

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date 23 Nov

TO-	Name	Room No.
1	<i>Files</i>	
2		
3		
4		

FOR-

<input type="checkbox"/>	Action	<input type="checkbox"/>	Initialing
<input type="checkbox"/>	Approval	<input type="checkbox"/>	Preparing Reply
<input type="checkbox"/>	Comment	<input type="checkbox"/>	Previous Papers
<input type="checkbox"/>	Filing	<input type="checkbox"/>	Noting and Returning
<input type="checkbox"/>	Full Report	<input type="checkbox"/>	Recommendation
<input type="checkbox"/>	Information	<input type="checkbox"/>	Signature

REMARKS

*This was prepared at Mr
Honor's request but subsequently
was found to be unnecessary*

*It might be useful on
some later occasion.*

FROM-

[Signature]

1
revised copy
Jugo Timber
cc: Jim Tind

D R A F T

MEMORANDUM

The Timber Loans to Yugoslavia and Finland

In October 1949 the Bank made two loans for the purpose of increasing the production of timber in Eastern Europe. These loans were designed to fit into the plans for increasing timber production which were drawn up by the Timber Committee of the Economic Commission for Europe. One loan, in the amount of \$2.3 million, was made to Finland and the other, for \$2.7 million, was granted to Yugoslavia. Although different in detail, in principle they were identical.

These two loans were relatively short-term, the final repayment taking place only two years after signing. The Bank's loan agreements were made with Yugoslavia and Finland respectively, but each of them in turn made *Subsidiary* agreements with various countries importing the timber produced under these agreements. The suppliers undertook to ship specified minimum amounts of timber over specified periods to certain importing countries and the importing countries undertook to pay for their imports in dollars and to make such payments direct to the Bank to be used to amortise the loans. The proceeds of the loan were used for the purchase in the United States of a variety of items required in the production of timber and forest products. As part of the project in each case the borrower undertook to supply timber to a broad but specific list of countries (among which were included the countries whose payments would amortise the loan) and to endeavor to purchase additional equipment in Europe for the further expansion of the industry.

Both loans have now been repaid in full. In fact, in both cases there were over-payments necessitating refunds by the Bank. These overpayments were caused by a conservative estimate by the Bank as to the speed with which the loans would be drawn down. In order to err on the right side, the Bank

MICROFILMED

MICROFILMED

assumed that the loans would be drawn down quickly and hence interest on the full amount of each loan would accrue from an early date. The schedules of payment to the Bank by the importing countries were based upon these conservative estimates. In the event, the loans were not drawn down as quickly as had been allowed for and hence the payments by the importing countries were larger than necessary to service the loan.

This possibility had been foreseen and in the Yugoslav loan the method by which such overpayments were to be refunded was set out, but for technical reasons this could not be done in the Finnish loan.

As reported in the Semi-Monthly Report to the Executive Directors of October 17, 1951 (R-527), the excess repayments under the Yugoslav loan were refundable on the basis set out in the loan agreement. This has now been done. As mentioned in the same report, it is intended to refund the excess payments made under the Finnish loan on the same basis as set out in the Yugoslav loan agreement. This awaits only the agreement of the importing countries and is expected to be accomplished shortly.

It should be mentioned that in both cases the actual shipments of timber from Yugoslavia and Finland to the importing countries were ^{many} ~~several~~ times the amounts called for under the loan agreements. The report that France did not receive her allotment of timber under the agreement ^{with Yugoslavia} should not be construed as implying that France did not receive the quantity of timber called for under her ~~agreement with Yugoslavia~~, but only that the appropriate portion of timber received was not designated as coming under the agreement. Likewise, the cancellation of part of the Finnish loan does not imply that the full amount of timber was not delivered, nor that the full value of equipment was not received, but only that some of the equipment imported was paid for under some other financial arrangement.

The purpose of both loans was to make possible a long-term increase in the production of timber. These two loans were only a small part of the

measures taken to accomplish this purpose. It is too soon to appraise the long range results of the loans, but the available indications are that within their limited scope, they accomplished their purpose.

As financing operations, of course, they were completely successful.

MLLejeune/bvm
November 9, 1951