

*Le Directeur*  
*de la*  
*Division du Commerce*  
*du Département fédéral*  
*de l'Économie publique*

Berne, 12th January, 1967.

Dear Mr Woods,

Thank you for your letter of December 30th concerning the discussions we had with Mr Broches about the appropriate manner of a possible contribution by Switzerland to IDA. May I say, at the outset, that we considered these talks as very helpful and are grateful to your representative for the information he gave us about IDA operation and financing.

We fully appreciate your wish to receive funds on terms most closely approximate to those on which your members make their resources available. For this reason we would be prepared to offer our contribution on the same repayment terms as are applicable to IDA credits, i.e. 50 years with a grace period of ten years, and amortization of 1 per cent per year during the second ten years, and 3 per cent during the remaining 30 years. These terms, as you will appreciate, constitute a very substantial departure from any lending operation the Swiss Government has ever been engaged in and should be taken as an indication of the interest of my Government in the activities of the World Bank and the manner in which the development objective is being pursued. In order to facilitate acceptance of this proposal by our Parliament, which unfortunately will have to be submitted at a time when the budgetary deficit will prompt substantial cuts of expenditures, we are anxious to present it in a form least likely to give rise to questions about the details of implementation. For this reason, as explained to Mr Broches, we would wish to avoid reference to adjustments to the

Mr George D. Woods  
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repayments received by the Association from its borrowers. I am therefore glad to note that you are prepared to consider a straight loan, the funds being made available to the Association in three equal annual instalments, beginning in the calendar-year 1968. The amount of the loan would be the Swiss frank equivalent of 12 million Dollars (i.e. 52 million Swiss francs).

As to further procedure, may we suggest that your services prepare the main points of a draft which could be used as a basis for our subsequent discussions which could take place in Berne with your representatives at as early a date as would be convenient to them. As far as we are concerned, the agreement should cover the following additional points:

In the first place provision should be made in case Switzerland acceded at a future date to IDA to apply the then outstanding amount of the loan in full against her membership contribution. Furthermore, as we explained to Mr Broches, we would appreciate it if some way could be found to provide for the possibility of consultation with Switzerland with respect to the use of the loan. We suppose that such consultations are a matter of routine in the case of Member States of IDA, and although we would not presume to influence the decision of the World Bank as regards appropriate projects, our Parliament might feel that Switzerland should have a possibility of making her views known on a particular occasion.

In the light of the practice of the World Bank, confirmed by your letter of 30th December, to include Switzerland among the countries from which the Association's borrowers may procure goods and services to be financed under IDA credits, we are not asking the Swiss loan to be tied. We might perhaps in the preamble give due expression to the good working relations between your institution and Switzerland in this respect.

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May I now turn to your letter of December 2nd, relating to questions of re-financing of debt outstanding in Swiss francs. As you will appreciate, these questions do not fall within the competence of the Division of Commerce, but knowing the importance which you attach to them, I was trying to put forward a proposal to Mr Broches which could have been combined with the intended IDA loan. Our thoughts were as follows: since we have to go to Parliament in order to obtain a credit of 52 million Franks for a loan to the Association to be made available in three annual instalments in the years 1968, 1969 and 1970 (the exact dates to be fixed in our further discussions), we could try to go one step further and ask for authority to prolong the January 1st, 1968, maturity of the outstanding credit of 50 million Franks in such a way as only an amount corresponding to the first instalment of the IDA loan (i.e. approximately one third of the outstanding balance) would be repaid by the World Bank to Switzerland. The second repayment would take place one year later when the second instalment on the loan is made available by Switzerland and the third and final repayment when the balance of the loan is granted by Switzerland, i.e. in 1970. In this way the total indebtedness of the World Bank <sup>to Switzerland</sup> vis-à-vis Switzerland would be kept at a constant level. The interest for the extended maturities would, of course, have to be adjusted to present levels and the whole operation would have to be submitted for parliamentary approval at the same time as the IDA loan. We would appreciate receiving your comments on this proposal.

The more far-reaching suggestions put forward in your letter of December 2nd would have to be considered by the Finance Department, but as you know, when the extension of the January 1st, 1967, maturity of 33.3 Million Franks was under discussion, the Swiss authorities were forced to admit that the situation for such a re-financing was particularly unfavourable. In the light of the budget deficit, measures of economy, in particular the reduction of Government subsidies and an emergency programme for tax increases, had to be proposed to Parliament (I believe that Mr Bonvin, now President of the Confederation, wrote to you about this on the 13th of August, 1966). I am afraid that the situation has not improved in the meantime.

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Furthermore, our Parliament will be seized during this year with a number of requests by the Government for financial aid to developing countries such as, in addition to the proposed IDA loan, a participation in the Asian Development Bank and a new allotment for our programme of technical assistance.

Finally, you also raised the question of the floating of further World Bank issues on the Swiss capital market. As you know, the needs of your institution have always met with full understanding by the authorities. The decision rests, however, with the private banks which have the responsibility of placing these issues with the public. I am pleased to hear that your talks with them indicated that a new issue is being considered for the first half of this year. I need hardly mention that the attitude of the Swiss National Bank in authorizing such issues once the request is made by the private banks has always been very flexible. The only limitations are those deriving from the liquidity of the capital market which has been heavily taxed by the high needs for public investments and the difficulties to consolidate outstanding debts. I presume, however, that even under this tight situation the appropriate authorities would favourably consider World Bank issues.

Believe me to be,

sig. Jolles