed, providing analysis of conditions for the construction of the investment project and showing justification for the construction of that project.

- The investment technical documentation is a document containing a detailed study of the technological-productive i.e. exploitation conception for the investment project, and furnishing technical solutions for its construction.

Henceforth these terms will be used in the sense of the above definitions.

The investment decision is being made on the basis of the investment programme. The investment programme is attached to the application for credit, submitted to the bank. The very implementation of the investment project is made on the basis of the investment technical documentation;

b/ The investment projects are being constructed either to fulfill an order given by an investor or directly for market;

c/ The construction of an investment project can be undertaken only if the financial resources have been completely provided, either by means of own funds or through a credit. The reason for such a measure is to prevent the beginning of construction without sufficient funds for its completion;

d/ The construction works and procurements are usually carried out by the producers (contracting firms, construction enterprises and plants), but, exceptionally, i.e. in special cases, by the same enterprise. The construction can be undertaken after receiving the approval for construction, issued by the competent organ.

II Social Plans, Credit Policy and the Role of Banks

The goals, tasks and lines of procedure concerning the improvement of the economic system, economic development and material basis for other social

activities are determined by the Yugoslav Social Plan (Federal Plan), both under long-term and annual plans.

The planning system in Yugoslavia has undergone great changes. The principle of detailed planning with the specific elements of administrative (state) control has been abandoned long ago. The social plans now provide only the general targets and lines of procedure, while the role of the market is becoming increasingly significant. The work on further improvement of the planning system is under way with the purpose of finding more suitable solution for freer action of the market mechanism under conditions of self-management.

On the other hand, the credit policy and general orientation in the investment policy are determined annually but remain always at the general level, providing for the realization of predetermined goals, tasks and relations, worked out by the Yugoslav social plan.

By following the social plans and the measures of credit policy in the light of the above explanations, the banks can operate freely.

As may be seen from above, the banks are very important in the implementation of the investment policy as they can independently make decisions within the general guidelines, without any influence exercised by state organs. The relations between the bank and the economy have become more firm, for, on one hand, the enterprises are administering the bank and, on the other hand, with regard to the fact that the clients are freely choosing their banks, the bank is endeavoring to attract them by businesslike operations.

III Brief Review of Income Distribution

The specific social constitution of Yugoslavia reflects also on income distribution. A better understanding of cost, income determination and distribution can be achieved from the following condensed scheme:

- I Total revenue
- II Distribution of total revenue
 - 1/ Material and overhead expenses
 - a/ Material, raw materials, external services and so on;
 - b/ Investment maintenance;

c/ Interest on credits for temporary working assets
(working capital);

d/ Interest on investment credits for:

- fixed assets
- working assets (permanent)

2/ Depreciation of fixed assets

3/ Interest on business fund

4/ Other contributions

TOTAL OPERATION EXPENDITURES

5/ Turnover tax

GRAND TOTAL

III Income

1/ Contribution out of income

NET REVENUE

Distribution of net revenues:

1/ Personal incomes

2/ For funds of the enterprise

* . In connection with some elements of the above scheme the following is emphasized, i.e.:

- interest on the business fund is a kind of tax paid by the enterprise at the rate ranging from 1 to 6 per cent according to the type of enterprise. The rate is being applied to the amount of the business fund of the enterprise;

- the business fund represents the enterprise's own resources;

- contribution out of income (under item III/1) is also a kind of tax, paid by enterprises to the community. The contribution out of income has been

abolished for the major part of enterprises, but there is a tendency to abolish it for all enterprises, with the purpose to strengthen the material basis of self-management;

- the income is obtained after deduction of the turnover tax and operation expenditures from the total revenue. The income deducted for personal incomes represents a category approximately corresponding to the profit category;

- net revenue is being distributed into personal incomes and funds of the enterprise. The working collective is independently making decision as to how much will be taken for personal incomes and which amount will be for the enterprise's funds;

- distribution to some workers is made according to the results of work;

- the enterprise has the following funds: business fund, reserve fund and collective consumption fund (serving for investments in social services and staff education).

Hence, the basis of the socio-economic relations in Yugoslavia is: society ownership, self-management and distribution according to work.

IV Investment Financing

1. Resources for Investment Financing

Investment financing comes from the investor's own resources, bank funds, resources of housing construction and other funds as well as budget resources. Each type of these resources is separately shown due to their characteristics:

a/ Investor's own resources

The investor's own resources for investment financing include:

- monetary resources for investment purposes, acquired by the economic organisation during the distribution of income. These funds can be used for financing new investments, expansions, reconstructions and adaptations.

These resources are now considerably higher than formerly as a result of changes in the money-making system. As was mentioned before, the social contributions, paid by the enterprise, are now considerably lower, and the major part of resources from accumulation are left to the enterprise;

- depreciation funds. After the reconstruction of fixed assets and the increase^{2/} of depreciation rates, as well as the introduction of functional depreciation^{2/} for a greater number of fixed assets, these funds became more significant, too;

- funds for financing of social services. As was already said, these funds are also acquired during the distribution of realized income.

All in all, the investor's own resources are becoming more and more an important factor in the financing of the enlarged productive forces.

b/ Bank-fund

Every business bank has a credit fund for granting credits, but other funds can be collected for that purpose. The investment financing from bank-funds can be made only in the form of credits, and not in the form of grants.

Bank credit fund

The credit fund is being formed from the following resources:

- those invested by working and other organizations in the form of their share as bank founders,

- those deposited by social-political communities in the form of their share as bank founders, and

- bank revenue.

The credit funds of the banks, particularly those of the federal banks, are important financial resources with regard to the fact that the resources of the abolished social investment funds, formerly the main sources of investment financing, were transferred to the credit funds. Payment of deposit to the

^{2/} In Yugoslavia there are fixed depreciation rates as well as minimum-maximum rates with a tendency of further expansion of functional depreciation.

bank credit fund is a new measure, established by the new Law on banks and credit operations which will go into greater effect next year.

Other bank funds

Other funds collected by the bank which grants credits on the basis of these funds, can be:

- time deposits i.e. funds paid into a bank and left there for a definite period of time;
- sight deposits, i.e. paid to a bank without a definite time-limit;
- funds acquired by means of credits from the National bank or other banks;
- funds obtained through foreign credit;
- resources acquired by issue of bonds and Treasury bills;
- monetary resources of other bank funds, excluding the reserve fund.

While granting credits from the above mentioned sources, the bank must take into account the liquidity principle, i.e. that the terms of its liabilities are in conformity with the terms of its claims (credits granted by the bank). It means that short-term funds cannot be invested in long- or medium-term operations.

According to established regulations, investment credits can be, therefore, granted only from those deposits where the notice term is more than a year and from resources acquired by bond issue only when the repayment term is longer than a year.

c/ Other resources

The group of other resources for investment financing includes housing credits as well as funds for financing investments for special purposes, for example, the fund for financing scientific activities.

Until recently, the group of funds also covered the social investment funds. They were the funds of the socio-political communities and represented the most important resources for investment financing. The General Invest-

ment Fund, as a federal fund, was abolished in 1963. The republican investment funds were abolished one after the other by the socialist republics. Conditions have been created for the abolition of local investment funds.

The resources of the abolished investment funds have been transferred to the credit funds of the banks, i.e.: the General Investment Fund to the credit funds of the Yugoslav Investment Bank, the Yugoslav Agricultural Bank and the Yugoslav Bank for Foreign Trade, while the republican investment funds have been transferred to the economic banks of the republics.

To that group of funds belongs also the Federal fund for granting credits for the economic development of underdeveloped republics and regions. The specific character and importance of that fund will be described in the next chapter.

The Budget can serve also as a source for investment financing.

Non-economic investments are financed out of budgets (federal, republican and local), i.e. both new investments and expansion, reconstruction, adaptations, replacement and investment maintenance.

Non-economic investments of enterprises are financed by their own funds and not from the budget.

d/ Additional resources

The Federal Government will for a longer period of time provide the banks with additional resources for the biggest investments such as: infrastructure projects, agricultural projects and underdeveloped regions, as the banks will not have sufficient resources for these purposes. These additional resources are also given through banks, which grant them to direct beneficiaries in the form of credits.

2. Financing of the Underdeveloped Regions

As in other countries, the regions in Yugoslavia are not at the same economic level; some are more and some are less developed. This is a result of different political, social and other considerations.

The rapid development of the under-developed regions in conformity with the Constitution, required the passage of a special law. The basic premises of this law are discussed below.

The economic development of under-developed regions foreseen under long-range social plans and according to the possibilities of the Yugoslav economy as a whole. The federation is participating in the financing of this development with resources from its special fund (Fund for granting credits for economic development of under-developed republics and regions). The fund resources are supplemented by resources for social reproduction, formed and used in these regions or invested there within the unified credit system.

The Federation Fund is a legal entity administered by the Management board. The Federation guarantees the obligations of the fund and the statute of the fund is confirmed by the Federal Assembly.

The resources of the fund are formed from:

- resources allocated by the federation as permanent revenue;
- interests on credits granted out of the fund;
- interests on free resources deposited with the banks;
- various grants and other allocations.

In addition to this, the Fund can secure resources through loans raised in the country or abroad.

The foreign exchange required to purchase foreign equipment for the investment being financed through the Fund is obtained and secured by the Fund in the same manner as by the banks.

The financing from the fund resources is performed only in form of credits.

The basic conception for the use of fund resources is as follows:

Distribution of resources to individual under-developed regions is made under plans for the use of resources. The fund grants credits to the business bank (or to any other organization) dealing with the granting of development credits in the respective regions. Credits are then granted to individual investors by the bank.

The plans relating to the use of resources are usually long-term plans, covering the same period of time as the long-term social plans of Yugoslavia.

The plan for the use of resources is precisely determined for each under-developed republic and region:

a/ the credit amount, determined in conformity with the achieved level of development of the region. While determining the degree of development, each of the following elements in that region must be taken into account:

- amount of per capita income,
- amount and structure of invested resources of social reproduction,
- degree and efficiency of the use of resources of social reproduction,
- other circumstances significant for the realization of goals, tasks and lines of procedure for the development, determined under social plans; and

b/ time-table.

The conditions for the use of the credit must be consistent with the general conditions determined by the Federal Assembly for that purpose. The rate of interest, repayment terms, maturity of first instalment and terms can be different for various purposes.

All these conditions should be more favourable than the general conditions under which credits are granted by business banks to working organizations in the entire territory of Yugoslavia or under which the business banks grant credits to each other.

Resources required for technical assistance or for other operations in connection with faster economic development are also determined.

For the purpose of achieving as efficient results as possible regarding the development of the under-developed regions, the plans concerning the use of the fund resources must be prepared with close attention paid to all factors which are important for the faster development of the respective territory (republics and/or regions, banks making investments under other schemes in the respective territory, other organizations dealing with transactions significant for the respective territory).

Finally, it should be mentioned that a special federal law has stipulated which territories are considered as economically under-developed ones.

3. Organization of the Banking System, Especially the Role of the Yugoslav Investment Bank

On the basis of the new law on banks and credit operations a reorganization of the Yugoslav banking system is now under way. The direct producers are having a great influence on the banks as the economic and other organizations are taking part in bank management. Heretofore the members of the management board of banks have been appointed by the social-political communities.

a/ Principles of operation and types of banks

The credit and other banking operations are carried out by the business banks and the Yugoslav National Bank.

General principles of operation. Under the above mentioned Law on banks and credit operations, the banks are operating according to the following principles:

- on behalf of the social community they administer the mutual funds of social reproduction, entrusted to them, but in conformity with the general social interest,
- in conformity with general social interest, the banks carry out credit and other banking operations in order to meet the requirements and interests of working and other organizations as well as those of social-political communities, following, thereby, the social plans of Yugoslavia as well as the social plans of other social-political communities;
- they perform their activities independently according to the credit policy and the principle of banking operation;
- they determine their business policy for a special period of time in advance and make it public in order to encourage those concerned to make long term deposits and establish more stable business relations with the bank;
- they must always follow the liquidity principle in their operations;
- the banks meet their obligations from resources under their control;
- the right and duty of any bank is to point out to its clients if, in its opinion, the investments they are making from their own funds, are not sufficient or in conformity with the Yugoslav social plan or the credit policy;

- the banks cooperate with each other primarily by pooling their resources for the purpose of investments as well as in establishing credit relations with other countries;

- the banks can associate with one another to promote their activities, and their mutual cooperation.

- the banks cooperate with organizations, or establish organizations, dealing with investment research, designing, arrangement of investment financing, investigation of foreign credit market, etc.

Types of banks. In accordance with the type of their operations, the banks can be classified as follows: investment banks, commercial banks and saving banks.

The investment banks are those banks dealing with the granting of investment credits i.e. credits to be invested in fixed assets and permanent working assets. The investment banks can also deal with granting short-term credits as well as with other banking operations.

The investment banks in which the federation and/or the republic may participate are established by federal or republic law, while the establishment of other investment banks is subject to approval of the assembly of the republic on the territory in which the bank is located.

Commercial banks grant short-term credits. They can grant investment credits for housing construction and communal activities, but in other activities they can provide credits for permanent working assets, if there are corresponding funds available.

Commercial banks can give investment credits for fixed assets, if they fulfill the special conditions described below. If not, they can arrange to grant credits for fixed assets through other banks fulfilling these conditions.

Savings banks deal with the collecting of savings deposits, granting of credits and with other banking operations for citizens.

Conditions for establishing banks. An investment bank can be established if a minimum sum amounting to 15 billion dinars has been provided for investment in its credit fund.

A minimum amount of 5 billion dinars is required for the establishment of a commercial bank granting investment credits.

According to existing regulations there should be at least 25 founders (promoters) for the establishment of a bank.

Bank management. The management organs consist of: the assembly, the executive board and the director of the bank. There is also a credit committee.

The bank assembly consists of representatives of enterprises and of other organizations, social-political communities as well as of representatives of the bank. The assembly passes principal decisions and instruction in connection with the operation of the bank. Every individual enterprise, organization or social-political community having its representative in the assembly can have no more than ten per cent of the total votes. The same applies to the bank collective.

The executive board is elected by the assembly from its members. The duty of the executive board is to make decisions concerning more detailed purposes and conditions for credit granting, to decide in respect of borrowings of the bank and to execute the decision made by the assembly. The executive committee makes decisions relating to credit applications only in cases where this is imposed by the statute.

The director of the bank manages independently the bank's operations. The credit committee, consisting of the bank employees appointed by the assembly, makes decisions in connection with credit applications. The director of the bank acts as chairman of the credit committee.

In addition to the management organs, there are organs of self-management in the banks, too. Those organs are: the Council of the working community and the Managing board, having special rights and duties outside the domain of credit granting.

Activities of the banks established by Federal Regulations.

Under present conditions, there are three federal (specialized) banks belonging to that group, i.e. the Yugoslav Investment Bank, the Yugoslav Agricultural Bank and the Yugoslav Bank for Foreign Trade.

As for all other banks, established before the new Law on banks and credit operations came into force, these banks will adjust the organization of their management and operations to the regulations of that Law.

The activity of the Yugoslav Agricultural Bank covers the field of agriculture, while the Yugoslav Foreign Trade Bank deals with the financing of

export-import operations. The activity of the Yugoslav Investment Bank relates to all other branches of the economy including industry. Since the subject of this paper is the appraisal of industrial projects, the next chapter will deal with the activity of the Yugoslav Investment Bank.

b/ Role of the Yugoslav Investment Bank

The Yugoslav Investment Bank holds the most important place in the field of investment financing.

Speaking in principle, the activity of the Yugoslav Investment Bank covers mainly the following operations:

- granting of investment credits for all economic branches excluding agriculture;
- servicing financing investments for all branches of the economy excluding agriculture;
- securing of foreign exchange required for the purchase of foreign equipment;
- control of the use of resources granted for investments (in the form of credits or as grants).

The Yugoslav Investment Bank can also carry out operations foreseen by federal regulations.

With regard to the narrowing of the federation role in the investment financing and to the strengthening of the role of decentralized funds, the activity of the Yugoslav Investment Bank, as far as the investment financing from the credit fund is concerned, is limited to the financing of power industry, basic industry, investments in all economic branches (excluding agriculture) directed to exports, as well as to important projects in the field of transport. The Bank activity in that domain includes the participation in construction covering the following fields:

- industry and mining: electric power projects, coal mines, oil production and refinery projects, iron and steel and non-ferrous metallurgy, basic chemical industry, industry of cellulose, pulp and paper;
- transport: railway lines, highways of general importance, sea and river ships and airplanes, as well as other important projects in this economic branch;

- all economic branches, excluding agriculture, investments aimed at export increase.

From the remaining local banking funds and foreign exchange, the bank handles investment financing in all economic fields excluding agriculture. The priority is, of course, given to investments which have a favourable impact on the balance of payments.

4. Pooling of Resources by Enterprises

As can be seen from above, the funds for investment financing are mainly in the hands of banks and enterprises. By depositing the funds of enterprises with banks, a flow of resources is brought about by means of credit, from those having surplus funds to those being short of them.

However, the funds for investment financing can be provided also by pooling of resources.

When the investors are without sufficient funds, they can realize their investment decisions by pooling of resources. In such a way funds required for more important undertakings can be created. The pooling can be carried out in two directions: horizontally and vertically.

Horizontal pooling is the pooling of partners with the same activity, for the purpose of realization of the already made investment decisions of each partner separately, but according to a certain order. First, the investment decision of one partner is realized with common funds, then that of the second one, the third one and so on.

Vertical pooling is the pooling of funds for realization of a common goal, i.e. of the jointly made investment decision. For example, pooling of several shoe factories in order to construct or expand a leather factory, or pooling of several ironworks in order to open or expand an iron ore mine. The common aim for both cases is the production of raw materials to meet their own needs.

The pooling of resources may be combined also with bank credit or with some other arrangement made with the bank. The banks will surely prefer to enter into business with a client, where the partner is a group of pooled enterprises. The possibility for pooling resources has not been much used by the enterprises so far.

Chapter II

PRELIMINARY STEPS IN THE DESIGN OF INDUSTRIAL PROJECTS

The operation in this domain relates to two fields of activity. One, work is the action undertaken by the enterprise desiring to carry out expansion, modernization or reconstruction, and the other one is that of banks in connection with the intention of credit granting. These preliminary steps are somewhat narrower in enterprises and considerably larger in banks.

I Design by Enterprises

1. Preliminary Examination

The undertaking of reconstruction, expansion and construction of new plants in an enterprise requires a well elaborated development plan of the enterprise, resulting from long and detailed studies. The studies relate to various circumstances and elements, but special attention must be paid to the examination of the raw material basis and of the marketing of products. The possibilities of achieving an optimum capacity of the enterprise must also be borne in mind.

Special attention must be paid to the following factors:

- examination of the existing range of possibilities with a view to its narrowing or widening depending on market demand, on one hand, and on the technical conditions of production, on the other hand. Calculations will show that in some cases it is more rational to narrow this range and to increase the production, whereas in other cases, due to market demand, the range should be probably larger;
- the possible abandonment of production in order to undertake greater mass production of other goods to reduce production costs and to eliminate unprofitable production. The enterprises are usually reluctant to take such radical measures and to abandon production already started. But, if the calculations show that a certain production is not profitable, it should be dropped without hesitation and a new efficient operation should be made;

- improvement of the technological process. There are many cases in which the existing technological process can be improved by applying new technological techniques. This would enable a reduction of production costs due to better use of raw materials and an increase of output or improvement of the quality of goods.

In the case of a new enterprise, these preliminary analyses must be prepared in still more detail (the extent of the analysis depends also, of course, upon the size and capacity).

It is only after a decision has been taken in principle concerning the future construction of the project as a result of the preliminary analyses, that the investment programme can be elaborated.

2. Elaboration of the Investment Programme

The investment programme can be prepared by the investor himself, i.e. by the investor's experts, or it can be, as in most cases, entrusted to a designing organization, specialized in the respective type of project.

a/ Elements of the investment programme

Under the Federal Law on investment construction, the investment programme usually includes:

- description of the investment project, including data on its purpose, capacity, programme of production and/or exploitation, the integration of the investment project in the social economic plan and the long-term programme of production of the respective economic branch;
- analysis of conditions for construction and exploitation of the investment project;
- survey of the basic technology involved;
- features and value of the civil engineering project, equipment, plants and assembly;
- value of the previous investments and amount of the required working assets;
- source of finance;
- analysis of basic economic indicators-effects;

- duration of construction period and beginning of exploitation.

In other words, the investment programme should include the analysis of the raw material basis, market, estimates of economic effects, etc., in order to get a clear picture of the project as a whole and to appraise whether or not its construction is justified.

b/ Procedure of approval of the investment programme by the management organs of the enterprise

The practice is to submit the investment programme to a commission, composed of the investor or his experts as well as experts from outside the enterprise. The commission examines the feasibility of the project and submits its report to the management organ of the enterprise - workers' council. On the basis of that report, the workers' council makes its decision to approve or disapprove the investment programme. As was already explained, the investment programme, approved by the workers' council, is not subject to any other approval or control by government organs.

3. Examination of Financing Possibilities

Simultaneously with the acceptance of the investment programme by the workers' council, the possibility of securing the required financial resources is examined. If the enterprise has no funds available or it cannot collect them during the construction period, the workers' council makes a decision on application for credit. On the basis of that decision the enterprise applies to a bank for credit.

II Design by Banks

The responsibility of banks in the preparation of documents for the appraisal of the projects is smaller or larger depending on the volume and size of operations carried out by individual banks. These preparations are often very expensive and are worth doing only if the bank makes a big business. We shall briefly show the orientation of the Yugoslav Investment Bank in preparing general studies relating to individual industrial branches, making special analyses for decision making in regard to the granting of credits as well as in preparing special studies relating to parameters for individual economic branches.

The entire work precedes the decision on financing of concrete projects.

The final phase of the preparatory work is the bank's decision on credit granting.

1. Preparation of General Studies on Individual Industrial Branches

These studies are prepared in order to examine the possibilities for the development of individual economic branches with regard to the existing raw material basis and other conditions required for the development of that industry. The studies include only general examinations of the possibilities for the development of such industry as well as of its advantages in the light of domestic and foreign conditions. As a rule, the preparation of the studies begins before the idea of financing such industry has been conceived.

The Yugoslav Investment Bank has a special institute dealing with investment research. At the Bank's request the Institute prepares studies on special problems from that field.

The Institute is an autonomous institution with its own management organs, in which the Bank has its representatives. Although the Institute is primarily working to meet the needs of the Bank, it also uses its facilities to prepare similar studies for other clients.

In addition to the services of the Institute, the Bank uses the services of other specialized Yugoslav or foreign institutes for preparation of some studies.

These studies usually include:

- a detailed survey of the raw material basis of the country (reserves according to the degree of investigation, quality of the raw material, etc.);
- evaluation of the local market demand as well as export possibilities;
- local production and development of that industry abroad;
- survey of prices on local and world market and their projected variations;
- consideration of optimum and rational capacities with special regard to technological progress;
- rough statement of investment amounts for the examined capacities.

The Bank uses studies of this type for orientation of its activity; they can also be used to have a better insight for the preparation of draft social plans.

The Yugoslav Investment Bank has a great number of such studies at its disposal, some of them are parallel studies as, for example, studies on aluminium, lead, zinc, non-metals, power, iron and steel, some products of the chemical industry, etc. These studies have been prepared by two or more Yugoslav or foreign institutes upon the bank's order.

Similar studies are prepared also by other institutions to meet their needs, such as, for example, the Federal and Republican Institutes for Economic Planning.

2. Preparation of Studies for Granting Credits

These studies serve to show the possibility of development of individual branches and enable management organs of the Bank to take decisions on financing. But, at this stage, neither the studies nor the bank's decision means the granting of credit for individual projects; it means only that a decision has been taken in principle.

The studies of this type contain all elements mentioned in the preceding chapter, but in a considerably more concrete form. In addition, they include elements, such as: consideration of capacities to be constructed, determination in respect of size (minimum), estimate of funds required, method of financing, with local funds or together with foreign credits, as well as the appraisal of possibilities for obtaining foreign credits.

The decision made on the basis of such an analysis is used as a base to grant credits for concrete projects.

3. Studies on Parameters

The definition of parameter, norm or standard is interpreted here as a model, criterion, expressed by numbers; thereby, taking into consideration the fact that there are various types of parameters, for example, technical, economic, etc.

The preparation of parameter is a complex job, requiring the thorough knowledge of enterprises, for which the parameters are made. The knowledge must

be both technological and economic, particularly, the latest scientific achievements, already tested, must be well-known.

Taking into consideration the importance of parameters of investment, the Yugoslav Investment Bank undertook the preparation of parameters for some economic sectors and groups of enterprises respectively. It has been done in cooperation with other economic organs.

With regard to the problem of complexity, the Bank has formed a central commission consisting of external collaborators, specialists and bank employees to prepare the methodology for the parameters, to instruct and coordinate work on preparation and after recension to approve the prepared material. The preparation of the parameter has been entrusted to groups of specialists, i.e. to special groups for each branch and group of enterprises.

a/ Activities provided with parameters

Parameters for each activity are given in a special publication. They have been prepared for the following activities:

1. Chemistry - for the following groups of products: calcined soda, sulphuric acid, nitrogen fertilizers, chlorine and caustic soda, viscose products, PVC, Polyvinyl acetates, Acrylonitriles, Polyacrylonitrile fibres (P.A.N.), Caprolactam, Polyamide filaments (fibres), Olefins and polyester fibres;
2. Iron and Steel;
3. Foundries;
4. Manufacture of machine tools;
5. Manufacture of power-generating equipment;
6. Production of textile machines;
7. Production of agricultural machines;
8. Tools manufacture;
9. Manufacture of screw commodities;
10. Dairies;
11. Meat-processing;
12. Processing of fruit and vegetables.

b/ Coverage of parameters for each activity

Each activity consists of several parts. In addition to the review of various modern technological processes, each study also contains the following chapters:

1. Survey of present situation in the existing local enterprises, both the monetary situation and the situation after the completion of investments now under way. If in an activity under consideration, there is a great number of enterprises, the typical ones are selected for the purpose of analysis. The following data have been given for each enterprise considered, i.e.: assortment (together with technological, constructional, technical, economic and exploitation characteristics) equipment and appraisal of the technological process, conformity of equipment with the technological process, skill structure, production, organizational level, etc.

2. Analysis of the present assortment as well as the analysis of present and future needs. Here is given a review of the total production with assortment for the entire group (and not only for the typical ones), as well as the analysis showing how the needs were met by that production and assortment. Future needs have been specially studied. The most up to date methods have been used to calculate future needs (for example, the methods of correlation and of balance have been applied to the study on the parameters for iron and steel).

3. The most important part of the study is that of relating to the parameters for the corresponding foreign enterprises. The parameters are shown on the basis of data collected from foreign producers, publications as well as from various other sources. They refer to contemporary technological processes and extend over various capacities. In cases where a unique parameter could not be provided, the data from these foreign producers are adopted.

Parameters are given both for enterprises as a whole and for some of its major plants. If there are several technological processes, parameters are furnished for each of them.

Technical parameters are given in detail, for example, consumption of raw materials, heat, power, waste power, duration of technological process, efficiency of working means, etc.

The productivity of labour is stated for various countries and is given in relation to capacity.

The economic indicators are given in absolute figures - per unit of product, per employee -, as structures (for example, value of production, investment), as well as relations (to total invested funds, basic funds, etc.).

4. Data concerning world production of the respective commodities and production according to individual countries are also given.

c/ Use of parameters

Parameters can be applied, first of all, for planning purposes. By using parameters, planning organs can make more realistic plans, since information is available, not only on the size and structure of investment, but also on all matters required for material balances, income planning, consideration of optimum capacities, etc.

Parameters are of valuable help for banks in granting credit. On the basis of parameters, the banks can get a real picture for the appraisal of the submitted investment studies. Parameters are also useful to other organs, institutions, chambers and institutes during the preparation of various studies. Finally, they are of considerable importance to enterprises when they want to see their position in the light of contemporary technical advances to take a position concerning their further development or reconstruction or to undertake preparatory works for making their investment programme.

It should be emphasized that difficulties occurring during the preparation of parameters, are more stressed by the fact that parameters can easily become obsolete. They should be kept up to date and that requires additional expenses. The coefficients of correction are given for a certain number of parameters, but this could not be consistently applied all over.

Chapter III

APPRAISAL TECHNIQUES FOR INDUSTRIAL PROJECTS

A distinction should be made between the criterion for appraisal of projects and that for the selection of most favourable projects. The former is a criterion to determine whether it is economically justified to undertake construction of a project. The latter criterion serves as means for selecting the most favourable projects among several projects.

Enterprises wanting to expand, reconstruct or modernize, apply primarily the criterion for appraisal. New enterprises and especially banks, apply both criteria.

I Selection through Competitive Bidding for Credit

Competitive bidding to grant credit can be defined in two ways:

- it means the publication of a bank decision to grant special purpose credits according to the requests received;
- it means also the practice under which each applicant for credit submits a written request to the bank which has invited the competitive bidding. The written application includes the applicant's offer and the most important elements concerning the investment for which credit is required.

Competitive bidding is, therefore, a means to examine immediately all potential applications and to meet the demand for special products by selecting the best projects in a given period of time.

Competitive bidding must be made public. According to present practices, the competitive bidding announcement usually contains:

- from which funds the credits will be granted;
- for which purpose;
- who can take part as bidder;

- conditions to be fulfilled by the applicant for credit;
- criteria for selection of the best projects;
- size of bank participation in financing expressed in per cent terms of the value of the project cost estimate;
- date set for submitting the applications for credit;
- documentation to be attached to the application for credit; (usually, it is the investment programme and exceptionally, for smaller projects, it consists of abridged documentation).

In regard to the invitation of competitive bidding, the following should also be mentioned:

- the offers submitted by credit applicants are kept secret by the bank;
- the bank must prescribe the same bidding conditions for the same categories of credit applicants;
- the time for submitting applications for credit has not been prescribed, but, according to the present practice, the date must be at least 15 days counting from the date of announcement of the competitive bidding.

The applications for credit must be submitted to the Yugoslav Investment Bank on a special bank form, namely a set of forms. These forms furnish all data essential for a clear picture, both of the investment for which credit is required and of the credit standing of the applicant. The filled-in forms are filled out from the investment programme, with uniform data, enabling the bank to compare easily one credit applicant with another.

A concrete example made on the set of forms of the Yugoslav Investment Bank is submitted separately under Document CID/ICE/D.12. Annex.

II Criteria for Project Appraisal

The criteria for appraisal are in fact the conditions which must be fulfilled by each project in order to justify its construction. These criteria are used by investors and, particularly, by banks.

When making a decision to grant credit, the bank prescribes also the conditions which must be fulfilled by every investor.

The credit applicant must fulfill the following conditions:

- to submit his application to the bank, together with the investment programme or other documentation required by the bank;

- to be solvent. The bank grants credits only to solvent applicants.

If the bank wants to check either the applicant's solvency or the submitted documentation, the bank is entitled to examine the records (books) and operation of the credit applicant;

- that the investment, for which credit is granted, is a profitable one;

- that the credit applicant has fulfilled the other conditions prescribed by competitive bidding.

Disregarding whether the appraisal is made by the investor or the bank, the following criteria for appraisal are usually applied, i.e.: profitability, capital coefficient, influence on the country's balance of payments, productivity of labour, etc.

1. Profitability

In principle a project can be said to be profitable if the revenue derived can, in addition to covering other obligations, repay the credit for fixed and working assets as well as pay the interest on this credit.

The profitability can be determined depending on the standpoint from which the success of the enterprise is being considered. Here will be presented the profitability from the enterprise's point of view, accepted by the banks as a criterion because the enterprise is subject to their investigation.

In making their investigation, banks look at these projects in the light of social plans, as well as from broad considerations.

Profitability can be seen as the relation between the monetary success of the enterprise, and the value of total funds invested in an enterprise (fixed and working assets).

The accepted method for the calculation of profitability is as follows:

- by finding the value of production before and after the investment.
- by determining the income of the enterprise or the income of the enterprise less wages.

Accordingly, the formulae for the calculation of profitability would be:

$$\text{rate of profitability} = \frac{\text{income} \times 100}{\text{fixed and working assets}}$$

and/or

$$\text{rate of profitability} = \frac{(\text{income} - \text{personal income}) \times 100}{\text{fixed and working assets}}$$

A clear picture concerning the effect of the new investment will be obtained only after comparing the profitability of the new investments with the former profitability of the enterprise, with the profitability of related enterprises or with parameters of enterprises determined in advance.

2. Influence on the Country's Balance of Payment

Banks often grant investment credits or sell foreign exchange on condition that a certain foreign exchange effect is to be achieved by the investment. The obligation in this respect is agreed between the bank and the investor.

- a/ Foreign exchange obtained for import equipment should be repaid with foreign exchange earned by exports

In line with the general orientation to increase exports, banks give special priority to investments that are destined to increase exports.

In principle, there are two ways in which the banks provide the investors with foreign exchange: either by giving foreign exchange resources at their disposal (own resources or resources acquired from the National Bank or by means of foreign financial loans) or by guaranteeing foreign commercial credits granted to the investors.

Under present regulations the foreign exchange given by the bank can be paid either immediately i.e. upon receipt of equipment (prompt sale of foreign exchange) or as the repayments of foreign credit are due. Whether the first or the second method is applied depends on the importance of the investment from the balance of payments' standpoint.

The contract relating to the provision of foreign exchange contains a clause binding the investor to export his products over a certain period of time to secure the repayment of foreign exchange. There are also clauses in the contract concerning the provision of foreign exchange resources in case the investor, for any reason, does not realize the planned exports:

- the bank can ask to be reimbursed from the investor's foreign exchange without the investor's order and approval;

- if the bank cannot be reimbursed from the investor's own funds, penalties in dinars must be paid in a certain percentage of the value of the agreed exports.

It can be seen from above that the investor is exposed to great risks regarding this type of business. Since the agreement between the bank and the investor is stipulated in terms of the total export value, the investor must export much more to protect himself in case of a price decline, which can reflect negatively on his operation in two ways. First, in case of a disproportion between local and world prices, the exports become less profitable. Secondly, he can find himself in a helpless position because the entire output has been contracted in advance for exports.

b/ Calculation of the foreign exchange effect

The foreign exchange effect of a project represents the net amount of improvement or worsening of the foreign exchange balance of payments resulting from the production of that project.

The methodology for determining the net foreign exchange effect is prescribed by federal regulations in conformity with the general policy and measures being undertaken for the improvement of the country's balance of payments. Under present measures, the foreign exchange effect is determined as follows:

The assets of the foreign exchange balance of a project represent the inflow of foreign exchange resources earned by selling abroad the output realized by that investment. In other words, the assets of the foreign exchange balance are created by increase of exports.

Under earlier regulations, it was considered that the assets of the foreign exchange balance are also represented by the decrease of foreign exchange outflow, as a result of import substitution. The import decrease is not considered as an asset under the new regulations, however.

The liabilities of the foreign exchange balance of an investment are:

- value of foreign purchases of raw materials and other material required for the expected production, i.e. both the part of production increasing exports (namely commodities creating assets in the foreign exchange balance) and the part earmarked for the local market;
- 50 per cent of the value of local raw material and other material used for that production (total production);
- part of the workers' wages which will be used for buying imported consumers goods. Under present regulations, that part amounts to 20 per cent of workers' wages.
- depreciation of imported equipment;
- payment for foreign license, required for the planned production, if the licence is not repayed by exports, and
- value of spare parts purchased abroad for the imported equipment.

The calculation of the foreign exchange effect is made in dinars, but on the basis of world (not local) prices exclusively, calculated at the valid exchange rate.

The same method is applied for calculation of the foreign exchange effect when the result of investment is not the production of goods, but services, in which case other expenses in foreign currency are considered as liabilities. Exception to this method of calculation is given to catering enterprises rendering services to foreign tourists.

3. Capital Coefficient

When the efficiency of investments is considered, the capital coefficient may be taken as an indicator. The coefficient is a ratio of total fixed and working assets to the income realized by the enterprise. A net capital coefficient is derived when income is used as compared to gross capital coefficient when the value of production is used.

Therefore:

net capital coefficient = $\frac{\text{fixed and working assets}}{\text{income of the enterprise}}$

gross capital coefficient = $\frac{\text{fixed and working assets}}{\text{production value}}$

The capital coefficient shows how many dinars should be invested to get 1 dinar of income. The smaller the capital coefficient the better the effect.

There is reciprocity between the profitability and the capital coefficient, but they have the same meaning since the same matter is expressed in two different ways.

4. Productivity

The productivity of labour can be used as a criterion for project appraisal. In order to eliminate the negative effects due to price fluctuations, the productivity of labour is calculated both on the basis of physical and of economic categories.

The following formulae are used:

productivity₁ = $\frac{\text{physical volume of production}}{\text{number of workers}}$

or

productivity₂ = $\frac{\text{value of production}}{\text{number of workers}}$

or

productivity₃ = $\frac{\text{income}}{\text{number of workers}}$

The number of workers is considered either as the total number of people employed (workers and administrative personnel) or only as the number of workers directly participating in production. Economic categories are taken either as the value of production or as the income of the enterprise.

III Selection of Projects

1. Examination of Project Feasibility

Examination of the project cost estimate, estimated prices of raw materials and final products, raw material basis, marketing, norms of raw material and labour consumption, the technological process, etc., are all factors entering into the determination of project feasibility.

a/ Methods of examination

The analysis is made through the comparative method. The programme data are compared with statistical data, parameters, data from other similar enterprises in the country and abroad, average effects realized by branches to which the project belongs, etc. These complex elements are divided into their constituent parts, and then the comparison is made. If it is established that the programme data are underestimated or overestimated, correction of the basic elements is made. After that correction, the effects of the project itself are examined.

Under present practices, the prices contained in the programme are prices taken at the time of programme preparation or at the time when the programme is submitted to the bank. As an exception in the case of hydropower plants, 15 per cent increase of the estimated value is tolerated due to the long period of construction involved.

b/ Banking procedure

The bank examines all requests together with the enclosed investment programmes, and approves or disapproves all of them at the same time, under the system of competitive bidding. The bank approves or disapproves these requests gradually, if applications for credits are made without competitive bidding.

Bank examination prior to the granting of credit consists of two stages:

- 1) determination of credit-worthiness (solvency) of the applicant and
- 2) detailed examination of the investment programme.

In the first phase after a bank has received an application for credit, it determines, on the basis of its records and information acquired in normal business operations, the credit-worthiness (solvency) of the applicant for credit. The bank will refuse the granting of credit if the applicant is insolvent.

The investment programme is examined in a preliminary way to determine whether it contains all the elements required. If the programme is not com-

plete or it is deficient, the credit cannot be granted. When the applications and programmes submitted for credits to be granted without competitive bidding are not correct, the bank invites the investors to make the necessary corrections. The same can apply to applications submitted on the basis of competitive bidding.

The second phase consists of detailed examination of the contents of the investment programme. The examination is performed from the economic, technological and technical standpoint. The examination is made by the bank's experts, who are made up of many economists, technologists and engineers specialized in individual economic branches. The bank uses also the services of experts from outside the bank, particularly in more complex cases. Each expert must submit a written report after completion of the examination of the investment programme. The bank has issued special instructions including all phases and elements requiring to be answered by the experts.

The written reports of all experts who have examined the investment programme are submitted to the investor for eventual reconciliation.

The reports prepared by experts as well as possible objections, made by the investor, are presented to a special bank commission consisting of bank experts and other experts from outside the bank belonging to the same economic branch as the applicants of credit. The bank's professional commission examines the applications at a meeting, attended by the applicant as well as the experts who took part in the examination of the investment programme. During that meeting the various positions are debated until a final decision is taken on the contents, quality and all other elements of the investment programme.

The written report (minutes) of the commission is used for further work in the bank as well as for making bank decisions on credit applications.

2. Criteria for Selection of the Most Favourable Projects

Since the need for funds is always greater than the supply available, banks must resort to economic instruments for selection among the applicants of credit. Credits are granted only to those applicants whose investments are considered the most favourable ones from the standpoint of certain definite criteria.

As was mentioned before, the bank's use of competitive biddings represents an important set of criteria for the selection of the most favourable projects. These criteria are not always the same for all competitive biddings; they depend on concrete investment policies as well as on what the bank actually wants to achieve.

Profitability is another condition required for obtaining credit. Credit will be granted to those applicants whose investments are not only profitable, but also show the highest profitability. Credit applicants are listed according to the profitability rate of their investments, from the highest rate to the lowest, and credits are granted within the available resources to the most favourable applicants beginning from the top of the list.

The influence on the balance of payments represents an additional criterion for investment selection. Credits are granted to those applicants having the highest foreign exchange effect not only in absolute amounts but also in relation to total investment. As in the case of the preceding criteria, the applicants of credit in this instance are also classified in accordance to an order of priority. Credits are granted within the available resources to the most favourable applicants, beginning from the top.

The amount of construction cost per unit of capacity is still another criterion. Credits are granted to those applicants whose investments show the lowest costs per unit of capacity. For example, if there are three applicants of credit for the construction of a factory for nitrogenous fertilizers, and their construction costs per ton amount to: 110,000, 100,000 and 105,000 dinars, respectively, it follows that the credit will be granted to the applicant with the lowest construction costs, i.e. 100,000 dinars. This criterion can further be broken down to determine the lowest production cost per unit of production.

In parallel to the above criteria, credit may be granted to those applicants offering the highest share of their own resources to total investment or requiring the lowest participation of the bank. The share is expressed in percentages and calculated on the basis of the project value estimate. Credit may also be granted to applicants offering the shortest term of repayment.

Applicants offering the shortest period for construction of the project may also be favoured.

Other criteria can be applied according to the specific purpose for which credits are granted. The most frequent criterion in this respect is the raw material basis; such as agriculture, mineral resources, etc. When mineral resources are in question, the exploitation period of the raw material basis depends on the amount of the determined reserves. Priority is given to those credit applicants having possibility for a longer period of exploitation of raw material at full use of the capacity.

Chapter IV

FOLLOW-UP OF INDUSTRIAL PROJECTS

I Methods of Follow-up

The construction and completion of the investment project into a running operation at the determined date is primarily the investor's responsibility. The investor's main concern is that the project provides all those results which motivated the undertaking of investment.

The bank participating in the financing of the project is also interested in the completion of the project according to schedule. The bank is interested in this both as a participant in financing and as a promoter of a business of general social interest. The follow-up of the project on the part of the bank is in two directions, during and after construction.

1. Follow-up during Construction

After the granting of credit and during the construction of the project, the bank's operations extend over several areas.

The bank checks the purposive use of the credit during the construction period, i.e. whether or not the project is constructed according to the documentation and timing. This control and checking are performed by means of payment documents and on the spot. If there are any irregularities, the bank proposes measures for elimination of the obstacles.

Equipment and material for investment construction may be imported only on the basis of offers previously submitted or on the basis of competitive bidding. Exceptionally, this is not necessary in the following cases:

- if the total value of equipment and investment material for a definite investment project is not more than 30 million dinars at the official rate, annually, or
- if it is not otherwise determined by a special inter-government agreement or any other agreement made abroad, approved by the competent government organ.

The investor must include in the contract of purchase of equipment on commercial credit, the clause that the contract will come into force when the bank approves it. The investor is informed by the bank which conditions must be achieved and that information is given when the permit for purchase of import equipment is issued.

In order to stimulate cheaper construction, the bank can agree with the beneficiary of the credit that it will permit him to use the savings achieved in the investment costs from the unused part of credit for other purposes not covered by the programme. In this connection it should be emphasized:

- resources can be used only after savings have been made and not in advance;
- use of savings is conditioned by the achievement of capacity and work quality foreseen by contract.

To stimulate quicker construction the bank can agree with the beneficiary of credit to pay premiums from credit resources. These premiums have been agreed to between the investor and contractor and/or manufacturer of equipment in case the investment project is completed and put into operation before the date stipulated in the contract. For this purpose, the bank can make a contract with the beneficiary of credit for a special credit. Arrangements can be made for the bank to make payments in the form of advances for better stimulation of workers, if such an agreement has been reached in advance between the beneficiary of credit and the contractor. In justified cases when the shortening of date depends on the purchase of equipment, the bank can also grant credit to the contractor for this purchase.

2. Follow-up after Construction

After completion of the project the bank checks on the effects which serve as the basis for project appraisal, as well as those effects the realization of which has been included in the credit contract. This must be done for two reasons. First, lower realized effects in relation to the planned ones enable the bank to see the mistakes made during the project appraisal and to avoid them in the future. Secondly, the failure of the project has a negative influence on meeting the country's needs and may adversely affect the balance of payments and the obligations undertaken by the bank in connection with the repayment of foreign credits, either those credits concluded by the bank or guaranteed by it.

The bank provides for the payment of penalties for non-fulfilment of obligations. It should be emphasized that penalties are not considered as a means to increase the bank's revenue, but as measures taken to enable the fulfilment of the agreed obligations which are important for the community as a whole.

II Deviation from the Programme

Deviation of the realized effects from the planned ones may also occur. After analyzing the types and reasons for a long period of time, it can be said that there is a considerable improvement in that regard, achieved by the abandonment of administrative management of the economy and with the strengthening of workers self-management as well as through the role of banks.

The most frequent types of deviation from the investment programme are: surpassing of the construction terms, exceeding of construction costs as well as failure in realization of the profitability, foreign exchange effect, productivity, etc.

The deviation from the construction dates and from the dates for completion of the project occurred usually due to the following reasons:

- due to poor technical solutions of the project the documentation had to be changed and supplemented during the construction,
- insufficient examination of geologic conditions,
- the designs of the projects are not made on time,
- the contractors and manufacturers of equipment do not deliver on time,
- the investors have not provided resources for their participation in due time, etc.

Surpassing of construction costs is caused by the following circumstances:

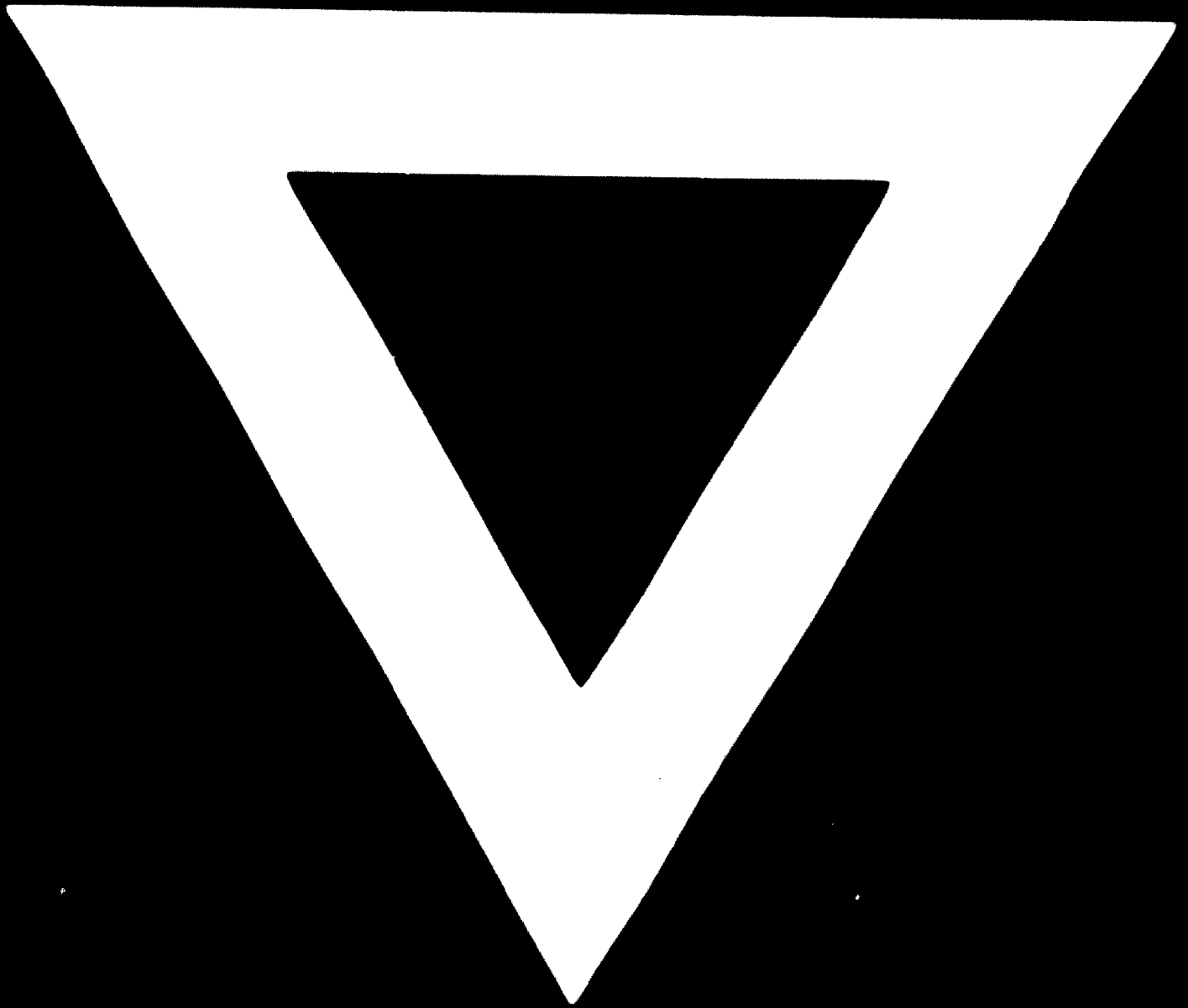
- poorly designed projects with regard to the value of the project cost estimate as well as to the technological solutions,
- the agreement concluded with contractors, particularly with construction enterprises, were not good,
- unforeseen works were bigger than it was estimated,

- rise of prices both for building materials and for equipment.

Deviations from the profitability and other effects are a result of wrong calculations, primarily due to price changes.

With the strengthening of workers self-management and establishment of incentives for enterprises, the reasons for deviation from the programme have a less subjective character. The deviations are predominantly caused by the rise of prices which may be considerably bigger than was foreseen under the programme.

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