

CONF



PO -CH /GH/0100



PART A

Beginis: 25/11/82

Ends: 17/14/83

VISIT TO BRITAIN OF MR  
CLAUSEN, PRESIDENT OF  
THE WORLD BANK, 12-15  
APRIL 1983

PO -CH /GH/0100

PART A



me

10 DOWNING STREET

From the Private Secretary

29 November 1982

WORLD BANK

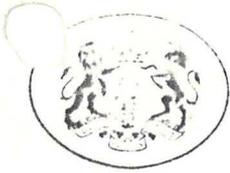
The Prime Minister would be glad to see the President of the World Bank at a mutually convenient time (which our diary secretaries could discuss) on the morning of 13 April.

I am copying this letter to John Kerr (HM Treasury).

A. J. COLES	
CHIEF CLERK	
REC	29 NOV 1982 1130xi
ACTION	Mr Carly
COPIES TO	CST, FST, EST MST C, MST R, LDBWSP, Si K Conzel, Mr Little, Mr Beeston, Mr Riley

John Holmes, Esq.,  
Foreign and Commonwealth Office.





CHEQUER

26 NOV 1982

Foreign and Commonwealth Office

London SW1A 2AH

Mr Carey 29.11

EST, FST, EST, 1

MSTC, MST R

Sir J Watt, Sir K Conant,

Mr Little, Mr Beakall,

Mr Ridley

26 November 1982

C/I imagine you would want to see Clausen. If so, I'll write to FCO warning them off the dates below. OF agrees.

JR

Dear John,

Mr Tom Clausen, President of the World Bank, proposes to visit the United Kingdom for two days during the period 12-23 April 1983. This would be his first official visit to London since he succeeded Mr McNamara last year, and it would coincide with a crucial stage in the important negotiations for the replenishment of IDA. We propose to say that we would welcome such a visit. He met the Prime Minister when he was last here in March 1981, and Mr Pym recommends that she should see him again on this occasion if her programme permits. If the Prime Minister agrees, perhaps you would let me know whether any particular dates would suit or be impossible. It might help you to know that the Governor of the Bank of England is otherwise engaged on 12 April, but would like to offer Mr Clausen dinner on 13 April if that date were included in the visit.

I am copying this to the Chancellor's Office, and would be grateful if they could also confirm whether the Chancellor would wish to see Mr Clausen and what dates would suit.

PM agreed.

JH

Yours ever

J E Holmes

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

~~1) Donna~~  
Any bad days?

2) ✓ JH - YES  
15th - W. Midlands Tour  
18th - ECOM  
22/23 - GROW  
Geneva Informal Meeting



cc - CST  
FST  
EST  
MST(C)  
MST(R)  
Sir D Wass  
Sir K Couzens  
Mr Littler  
Mr Beastall  
Mr Ridley  
Mr Carey

2.68



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

1 December 1982

J E Holmes Esq.  
Private Secretary to the  
Secretary of State for Foreign and  
Commonwealth Affairs

*Dear John,*

Your letter of 26 November to John Coles asked this office to confirm whether the Chancellor would wish to see Mr Clausen and to advise on a suitable date.

The Chancellor would indeed like to see Mr Clausen when he is in the UK. The Chancellor would be available on any of the dates suggested except 15 April, and 18 April and the 22 and 23 April.

I would be grateful if you could get in touch again when Mr Clausen's plans become clearer.

*Yours sincerely,  
Jill Rutter*

JILL RUTTER  
Private Secretary



Chancellor

With your international cap on, it might be good to offer Clausen food, though dates are not optimal. But if you feel disinclined we can easily confine him to an hour or so's chat in No. 11.

FROM : J S BEASTALL  
DATE : 10 JANUARY 1983

PS/CHANCELLOR

cc Mr Littler  
Mr Carey  
Mr Ridley

JJB  
JR  
11/1

MR CLAUSEN'S VISIT : 12-15 APRIL

In your letter of 1 December to the Foreign Secretary's office you said that the Chancellor would like to see Mr Clausen when he is in the UK. The dates of Mr Clausen's visit are now firmer, and he is likely to be arriving on the evening of 12 April and departing on the morning of 15 April.

2. ODA have asked whether, either in addition to or instead of a meeting in the office, the Chancellor would wish to give Mr Clausen either lunch or dinner. So far, the Governor has offered a dinner on 13 April, at which selected bankers would be present. In addition, the Chairman of the Foreign Affairs Committee has suggested that he might give a lunch, to which a cross-section of MPs would be invited, on either 13 or 14 April. If the Chancellor wished to give some hospitality, therefore, possibilities would be dinner on 14 April or lunch on either 13 or 14 April. The ODA's suggestion is that the occasion might be used to introduce Mr Clausen to a somewhat wider group, including industrialists, for example.

3. There is no pressure on the Chancellor to undertake this. We merely felt that he should be offered the opportunity, in case he positively wished to do so. I would be grateful to know his reaction.

① file  
② Chancellor  
13th Lunch from have lunch arranged with Conoco.  
14th lunch - this is a Thurs. Cabre  
14th Dinner - this is free but is evening before West Midlands tour  
JJB

J S BEASTALL





FROM: JILL RUTTER

DATE: 12 January 1983

PWP

cc Mr Littler  
Mr Carey  
Mr Ridley  
Miss Young

MR BEASTALL

**MR CLAUSEN'S VISIT: 12-15 APRIL**

The Chancellor has seen your minute of 10 January.

2. The Chancellor does not feel inclined to offer Mr Clausen lunch or dinner, though he would be pleased to see him for discussion.

JLR

JILL RUTTER



1. I agree that you need an  
of a presence

Raisons / Rights / or both

I think both would be best.

2. I think you can only have

Keigh-P if you also have

Rickards on. So I'd do neither.  
in fact will do his stuff.

3. If works heart gone, I think

you want him. And if he has,

it would be a kindness to do

Angem.

4. ~~So I'd include Romphalls~~

- I don't see the occasion as

one for vic/IBRD business.



For Oct, or  
Answer 1 you could square in  
The Richardson or carry  
(a batcher) plus a  
batcher (inventorist (25000))

SHL



Drina

M. post his

have judiciary,

done 2) alert  
Caroline re foot

3) return to me

C.

Before we offer Dinner ~~at~~

the 14th - what is free-

do you want another

word with Lady Howe?

AOH

Wpkins@No.11. Jc

Lay a show Caroline C-S.

Wp no 12 all work: who?

? Litter

? Navins

[? Richardson (see closely)]



Handed (Lund 14 Apr)

E: Anja's room  
not free?

My

As the 14th is a  
Cabinet day you are  
free at Lund  
I could offer him lunch  
then.

of lectures.  
be unable to attend because  
after Easter. hardly have would  
This is the week  
14 Apr 5 PM  
free?

Chancellor



1 is dinner on  
14 Apr 5 PM  
free?

John  
Dinner on  
14th is free  
my



PS/CHANCELLOR

-12/2

John  
NO. He is  
lunching with  
CONOCO  
free for dinner  
at 14th + rough  
FROM : JES BEASTALL  
DATE : 27 JANUARY 1983  
Dinner  
is the 13th still?  
free for lunch?

cc Mr Littler  
Mr Carey  
Mr Ridley

MR CLAUSEN'S VISIT : 12-15 APRIL

In my minute of 10 January I recorded an ODA suggestion that the Chancellor might wish to give Mr Clausen either a lunch or a dinner, to which some industrialists might be invited. In fact, the Chancellor did not wish to take up this suggestion.

2. I thought, however, that I should mention to you that we have now heard from our Washington delegation that Mr Clausen himself has dropped a hint that he would much appreciate an informal lunch or dinner with the Chancellor, at which they might each be accompanied by their wives. This is a rather different proposition from that put forward by the ODA and the Washington delegation feel that the Chancellor would wish to consider it. They recall Mr Clausen's disappointment at the Chancellor's inability to attend his lunch during last year's Annual Meeting (although Mr Clausen fully understood the reason for this).

C  
I still don't think you need  
do this

JJB

JES BEASTALL

X5367

Well... We can do 14th  
after Cabinet?  
Easter week?  
Or is it  
13 Lady N for?  
(but can do)

Dinner. Pl. investigate lunch at 14th.

J





ppp

FROM: J O KERR  
DATE: 7 February 1983

cc Mr Little  
Mr Canny  
Miss Young

MR BEASTALL

VISIT OF MR CLAUSEN (IBRD): 12-15 APRIL

The Chancellor has been reflecting on your minute of 27 January. He would be grateful if you could establish with ODA and our Washington delegation whether the evening of 14 April is still free in Mr Clausen's programme. If so, he would like to offer a small informal dinner (with wives) at No 11.

2. You might mention to ODA that, if this plan works, Raysons and Ryries would be on the list. (So would Littler's.)

JKK

pp J O KERR

Mr Raisai Fed 1661



262405 TRSY G  
INBAFRA

WASHINGTON DC 17 FEB 83

PAGE 1

THE RIGHT HONOURABLE  
SIR GEOFFREY HOWE, Q.C., M.P.  
CHANCELLOR OF THE EXCHEQUER  
H.M. TREASURY  
PARLIAMENT STREET  
LONDON SW1P 3AG  
UNITED KINGDOM

IN THE LIGHT OF THE CURRENT ECONOMIC SITUATION, I HAVE DISCUSSED THE AGENDA FOR THE APRIL MEETING OF THE DEVELOPMENT COMMITTEE WITH THE MANAGING DIRECTOR OF THE FUND AND THE PRESIDENT OF THE BANK. WE CONSIDER THAT THE AGENDA SHOULD BE AS FOLLOWS QUOTE

1. ELEMENTS OF A GLOBAL ECONOMIC RECOVERY EFFORT
    - (I) FINANCIAL FLOWS FROM AND LEVEL OF LENDING BY MULTILATERAL INSTITUTIONS AND IMPLICATIONS FOR THEIR CAPITAL BASE
    - (II) STATUS AND FUNDING OF IDA
    - (III) EXTERNAL DEBT PROBLEMS OF DEVELOPING COUNTRIES
    - (IV) LINKAGES BETWEEN TRADE AND THE PROMOTION OF DEVELOPMENT
  2. FUTURE WORK OF THE COMMITTEE
  3. STATUS/PROGRESS REPORTS ON CO-FINANCING AND ENERGY LENDING
- UNQUOTE

IT WILL BE SEEN THAT ITEM 1 WITH ITS DIFFERENT FACETS IS THE ONE SUBSTANTIVE ITEM FOR DISCUSSION. DISCUSSION ON ITEM 2 SHOULD BE BRIEF AND WOULD PARTLY DEPEND ON THE OUTCOME OF DISCUSSION ON ITEM 1. ITEM 3 CONSTITUTES ONLY STATUS AND PROGRESS REPORTS AT THIS STAGE AND WILL CALL FOR LITTLE DISCUSSION. THE ANNOTATED AGENDA WILL BE TELEXED TO YOU IN THE LAST WEEK OF MARCH FOLLOWING BOARD DISCUSSIONS.

WE ALSO CAME TO THE CONCLUSION THAT IN VIEW OF THE PRESENT

PAGE 2 OF 2

ECONOMIC CRISIS, THE SUBSTANTIAL NATURE OF ITEM 1 OF THE AGENDA AND THERE BEING NO MEETING OF THE INTERIM COMMITTEE IN APRIL, IT WOULD BE DESIRABLE FOR THE DEVELOPMENT COMMITTEE TO HAVE ONE AND A HALF DAYS AT ITS DISPOSAL STARTING AT 10.00 AM ON APRIL 28 AND CONCLUDING BY MID-DAY ON APRIL 29.

IN ORDER TO MAKE TIME AVAILABLE FOR A DIALOGUE AS WELL AS CONSIDERATION OF A DRAFT COMMUNIQUE, I AM PLANNING ON HAVING BOTH A LUNCHEON AND A DINNER ON APRIL 28 FOR MEMBERS OF THE COMMITTEE.

I HOPE THAT THESE PROPOSALS WILL MEET WITH YOUR APPROVAL AND IF I HEAR NOTHING TO THE CONTRARY BY MARCH 4 I SHALL PROCEED TO PLAN THE MEETING ACCORDINGLY.

REGARDS

GHULAM ISHAQ KHAN, CHAIRMAN, DEVELOPMENT COMMITTEE  
INTBAFRAD

262405 TRSY G  
INBAFRA

EXCHEQUER  
18 FEB 1983  
Mr Little  
CST-Sir D. Warr  
Mr Lavelle  
Mr Bottrell  
Mr Atkinson

1/18

A copy also to  
Sir William Rye,  
ODA.

J.M.  
18/11  
11/11

(pwp)

(BR) Development  
Ctee m/s.

14/4

PS/CHANCELLOR OF THE EXCHEQUER ←

cc Mr Littler  
Mr Carey  
Miss Young

VISIT OF MR CLAUSEN (IBRD): 12-15 APRIL

I have consulted ODA and our Washington delegation about your minute of 7 February. The Chancellor's proposed informal dinner (with wives) on 14 April is firmly in Mr Clausen's programme, and he greatly appreciates the invitation.

2. The Washington delegation have asked whether Mr Benjenk, the IBRD's Vice President, External Relations, might be included in the invitation. He will be with Mr Clausen throughout the tour. (He will not be accompanied by a wife). Mr Anson's view is that it is not essential for the Chancellor to invite him, but Mr Benjenk would obviously be delighted if he could be on the list.

JSB

5367

C.

J S BEASTALL

1. We could fit him in pretty easily, give that were now in the same room.
2. And given that Reason and Rynne are lunching Clausen we could always drop one or the other. But it would be best to have both.
3. Anson will not be back: Wicks + wife will be available.
4. So, if you agree, we could now invite

- 2 Clausens
- 1 Benjenk
- 2 Reasons + 2 Rynnes
- 2 Littlers
- 2 Rumphals
- 2 Wicks
- + Carey / Kerr

ie either 14 or 16 including flowers

16 in

No Anson  
JP  
15/3

RT. HON. T. MP.

John to ask Beastall to invite  
14/4  
informal  
could give 5 for 10

1951

the first of the year, the weather was very cold and the  
ground was frozen. The snow was very deep and the  
wind was very strong. The temperature was very low  
and the people were very cold. The children were  
very happy to see their parents and the people were  
very happy to see their friends.

The weather was very cold and the ground was frozen.  
The snow was very deep and the wind was very strong.  
The temperature was very low and the people were very  
cold. The children were very happy to see their  
parents and the people were very happy to see their  
friends.

THE END OF THE YEAR (1951) WAS VERY

VERY COLD  
AND THE  
WIND WAS VERY STRONG



THE END OF THE YEAR (1951) WAS VERY  
VERY COLD AND THE WIND WAS VERY STRONG



FROM: MISS M O'MARA

DATE: 10 March 1983

MR FOX

cc Mr Littler  
Mr Carey  
Mr Beastall

DINNER PARTY FOR MR CLAUSEN: 14 APRIL

The Chancellor has agreed to host a small dinner party of 14-16 people for Mr Clausen of the IBRD when he visits the UK next month.

2. We have approached GHF to see whether they would be able to cater for us on this occasion. I understand that their normal practice is to provide free catering facilities for one function per visit but unfortunately, on this occasion the ODA have already staked their claim and they clearly have a strong case. GHF tell us that they can still cater for us on a repayment basis but at a cost of £32 per head. This, of course, takes us over our usual entertainment allowance but I hope that EOG can agree to the expenditure nonetheless.

3. As you know, the Ministerial entertainment budget will be well underspent in the current year and I doubt if we shall run up against any constraints in 198<sup>3</sup>/~~7~~-8<sup>4</sup>/~~4~~. We could, of course, investigate the possibility of outside caterers but apart from the considerable extra work involved in using them, I cannot see any possibility that they would provide a reasonable meal for £10 a head. For smaller parties, the Chancellor hires his own staff but once the numbers creep above about 8 guests, this is no longer feasible.

*MOM*

MISS M O'MARA



MISS O'MARA

12/2



From: B FOX  
14 March 1983

cc Mr Littler  
Mr Carey  
Mr Beastall

DINNER PARTY FOR MR CLAUSEN: 14 APRIL

Thank you for your minute of 10 March.

2. I am content that you should use GHF on this occasion. I note that you expect to be able to contain the costs within your 1984-85 entertainment budget.



B FOX





Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

15 March 1983

M Snell Esq.  
Government Hospitality Fund  
2 Carlton Gardens  
LONDON  
SW1

*Dear Malcolm,*

We spoke last week about the Chancellor's proposed dinner for Mr Clausen, President of the World Bank, on 14 April.

The Chancellor has asked whether Government Hospitality could cater this function. You indicated that given that you are already catering a function for the Minister of Overseas Development in honour of Mr Clausen you would only be able to undertake the Chancellor's dinner if GHF's costs were met on a repayment basis. I can now confirm that we are happy to go ahead on this basis.

The dinner will be downstairs in No.11, and will involve between 14 and 16 people. Miss Young will let you have more precise details - including timing - in due course. If you have any query could you please contact her on 233 5487.

*Yours sincerely,*  
*Jill Rutter*

JILL RUTTER  
Private Secretary



UNCLASSIFIED

29 MAR 1983

FROM : R J BONNEY

DATE : 29 MARCH 1983

1. MR BEASTALL *MB 29/3*  
 2. SIR DOUGLAS WASS *AW 30/3*  
 3. CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Mr Middleton  
 Mr Littler  
 Mr Urwin  
 Mr Carey  
 Mr Bottrill  
 1. Mr Basi  
 2. FMA

APPOINTMENTS TO THE BOARD OF GOVERNORS OF THE INTERNATIONAL BANK FOR  
 RECONSTRUCTION AND DEVELOPMENT (IBRD)

With the impending change of Governor of the Bank of England and of the Permanent Secretary to the Treasury, it is necessary to make fresh appointments as UK Governor and Alternate Governor of the IBRD. The IMF appointments are not affected.

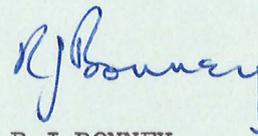
2. The Articles of the IBRD (the World Bank) provide for each member country to appoint one Governor and one Alternate to the Board of Governors, in which all the powers of the institutions are vested. An IBRD Governor is also ex officio a Governor of its two affiliates, the International Development Association (IDA) and the International Finance Corporation (IFC). Traditionally (since 1963) the Governor of the Bank of England has been UK Governor of the IBRD and the Permanent Secretary to the Treasury the Alternate Governor. We see no compelling reason to change this arrangement (Bank of England and FCO officials concur).

3. If the Chancellor agrees, I recommend that Mr Robert Leigh-Pemberton should be appointed as UK Governor of the IBRD with effect from 1 July 1983, and that Mr Middleton should succeed Sir Douglas Wass as Alternate Governor with effect from 15 April 1983. (Mr Middleton has already indicated that he is willing to take up this appointment.)



4. The Bank of England have pointed out that Mr Leigh-Pemberton will be present at a dinner which the Governor is giving Mr Clausen (IBRD President) on 13 April. It would therefore be elegant (if not essential) if his letter of appointment could reach the IBRD before Mr Clausen leaves Washington the day before. (In practice this means that a decision would be desirable this week.)

5. If the papers could be returned to this Division I will have the necessary formal arrangements made.



R J BONNEY  
AEF1 Division



RESTRICTED

10991 - 1

PP UKDEL OECD  
PP PARIS

GRS 107

RESTRICTED

FM FCO 301600Z MAR 83

TO PRIORITY UKDEL OECD PARIS

TELEGRAM NUMBER 13 OF 30 MARCH

AND TO INFO PRIORITY WASHINGTON, PARIS

AND INFO SAVING OTHER OECD POSTS, UKDEL IMF/IBRD WASHINGTON,

UKMIS GENEVA, UKDEL NATO

YOUR TELNO 38: OECD: MEETING OF COUNCIL AT MINISTERIAL LEVEL  
9/10 MAY

1. WE HAVE BEEN TOLD BY THE US EMBASSY THAT THE US TEAM TO  
THE OECD MINISTERIAL WILL BE:

MR SHULTZ: SECRETARY OF STATE

MR REGAN: SECRETARY TO THE TREASURY

MR BALDRIDGE: SECRETARY OF COMMERCE

MR BROCK: US TRADE REPRESENTATIVE

MR FELDSTEIN: CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

2. DETAILS OF TRAVEL PLANS ARE NOT YET AVAILABLE.

PYM

NNNN

NNNN

DISTRIBUTION

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COVERING CONFIDENTIAL

FROM R J BONNEY  
DATE 30 MARCH 1983

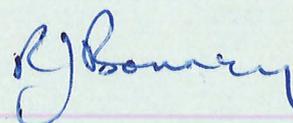
1. MR CAREY
2. PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary  
Mr Littler  
Mr Unwin  
Mr Wicks  
Mr Beastall o.r.  
Mr Ridley

1. Mr Basi
2. FMA

MR CLAUSEN'S VISIT TO LONDON: 12-14 APRIL

You asked for a draft note which the Chancellor might put to the Prime Minister before she goes on holiday this week. I attach a draft minute which could cover (a) the personality note on Mr Clausen attached to Mr Anson's letter of 15 February, and (b) a short position paper on the International Development Association which obviously figures high among Mr Clausen's priorities. We have been unable to clear (b) with ODA, as the relevant officials are in Copenhagen for a meeting on IDA. We do not think it is controversial. ODA will be circulating formal briefing for Mr Clausen's various calls in due course.



R J BONNEY

COVERING CONFIDENTIAL



CONFIDENTIAL

*P1 type*  
*38/3*

~~DRAFT~~ MINUTE TO THE PRIME MINISTER

From the Chancellor of the Exchequer

Copy to:-  
Foreign Secretary

*IBRD*  
VISIT OF ~~MR CLAUSEN~~ (PRESIDENT: ~~OF THE WORLD BANK~~) 12-14 APRIL

Since we shall both be seeing Tom Clausen shortly after the Easter break, it  
~~As I understand that you will be seeing Mr Clausen almost~~  
~~occurs to me that you might like to see, over the break, the attached background~~  
~~immediately after your return from your Easter holidays,~~  
~~briefing which has been prepared for me.~~

~~I thought you might like to see the attached papers by~~

~~way of advanced briefing. They are:-~~  
*// it consists of)*

*(1)* an extended personality note on ~~Mr~~ Clausen prepared  
*←* by *John Anson,* the UK Executive Director at the World Bank, and

*(2)* a short position paper by Treasury officials on the  
*←* the International Development Association (IDA),  
which figures high among ~~Mr~~ Clausen's priorities. *I*  
*understand that the latter has not yet been cleared with ODA, because*

~~My officials would have liked to clear the latter paper with~~  
~~ODA but the relevant experts~~ *There now* ~~are in Copenhagen this week~~  
~~at an IDA meeting. But I do not think it is very~~ *don't detect anything controversial in it:*

~~controversial~~ Francis Pym and I have already agreed on  
the broad lines of our approach to the negotiations on  
IDA's seventh replenishment. *//* ~~ODA will~~ *no doubt be*

*of* ~~circulating formal briefing~~ *for your meeting with Mr Clausen,*  
*nearer the time.*

*A copy of*  
~~I am copying this minute~~ *goes* ~~to Francis Pym~~ *His people will*

G HOWE

CONFIDENTIAL



CONFIDENTIAL



cc Mr Littler  
Mr Unwin  
Mr Carey  
Mr Beastall (OR)

*(Handwritten initials)*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

VISIT OF IBRD PRESIDENT: 12-14 APRIL

Since we shall both be seeing Tom Clausen shortly after the Easter break, it occurs to me that you might like to see, over the break, the attached background briefing which has been prepared for me.

2. It consists of an extended personality note on Clausen prepared by John Anson, the UK Executive Director at the World Bank, and a short position paper by Treasury officials on the International Development Association (IDA), which figures high among Clausen's priorities. I understand that the latter has not yet been cleared with ODA, because the relevant experts there are now in Copenhagen at an IDA meeting. But I don't detect anything controversial in it: Francis Pym and I have already agreed on the broad lines of our approach to the negotiations on IDA's seventh replenishment.

3. A copy of this minute goes to Francis. His people will no doubt be circulating formal briefing nearer the time of your meeting with Clausen.

*(Handwritten signature)*

G.H.  
30 March 1983

CONFIDENTIAL



FROM: I BASI  
DATE: 31 March 1983

MR WILLIAMS

*mp*

cc Mr Kerr - *for info*  
Mr Bonney

APPOINTMENTS TO THE BOARD OF GOVERNORS OF THE INTERNATIONAL BANK  
FOR RECONSTRUCTION AND DEVELOPMENT

Mr Kerr has confirmed this morning that the Chancellor is content with the recommendations in Mr Bonney's minute of 29 March. So that we can now press ahead with the formalities I should be grateful if you could arrange for Sir Douglas Wass to sign the attached Treasury minute.

*I Basi*

I BASI  
FAEF1 Division  
Room 82/1  
Ext 3700



FROM: J O KERR  
DATE: 31 March 1983

*(Handwritten initials)*

cc Mr Middleton  
Mr Beastall

MR BONNEY

**APPOINTMENTS TO THE IBRD BOARD**

The Chancellor has seen your minute of 29 March, and is content with both your proposals.

A handwritten signature in cursive script, appearing to read "J O Kerr".

J O KERR

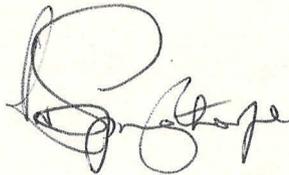


FROM: R.N. SPRINGTHORPE  
DATE: 7 APRIL, 1983

MISS O'MARA

CHANCELLOR'S DINNER FOR THE PRESIDENT OF THE  
WORLD BANK: THURSDAY, 14 APRIL

As I mentioned to you, Mr. Littler is now required to attend a meeting in Williamsburg on Friday, 15 April which will necessitate his travelling out on the previous day. He is, regretfully, unable therefore to attend the dinner for Mr. Clausen on 14 April.



(R. N. SPRINGTHORPE)

✓  
Do you want to look for a substitute  
or simply cut down the size of the party?  
the problem with the latter is that it doesn't  
leave anyone in UK. Try here (apart from  
John!)

mom

8/4

Wd like UK try it now.

No  
Inadvisable, Burns,  
Unwise, Lancelotti?  
No.

Handwritten notes in red ink at the top right of the page.

Handwritten note in red ink: "Mr. [Name] [Address]"

Faint, mostly illegible handwritten text in the upper left section of the page.

(V. M. ZERINSKI)

Handwritten signature or initials in the center of the page.

Main body of typed text, appearing to be a letter or memorandum, with several lines of text.

WORLD BANK: [Address] IN [City]  
CHAIRMAN'S DINING ROOM FOR THE PRESIDENT OF THE  
MISS O. [Name]

DATE: 1 APRIL 1962  
FROM: V. M. ZERINSKI

9/1

2. 1/2 day to present,  
to return to GHF

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Burns.  
Dance

5292 Lawrence X  
3337 Burns ✓  
Burns ✓  
Middleton X  
Carty X

Charles Dwyer



6/4/83



NO 14 April

The Chancellor of the Exchequer

requests the honour of the company of

J. G. LITTLER, Esq., CB AND MRS LITTLER  
AT DINNER FOR MR CLAISEN, PRESIDENT OF THE  
WORLD BANK ON 14 APRIL AT 7.45 pm FOR 8.00 pm

INFORMAL

Please reply to: ~~Private Secretary~~  
~~11 Downing Street, S.W.1~~

~~Telephone: 01-233 5487~~

IN CONFIRMATION

EXCHEQUER	
REC.	12 APR 1983
ACTION	Mr Carey.
COPIES TO	Mr Hitler. Mr Unwin.
	Mr Beestell. Mr Lavelle.
	Mr Bourne. Mr Bonney.
	Mr Ridley.

11 April 1983

VISIT BY MR CLAUSEN, PRESIDENT OF THE WORLD BANK: 12-15 APRIL 1983

... I attach an outline programme and a set of briefs for Mr Clausen's visit this week.

The briefing covers the issues that we understand Mr Clausen will wish to raise:

- a. Developments in the world economic situation;
- b. Restraints in commercial bank lending and intermediation of the World Bank;
- c. IBRD lending levels and capital requirements;
- d. Structural Adjustment Lending;
- e. International Development Association (IDA); and
- f. Future of the IMF/IBRD Development Committee.

Detailed discussion on the second item will be covered during Mr Clausen's call on the Governor of the Bank of England.

You will doubtless have seen the article in today's 'Times' by Professors Bauer and Yamey, linked to Mr Clausen's forthcoming visit, criticising the principle of overseas aid.

... You may be interested to see the enclosed paper, written very much from a World Bank viewpoint, which attempts to answer the sort of objections raised by Professor Bauer.

There has been some discussion here about the correct pronunciation of Mr Clausen's surname. The Prime Minister has, of course, already met him, but may like to be reminded that his surname is pronounced "Claw-son".

I am copying this letter and enclosures to John Kerr (Chancellor's Office) and to John Holmes (FCO).

(M A Power)  
Private Secretary

W Rickett Esq  
10 Downing Street



11/4/83

VISIT OF IBRD PRESIDENT: 12 - 15 APRIL 1983

BRIEF NO 2: WORLD ECONOMIC PROSPECTS

POINTS TO MAKE

ECONOMIC OUTLOOK

i. World activity has yet to recover fully. Encouraging signs that modest recovery in 1983 is getting underway. Lower inflation and interest rates lays basis for resumption of sustainable growth.

ii. Lower oil prices should, on balance, improve world growth and reduce inflation. Some oil exporting debtors may suffer, more so if prices fall further but benefits to OECD countries should outweigh these difficulties.

iii. International financial scene still requires close monitoring. Considerable adjustment achieved and should continue. Most major debtors now have stabilisation programmes in place with IMF help. Helpful that IMF giving positive lead to commercial banks.

POLICIES

iv. Monetary policy should be flexible but firm enough to prevent any renewed upsurge in inflation. Fiscal policy should aim to put structural deficits on a convincing declining medium term path.

v. Expect Williamsburg to endorse continuation of prudent counter-inflationary financial policies and to resist calls for excessive reflation. Policies need to sustain recovery.

iv. Major countries especially SDR block should pursue convergent policies to achieve non-inflationary growth. Only way to exchange rate stability. Welcome recent French recognition.

vii. All countries, particularly Summit partners, need to resist protectionism. Developing countries need access to industrial markets. Trade restrictions inhibit growth and impoverish us all.





## ESSENTIAL FACTS

## Economic Outlook

Early signs of the modest recovery (1-2 per cent growth in output) forecast for the major industrial economies in 1983 are accumulating. In the US industrial production and housing starts have continued rising while in Europe and particularly in Germany business confidence may have turned round. Lower inflation and lower interest rates should help promote the recovery in activity. The fall in oil prices should also increase output.

2. Output growth in the non-oil developing countries (NODCs) after falling last year is also forecast to pick up slightly in 1983 to around 3 per cent though this remains below the 5 per cent growth achieved in 1973-79. World trade (UK weighted) is expected to recover only slowly growing by 1 per cent after falling by over 3 per cent last year.

3. Unemployment is likely to reach around 9 per cent for the major OECD economies this year. With the pick-up in activity the rise in unemployment may however start to level off towards the end of the year.

4. Inflation has fallen faster than expected. For the major countries it has come down from 12 per cent on average in 1980 to 5 per cent in February. Some further fall is likely in the early part of the year but thereafter higher activity may push inflation up somewhat. Nominal interest rates fell markedly late in 1982. In the US three-month market rates fell from around 16½ per cent last summer to 8½ per cent by the end of 1982. They have remained broadly flat until recently, edging up towards 9 per cent. Although real interest rates have eased slightly they remain high compared to past experience.

5. Weak demand for oil and overcapacity led OPEC to agree a 15 per cent cut in the marker price to \$29 pb in March. OPEC's current account may move into deficit as a result. Lower oil prices will help many sovereign debtors but hurt those who are also oil exporters (Mexico) and may create some new problems (eg Venezuela, Nigeria, Indonesia, Egypt). A further fall would aggravate these difficulties. On balance the agreed oil price reduction should however improve economic prospects.





6. The large prospective US current account deficit (over \$20 bn) dominates the rise in deficits expected for the major countries in 1983. The Japanese and German surpluses are expected to increase this year. Non-oil developing countries' (NODCs) considerable adjustment last year cut imports sharply thereby reducing their current account deficits from \$100 bn to \$90 bn. Net new bank lending to NODCs contracted sharply last year - growing by only 9 per cent compared to over 20 per cent in previous years.

7. Financing constraints on NODCs are likely to persist. IMF expects net new bank lending to grow by only 8 per cent or so in 1983. Import growth will remain depressed but the up-turn in the OECD area should allow some recovery in export growth and some pick-up in commodity prices. Together with the benefits of lower interest rates this should help NODCs to reduce their current account deficits further to around \$70 bn. The recent fall in oil prices should also help.

8. Exchange rates have remained volatile. After rising sharply throughout 1982 the effective dollar rate depreciated by around 8 per cent between November and February this year. Uncertainty over oil prices and concern over monetary and fiscal policy have resulted in the dollar strengthening again. As a result of the EMS realignment the DM appreciated by 8 per cent against the French franc ( $5\frac{1}{2}$  per cent from the DM revaluation and  $2\frac{1}{2}$  from the franc devaluation). Despite the strong appreciation since last November which has reversed the losses in 1982 the yen remains undervalued.

9. Most major debtors including Mexico, Brazil and Argentina are now implementing stabilisation programmes with IMF assistance. Although the imminent threat of major international default has receded financing difficulties still persist. The quota increase (from SDR 61 bn to SDR 90 bn - an increase of  $47\frac{1}{2}$  per cent) agreed at the IMF's February Interim Committee together with the increase in the General Arrangements To Borrow and its greater availability should enable the Fund to play an effective role in helping countries to adjust their economies. The World Bank also needs its resources adequately replenished.

#### Policies

10. Experience with monetary policy last year is difficult to assess, particularly in the US, at a time of institutional change and changing liquidity demands. Last





year US monetary growth overshot the targets partly due to distortions. The Fed has announced higher targets for 1983 as the distortions may persist but stressed the counter-inflationary goal. The M2 target was increased from 6-9 per cent to 7-10 per cent for 1983 and the base changed to the average February/March 1983 level. The Fed has expressed concern over the rapid growth in the monetary aggregates so far this year. Some have argued policy is now too lax.

11. Monetary growth in Germany in 1982 was within the 4-7 per cent target. Policy may be easier this year as the same targets are to be maintained despite lower inflation. France's single figure target has been reduced from 10 to 9 per cent for this year and is tighter than in 1982. Italian monetary control last year was wrecked by the high public sector deficit. No new targets have been set for 1983.

12. As regards fiscal policy, since 1979 despite most government's attempts to achieve firm public expenditure control general government deficits have risen, mostly due to the recession, from 2 per cent of GDP in 1979 to over 4 per cent in 1982. Only Japan and the UK have secured a reduction in their deficits while Germany has contained the increase. Mildly expansionary policies in France and the US have, along with the recession, increased budget deficits.

13. Last December OECD estimated that deficits for the major economies this year would remain at 4 per cent of GDP despite the expected recovery. The new French measures to accompany the devaluation are designed to keep the budget deficit in 1983 and 1984 to 3 per cent of GDP. The restrictive 1983 budget introduced by the Japanese Government has been tempered only slightly by the concession of income tax cuts later this year and the acceleration of public works programmes.

14. The US budget measures for FY1984 should reduce the Federal deficit from  $6\frac{1}{2}$  per cent of GDP in FY1983 to  $3\frac{1}{2}$  per cent by FY1986. But deficits still remain high compared with past experience in spite of good growth forecasts. The budget measures are still being debated and have yet to be passed by Congress. So far at least the budget has not entirely satisfied concern over the Administration's future fiscal stance.

15. We share the hopes already expressed for a relatively informal discussion at Williamsburg concentrating on a few key economic issues. Discussion might explore





the broad monetary and fiscal policy stance of all the major countries, both individually and collectively, which is necessary to ensure the recovery becomes firmly established while at the same time preventing any renewed upsurge in inflation. Other focal points might include exchange rate stability (the Jurgenson report on intervention is to be published soon), the need to minimise the threat to recovery from increased protectionism, international debt issues, help for the poorer developing countries including IDA and the outlook for oil prices.

16. There is already considerable pressure, notably from the French and the Scandinavians, for some co-ordinated reflation by the major low inflation countries. Such expectations need to be defused in advance of the Summit. Lower inflation should, within the bounds of prudent counter-inflation policies, allow greater real growth. But there is scope for a better policy mix to ensure a more balanced and sustainable recovery. In particular the US should be encouraged in its efforts to reduce its budget deficit while there is a need for high inflation countries such as Italy and France to bring their performance into line with that of their Summit partners.

HM Treasury/Bank of England  
April 1983



11/4/83



LIST OF BRIEFS

No      Subject

(Yellow Side tagging.)

- 1. Personality Note
- 2. World Economic Prospects  
(including points that may arise at Williamsburg Summit)
- 3(a). World Bank Group
- (b). Brandt/UNCTAD VI: Implications for World Bank
- 4. Development Committee  
(including forthcoming meeting in Washington and future role of Committee)
- 5. British Aid Policy and Programme

FLAG.

A: Appraisal of Mr. Clausen's Lecture to the Centre for International Affairs.

B: EXTRACT from the Times. (11/4/83) Bower & Yamey.

C: World Bank Viewpoint on the Prof. Baur Article.

D: C/EX to PM. (IDA Brief)

E: Programme for the Visit.



11/4/83

VISIT OF IBRD PRESIDENT: 12-15 APRIL 1983

BRIEF NO 3a: WORLD BANK GROUP

POINTS TO MAKE

WORLD BANK

1. Welcome steps taken to improve Bank's financial soundness and efficiency.
2. UK has supported Bank's appropriate and timely measures to help borrowers. Structural Adjustment Lending especially helpful. If necessary, prepared to see this extended. Initiative on co-financing welcomed. (IBRD in touch with Bank of England on details.)
3. (If raised) UK's instrument of subscription under 1979 General Capital Increase will be deposited next month.
4. Would not stand in the way of a selective Capital Increase for those members whose positions under the IMF 8th Quota Review have improved. This unlikely to allow significant increase in lending.
5. Proposals for new general capital increase will need careful consideration in light of Bank's justification for increased lending.

INTERNATIONAL DEVELOPMENT ASSOCIATION

IDA 6

6. US badly at fault. Mr Clausen is an American and was nominated by the US President. What action is he taking to persuade the US to provide their contribution on time? UK has done its best (the Prime Minister herself having played a part). We initiated recent Community Démarche to the American Administration.
7. (If raised) Prepared to support pressure on US on this at Williamsburg. We cannot at this stage say what we would do if Congress fails to approve the supplementary appropriation now before it.
8. (if raised) Special contribution for FY 84. Statutory Order to go before Parliament next month to allow deposit of UK instrument of subscription before start of FY 84 (July 1983).



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IDA 7

9. [It is suggested that Ministers should avoid being drawn into discussion about specific figures at this stage.] IDA good form of aid. However British aid funds scarce and over-stretched. Future UK support must be on reduced scale more closely reflecting our relative economic strength.

10. Volume of IDA 7 depends upon degree of US support. Bank's ambitious target of \$16-\$18 billion unlikely to be realised and to give further publicity to such figures will arouse expectations in developing countries which may be disappointed.

11. Support for IDA must be broad-based. Fair burden-sharing and full US participation from outset essential. Prospect of IDA 7 no greater or even less than IDA 6 in nominal terms has to be faced.

12. Recycling of IDA funds important. What is Bank's current thinking about reducing maturities or introduction of interest charges?

INTERNATIONAL FINANCE CORPORATION

13. Attach importance to promoting private investment in developing countries. But our aid resources limited and already heavily deployed on multilateral assistance. Nevertheless ready to consider case for capital increase.





## WORLD BANK

## ESSENTIAL FACTS

1. The World Bank is owned by the governments of 144 countries and finances its operations by borrowing on world capital markets. Total lending commitment in FY 82 was \$10,330 million, most active borrowers being India, Indonesia and Brazil. The Bank itself borrowed \$8,521 million.
2. As one of the largest shareholders, we have a general interest in the success of the Bank as one of the Bretton Woods institutions and the most effective international development agency. There are procurement benefits for British companies and we more than recoup the cost of our contribution.
3. In response to recent world conditions the Bank has adopted a system of Structural Adjustment Lending which provides what is essentially programme rather than project aid. Under present rules it cannot exceed 10% of the Bank's lending.

Recent Measures by the Bank

4. An assessment of Mr Clausen's influence on the Bank is given in the Personality Note. Recent important policy changes are adoption of a variable interest rate for Bank borrowers; a Programme of Special Assistance to assist those borrowers making a determined effort to carry out difficult measures to sustain development; and a trial period to test new financial instruments designed to promote additional co-financing with commercial banks. (IBRD are in touch with Bank of England on technical details on supervisory aspects of co-financing.)
5. We support all of these measures which are appropriate and timely responses to the needs of the Bank's borrowers. Under Structural Adjustment Lending, we are ready to consider changing the 10% limit on Bank's non-project lending, if this becomes an undue constraint.

Lending Levels and Capital Requirements

6. Management has recently reviewed its five-year lending plans in light of potential increases in demand for Bank loans and quicker

/disbursements



disbursements under the Programme of Special Assistance. The original programme was \$60 billion over FY 82-FY 86; but having agreed to higher annual figures for the first two years of this period, member governments are now being asked to sanction higher lending totals in the later years, including a roll-over into FY 87, and with the corollary of further expansion of the Bank's capital. A figure of \$21 billion was referred to prematurely in drafts of Development Committee papers, but the issues of longer-term lending limits and capital requirements are now to be considered separately.

7. We believe Management will probably seek to obtain agreement (before the Annual Meeting in September) to a two-stage capital expansion programme involving a Selective Capital Increase following the IMF 8th Quota Review for those whose share in the IMF has been increased (in which UK will not be involved), to be implemented from 1984, and a General Capital Increase for all members to be mounted towards the end of this decade. Sums raised could be around \$2.9 billion and \$19.7 billion respectively. (GCI figure would be open to negotiation.)

8. The principle of parallelism between positions in the IMF and World Bank has always been followed and there are no grounds for opposing an SCI on that basis. However, Ministers would have to consider whether the UK could accept a lower position in the Bank than in the Fund (where we remain in second place) if large SCIs were offered to Germany and Japan.

#### 1979 (Current) General Capital Increase

9. The 1979 general capital increase of \$40 billion, when fully subscribed, should double the Bank's capital. Shares have been allocated pro rata according to member countries' existing holdings. UK's allotment was 24,336 shares, but we released one half (12,168) to enable the Bank to meet the legitimate claims of other countries to increase their shareholdings. Saudi Arabia was the main beneficiary. The paid-in element is 7½% of the cost of shares; ¾% in dollars and 6¾% in sterling. Total will be around £70 million and will be spread over several years; our instrument of subscription will be deposited with the Bank at the end of May.

/Energy





### Energy Affiliate

10. This proposal is moribund. There has been no support from the United States and little enthusiasm shown by OPEC countries, even in the past. It is presumed that Bank support for energy projects will continue up to a maximum 25% of its lending programme and that the volume of lending to this sector will be extended as capital increases for both the IFC and the Bank take place.

## INTERNATIONAL DEVELOPMENT ASSOCIATION

### ESSENTIAL FACTS

11. IDA was established in 1960 as an affiliate of the World Bank to provide low cost investment funds to those countries who were not sufficiently creditworthy to borrow on capital markets or from the Bank itself. IDA's credits are provided on near grant terms and its resources are made up of grant contributions from 33 countries (the great bulk from developed countries) supplemented by repayments of earlier IDA credits, transfers from IBRD profits and a special contribution from non-member Switzerland.

12. IDA is the largest as well as the most efficient multilateral aid agency. As an apolitical multilateral organisation, it is better placed than individual bilateral aid donors to bring about policy reform necessary in recipient countries to ensure aid is effective.

13. The geographical allocation of its assistance resembles our own bilateral aid programme more than any other aid donor's - 80% of IDA credits have gone to countries with less than \$410 GNP per head (1980); 60% to the large poor countries in South Asia and (as with the UK aid programme) India has traditionally been the major recipient. IDA offers important opportunities for British industry and direct procurement returns to UK are about 70% of contributions.

### IDA 6

14. The Sixth Replenishment (IDA 6) was originally intended to provide \$12 billion for commitments in three fiscal years beginning 1 July 1980 (FY 81), but the Carter Administration was unable to obtain Congressional authorisation for the US contribution (\$3.24 billion - 27%) and the present US Government decided to accept the commitment

/but





but to phase payment over 4 years instead of three (ie to FY 84). Only \$1.9 billion has so far been authorised by Congress. Other IDA donors have agreed to provide IDA with additional commitment authority over the extended 4 year period - first by advancing their first year's IDA 6 instalments, then by delinking their second and third year's instalments from the level of the US contribution (this was agreed by the Prime Minister during Mrs Gandhi's visit last year) and finally by agreeing special funding for FY 84 of which the UK share will be about £105 million.

15. So far in this financial year the US Congress have appropriated only \$700m out of the \$945m agreed US contribution. The US Administration have submitted a supplementary appropriation for the balance (and have included the rest of the US contribution to IDA 6 - \$1095m - in their budget for next year). If the \$245m supplementary is approved IDA 6 will be more or less completed on time even if the US contribution for FY 84 is only the same as this year's as the result of a continuing resolution; this will be a hopeful augury for IDA 7. If the supplementary is not approved the US contribution to IDA 6 will drag out over five years and the prospects for IDA will be seriously weakened. This is a big risk to take for a comparatively small sum (for the Americans). Mr Clausen is likely to ask the Prime Minister to raise this question with President Reagan at the Williamsburg Summit or at least to lend support if others raise it. We suggest that it would be sufficient to agree to do the latter.

16. Resulting from a UK initiative, the European Community decided to make a démarche on this issue to the US Administration. The German Ambassador in Washington delivered this on 1 March.

#### IDA 7

17. Negotiations on the seventh replenishment began in Washington last year with the intention of reaching agreement by the time of the September 1983 Annual Meeting of the IMF and World Bank. Meetings have also been held in Paris and Copenhagen. Meaningful negotiations cannot begin until the US position under IDA 6 is clarified, and the size of the US contribution to IDA 7 is known. It is hoped (but by no

/means





means certain) that the US position will be clearer by the time of the next meeting of IDA 7 Deputies in July (Tokyo).

#### UK Interest

18. The UK has been a strong supporter of IDA under successive Governments and our interest is probably to work for a continuing high level of resources for IDA, but towards an IDA 7 replenishment target that is realistic and includes full US participation. It would be futile to fix an overall volume implying a US share which the US Administration could not meet or to start IDA 7 without the US. At the present time the US Administration is thought to be considering contributions of around \$750 million a year which would produce an IDA 7 total of \$9 billion over 3 years or \$12 billion over 4 years - substantially less in nominal terms than the agreed total for IDA 6. Despite this, the World Bank is continuing to give wide currency to a \$16-\$18 billion figure.

19. On burden sharing, we have already made clear our intention of reducing our share from the very high level of 10.1% for IDA 6, and from the 7.6% for the special funding for FY 84 to one more in line with UK's relative economic strength (the UK's share of donors' GNP is 5.4%).

#### INTERNATIONAL FINANCE CORPORATION

##### ESSENTIAL FACTS

20. Established in 1956 as an affiliate to the World Bank, with capital of \$78 million to promote growth of productive private investment. Authorised capital increased in 1978, and now stands at \$650 million, with 123 member countries. The previous Government decided to take up our shares and a payment of £12.2 million was made in 1978. That Capital Increase came to a close in July last year, with 90 per cent of the shares allotted. UK is the second largest shareholder (7.6%) - the US being the largest at 29.49%.

21. IFC Management now looking for a new capital increase to enable increase in volume of its lending, particularly in Africa; increased

/equity





equity investment; increased support for the development of capital markets; and increased investments in private sector energy development. In FY 82, some \$280 million was provided by commercial banks in association with IFC projects.

22. Major donors, including the United States, support concept of further general capital increase. Probable size \$750 million. Mr Clausen will defer making formal proposition until after IMF/IBRD Annual Meeting. We are generally satisfied with IFC's programme for promoting private investment in developing countries. Subscriptions are fully paid as grants and for UK this could mean around £38 million but phased over several years.

Overseas Development Administration  
8 April 1983



11/4/83

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VISIT OF MR A W CLAUSEN, PRESIDENT OF THE WORLD BANK,  
12-15 APRIL

BRIEF 3(b): UNCTAD VI/BRANDT: IMPLICATIONS FOR THE WORLD BANK

Points to Make

1. In preparation for UNCTAD VI, the UNCTAD Secretariat, Brandt Commission and others are calling for massive extra flows of funds from the World Bank and other sources to the developing countries (LDCs). This is not the right solution to the LDCs' present economic difficulties. [It is beyond the capacity of donors to provide or LDCs to absorb.]
2. UK appreciates World Bank's own response based on modest increases in certain types of lending and closer policy dialogue with borrowers. Endorse World Bank Programme of Special Assistance for 1983 and 1984.
3. Prepared to discuss at UNCTAD VI ideas on lines of World Bank's own thinking, eg for a modest increase in structural adjustment lending. But important to discourage unrealistic expectations.
4. UNCTAD must respect the independence of the International Financial Institutions.

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Essential Facts

1. Financial matters are outside UNCTAD's main field of competence. But there will be a discussion of financial and monetary issues at UNCTAD VI. Group B (the OECD countries) has stressed that UNCTAD must respect the independence of the international financial institutions, and has warned the Group of 77 (G77, in informal contacts, not to build up unrealistic expectations.

2. The final G77 negotiating position for UNCTAD VI is under discussion at the G77 Ministerial meeting in Buenos Aires (28 March-9 April). G77 is likely to take up ideas put forward by the UNCTAD Secretariat for a package of 'immediate measures' to help LDCs. These proposed measures include a major injection of liquidity from the IMF, World Bank and other sources. Much of the package is on too grandiose a scale, and would prove beyond the capacity of donors to provide or recipients to absorb.

3. The UNCTAD Secretariat's specific proposals for action by the World Bank and IDA are: to increase lending by committing the present 5 year programme over 4 years, to increase structural adjustment lending (SAL) as a proportion of total lending, to increase IBRD's resources by a new capital increase and/or doubling the bank's gearing ratio, and to increase IDA7 in real terms. (See brief 3(a)).

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4. The World Bank Executive Directors have recently approved a sensible and realistic Programme of Special Assistance for 1983 and 1984. This will result in an increase in World Bank disbursements over the next two years of approximately US \$2bn. As part of the programme the World Bank will make greater efforts to discuss economic policy matters with LDC borrowers (the 'policy dialogue').

5. Group B will be prepared to discuss at UNCTAD VI realistic ideas for using World Bank lending to give LDCs rather more help with their balance of payments problems, for example through a modest expansion of structural adjustment lending.

6. Leeds Castle Conference on UNCTAD VI, 30 April-2 May  
Mr Rees invited Mr Clausen to attend the Conference but he is unable to come and will be represented by a senior IBRD official.

7. Brandt

The Second Brandt Report makes proposals for action by the World Bank very similar to those put forward by the UNCTAD Secretariat.

Economic Relations Department  
6 April 1983



11/4/83

VISIT OF IBRD PRESIDENT: 12-15 APRIL

BRIEF NO 4: IMF/IBRD DEVELOPMENT COMMITTEE

POINTS TO MAKE (if raised)

FORTHCOMING MEETING ON 28-29 APRIL

1. Look forward to useful meeting of Committee. Chancellor will attend. No major problems with draft agenda.
2. Reluctant to set up new Task Forces or Sub Committees on debt or trade and development issues. Risks duplicating work best left to other institutions eg IMF and GATT.

FORMAT OF MEETINGS

3. Can support moves for sensible changes in format: eg less speech-making and more genuine discussion (cf Commonwealth Finance Ministers meetings). Needs strong chairmanship.

FUTURE ROLE OF COMMITTEE

4. Understand disappointment of some members about lack of tangible results. But Committee has commissioned useful work (eg report of its Task Force on non-concessional flows).
5. See advantage in keeping Committee as deliberative (not decision-taking) body. Should resist more formalised arrangements (eg permanent Secretariat) which might impinge on independence of parent institutions ( IMF, IBRD.)





BRIEF NO 4: IMF/IBRD DEVELOPMENT COMMITTEE

ESSENTIAL FACTS

The Development Committee was established in 1974 as the "Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries". Its remit is to maintain a general overview of the development process. It meets twice a year (normally in conjunction with the Interim Ctte). The 22 members (one from each IBRD/IMF constituency) are mainly Finance Ministers (the Chancellor normally attends for the UK). The present Chairman (elected last September) is the Finance Minister for Pakistan, Ghulam Ishaq Khan. There is an official Secretary to the Committee (at present Mr H E Kastoft from Denmark) but documentation for meetings is largely in the hands of IMF and IBRD management.

FORTHCOMING MEETING ON 28-29 APRIL

The next meeting will take place in Washington on 28-29 April. Unusually there will not be an Interim Committee meeting at the same time, as this was brought forward to February. The Chancellor will still attend.

The draft agenda includes one substantive item covering the resources of the international financial institutions (including IDA), external debt problems of developing countries and linkages between trade and the promotion of development. This structure is broadly acceptable, although there may be some problems with the draft communiqué.

There were reports following the Non-Aligned summit meeting in Delhi that the ldc's might press in the Development Committee for a new debt restructuring facility. It is not yet clear whether the Chairman will seek to push this. Mr Benjenk (IBRD Vice President) has also floated the idea that the Development Committee might set up a small sub-committee of Ministers (perhaps chaired by the Chancellor) to consider this proposal and report back to the September meeting. However, the IMF management do not favour this (nor would many G5 countries) and the idea is probably dead for the present.





The Americans are thought to want to set up a Task Force on trade and development issues. Their motives are unclear (perhaps to pre-empt discussion in UNCTAD VI or to pursue ideas floated in GATT). There is no objection to a discussion of trade linkage in the Development Committee. (Mr Clausen is also known to be interested in this subject). Follow up work might be better left to the GATT.

#### FORMAT OF MEETINGS

Mr Clausen is known to be concerned about the poor performance of the Development Committee. He feels that the present round of set speeches achieves little and would like to see more time devoted to informal discussion - perhaps closer in style to a Commonwealth meeting. We should support any practical moves in this direction, although it will take effective chairmanship to implement them.

#### FUTURE ROLE OF COMMITTEE

The Development Committee is often accused of making little impact. This is partly because of its working methods and partly because it tends to be overshadowed by the Interim Committee. The fact that it rarely produces positive recommendations for action is probably to be welcomed.

Unlike the Interim Committee, where there is a good deal of common interest, debate in the Development Committee tend to be polarised between the interests of developing and developed countries, with some of the smaller industrials (eg Nordics) often siding with the developing countries. There is no weighted voting in the Development Committee as there is in the World Bank Board. Thus, while the Development Committee has value as a forum in which developmental issues can be discussed in a less contentious way than in UN fora, it would not be in our interests for it to be given a more positive and decision-taking role in relation to the World Bank or other IFI's. We need therefore to avoid hasty decisions being taken on beefing up the role of the Committee. If there is a move in this direction at the next meeting, the better course would be to remit the subject for further study.



11/4/83

BRITISH AID POLICY AND PROGRAMME

POINTS TO MAKE

1. POLICY - British Government continue to take seriously the difficulties being experienced by countries of the developing world, and recognise that aid has an essential part to play in assisting the less developed.

Moral and humanitarian case for aid remains overwhelming and developmental objectives are basic to our programme. We are however giving greater weight to political, commercial and industrial objectives which we regard as complementing the developmental ones.

Although official aid flows are important, they are only one of the means. In addition to need for sensible domestic policies to be followed by developing countries, the flow of private resources and trade are essential. Britain's record in both these areas is good.

2. AID VOLUME - British aid programme is a considerable one - well over £1,000 million in current financial year. 10% higher in cash, and thus likely to represent an increase in real terms over 1982-83.

3. ALLOCATION OF AID - Multilateral share of aid programme in 1983-84 is expected to be about 40% of total; bilateral aid allocation to individual countries expected to be about 43%; remainder on other bilateral spending eg Pensions, Aid and Trade Provision, Sectoral Programmes. Expect a large proportion (currently about 2/3rds) of total bilateral country programme to go to "poorest" countries. We shall continue to concentrate a high level of aid on Commonwealth countries.

4. MULTILATERAL AID - Government have stressed that while accepting the past commitments meant multilateral aid would take greater part of the programme over next few years, this expenditure would be examined critically to minimise squeeze on bilateral aid and to bring our contributions more in line with our economic strength relative to other traditional Western donors. Nevertheless we remain convinced of the value of our contributions to those agencies with whom we have enjoyed long and close relationships.





## BRITISH AID POLICY AND PROGRAMME

## ESSENTIAL FACTS

1. POLICY - Combined official and private flows from Britain to developing countries in 1981 (last year for which figures available) totalled £4,980 million, equivalent to 2.01% of GNP. This is well above the UN target for combined official and private flows of 1% of GNP - a target consistently surpassed by Britain for many years.

2. AID VOLUME - Net aid programme in 1982-83 totalled £959 million. Gross programme (net plus repayments of capital on past aid loans) totalled £1,028 million.

Provision for 1983-84 is £1,057 million (net) and - depending on repayments of capital on former aid loans - gross programme should total about £1,126 million. This represents increase of almost 10% over 1982-83

Provisional planning figures for net aid programme in 1984-85 and 1985-86 are £1,100 million and £1,130 million respectively.

3. ALLOCATION OF AID - "Poorer" countries are defined as those with per capita income of US \$370 and less in 1980 (Source: World Bank Atlas 1981) and all Least Developed Countries.

We expect Commonwealth share of bilateral country programmes to increase from unusually low level of 60.5% in 1982-83 to 74.1% in 1985-86. A very high proportion of bilateral aid outside country programmes (Commonwealth Development Corporation, Research) also devoted to Commonwealth.

In 1983-84 we expect top 10 recipients of bilateral country programme aid to be:

1. India
2. Bangladesh
3. Sudan
4. Kenya
5. Sri Lanka
6. Zimbabwe
7. Tanzania

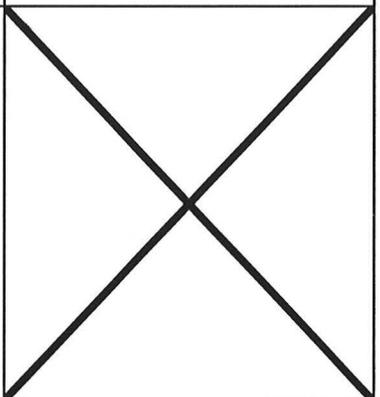




8. Gibraltar
9. Pakistan
10. Zambia

4. MULTILATERAL AID - Rise of EC spending in particular has led to severe pressure on bilateral country programmes. Their share of total has been reduced from 53% to 43% between 1979-80 and 1983-84. If, as we expect, EC programmes continue to achieve annual growth rates in excess of 10%, we fear further reduction in overall share of country programmes.



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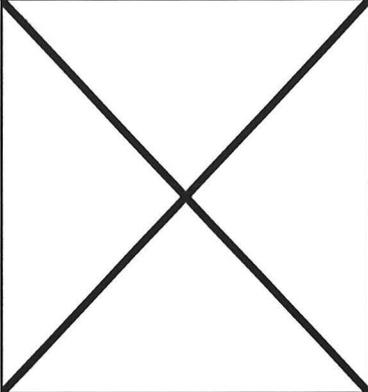
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This should be an indication of what the extract is,  
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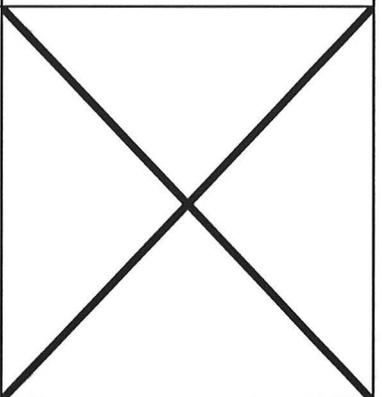
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Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.

11/4/83

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

Background

IDA was established in 1960 as an affiliate of the World Bank (IBRD) in order to provide low cost investment funds to very poor countries which were not sufficiently creditworthy to borrow on capital markets or from the IBRD. It shares the same staff and facilities as the IBRD and applies the same criteria for assessing projects. However, its "credits" are offered on near grant terms (50-year maturities, 10-year grace period, 0.75% service charge) and it relies for funds primarily on three-yearly "replenishments" of its resources made up of contributions from the major aid donor countries supplemented by small amounts from (a) repayments of earlier IDA credits which are recycled (now about \$50m a year) and (b) contributions from IBRD profits (usually about \$100m a year).

IDA is the largest multilateral aid agency and is traditionally regarded as the most efficient. A recent study of completed projects shows an average rate of return of 21% at appraisal and 18% at audit. More widely, IDA management also claim success in persuading recipients to follow sensible macro-economic policies in aided sectors (an often quoted example is the "green revolution" in India). IDA as well as IBRD funds are used for structural adjustment lending. It is clear that an apolitical multilateral agency such as IDA is better placed than individual bilateral aid donors to ensure that unpalatable advice is acted upon. IDA is also a significant source of foreign exchange for the poorest countries: in aggregate 1980 disbursements represented 10% of the total current account deficit of IDA recipients (12% of total aid flows). It also acts as a focus for donor cooperation in particularly difficult cases such as Sudan and Bangladesh.



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UK interest

The UK has been a strong supporter of IDA under successive Governments. Our original share of IDA contributions was set at 17%. This has gradually declined to 10.1% in the current replenishment (IDA6). Even this is well above our share of IDA donors' GNP (about 5.4%) and was only agreed by the present Government because IDA6 negotiations were nearly complete when they took office. Other countries accept that the UK share will fall again in IDA7: our special contribution for fiscal year 1984 was based on a 7.6% share and we have clearly stated our intention to reduce it further. Nevertheless the UK's positive attitude during the IDA6 negotiations (eg the decision following Mrs Gandhi's visit last year to waive the pro rata conditions tying our contributions to the US) have been generally welcomed internationally.

Leaving aside the question of the UK share, our interest is probably to work for a continuing high-level of resources for IDA. This is because the geographical allocation of IDA credits resembles our own bilateral aid programme more than any other aid donor's - 80% of IDA credits have gone to countries with less than \$410 GNP per head (1980); 60% to the large poor countries in South Asia and (as with the UK aid programme) India has traditionally been the major recipient. Moreover, IDA offers important procurement opportunities for British industry: our cumulative share of offshore procurement up to June 1981 was 14.4% - just below Japan (15.5%) and the US (14.7%). Taking IDA alone, procurement returns are now running at about 70% of contributions (much the same as for bilateral aid) but, if the World Bank Group is taken together, we more than recoup the cost of our contributions. Of course British firms which win business funded by



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multilateral agencies such as IDA have to prove themselves fully competitive as international tendering is mandatory. This is not always the case with the bilateral aid programme, where bidding is confined to UK firms - even less so for ATP where substantial subsidies can be involved.

IDA 6

IDA 6 was originally intended to provide \$12 billion for commitments in the three years beginning 1 July 1980. The Carter Administration was unable to obtain Congressional authorisation for the US contribution (\$3.24 billion or 27% of the whole). The present US Government decided to accept the total contribution as an existing commitment but to rephase the payments to IDA over 4 years instead of 3 and to backload payments into the third and fourth years. In the event only \$1.9 billion has so far been appropriated by Congress (although the full \$3.24 billion has been authorised), and there is a serious risk that the US contribution will not be complete until the fifth year (1985). The other IDA donors apart from the US have agreed to various mechanisms to keep IDA in funds over this period - first by advancing their first year's IDA 6 instalments, then by delinking their second and third year's instalments from the US contribution and finally by agreeing special funding for 1984. Any further delay in appropriating the US contribution could set back the seventh replenishment period (already put back from 1984 to 1985) by another year and build up pressure for more special contributions from the non-US donors. It is common ground that every opportunity should be used to persuade the US Administration to make a major effort to secure approval of their original four-year appropriations. This topic might be raised with President Reagan at Williamsburg.



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IDA 7

Negotiations on IDA 7 began in November last year, with the aim of reaching agreement by the Annual Meetings of the IMF and World Bank in September, so that the necessary ratification procedures can be put in hand in good time. In practice discussions may well drag on until the end of 1983. The main issues for decision will be:-

- (i) the volume of the replenishment;
- (ii) the burden-sharing arrangements between donors;
- (iii) the broad allocation of IDA lending between recipients; and
- (iv) possible hardening of the terms of IDA credits.

The volume of the replenishment will effectively be determined by the size of the US contribution, as given their relative economic strength the other donors are unlikely to accept an American share much less than 25%. The US Administration is thought to be considering contributions of about \$750m a year which would produce and IDA 7 total of \$9 billion over 3-years or \$12 billion over 4 years - ie substantially less in nominal terms than the agreed total for IDA 6. On burden sharing, the UK has already stated its intention of reducing its share from the 7.6% agreed for the 1984 contributions to a figure more in line with its share of donors' GNP (5.4%). (A 5.4% share of a \$9 billion IDA 7 at £1 = \$1.45 would cost £335 million - compared with our £555 million contribution to IDA 6). The question of allocation between IDA recipients centres on the rival claims of India (traditionally the largest IDA borrower) and China which will be fully eligible for IDA credits for the first time in the IDA 7 period. Our interests are clearly to support the Indian case for maintaining a reasonable share of IDA funds, while accepting China's



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right to borrow. We should also support a hardening of the terms of IDA credits (including the introduction of a low-interest charge for some countries), if this seems likely to make a difference in the size of other countries' contributions. In the longer term this will make IDA less dependent on donors' contributions.

HM Treasury  
30 March 1983

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# Why we should close our purse to the Third World

TIMES

by Peter Bauer and Basil Yamey

This week Mrs Thatcher meets Mr Tom Clausen, President of the World Bank, and will doubtless be subjected once again to the familiar argument that the rich countries of the North should give more financial aid to the poor countries of the South.

The World Bank is one of many representatives of a consensus, epitomised and propagated in the two Brandt reports. The case that official aid to the Third World on a much larger scale is needed in the interests of both South and North will also be vigorously pressed at the Williamsburg summit in May, at which Mrs Thatcher will be a major figure.

The Prime Minister is apt to take a cool look at consensus views. In the North-South context, as experience has repeatedly shown, she should remember that:

- Aid cannot significantly promote Third World development.
- Aid does not relieve poverty in the Third World.
- Aid does not promote world peace or make friends for the West.
- Aid is neither appropriate nor necessary for relieving unemployment in the West.
- Aid is neither appropriate nor necessary for solving the so-called international financial crisis.

Aid is clearly not necessary for development. Many Third World countries in the Far East, in Africa and in Latin America have progressed rapidly, have even been transformed, without aid. At best, the contribution of aid to development cannot exceed the avoided cost of borrowing, regardless of the productivity of the projects to which the aid is put.

In reality, much aid goes to support projects and programmes which do not promote development and, going to governments, is apt to have serious adverse effects. It enables governments to introduce and persist with policies which are wasteful or which retard economic progress and discourage productive activities, including agricultural production: Vietnam, Ghana and Mexico are among the many examples.

‘Aid has done little or nothing to help the poorest people in aid-receiving countries. Governments committed to improving the material standards of life of the poor are rare in the Third World’

It has become a cornerstone of North-South relations that donors may not effectively question the economic policies and general conduct of the governments receiving aid. In aid discussions, conditionality is becoming practically taboo.

More generally, official aid, by increasing the resources and the power of governments in the Third World, provokes internal tensions and diverts energies and ambitions from economic activity to the political arena. In turn, it has aggravated the lot of minorities, often key agents of Third World economic progress.

These adverse repercussions are produced by amounts of aid which, while typically quite small relative to the recorded national incomes of the recipient countries, are large, sometimes very large, relative to their total government budgets and foreign exchange receipts.

It is becoming a commonplace that aid has done little or nothing to help the poorest people in aid-receiving countries. This is not surprising. Governments committed to improving the material standards of life of the poor are rare in the Third World. How do the poor, or for that matter the bulk of the population, benefit from the construction of new capitals (about \$20,000m have been budgeted for Abuja, Nigeria), the operation of loss-making international airlines or vast prestige projects?

The principal danger to world peace does not lie in the North-South conflict. A poor South is no military threat to the West. Even if the Third World as a whole were to advance significantly, this would not ameliorate the realities of the East-West conflict. In any case, aid to the Third World has not secured allies for the West. Rather the reverse.

Many of the so-called non-aligned Third World governments (presided over until recently by Dr Castro) derive their aid from the West. Yet they are openly hostile to the West and generally sympathetic to the East and its ideas. Indeed, because of the self-doubts, feelings of guilt and internal dissensions in the West, antagonistic postures and conduct towards the West may well be appropriate for securing more aid.

The second Brandt report (page 36) suggests that, had Afghanistan received much more aid, this might have enabled it to develop faster and to resist Soviet intervention. This bizarre notion begs the question whether aid promotes development. Again, the much more developed Czechoslovakia and Hungary proved to be even less resistant to the Soviet forces than Afghanistan has been. Further, would the Brandt commission and other advocates of aid have approved if resources had been used for a large build-up of arms in Afghanistan before the Soviet invasion?

The flow of aid has not conduced to harmony within the Third World. Conflicts between aid recipients have been frequent, sometimes violent and tragic.

Large-scale aid transfers are advocated by Brandt and others as helpful or necessary for western prosperity, including employment and exports. Aid, it is claimed, increases purchasing power and advances growth in the Third World, and thereby increases exports, employment and prosperity in the West. President Reagan, among



TIMES

\* other leaders, seems to subscribe to this view.

This claim is invalid. It would be invalid even if aid significantly promoted development in the Third World (which, however, it cannot do). Exports bought with the proceeds of foreign aid are given away.

If it were really possible to relieve unemployment or recession by more government spending, this could be done more effectively by spending at home, for example on the modernization of industry, or on industrial or regional subsidies, defence and social services.

The latest rationale for more aid derives from the international financial crisis. According to this, the international financial system will collapse unless existing Third World debts are waived or rescheduled, and Third World governments receive further aid to service their remaining debts and meet their current needs.

If major western banks were to go under because of Third World defaults, this would undeniably be serious for the western economies. But if this were a real risk, the obvious solution would be the direct one, namely, official rescue operations for endangered banks. It simply confuses the issue to couple the salvaging of western banks with the provision of Third World aid.

It may suit western financial interests to have any rescue money laundered by having it pass through the hands of Third World governments. But this cleansing operation is likely to involve heavy laundry bills. It obfuscates realities still

further if the rescue operations, and more generally the provision of aid, are conducted through the IMF (or a similar international body). This helps to give the impression that additional resources are conjured into being, without cost to anyone.

But whatever form they take, such operations have to be financed by money creation, taxation or borrowing from non-bank sources. Financing such operations by creating Special Drawing Rights (i.e. high-powered money) on a large scale, as is influentially canvassed, has particularly menacing implications. It could undermine the international monetary system.

Debt cancellation, debt rescheduling and special aid for Third World governments on the brink of default specifically favour the incompetent, imprudent or recalcitrant compared to those who conduct their affairs (e.g. by establishing financial reserves in good times) so as to honour their international obligations. These practices are damaging in that little or no penalty attaches to borrowing governments which act in disregard of their obligations or are prepared to threaten their western donors and creditors.

If debt waivers, rescheduling and special aid becomes the norm - and the first two have been recurring for decades - Third World governments will have little incentive to avoid insolvency. If they then cry "Can't pay, won't pay", who can blame them, especially if this is politically useful for them at home? Rescue operations may well be as much the source of debt crises as they are their "solution".

Incidentally, the biggest debtors are far from being the poorest Third World countries. They are the so-called middle-income countries such as Mexico and Brazil, and various Eastern block countries. In the former, lax financial policies have resulted in extensive misdirection of resources; in the latter, the western economic system is officially rejected.

The levels of debt of some of the most widely publicized Third World debtors are not large by historical standards, and are often less than they were at times when they were regarded as first-class debtors and long before foreign aid was thought of.

But isn't this all much ado about nothing, or nothing much? Aren't the amounts of aid insignificant in relation to the donor's national incomes? In fact the amounts are not trivial. British aid, for example, is well over £1,000m a year.

Many aid advocates say that aid or more aid is indispensable for the development, or even survival, of much of the Third World. We have shown that this is not the case. But in one sense it is true that the Third World depends upon aid.

Without foreign aid there is no Third World. The concept of the Third World and the policy of foreign aid are inseparable. It is their common interest in pressing for more aid that provides such cohesion as exists among governments and societies.

It is not poverty, stagnation, colour or common brotherhood which is the bond. For all practical purposes the Third World, or South, is simply an entity for collective bargaining with the North, and which, as collectively, adopts a hostile stance towards the North.

As long as the policy of aid continues, there will be the so-called North-South confrontation. Aid is the source of the North-South conflict, not its solution. The Prime Minister should resist attempts to expand and entrench foreign aid. She should also resist attempts to make aid more automatic, or to channel more of it through supranational organizations, where control by donor governments and their electorates is even less effective than under direct aid, or is non-existent.

*The authors are professors of economics at the London School of Economics.*

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11/4/83

PROGRAMME FOR THE VISIT OF MR TOM CLAUSEN, PRESIDENT OF THE WORLD BANK, TO THE UK BETWEEN TUESDAY, 12 APRIL AND FRIDAY, 15 APRIL

Tuesday, 12 April

Arrive, Evening

Wednesday, 13 April

1030	Prime Minister
Lunch	Lunch with Commonwealth Secretariat
1500	Chancellor of the Exchequer
1730	Meeting with Conservative Back Bench Parliamentary Committees on Foreign Affairs, Finance, Trade and Industry, organised by Mr Bowen Wells, MP
1930 for 2000	Governor of the Bank of England's dinner for bankers

Thursday, 14 April

1000	Governor of Bank of England
1215	Minister for Overseas Development
Lunch	Minister for Overseas Development
1515	Press Conference (ODA)
1630	Secretary of State
1945 for 2000	Chancellor of the Exchequer: Small informal dinner (with wives) at 11 Downing Street

Friday, 15 April

Depart, morning



SSG

for tomorrow's folder

MP

FROM: M ATKINSON

DATE: 12 April 1983

MISS O'MARA

cc Mr Carey  
Mr Beastall  
Mr Bonney

MR CLAUSEN'S VISIT

1. You asked Mr Carey for a brief appraisal of Mr Clausen's Lecture to the Centre for International Affairs last February.
2. The lacklustre pevoration does not do justice to the rest of the lecture which is a fairly workmanlike tour d'horizon with US sensibilities clearly in mind. There are one or two interesting insights, but nothing I think of which the Chancellor should be particularly aware.
3. Mr Clausen's basic position is similar to the Chancellor's: strong faith in the robustness and resilience of the international monetary system and the importance of maintaining a liberal capital and trading regime; and a clear distinction between the position of middle-income countries (with access to commercial banks) and low income countries (dependent on export recovery and to a lesser extent aid). Growth in the global economy is a prerequisite for easing the debt problems of many LDCs, but the debt problems are nevertheless country-specific: there is no reference to schemes for global debt restructuring.
4. But there are some interesting differences in emphasis. For example the need for industrial countries to pursue counter-inflationary fiscal and monetary policies gets hardly a mention. Instead Mr Clausen stresses the need for structural changes (in particular, further adjustment towards world energy prices, slower growth in military spending, higher investment, and more open economies). Elsewhere it is noticeable that he plays down the World Bank's lending policies (except for IDA) and puts the

Handwritten notes and scribbles at the top of the page.

FROM: M ATKINSON

DATE: 12 April 1983

MISS O'MARA

cc Mr Carey  
Mr Bestall  
Mr Romney

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emphasis on the Bank's technical assistance, policy dialogue with LDCs, sharing of information with commercial banks and consultative groups etc. This of course may have been tailored for the US audience.

5. Mr Clausen makes the familiar point that banks must not overreact to a country's liquidity shortage by cutting off fresh credit. But he also points - in an otherwise upbeat analysis of international banking - to three structural weaknesses. International lending is too concentrated among a few big banks: major banks have double the average exposure to LDCs, and LDC loans are typically three times their total equity. Smaller banks have difficulty in getting information about sovereign debtors. And spreads on international lending do not adequately reflect the great variation of risk.

  
M H ATKINSON

M H WILKINSON



of track.

International banking do not adequately reflect the great activity in banking information about solvency reports. And banks on three times their total assets. Greater banks have difficulty make double the volume exposure to GDCs, and GDC loans are typically banking is too concentrated among a few big banks: major banks international banking - to three additional weaknesses. International credit. But we also believe - in an otherwise broad analysis of activities to a country, a particularly significant part of these 2. Mr. Johnson makes the familiar point that banks must not

influence.

flows etc. This of course would have been justified for the US GDCs, spreading of information with commercial banks and conservative emphasis on the bank's technical assistance, but a dialogue with

3 pm memo

FROM: R J BONNEY  
DATE: 12 April 1983

*Pf. add to the 3 part bundle  
The brief on IDA The Chancellor set to  
PT 2 left before Everts on Clausen / IDA*

1. MR BEASTALL *AB 12/4*  
2. PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary *Jel*  
Mr Littler  
Mr Unwin  
Mr Carey  
Mr Wicks  
Mr Bottrill  
Mr Ridley  
1. Mr Basi  
2. FMA

MEETINGS WITH IBRD PRESIDENT: 13-14 APRIL

Mr Power's letter of 11 April covers the formal briefing for Mr Clausen's meetings with the Prime Minister and other Ministers (including a rebuttal of Monday's Times article on overseas aid by Professors Bauer and Yamey). The Chancellor will be seeing Mr Clausen at 3pm on Wednesday 13 April and again at his informal dinner at No 11 on Thursday.

2. Aside from the general world economic situation, the specific questions which Mr Clausen is likely to raise with the Chancellor are:-

- (i) the future of IDA;
- (ii) plans for an expansion of IBRD lending; and
- (iii) the role of the Development Committee.

(Of these (i) and (ii) are covered in Brief No 3 (a) and (iii) in Brief No 4).

3. The brief on IDA recommends that the Prime Minister should express willingness to join others in putting pressure on President Reagan at Williamsburg. Only if the US Administration gives whole-hearted support to its own proposals, will Congress approve the IDA6 appropriations on schedule. On IDA7 we should advise Mr Clausen not to arouse expectations of a replenishment total which the Americans would regard as unrealistic.



4. On the IBRD's lending plans, it would be premature to make any commitment to supporting an increase above present plans. The Bank's proposals have not yet been considered by the Executive Board and might involve bringing forward somewhat the next general capital increase. On the other hand this would be a relatively cheap way of making some response to the long list of G77 demands at UNCTAD VI.

5. Mr Clausen may also wish to discuss the prospects for the Development Committee later this month. He is known to be dissatisfied with the way the Committee operates. It would be dangerous to take hasty decisions about beefing up the role of the Committee, as this is unlikely to be in our overall interest. However as a matter of procedure, it might be worth exploring a move towards informal and genuine discussion instead of the present tedious recital of prepared speeches.

6. The Chancellor has also asked for a brief appraisal of Mr Clausen's recent lecture on third world debt. I attach a note by Mr Atkinson on this subject.

7. The Chancellor may also have seen recent press reports about American objections to IBRD lending to Hungary. Mr Clausen is unlikely to raise this but if he does, we suggest that our line should be that Hungary should be treated in the same way as any other member of the Bank. (There is a dispute about Hungary's GNP figures - the Americans claim that she is too rich to qualify for IBRD lending).



R J BONNEY





10 DOWNING STREET

*From the Private Secretary*

EXCHEQUER	
14 APR 1983	
SEARCH	MR LITTLE. 14/4.
COPIES TO	Mr MIDDLETON.
	Mr LAVELLE.
13 April 1983	
Mr Gwyn.	
Mr Bottrill	
Mr CAREY	

*Dear John,*

CALL UPON THE PRIME MINISTER BY MR. CLAUSEN, PRESIDENT OF THE IBRD

Mr. A. W. Clausen called upon the Prime Minister this morning. He was accompanied by Mr. Benjinck. Mr. Alan Walters was also present.

Mr. Clausen said that in the present world-wide economic malaise, what was needed was sound sustainable growth. To achieve this it would be important to secure growth in the developing countries, which were important markets for the developed countries. In the case of the United States alone, 40% of exports currently went to developing countries, compared with 29% 11 years earlier. The same was true in Europe and elsewhere. The IBRD could be helpful in achieving this end, particularly since commercial banks were drawing their horns in at present.

The Prime Minister commented that many banks had overlent, and many developing countries had overborrowed. The last thing that the member governments of the IBRD should do would be to encourage imprudent lending and borrowing. Mr. Clausen agreed. The soundness and prudence of the World Bank's operations had created the ironical situation in which the IBRD enjoyed the finest spreads, notwithstanding that its lending was to developing countries, while commercial banks, with less concentration in their loan portfolios on developing countries, were obliged to pay wider spreads. The Prime Minister commented that the IBRD's backing for its lending was, no doubt, in part its past profits; but also the backing of its member governments. Mr. Clausen said that the developing countries had considerable resources to mobilise and develop. Even where there were serious debt problems, as in the case of Mexico, there was frequently no insolvency, but simply a liquidity problem. The World Bank could be of great assistance in some of these cases. The Prime Minister said that she accepted that there was an important role for the IMF and IBRD in such cases. But she had to insist that no action should be taken which might lead to undermining the soundness of the Western banks. Such action would lead to calamity. In the case of many countries with debt problems, if their difficulties could properly be described as liquidity difficulties, these were often difficulties which would last for many years. One always had to remember that liquidity difficulties could lead to bankruptcy and collapse.

/ Mr. Clausen



Mr. Clausen said that the commercial banks' lending was unconditional. Many countries which sought to borrow from the IBRD were following unsound policies, for example, subsidising consumption, and with little confidence in their financial markets. The conditionality of IBRD lending was in these circumstances vital. The Prime Minister agreed, and said that it was essential for the necessary conditionality to be tough and to extend over a sufficient period of time. There was always a temptation, as in Britain in the latter years of the previous Government, to go back to the bad old ways once the loans had been disbursed. Mr. Benjinck said that the loans were disbursed in tranches, and that no tranche would be released if the loan conditions were not being honoured. Mr. Clausen pointed out the extent to which IBRD lending was project-directed.

The Prime Minister said that we were spending more and more of our aid through multilateral channels. We found that we earned no credit for such aid from recipient countries. She noted, too, that our contribution to IDA was larger than would be justified by our relative GNP. Mr. Clausen recalled, with gratitude, the initiative which the United Kingdom had taken in breaking the log-jam of IDA VI. He said that he believed that there was an understanding amongst many of the member countries that the United Kingdom's IDA percentage should be reduced. But he very much hoped that the United Kingdom would be prepared to show the leadership on IDA VII which it had showed in IDA VI. The accession of the People's Republic of China to the IDA (with which the United Kingdom had agreed) made it all the more essential that there should be an adequate Seventh Replenishment. He believed that a Replenishment of \$15-16 billion was becoming something of a rallying point for IDA VII. The Prime Minister said that she could give no promises about IDA VII. The United Kingdom's record on IDA was a good one. One of the problems was that a large percentage of IDA's funds went to India, and no-one was ready to argue that India should receive a reduced percentage. Mr. Clausen said that the proportion going to India was 40% a few years ago. Two years ago it was 37% and still going down. But both India and China had access to capital markets, and the aim must be to concentrate IDA lending on those countries whose credit rating meant they had little or no alternative source of capital - for example, the countries in sub-Saharan Africa.

Mr. Clausen expressed the hope that there would be discussion at Williamsburg of conditional development assistance, and that the Prime Minister would feel able to urge President Reagan to see to it that the United States met its commitments on IDA VI. The Prime Minister said that the United States had historically been a very generous country. She would not be prepared to criticise the Americans publicly. She pointed out that the United States had already done much in recent months to help the developing world, for example, in drip-feeding Mexico: the Fed's motive in this had been largely, no doubt, to sustain the United States' banks with high exposure to Mexico, but this action had not been without cost to the United States economy, given the monetary and inflationary consequences of this action.

/ Mr. Clausen



Mr. Clausen went on to ask the Prime Minister for her support in removing constraints on IBRD lending, referring specifically to the \$60 billion lending ceiling. The Prime Minister enquired what the cost to the UK would be. Mr. Clausen said it might mean bringing forward the next IBRD capital increase by about 6 months; or issuing a guarantee. The Prime Minister said that she, again, could make no promises, and expressed doubts about the issuing of a guarantee, however unlikely it was to be called.

Summing up the points he wished to make, Mr. Clausen said that he hoped that the British Government would support action to allow the IBRD to grow a little more to accommodate China; and to show leadership at the Williamsburg Summit on IDA VII. The Prime Minister said that China was able to raise capital on her own credit, and was capable, with her natural labour resources, of becoming a wealthy country, if her political system were to change. She noted Mr. Clausen's points, and reiterated that she and Mr. Clausen shared the same objective, of promoting sound and sustained non-inflationary world growth.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), Michael Power (Overseas Development Administration), and Richard Hatfield (Cabinet Office).

*Yours sincerely,*

*Michael Scholar*

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John Kerr, Esq.,  
H.M. Treasury.



FROM: R J BONNEY  
DATE: 13 April 1983

- (seen in draft)
1. MR BEASTALL
  2. PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary  
Mr Littler  
Mr Unwin  
Mr Carey  
Mr Wicks  
Mr Bottrill  
Mr Ridley  
1. Mr Basi  
2. FMA

MEETINGS WITH IBRD PRESIDENT: 13-14 APRIL

The Chancellor has asked for a note of the points which Mr Clausen is likely to raise and any points which he should raise with Mr Clausen. Leaving aside the prospects for the world economy in general (see Brief no 2), we think that the main points are likely to be as set out below (cross references are to the briefing already submitted under my note of 12 April ).

A. Questions which may be raised by Mr Clausen  
IDA (see brief No 3A)

1. Will UK put pressure on the Americans to appropriate IDA6 contributions on time and make reasonable contribution to IDA7?

Brief answer: Yes: refer to EC démarche on 1 March and Williamsburg.

2. What will UK contribute to IDA7?

Brief answer: UK will support realistic total for IDA7 but our share must come down in line with our share of donors' GNP.

3. (possibly) Will UK support further bridging arrangement for FY85 if American contributions delayed again?

Brief answer: too early to say.

IBRD (see Brief No 3A)

4. Will UK support increase in IBRD lending above the \$60 billion 5 year programme?

/Brief



Brief answer: Will consider Bank's proposals carefully. Important that higher lending should not impair IBRD credit worthiness.

5. Will UK support selective capital increase based on 8th Quota Review for Germany and Japan?

Brief answer: no objection in principle. Question of relative rankings of G5 would need to be considered.

6. Will UK support another general capital increase?

Brief answer: will look at Bank's proposals carefully. Question of paid in element and/or change in gearing ratio needs to be considered.

#### DEVELOPMENT COMMITTEE (see Brief No 4)

7. Would Chancellor like to see Development Committee spend more time on debt and trade issues?

Brief answer: right for Committee to address these issues. But avoid too many new task forces which might duplicate work better done elsewhere.

8. Should working methods of Committee be improved?

Brief answer: Yes. Can support improvements (eg less set speeches and more genuine discussion). But Committee should not become decision-taking body.

#### B. Questions for Chancellor to ask

##### IDA (Brief 3A)

1. Does Clausen expect Reagan Administration to deliver IDA6 appropriations on time?

2. What does Clausen regard as a realistic target for IDA7? Should he not seek to talk down ldc expectations to this level?

3. What is Clausen's current thinking on hardening IDA terms (ie by shortening maturities ~~or~~ introducing interest charge)?

/Will



Will this help to secure reasonable US contribution to IDA7?

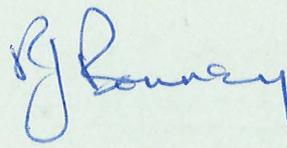
IBRD (Brief 3A)

4. Is Clausen satisfied with progress on securing more co-financing?

5. Does Clausen see any limit to the IBRD's capacity to borrow to finance increased lending?

OTHER

6. Does Clausen think it will be possible to avoid confrontation at UNCTAD VI? Does he see UNCTAD's discussion of financial and monetary issues as a threat to the independence of the Bank and the Fund? (Brief 3B).



R J BONNEY



14/4



- ✓ 2 Howes
- 2 Clausens
- 1 Benjenk
- ✓ 2 Raisens (RT Hon T. Mo) ✓
- ✓ 2 Rynies (KCB) ~~accept~~ ✓
- ~~✓ 2 Letters (CB) ✓~~
- ✓ 2 Wicks (CBE) ~~accepted~~
- ✓ 2 <sup>Sir</sup> Ramphals ~~accepted~~  
OE, AC, KE, emg, QC
- ✓ 1 Kerr

~~carry~~ No.

2 Burns

invitation sent  
informal  
7.45 for 8.00