

PO - CH / NL / 0111

PART A

Part A.

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Begins: 4/2/87.  
Ends: 17/8/88



PO -CH /NL/0111



PART A

Chancellor's (Lawson) Papers:

**THE AID FRAMEWORK USE OF  
THE UNALLOCATED RESERVE**

NL/0111

PO -CH

PART A

Disposal Directions: 25 Years

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16/8/95.

4/2/87. advice of 13/2.



Keep an  
eye out for  
these please

FCS/87/024

CHANCELLOR OF THE EXCHEQUER

CH/EXCHEQUER	
REC.	05FEB1987
ACTION	MR MOUNTFIELD
COPIES TO	CST, EST, MST
	SIR P. MIDDLETON
	SIR G. LITTLE
	MR. F. E. P. BUTLER

12  
(COMMENTS)  
BY 13.2.87  
PI.

MR LAVELLE, MR WALSH  
MR TURNBULL  
MR CRABBIE  
MR CROPPER  
MR TYRIE  
MR ROSS-GOBBY

Aid Framework: Use of the Unallocated Reserve

for 1987/88

1. You will recall that in September we agreed the Aid Framework for the years 1987/88 - 1989/90. I now enclose a paper setting out proposals for the use of the Unallocated Reserve contained in the Aid Framework for 1987/88, together with a summary sheet highlighting the most important allocations. I understand that our officials have considered and agreed these proposals in the Joint Aid Policy Committee.

2. After taking account of the PES outcome for 1987/88 and the substantial saving now forecast on the level of our contributions required to IDA and the EDF next year, less certain unavoidable additional requirements to meet existing commitments, a total of £128 million is available for allocation. From this I am setting aside £50 million for the in-year Contingency Reserve.

/3.



3. I have also considered carefully how we can achieve the greatest impact with the balance of £78 million. My primary concern is to augment our bilateral aid allocations. I remain of the view that we should continue to support those countries in sub-Saharan Africa pursuing economic policy reform. We are also making further commitments, through the Southern Africa Development Coordination Conference, to help develop alternative transport routes in Southern Africa, mainly through Mozambique. But I also propose to increase our technical cooperation effort in Nigeria by £300,000 in 1987/88 - one use of which might be feasibility studies for potential World Bank projects, which would have a commercial spin-off. I propose to make an offsetting reduction in the allocation proposed in the attached papers for Tanzania to accommodate this. These proposals provide for total bilateral aid allocations for sub-Saharan Africa of £260 million for 1987/88, compared to £218 million this year. This goes a considerable way to restoring the reduction in bilateral aid to the region of some 35 per cent in real terms since 1979. Political developments in Africa are bound to influence what we do in specific cases and I shall of course be keeping a close eye on this.

4. When we considered the Aid Framework last year it was agreed that we would review our aid policy towards Jordan and Egypt in 1987. Events required us to consider our position in December. I have already agreed a new tranche of capital aid to Jordan of £10 million (for which expenditure of £1 million is provided for in the Unallocated Reserve proposals) and £10 million of Programme Aid for Egypt assuming agreement with the IMF. At present we expect to spend this sum this financial year.



5. I have also agreed a modest increase in the level of our contributions to UNDP and UNICEF budgets in 1987/88. They are both effective organisations, and there are good political grounds, and in the case of UNDP strong commercial reasons, for doing so.

Chris Patten met the heads of these two organisations in New York last month, and took the opportunity to inform them of our intentions.

6. I would welcome any comments you and Paul Channon, to whom I am copying this minute, may have.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

4 February 1987

USE OF UNALLOCATED RESERVE 1987/88Summary of important proposalsChanged Requirements (Annex I of paper JAPC(86)4)

This Annex records savings in existing allocations and unavoidable increases in 1987/88 to meet existing commitments.

Major savings totalling £52 million, arise from unexpected reductions in Britain's contributions to IDA and the EDF, as a result of lower spending by these agencies.

	<u>£ million</u>
<u>Notable increases</u> are:	
EC budgetised programmes including 2nd Financial Protocol with Turkey	18.2
Bolivia: programme aid £5m already committed over two years)	2.5
British Council (ODA's share of over- seas risen costs and cost of increased aid administration work)	2.4
Pensions (revised forecast of payments in 1987/88)	3.6
TOTAL NET SAVINGS	£25.1 million

Policy Proposals (Annex II of paper JAPC(86)4) Total 78.0

Bilateral country programmes Total 73.0

including

Programme aid to Sub-Saharan African countries (Zambia, Somalia, Tanzania, Gambia, Ghana, Sierra Leone, and joint financing with IBRD Special Facility for Africa)	60.4
SADCC (to implement projects under existing £25m pledge)	5.0
Jordan: expenditure from new tranche (£10m) of capital aid	1.0
Falkland Islands: to allow expenditure under anticipated new capital aid commitment	2.0

	<u>£ million</u>
<u>Other bilateral</u>	Total <u>1.5</u>
including	
Agricultural research and development, especially for Sub-Saharan Africa	1.0
 <u>Multilateral contributions to</u>	
UNDP	1.5
UNICEF	0.5
WHO Global AIDS programme	1.0
International Agricultural Research Centres	<u>0.5</u>
	Total <u>3.5</u>

**AID FRAMEWORK UNALLOCATED RESERVE: 1987/88**

## INTRODUCTION

The Foreign and Commonwealth Secretary approved the main Aid Framework for 1987/88-1989/90 in September (circulated as JAPC(86)3).

For 1987/88 it contained an Unallocated Reserve of £90 million. The purpose of this paper is to make proposals for the use of the Unallocated Reserve for 1987/88, after allowing for changes in the resources available for aid spending next year and any savings from existing allocations released by ODA spending departments. A substantial sum will be required from the Unallocated Reserve to serve as an in-year Contingency Reserve for 1987/88. The remaining resources are available to meet the cost of changed requirements on existing bilateral and multilateral programmes, and to finance new policy options.

## RESOURCES

2 As a result of this year's PES round the planned aid budget (the net aid programme) has been increased by £5 million, £6 million and £14 million respectively for the years 1987/88, 1988/89 and 1989/90. On present forecasts of domestic inflation the aid programme is planned to be maintained in real terms at its 1986/87 level to 1989/90.

3. The amount available for spending each year is the net aid programme plus receipts of repayments of capital on past aid loans. We now estimate that the receipts will be some £6 million higher than was assumed in the agreed Aid Framework for 1987/88.



4. As a result of these additional resources the amount now remaining unallocated for 1987/88 is £102.9 million. The following table summarises the position:

	<u>£m</u>
Net Aid Programme	1234.9
Aid Loan Repayments	69.7
Gross Aid Programme	<u>1304.6</u>
<u>Less</u> Compensation to the Treasury for loss of interest under RTA	(1.1)
<u>Plus</u> Treasury contribution to MIGA	1.9
Plus Estimating Adjustment	130.5
Total Resources for Allocation	<u>1435.9</u>
Less Agreed Allocations	1333.0
Amount Remaining to be allocated	102.9

#### CHANGED REQUIREMENTS

#### Multilateral Programme (Annex I page 1)

5. Substantial savings are available from multilateral aid programmes reflecting changes in IDA and EDF management's forecasts

of drawdown of Britain's contributions in 1987. In particular, IDA management have reduced their forecast for 1987/88 by £43 million to £126 million. This follows sizeable reductions of £22 million in 1985/86 and £45 million in 1986/87. At present IDA management have not made any compensatory changes to their forecasts of spending for 1988/89 or 1989/90, but the situation is a source of concern in view of IDA's key role in helping the poorest countries, especially in Africa, to overcome their economic problems. Nonetheless the dip in IDA's projected disbursements provides us with the opportunity to increase bilateral country programme allocations.

6. Savings of £9 million on European Development Fund expenditure are also available, although these are more than offset by increased net requirements of £16.7 million on other EC aid programmes. Overall there is a net saving of £34.5 million on multilateral allocations in 1987/88 after allowing for additional costs resulting from changes in the \$:£ exchange rate, and revised forecasts of expenditure on our multilateral aid commitments. (See Annex I for details.)

#### Bilateral Programmes (Annex I pages 2-4)

7. In respect of bilateral country and other programmes unavoidable changes require a net increase in allocations of £9.4 million. (See Annex I for details.) Of particular note are:

(1) Bolivia: £2.5 million of expenditure under a Ministerial pledge to provide £5 million in programme aid once agreement had been reached with the IMF. It is expected that the balance will be required in 1988/89.

(2) Pensions: £3.6 million required to enable ODA to complete in 1987/88 the reimbursement of expenditure to overseas territories arising from the pensions takeover scheme.

(3) British Council: £2.4 million in respect of the carry forward of overseas price movements incurred in 1986/87, and

higher aid administration charges resulting from an increased volume of work undertaken by the Council at our request.

#### CONTINGENCY RESERVE

8. It is necessary to retain a Contingency Reserve for unforeseen and changed requirements that arise during the year. In past years the Contingency Reserve has generally represented 3-3.5 per cent of resources available. In 1985/86 and 1986/87 the Contingency Reserve was £55 million and £60 million respectively, anticipating exceptionally high levels of emergency assistance to Africa. For 1987/88 a Contingency Reserve of £50 million is proposed representing 3.5 per cent of resources available for allocation. This is considered sufficient to accommodate likely pressures arising within the year. A list of possible claims on the Contingency Reserve is at Annex IV

9. After adding the net savings identified in Annex I (£25.1 million) to the amount at present unallocated (£102.9 million), and setting aside a Contingency Reserve of £50 million, a balance of £78.0 million remains available for allocation.

#### POLICY OPTIONS

##### Bilateral Country Programmes (Annex II page 2)

##### Sub-Saharan Africa

10. In agreeing the new Aid Framework for 1987/88-1989/90 Ministers endorsed the policy of shifting resources towards sub-Saharan Africa provided they could be used effectively. Because of the large and

rising Unallocated Reserve in later years and the uncertainty about which countries would reach and maintain agreements with the IMF they recognised that Programme Aid assistance in support of economic policy reform should be drawn from the Unallocated Reserve.

11. Annex II includes proposed additional allocations for sub-Saharan Africa totalling £68.4 million of which £60.4 million is for Programme Aid. Within this sum it is proposed to increase the allocation in 1987/88 for joint financing with the World Bank's Special Facility for Africa by £5 million to £20 million. In total we are committed to providing bilateral aid of £75 million over five years, for joint financing with the World Bank.

12. Annex III sets out proposed Programme Aid allocations by country together with anticipated allocations of bilateral joint financing with the World Bank's Special Facility for Africa. There still remains an element of uncertainty about Programme Aid assistance in 1987/88. Countries at present committed to reform may breach their agreements with the IMF and others (eg Mozambique, Uganda and Sudan) might reach agreement with IMF. Thus Ministers may need to reconsider these allocations and consider claims on the in-year Contingency Reserve as specific commitments are required to be made.

13. Despite the death of President Machel, Ministers wish to implement the projects in Mozambique to which we are committed under SADCC as quickly as circumstances allow. If implementation proceeded quickly then an additional £8-9 million might be required to supplement the existing allocation for SADCC of £8 million in 1987/88. But more realistically an additional £5 million should be sufficient. It is proposed that this sum be added to the SADCC allocation now and should further funds be required they would be found from the Contingency Reserve.

14. No increase in the existing Aid Framework for Uganda is proposed. ODA is looking at the possibility of landrover and road

rehabilitation programmes as part of a new tranche of capital aid, but expenditure on these in 1987/88 could be accommodated within the existing allocation. Should Uganda reach agreement with the IMF there would be a call on the Contingency Reserve.

15. If all the proposed additional allocations for sub-Saharan Africa are accepted, the Aid Framework provision for the region would be increased to £260 million for 1987/88, before we use the Contingency Reserve, compared to allocations for 1986/87 of £218 million. Long term development assistance to Sub-Saharan Africa fell by 35 per cent in real terms between 1979/80 and 1985/86. The proposed allocation for 1987/88 would enable us partially to restore the real value of our assistance, at a time when the region faces severe economic difficulties.

#### **Middle East**

16. During the course of the last Aid Framework Exercise it was agreed that aid policy towards Egypt and Jordan should be revised before the 1987 main Aid Framework. Because of political factors the Jordan review has been advanced, and it is expected that a submission will shortly go to Ministers recommending a new tranche of capital aid, probably £10 million. In anticipation of this it is proposed that an additional £1 million should be allocated now for expenditure in 1987/88. The review for Egypt will take place early in the New Year. Also in response to political factors it is proposed that a further £0.45 million should be provided for aid to the Occupied Territories, bringing the total to £0.85 million.

#### **Falkland Islands**

17. It is expected that Ministers will decide to provide a further tranche of capital aid for the Falkland Islands, as the £31 million development grant is fully committed and substantially disbursed. An allocation to meet expenditure under a new commitment was

deliberately omitted from the main Aid Framework for tactical reasons before the 1986 PES discussions. The proposed additional allocation of £2 million would enable expenditure to be incurred in 1987/88 from a new commitment.

### Other Bilateral Programmes

#### **Agricultural Research and Development**

18. We are committed to a policy of encouraging agricultural research, especially to raise food production in sub-Saharan African countries. In view of the pressures on the existing allocation of £8.3 million it is proposed to increase it by £1 million.

#### **British Volunteer Programme**

19. It is proposed to increase the BVP's allocation by £250,000, in order to allow the assignments of selected volunteers to be extended from two to three years, in accordance with the findings of a recent comprehensive evaluation of Voluntary Service Overseas (the largest of the volunteer agencies).

### Multilateral Aid Programmes

#### **UNDP**

20. Since 1979 our contribution to UNDP has been reduced by 56 per cent in real terms. We have fallen from the 6th to the 11th largest donor and now provide substantially less than what would be our assessed share in UN terms. This has provoked criticism from other donors: it led to the recent Nordic attempt to change UNDP's procurement policies to our disadvantage, as we now obtain procurement benefits double our contribution level. We are in danger of losing our seat on the Governing Council at the election in 1987.

21. Donors accepted a resolution at the 1983 Governing Council to make best efforts to maintain their contributions in real terms at the 1982 level. For 1987 this would require a British contribution of about £23 million. We could head off much of the criticism of our record, and probably avoid further pressure to change the procurement rules and secure selection to the Council, if we could be seen to be providing a level of contribution broadly consistent with the 1983 resolution. Though in real terms it would still be very substantially less than we were providing in 1979.

22. It is therefore proposed that we increase the existing UNDP allocation for 1987/88 of £21.5 million by £1.5 million.

#### **UNICEF**

23. In 1986/87 we are making a general contribution of £6.5 million to UNICEF, plus £1 million in response to a special appeal for Africa. There is public and Parliamentary pressure to do more for UNICEF, one of the more responsive and better managed UN bodies. It is proposed that we should provide an extra £0.5 million now to bring the planned 1987/88 cash allocation to £7 million, and that we should be ready to respond to further special appeals in-year, subject to the availability of resources, by making a claim on the Contingency Reserve.

**WHO: Global Aids Prevention and Central Programme**

24. Britain has pledged £0.25 million for this new programme in 1986/87. In view of the seriousness of the problem facing many African countries it is proposed to set aside a further £1 million for expenditure in 1987/88. Some of these funds may be used bilaterally, rather than being provided through WHO, if suitable projects can be identified.

**CONCLUSION**

25. The proposed policy options set out in Annex II amount to £78.0 million, and would absorb the funds available for allocation. Most of the net additional allocations (£84 million) set out in Annex I and II would augment bilateral allocations. As a result, before considering the use of the in-year Contingency Reserve, bilateral allocations in the 1987/88 Aid Framework would account for 60 per cent of resources allocated. The Aid Policy Board is invited to:

- i. note the proposed Contingency Reserve of £50m and the potential claims upon it set out in Annex IV;
- ii. endorse the changed requirements set out in Annex I;
- iii. consider the policy options set out in Annex II.

Aid Policy Department  
November 1986



SADCC

Additional £3m may be required in 1987/88 to accelerate implementation of SADCC projects.

Jordan

Assuming Ministers decide to make a new tranche of capital aid available for Jordan resources will be required for later years. £1m has been provided for 1987/88

Caribbean Dependencies

Following survey by Civil Aviation Authority capital aid may be needed to upgrade airports to international safety standards.

Turks &amp; Caicos Islands

£0.45m may be required in 1987/88 to fulfil loan pledge to Club Med.

Sri Lanka

Additional aid probably required in the event of early political settlement of Tamil dispute.

Falkland Islands

Potential claim on aid programme if new fisheries protection and licencing scheme fails to cover costs and could not be met from Falkland Islands budget.

British Council

Additional sum (possibly £1m) required from Contingency Reserve to meet overseas risen costs expected in 1987/88.

UN Common Fund for  
Commodities

If Fund Agreement comes into force initial contribution of up to £2.25m required on First Account.

Guyana If negotiations with IMF successfully concluded, possibility of new Programme Aid action in cooperation with other donors.

Bolivia Up to £5m programme aid now that IMF recovery programme has been agreed with the Bolivian authorities. Provision made for £2.5m in 1987/88. Balance required in 1988/89.

Jamaica Possible Programme Aid subject to IMF agreement.

Mauritius Up to £632,000 possibly required for Northern Plains Irrigation project currently under arbitration in Mauritius.

Montserrat Significantly higher allocation for public sector investment in infrastructure might be required in future years if Little Bay tourist scheme comes to fruition.

St Kitts Completion of major TC funded consultancy on agriculture may lead to bid for further funds in future years.

Belize/Guatemala Prospects for settlement of Belize/Guatemala border dispute are improving. Ministers may wish to provide aid in support of any such agreement.

Tuvalu Trust Fund

Possible contribution of about £4m under consideration for proposed new Trust Fund to meet recurrent expenditure.

Aid Administration  
Overseas

Cost of any additional Diplomatic Wing staff who may be required to administer aid programmes overseas in future years.

Crown Agents Services

Following review of Crown Agents operations replacement of present charges to Aid Administration Vote and Grant and Loan accounts by a unitary charge amounting to £0.5m pa - £1m pa plus scheme for incentive payments for procurement savings. To be considered as call on CR for 1987/88.

Scientific Units

Additional sums, perhaps in excess of some £3m, may be required after 1987/88 to meet costs of relocating TDRI and LRDC at Chatham.

## LONG STANDING CLAIMS ON THE UALLOCATED RESERVE

1. EC AID TO TURKEY                      Fourth Financial Protocol (UK share £48m).
2. IBRD/REGIONAL BANKS                  Maintenance of value of IBRD and Regional Development Bank's capital subscriptions.
3. ANGOLA/NAMIBIA                        Possibility of increased programme to Angola and new programme for Namibia in the event of a Namibia settlement.
4. CYPRUS                                    Offer of £7.5m low interest loan outstanding since 1978. Unlikely that it will be accepted in view of requirement for Cyprus to waive claims on Sovereign Base Areas.
5. LEBANON                                  £2m for reconstruction aid once the security situation is resolved.

12-Nov-86

## RESTRICTED

## CHANGE IN REQUIREMENTS (Multilateral)

Page 1

DEPT.	SUB HEAD	1986/87	1987/88	Bids	Savings	1987/88	1988/89	1989/90	
		A/F as at	A/F as at	on UR	for UR	Proposed	Additional	Requirement	
		Sept 86	Sept 86			New A/F			
		£Ks	£Ks	£Ks	£Ks	£Ks	£Ks	£Ks	
EC Dept	Budgetised Programmes	127,800	139,000	12,200		151,200			Revised expenditure forecast using Treasury assumptions.
EC Dept	Turkey 2nd Financial Protocol	0	0	6,000		6,000	6,000	5,000	First payment of UK contribution of £17m.
EC Dept	Food Aid National Actions	19,000	19,700		1,500	18,200			Savings resulting from drop in world wheat prices.
EC Dept	EDF	96,000	113,000		9,000	104,000			Changed expenditure profile
IFID	IDA 6	98,000	89,000		43,000	46,000	(4,000)	(4,000)	Revised IDA forecast of future spending requirements.
IFID	As DB TC	300	400		400	0	(400)	(400)	Funds for this commitment will now be met from AsDB Fund.
IFID	Af DB	2,204	3,593		249	3,344			Revised drawdown forecast
IFID	IFC	8,177	4,067	290		4,357	290	290	Fall in £/\$ exchange rate
IFID	MIGA	0	3,333	424		3,757			Fall in £/\$ exchange rate
IFID	IADB	1,897	2,044	129		2,173			Fall in £/\$ exchange rate
IFID	Fund for Special Operations.	10,932	10,332	545		10,877			Fall in £/\$ exchange rate
UNCD	FAO	8,079	7,680	400		8,080			Fall in £/\$ exchange rate
UNCD	UNIDO	1,391	1,911		475	1,436			1987/88 payment brought forward to 1986/87 to help alleviate UNIDO's financial crisis.
UNCD	Commonwealth Distance Learning	100	0	50		50			Estimated expenditure requirement to implement recommendations of feasibility consultancy.
Econ.Div.	OECD Development Centre	223	217	54		271			Revised estimate of contribution and fall in £/FF exchange rate.
NRED	Commonwealth Science Council	121	124	16		140	15	15	Changed expenditure requirements
Totals - Multilateral				20,108	54,624		1,905	905	

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## CHANGE IN REQUIREMENTS (Country - Bilateral, Sub-Saharan Africa)

Page 2

DEPT.	SUB HEAD	1986/87	1987/88	Bids	Savings	1987/88	1988/89	1989/90	
		A/F as at Sept 86	A/F as at Sept 86	on UR	for UR	Proposed New A/F	Additional Requirement	Additional Requirement	
		£Ks	£Ks	£Ks	£Ks	£Ks	£Ks	£Ks	
CSAD	Mauritius	1,690	2,000	310		2,310			Changed expenditure profile under existing commitments.
E.Africa Dept	Ethiopia	3,330	1,200	1,300		2,500			Changed expenditure profile under existing commitments.
E Africa Dept	Somalia *	3,410	1,650	1,500		4,150 *			Changed expenditure profile under existing commitments.
Sub Totals - Sub Saharan Africa				3,110	C		0	0	

\* - Entry for Somalia also under Policy Options

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## CHANGE IN REQUIREMENTS (Country - Bilateral.)

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DEPT.	SUB HEAD	1986/87	1987/88	Bids	Savings	1987/88	1988/89	1989/90	
		A/F as at	A/F as at	on UR	for UR	Proposed			
		Sept 86	Sept 86			New A/F	Additional	Requirement	
		£Ks	£Ks	£Ks	£Ks	£Ks	£Ks	£Ks	
WNAM	Jordan *	3,200	1,500	600		3,100 *			Changed expenditure profile under existing commitments.
WNAM	Turkey	4,706	330	200		530			Changed expenditure profile under existing commitments.
WNAM	Syria	390	390		390	0			Withdrawal of aid following severance of diplomatic relations.
LACPD(LatAm)	Bolivia	1,450	1,500	2,500		4,000			Required to honour programme aid commitment now agreement reached between Bolivia and IMF.
LACPD(Pacific)	Tuvalu Boat	2,702	2,680	1,000		3,680	850		Project delay and increased cost of boat
LACPD(Pacific)	Vanuatu	5,232	4,300	500		4,800			Revised forecast of Budgetary aid
LACPD(Carib)	Caribbean Regional	2,250	3,868		1,600	2,268			Coastguard project expenditure reallocated on country basis.
LACPD(Carib)	Antigua	1,520	1,200	315		1,515	180		Changed expenditure profile on Coastguard project including reallocation from Caribbean Regional Fund.
LACPD(Carib)	Dominica	2,155	2,120	560		2,680	110		As for Antigua above.
LACPD(Carib)	Grenada	1,400	1,320	280		1,600	300		As for Antigua above.
LACPD(Carib)	St. Kitts	1,490	1,500	600		2,100	60		As for Antigua above.
LACPD(Carib)	St. Lucia	1,350	2,200	280		2,480	275		As for Antigua above.
LACPD(Carib)	St. Vincent	1,385	1,300	600		1,900	120		As for Antigua above.
LACPD(Depend's)	Turks & Caicos Islands	5,350	5,150	500		5,650			New manpower requirements following constitutional changes.
S. Atlantic Dept	Gibraltar	13,188	8,213	434		8,647			Revised expenditure profile
S. Atlantic Dept	St. Helena	12,500	17,534		3,800	13,734	5,300	100	Revised expenditure profile for St Helena ship.
Totals - Country Bilateral				11,479	5,790		7,195	100	

Entry for Jordan also under Policy Options

RESTRICTED

12-Nov-86

## RESTRICTED

## CHANGE IN REQUIREMENTS (Other - Bilateral)

Page 4

DEPT.	SUB HEAD	1986/87	1987/88	Bics	Savings	1987/88	1988/89	1989/90	
		A/F as at Sept 86 £Ks	A/F as at Sept 86 £Ks	on UR £Ks	for UK £Ks	Proposed New A/F £Ks	Additional £Ks	Requirement £Ks	
NRED	Relocation costs	123	4,975		1,706	3,269	750	500	Delays in move to Chatham
NRED	TDR1	3,296	3,227		774	2,453			Revised forecast due to delayed move
NRED	LRDC	470	399	180		579			Changed expenditure requirements
NRED	Agri. Ext & Rural Dev. Centre	85	92		27	65	(27)	(27)	Reduced core support following three yearly review.
NRED	Int.Pest.Appln.Fesearch Cent.	40	41	2		43	2	2	Revised expenditure requirements
NRED	Tropical Virus Unit	23	24	2		26			Revised expenditure requirements
NRED	Int. Scientific Co-operation	105	98	10		108	10	10	Changed expenditure requirements.
NRED	Overseas Survey Directorate	1,247	1,247	62		1,309			Changed expenditure requirements.
Finance Dept	Other Sundry Services	175	175	60		235			Changed expenditure requirements.
Education Div.	Education Aid Schemes	316	327		27	300			Changed expenditure profile
Education Div.	Inst. of Dev. Studies	1,295	1,501		55	1,446			Changed expenditure profile
Education Div.	British Council	38,514	39,950	2,400		42,350	3,000	4,000	Agreed increases in administration and overseas risen costs.
Pensions Dept.	Pensions	19,560	21,400	3,600		25,000			Changed expenditure profile for Pensions take-over programme.
Totals - Other Bilateral				6,316	2,589		3,735	4,485	
Total change in requirements				37,903	63,003		12,835	5,490	

t Savings (Multilateral/Bilateral)

25,100

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## POLICY OPTIONS (Multilateral)

Page 1

		1986/87	1987/88	Bids	1987/88	1988/89	1989/90	
		A/F as at Sept 86 £Ks	A/F as at Sept 86 £Ks	on U/A £Ks	Proposed A/F £Ks	A/F Additional Requirements	A/F Requirements	
UNCD	UNDP	10,500	21,500	1,500	23,000	1,500	1,500	Amount required to maintain contribution at 1982 level in real terms.
UNCD	UNICEF	3,250	6,500	500	7,000	500	500	To provide for cash increase in contribution over 1986/87 level.
H & P Div	WHO Global Aids Programme	250	0	1,000	1,000	1,000	1,000	Proposed 1987 contribution to programme, begun in 1986. Some of £1m may be used in bilateral programmes.
NRED	Int. Ag. Research Centres	6,400	6,750	500	7,250	500	500	To support additional emphasis on international agricultural research programmes for Africa.
Total - Multilateral				3,500	-----	-----	-----	

RESTRICTED

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POLICY OPTIONS (Country - Bilateral, Sub-Saharan Africa)

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		1986/87	1987/88	Bids	1987/88	1988/89	1989/90	
		A/F as at	A/F as at	on U/A	Proposed	A/F	A/F	
		Sept 86	Sept 86		A/F	Additional	Requirements	
		£Ks	£Ks	£Ks	£Ks			
	Special Facility for Africa	20,000	15,000	5,000	20,000			Part of £75m contribution to joint funding.
CSAD	SADCC	4,200	8,000	5,000	13,000	3,000		To speed up implementation of projects, especially Limpopo Railway, reflecting political and strategic importance of Southern Africa.
CSAD	Mozambique	8,040	6,500	2,000	8,500			Forecast requirement for proposed new projects to be financed under proposed umbrella grant agreement.
CSAD	Malawi	13,200	12,000	1,000	13,000			Required to finance projects in the pipeline.
CSAD	Zambia	25,500	16,000	15,000	31,000			New Programme aid, subject to Zambia maintaining agreement with IMF.
E Africa Dept	Somalia *	3,410	1,650	1,000	4,150 *			New Programme aid, subject to Somalia maintaining agreement with IMF.
E Africa Dept	Tanzania	20,130	7,000	19,000	26,000			Programme Aid: £10m. to meet existing pledge of £25m. plus £9m. of new money.
WNAMD	Gambia	7,090	2,240	3,000	5,240			New Programme aid, to be provided in support of Gambia's adherence to IMF programme of economic policy reforms.
WNAMD	Ghana	17,150	14,150	13,350	27,500			To enable Britain to make new pledge of £17m in programme aid for 1987 in support of Ghana's successful adherence to economic policy reforms.
WNAMD	Sierra Leone	2,755	2,163	4,000	6,163			New Programme aid, conditional upon successful outcome of Sierra Leone's discussions with IMF.
	Sub Total - Sub Saharan Africa			68,350		3,000	0	

\* = Entry for Somalia also under Change in Requirements

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25-Nov-86

## POLICY OPTIONS (Country -Bilateral)

Page 3

		1986/87	1987/88	B:ds	1987/88	1988/89	1989/90	
		A/F as at	A/F as at	on U/A	Proposed	A/F	A/F	
		Sept 86	Sept 86		A/F	Additional	Requirements	
		£Ks	£Ks	£Ks	£Ks			
WNAMD	Jordan *	3,200	2,500	1,000	3,100 *			New tranche of financial aid.
WNAMD	Morocco	201	250	50	300			Additional ELT programmes
WNAMD	West Bank and Gaza	375	400	450	850			Additional aid for Occupied Territories
S Asia Dept	Afghan Refugees	280	215	85	300			Revised expenditure profile for training programme.
E Asia Dept	Philippines	430	545	200	745	200	200	To fund proposed new consultancies programme.
E Asia Dept	Sri Lanka	5,600	7,000	70	7,070	100	150	To fund environmental work resulting from Victoria dam proje
LACPD(Carib)	St.Kitts Nevis	1,490	1,500	400	1,900			Accelerated expenditure authorised by Mr Raison on agreed project pipeline under independence settlement.
LACPD(Carib)	St. Vincent	1,385	1,300	100	1,400			Accelerated expenditure authorised by Mr Raison on agreed project pipeline under independence settlement.
LACPD(Pac)	University of South Pacific	0	0	170	170	80		Proposed renovation of student halls of residence.
LACPD(Pac)	Rabi Island	0	0	85	85			Disbursement of outstanding balance of £1m grant.
S.Atlantic Dept	Falkland Is.	9,955	8,370	2,000	10,370	3,500	1,500	Proposed new capital aid grant following full commitment of existing £31m grant.
				-----		-----	-----	
	Total - Country Bilateral			72,960		6,880	1,850	

\* - Entry for Jordan also under Change in Requirements

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25-Nov-86

## POLICY OPTIONS (Other - Bilateral)

Page 4

	1986/87 A/F as at Sept 86 £Ks	1987/88 A/F as at Sept 86 £Ks	Bids on U/A £Ks	1987/88 Proposed A/F £Ks	1988/89 A/F Additional Requirements	1989/90 A/F Additional Requirements		
OMS	ODI Fellowship Scheme	191	205	40	245	50	75	Expansion of scheme from 23 to 34 Fellows by 1988/89.
OMS	British Volunteers	7,740	8,624	250	8,874	250	250	Implementation of recent recommendations of Porter evaluation: extending selected volunteers' contracts to three years.
Econ Div	Appropriate Technology	1,200	1,242	250	1,492	500	600	Proposed expansion of programme, particularly support for ITDG.
NRED	Agricultural R & D.	7,983	8,301	1,000	9,301	1,250	1,500	Increase support of agricultural R & D of benefit to developing countries, especially in Africa.
Total - Other Bilateral			1,540		2,050		2,425	
Total Policy Bids			78,000		12,430		7,775	
Balance B/F from Change Requirements sheet			25,100					
Net Call on the Unallocated Reserve (Bid less Savings)			52,900					
Proposed Contingency Reserve 1987/88			50,000					
Total Reserve Requirement			102,900					
Unallocated Reserve (JAPC(86)3) Plus Additional Resources			102,900					
BALANCE			0					

RESTRICTED

## SUB-SAHARAN AFRICA: PLANNED PROGRAMME AID DISBURSEMENTS

£M

	<u>1986/87</u>			<u>1987/88</u>		
	Programme Aid	SFA	Total	Programme Aid	SFA	Total
Tanzania	10	5	15	19	4	23
Uganda	4	0	4	1	0	1
Somalia	1.6	2.5	4.1	1	2.5	3.5
Mozambique	3	0	3	4.5	0	4.5
Mauritius	0.3	0	0.3	0.7	0	0.7
Zambia	6.7	5	11.7	15	4	19
Malawi	1.6	2.5	4.1	2.5	2.5	5
Sierra Leone	2	2.5	4.5	3	0	3
Ghana	13.5	5	18.5	22	5	27
Gambia	5	3	8	3	0	3
Zaire	1	0	1	0	2	2
	48.7	25.5	74.2	71.7*	20	91.7

\* Includes £11.3 million of programme aid from existing allocations

**POTENTIAL CLAIMS ON THE CONTINGENCY/UNALLOCATED RESERVE FOR FUTURE YEARS**

Multilateral Aid

IBRD - New General Capital Increase (GCI)	If new GCI agreed, initial payment of about £2m could be required perhaps starting in 1988/89 and 1989/90.
EC Aid to Turkey	Supplement to Second Financial protocol unblocked. UK share £17m, of which £6m provided for 1987/88. Balance to be spread over following two-three years.
UNIDO	Part payment of 1988 contribution (possibly £0.5m) may be required in 1987/88; UNIDO facing financial crisis due to USA aid budget cuts.
UNICEF	To respond to special appeals in 1987 eg for Africa, or immunisation programmes.

Bilateral Aid

Afghan Refugees	First call on Contingency Reserve while refugee problem remains
Sub-Saharan Africa: Programme Aid	For those countries in reaching agreement with the IMF in 1987/88 eg Mozambique, Sudan, Uganda.

C/ letter to issue?

CR 16/2

FROM: MISS M F CUND  
DATE: 16 FEBRUARY 1987

- b 16/2  
1. MR P G F DAVIS  
2. CHANCELLOR

cc: Mr Mountfield  
Mr Walsh  
Mr Chisnall

**AID FRAMEWORK: USE OF THE UNALLOCATED RESERVE FOR 1987-88**

The Foreign Secretary's minute to the Chancellor of 4 February encloses a paper setting out proposals for the use of Unallocated Reserve in the Aid Framework for 1987-88 and for allocating the £5 million which has been added to the PES baseline for overseas aid in that year. As Sir Geoffrey says, these proposals were discussed and agreed by officials, including the Treasury, in the Joint Aid Policy Committee.

2. The Treasury's main concern is the size of ODA's Contingency Reserve which remains unallocated at the beginning of the coming financial year. There are always unexpected and often substantial pressures on the aid programme during the course of any year, and we need to be satisfied that these can be accommodated within the existing total provision, without any calls being made on the Treasury's central Reserve. Sir Geoffrey proposes that ODA's Contingency Reserve for 1987-88 should be £50 million, out of a gross aid programme of £1305 million. At 3.8 per cent, this is smaller both in cash and percentage terms than in 1986-87. Having discussed this with ODA, we are satisfied that it should prove adequate because the need to provide large-scale famine relief in Africa, which has inflated the Contingency Reserve in recent years, has now passed.

3. As a result of savings forecast in contributions to certain multilateral agencies in the coming year, it has been possible to increase bilateral aid. This very much accords with D'I's wishes because of spin-off for UK procurement, and has been welcomed by Mr Channon in his letter of 13 February to Sir Geoffrey Howe. Sub-Saharan Africa has benefitted particularly from this reallocation. However, actual disbursements of aid

over the course of the year will be influenced both by political developments there, and by adherence to economic policy reform. We continue to emphasise to ODA that balance of payments support should, as far as possible, be confined to countries undertaking IMF programmes.

4. At official level, we have said that we are content with the proposed allocations, and with the drawing down of the Unallocated Reserve to £50 million.

5. I attach a draft reply to the Foreign Secretary.

*Margaret Cund*

M E CUND



*Pse tyree*

**DRAFT REPLY TO THE FOREIGN SECRETARY**

cc: Secretary of State for Trade and Industry

**AID FRAMEWORK: USE OF THE UNALLOCATED RESERVE FOR 1987-88**

Thank you for your minute of 4 February.

2. My officials have already discussed with yours the size of ODA's Contingency Reserve for next year, and are satisfied that £50 million should prove adequate now that the worst of the African crisis has passed. I am prepared to accept this, subject to offsetting savings being found from elsewhere in the aid programme if more is needed. I am also content with the other proposed allocations from the Unallocated Reserve.

3. I am copying this minute to Paul Channon.

**NIGEL LAWSON**



Dobbie  
- Personal  
Folder.

pus

OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

From the Minister

7 May 1987

Alex Allan Esq  
Private Secretary to the Chancellor  
of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

CH/EXCHEQUE	
REC.	08 MAY 1987
ACTION	CST
COPIES TO	

19/5

Dear Alex,

**NEW BOOKLET ON BRITISH AID**

... The Chancellor of the Exchequer may wish to be aware of a new illustrated guide to the aid programme which we have just published. I enclose a copy. It is being given a wide distribution both here and overseas.

I am sending copies of this letter and the guide to the Private Secretaries to: the Chief Secretary, the Secretary of State for Education and Science, the Secretary of State for Trade and Industry, the Minister for Trade, and the Minister for the Environment, Countryside and Planning.

Yours sincerely  
M J Dinham

(M J Dinham)  
Private Secretary



30/7/87.

BP with advice  
(or 10/8)

Have we not had  
advice on this?

FCS/87/171

CH/EXCHEQUER	
REC.	31 JUL 1987
ACTION	MR MOUNTFIELD
COPIES TO	CST PMG EST SIR P. MIDDLETON SIR G. LITTLER MR F.E.R. BUTLER MR LAVELLE MR H.P. EVANS MR WALSH MR TURNBULL.

CHANCELLOR OF THE EXCHEQUER

Aid Framework Proposals 1988/89 to 1990/91

- / 1. I enclose aid framework proposals for the years 1988/89 to 1990/91. These have been put together, with difficulty, within the existing agreed baseline for aid.
2. By continued careful scrutiny of our multilateral spending we have managed to add rather more to our bilateral country programmes than we originally envisaged. As a result multilateral aid allocations in the last two years account for 40% of the total programme, compared to the 42% which we anticipated this time last year.
3. The bulk of multilateral spending over the next four years arises from existing commitments and, because of the attribution system, from developments in the EC budget over which we have little control. The key decisions on multilateral aid therefore are not taken in the aid framework context. They arise at the time of major replenishment negotiations and, in the case of EC attributions, through the annual EC budget process. The reduction in the expected level of EC attributions over the next four years is of course welcome. But a raising of the VAT ceiling would add to the pressures on the aid programme.



4. Given the burden sharing nature of most multilateral aid negotiations, we have, I believe, done well to limit the growth of multilateral spending as a proportion of our total aid budget, while still securing our essential commercial and political interests. But it is clear, despite what we may wish to believe to the contrary, that there is no further scope for reducing our share in these organisations, which in many cases is now well below our relative economic strength,

5. The relatively high proportion of multilateral aid in our total programme compared to other major donors simply reflects the low level of British aid combined with Community membership. As a percentage of GNP our contributions to non-EC multilateral institutions are broadly similar to those of Japan and France (0.08%). Our Community partners have a much higher proportion of bilateral aid because they have much bigger aid programmes - as Chris Patten had to admit in the House last week, the average for France, Germany, Italy, the Netherlands and Belgium was 0.55% in 1986; and that is rising, while ours is falling steadily. This means that their bilateral aid programmes alone represent a much larger share of GDP than does our total aid programme. Japan's bilateral aid programme is now 5 times the size of ours: and even Holland's is larger than that of the UK.

6. After careful husbanding of existing planned resources we can expect our bilateral country programmes to total £580 million annually over the next three years after the use of the Unallocated Reserve (but before resorting to the in-year contingency reserve). This is the same in cash terms as for the present financial year. This is slightly better than expected when we embarked upon this exercise earlier this year, but quite inadequate. It is of course closely tied to

/British



British procurement, and Chris Patten and I are under constant pressure from the business community to do more. Like David Young, I do not believe our exporters need to be subsidised; but in the poor countries where our programmes are concentrated aid is often the only source of export finance. None of us can take any satisfaction from the prospect of our total of bilateral country programmes in 1990 being some half its 1979 real value.

7. An important innovation this year is the creation of a regional programme aid allocation for sub-Saharan Africa. We can no longer look solely to the Unallocated Reserve for this: the sums required to support policy reform in sub-Saharan Africa, where we have significant political and commercial interests, are now too large. It has of course required us, apart from some reduction in the Unallocated Reserve itself, to hold back allocations elsewhere. Although I do not regard as adequate the sums we have been able to set aside to support adjustment in the region (they are less than what we were doing this year) I see no scope for further shifting the balance of our resources. We should of course be planning to do more, not less, particularly if more countries reach agreement with the Fund.

8. The aid framework proposals do not include provision for your debt initiative, a new World Bank GCI, or the additional funds required for ATP soft loans. These are all part of my PES Bid which I shall be discussing with John Major in the autumn. But, as you can see, if we are to improve the balance between bilateral and multilateral aid, if we are to continue to be taken seriously as a bilateral donor, and if we are to protect our political and commercial interests, additional resources are required to augment our bilateral country programmes. Frankly, the British aid programme is no longer commensurate with the success of our economic policies.



9. I would welcome any comments you and David Young may have before officials put these proposals into effect.

A handwritten signature in blue ink, which appears to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

30 July 1987

24-Jul-87

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## SUMMARY SHEET

Millions £

	1987-88	1988-89	1988-89	1989-90	1989-90	1990-91
	Current	Proposed	Current	Proposed	Current	Proposed
<b>BILATERAL - COUNTRY PROGRAMMES</b>	<b>A/F Total</b>	<b>Total</b>	<b>A/F Total</b>	<b>Total</b>	<b>A/F Total</b>	<b>Total</b>
-----						
Sub-Saharan Africa: Total	258.92	261.20	181.38	260.14	182.08	264.60
* - Country Allocations	258.92	179.20	181.38	185.14	182.08	189.60
* - Regional Programme Aid Allocations	0.00	82.00	0.00	75.00	0.00	75.00
Mediterranean and Near East	19.94	20.18	15.08	20.53	13.66	20.13
Asia	209.88	209.55	204.94	213.86	209.47	215.42
Latin America	11.69	12.79	9.31	10.37	9.45	9.32
Caribbean	19.59	21.18	15.47	15.38	13.51	14.71
Pacific	16.80	13.49	12.19	12.14	12.12	12.42
Dependencies	42.58	42.09	36.83	24.56	24.55	20.26
	-----	-----		-----		-----
Sub Total	579.39	580.47	475.20	556.98	464.84	556.85
<b>BILATERAL - OTHER</b>						
-----						
Scientific Units	6.30	9.62	7.07	4.96	4.93	3.79
Other Sectoral	45.81	48.40	46.38	50.71	47.83	52.61
Volunteers and Voluntary Agencies	15.99	21.97	17.35	21.02	17.40	21.25
@ British Council	42.35	43.46	41.15	44.96	42.38	46.50
@ C.D.C.	45.00	50.00	45.00	50.00	45.00	50.00
@ Pensions	25.00	11.80	11.50	10.90	11.10	10.60
@ A.T.P.(incl. Soft Loans)	76.00	86.00	86.00	86.00	86.00	86.00
	-----	-----		-----		-----
Sub Total	256.45	271.26	254.45	268.55	254.64	270.75
Total Bilateral	835.84	851.73	729.65	825.53	719.48	827.60
<b>MULTILATERAL</b>						
-----						
European Community Programmes	279.40	261.90	310.80	292.60	327.10	292.20
World Bank Group	139.88	173.16	192.15	182.67	186.35	199.13
Other Financial Institutions	47.86	43.12	43.74	41.11	41.41	38.67
UN Group	59.08	57.16	57.19	68.77	57.36	69.53
Commonwealth Group	9.67	7.76	10.06	8.16	10.56	8.19
Other Multilateral	14.18	15.17	13.64	15.18	13.66	14.69
	-----	-----		-----		-----
Total Multilateral	550.06	558.27	627.58	608.47	636.44	622.40
Total Allocated	1,385.90	1,410.00	1,357.23	1,434.00	1,355.92	1,450.00
+ Unallocated/Contingency Reserve	50.00	70.00	117.00	90.00	151.00	110.00
	-----	-----		-----		-----
Total Framework	1,435.90	1,480.00	1,475.00	1,524.00	1,508.00	1,560.00

\* - Special Facility for Africa: included in the Country Allocation total for 1987/88, remaining balances to be drawn from Regional Programme Aid Allocations for 1988/89 and 1989/90.

@ - Block Provision on which no further detail is provided

+ - Includes, within the Contingency Reserve, Summit Initiative Funds not yet allocated .

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24-Jul-87

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Thousands £ cash

## CENTRAL AND SOUTHERN AFRICA

-----  
Southern Africa

	87-88		88-89		88-89		89-90		89-90		90-91	
	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed
	A/F Total			Total	A/F Total		Total	A/F Total				Total
P Angola	230	0	400	400	240	0	415	415	260	0	425	425
I L Botswana	5,300	0	5,500	5,500	5,300	0	5,500	5,500	5,300	0	5,500	5,500
I P L Lesotho	4,100	1,850	2,400	4,250	4,000	1,800	2,600	4,400	4,000	1,800	2,700	4,500
I P L Malawi	13,000	5,400	7,500	12,900	12,900	7,400	7,500	14,900	14,900	7,500	7,500	15,000
P Mozambique	8,500	3,500	2,000	5,500	2,000	4,500	2,000	6,500	4,500	5,000	2,000	7,000
Namibia	875	0	1,500	1,500	900	0	1,600	1,600	925	0	1,650	1,650
South Africa	2,666	0	3,800	3,800	3,606	0	4,650	4,650	4,314	0	5,550	5,550
I Swaziland	2,950	750	2,000	2,750	2,550	300	2,200	2,500	2,600	200	2,400	2,600
I Zambia	31,000	3,700	14,000	17,700	17,700	3,800	13,500	17,300	17,300	4,000	13,000	17,000
I Zimbabwe	14,500	4,403	8,601	13,004	13,500	4,500	8,500	13,000	14,100	4,000	9,000	13,000
S.A.D.C.C.	13,000	8,038	1,962	10,000	6,500	7,000	3,000	10,000	6,000	6,558	3,442	10,000
Sub Total to c/f	96,121	27,641	49,663	77,304	69,196	29,300	51,465	80,765	74,199	29,058	53,167	82,225

I - Commonwealth Independent  
L - Least Developed Countries  
P - 50 Poorest Countries

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24-Jul-87

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Thousands & cash

## CENTRAL AND SOUTHERN AFRICA

Central Africa		87-88	88-89			89-90			90-91				
		Current	Cap	TC	Proposed	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed
		A/F Total	Total			A/F Total	Total			A/F Total	Total		
P	Madagascar	440	0	440	440	440	0	440	440	440	0	440	440
I	Mauritius	2,000	270	1,320	1,590	1,590	150	1,450	1,600	1,590	0	1,500	1,500
I	Seychelles	1,600	0	850	850	850	0	850	850	500	0	850	850
P	Zaire	500	0	530	530	2,530	0	550	550	2,550	0	550	550
Africa Regional		2,662	0	4,128	4,128	2,678	0	4,160	4,160	2,710	0	4,160	4,160
Sub Total		7,202	270	7,268	7,538	8,088	150	7,450	7,600	7,790	0	7,500	7,500
Sub Total b/f		96,121	27,641	45,713	77,354	69,196	29,300	51,465	80,765	74,199	29,058	53,167	82,225
Total for CSAD		103,323	27,911	56,981	84,892	77,284	29,450	58,915	88,365	81,989	29,058	60,667	89,725

I - Commonwealth Independent  
L - Least Developed Countries  
P - 50 Poorest Countries

Africa Regional - Co-operation for Development in Africa, Africa Medical and Research Foundation and West Africa Child Health Programme. Aid Programmes for Burundi (P,L), Congo and Rwanda (P,L).

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24-Jul-87

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Thousand £ cash

## AFRICA : EASTERN

	87-88		88-89		88-89		89-90		89-90		90-91	
	Current		Proposed		Current		Proposed		Current		Proposed	
	A/F Total	Cap	TC	Total	A/F Total	Cap	TC	Total	A/F Total	Cap	TC	Total
P L Ethiopia	2,500	0	1,600	1,600	1,200	0	1,600	1,600	1,200	0	1,600	1,600
I P Kenya	23,875	14,000	11,925	25,925	25,925	14,000	12,000	26,000	26,825	14,000	13,000	27,000
P L Somalia	4,150	50	2,600	2,650	1,150	0	2,650	2,650	1,150	0	2,500	2,500
P L Sudan	17,000	8,000	8,000	16,000	17,000	8,000	8,000	16,000	17,000	8,000	8,000	16,000
I P L Tanzania	25,700	6,000	7,000	13,000	7,000	7,000	7,000	14,000	7,000	8,200	7,000	15,200
I P L Uganda	10,000	5,000	4,000	9,000	11,000	5,000	4,000	9,000	11,000	5,000	4,000	9,000
East Africa Regional	600	0	300	300	600	0	300	300	600	0	300	300
Sub Total	83,825	33,050	35,425	68,475	63,875	34,000	35,550	69,550	64,775	35,200	36,400	71,600
P L Yemen Arab Republic	4,500	0	5,300	5,000	4,000	0	5,000	5,000	3,750	0	4,000	4,000
P L Yemen PDR	280	0	300	300	280	0	300	300	280	0	300	300
Sub Total	4,780	0	5,300	5,300	4,280	0	5,300	5,300	4,030	0	4,300	4,300
Total	88,605	33,050	40,725	73,775	68,155	34,000	40,850	74,850	74,850	35,200	40,700	75,900

I - Commonwealth Independent  
P - Poorest 50 Countries  
L - Least Developed Countries

East Africa Regional - Djibouti and East Africa Community.

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Thousands £ cash

## WEST AND NORTH AFRICA AND MEDITERRANEAN

## West Africa

	87-88		88-89		88-89		89-90		89-90		90-91	
	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed
	A/F Total			Total	A/F Total			Total	A/F Total			Total
Cameroon	1,850	0	1,900	1,900	1,850	0	1,950	1,950	1,850	0	1,900	1,900
Cote d'Ivoire	1,610	1,100	510	1,610	1,610	750	500	1,250	1,120	0	500	500
I P L Gambia	5,240	500	1,700	2,200	2,290	500	1,800	2,300	2,340	500	2,000	2,500
I P Ghana	27,500	5,000	4,300	9,300	9,150	5,000	5,300	10,300	9,750	5,000	6,300	11,300
P Liberia	1,305	0	800	800	1,273	0	500	500	800	0	500	500
I Nigeria	4,075	0	4,800	4,800	4,075	0	5,500	5,500	4,575	0	6,000	6,000
P Senegal	1,756	74	1,100	1,174	846	73	1,150	1,223	846	72	1,200	1,272
I P L Sierra Leone	6,163	0	1,800	1,800	1,785	0	1,850	1,850	1,855	0	1,900	1,900
Francophone/Lusophone NES	2,268	0	2,300	2,300	2,438	0	2,350	2,350	2,582	0	2,400	2,400
Sub Total	51,767	6,674	19,210	25,884	25,317	6,323	20,900	27,223	25,718	5,572	22,700	28,272

I - Commonwealth Independent

L - Least Developed Countries

P - 50 Poorest Countries

Francophone/Lusophone

- Benin, Burkina, Cape Verde Islands, Central African Rep., Chad,  
 Gabon, Guinea, Guinea-Bissau, Mali Mauritania  
 Guinea-Bissau, Mali, Mauritania, Niger and Togo (all LLDCs).

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Thousands £ cash

WEST AND NORTH AFRICA AND MEDITERRANEAN

North Africa and Mediterranean

	87-88		88-89		88-89		89-90		89-90		90-91	
	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed
	A/F Total			Total	A/F Total			Total	A/F Total			Total
Egypt	8,000	319	7,930	8,249	7,320	33	8,365	8,398	6,033	0	8,830	8,830
Jordan	4,100	2,250	1,200	3,450	1,000	2,250	1,250	3,500	1,000	2,250	1,250	3,500
West Bank and Gaza	850	450	600	1,050	500	450	650	1,100	600	450	750	1,200
Morocco	300	0	370	370	276	0	450	450	276	0	500	500
Oman	650	0	750	750	680	0	750	750	700	0	750	750
Turkey	530	0	295	295	285	0	300	300	285	0	300	300
Regional	727	0	720	720	722	0	735	735	737	0	750	750
Sub Total	15,157	3,019	11,865	14,884	10,783	2,733	12,500	15,233	9,631	2,700	13,130	15,830
Sub Total B/F	51,767	6,674	19,210	25,884	25,317	6,323	20,900	27,223	25,718	5,572	22,700	28,272
Total for WNAME	56,924	9,693	31,075	40,768	36,100	9,056	33,400	42,456	35,349	8,272	35,830	44,102

I - Independent Commonwealth

Regional - HOMGS - Israel, Lebanon and Malta  
and Training Overheads  
Aid Programmes Algeria, Cyprus and Tunisia

RESTRICTED

Thousands £ cash

## ASIA : EASTERN

	87-88			88-89		88-89		89-90		89-90		90-91	
	Current	Cap	TC	Bids	Current	Cap	TC	Bids	Current	Cap	TC	Bids	
	Total			Total	Total			Total	Total			Total	
I P L Bangladesh	43,500	34,200	9,800	44,000	44,500	34,800	10,200	45,000	45,500	35,300	10,700	46,000	
P Burma	900	0	1,800	1,800	1,000	0	2,200	2,200	1,000	0	2,500	2,500	
P China	4,000	0	5,000	5,000	4,300	0	5,700	5,700	4,430	0	6,300	6,300	
P Indonesia	8,500	2,000	6,800	8,800	6,900	2,500	7,000	9,500	7,200	1,600	7,400	9,000	
I Malaysia	1,400	0	1,475	1,475	1,475	0	1,500	1,500	1,520	0	1,500	1,500	
I P L Maldives	600	0	600	600	600	0	600	600	600	0	600	600	
Philippines	745	0	750	750	560	0	750	750	575	0	750	750	
I P Sri Lanka	7,070	4,500	4,000	8,500	7,100	5,500	3,500	9,000	7,100	6,000	3,000	9,000	
Thailand	1,450	0	1,465	1,465	1,465	0	1,480	1,480	1,480	0	1,500	1,500	
Asia Regional	661	0	770	770	673	0	660	660	685	0	680	680	
Total	68,826	40,700	32,460	73,160	68,573	42,800	33,590	76,390	70,090	42,900	34,930	77,830	

I - Independent Commonwealth  
L - Least Developed Countries  
P - 50 Poorest Countries

Asia Regional - Asian Institute of Technology, HOMGS for Laos  
Colombo Plan Staff College, Bay of Bengal Fisheries,  
Mekong Committee and Economic and Social  
Committee for Asia and the Pacific  
Aid Programme South Korea

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24-Jul-87

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Thousands £ cash

## ASIA : SOUTHERN

	87-88			88-89			89-90			90-91		
	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed
	A/F Total			Total	A/F Total			Total	A/F Total			Total
P L Bhutan	250	0	250	250	250	0	350	350	250	0	500	500
I P India : Regular Programme	72,100	53,000	15,000	69,000	69,100	54,900	16,000	70,900	70,900	57,200	16,000	73,200
India : RTA (Local Costs)	32,400	31,000	0	31,000	30,900	29,100	0	29,100	29,100	26,800	0	26,800
India : Sub Total	104,500	84,000	16,000	100,000	100,000	84,000	16,000	100,000	100,000	84,000	16,000	100,000
P L Nepal	10,000	6,500	4,500	11,000	9,000	5,000	5,000	10,000	9,000	4,500	5,500	10,000
P Pakistan*	26,000	18,000	7,000	25,000	27,000	20,000	7,000	27,000	30,000	20,000	7,000	27,000
Afghan Refugees	300	0	140	140	120	0	120	120	125	0	90	90
Total	141,050	108,500	27,890	136,390	136,370	109,000	28,470	137,470	139,375	108,500	29,090	137,590

I - Independent Commonwealth  
P - 50 Poorest Countries  
L - Least Developed Countries

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Thousand £ cash

LATIN AMERICA, CARIBBEAN & PACIFIC DEPARTMENT

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Latin America

	87-88		88-89		88-89		89-90		89-90		90-91	
	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed
	A/F Total		Total		A/F Total		Total		A/F Total		Total	
Bolivia	4,000	3,600	1,800	5,400	1,800	1,100	1,800	2,900	2,000	0	1,800	1,800
Brazil	860	0	900	900	900	0	1,000	1,000	1,000	0	1,000	1,000
Colombia	950	0	1,050	1,050	950	0	1,150	1,150	1,100	0	1,200	1,200
Costa Rica	430	0	430	430	430	0	430	430	430	0	430	430
Ecuador	1,015	0	1,015	1,015	1,015	0	1,100	1,100	1,100	0	1,100	1,100
Honduras	1,228	300	600	900	630	300	600	900	630	300	600	900
Mexico	780	0	900	900	900	0	900	900	900	0	900	900
Peru	1,050	0	800	800	1,100	0	800	800	1,100	0	800	800
Latin America Regional	1,381	0	1,390	1,390	1,580	0	1,190	1,190	1,190	0	1,190	1,190
Total	11,694	3,900	8,885	12,785	9,305	1,400	8,970	10,370	9,450	300	9,020	9,320

Latin America Regional - Regional Training: CATIE, INCAP, ECAG & WUS

HOMGS : Cuba, Uruguay & Venezuela

Aid Programme : Chile, Dominican Republic, Guatemala, Haiti, El Salvador, Panama and Paraguay

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Thousands £ cash

LATIN AMERICA, CARIBBEAN & PACIFIC DEPARTMENT

Caribbean

	87-88		TC	88-89		Cap	89-90		89-90		90-91	
	Current	Cap		Proposed	Current		TC	Proposed	Current	Cap	TC	Proposed
	A/F Total			Total   A/F Total			Total   A/F Total			Total		
I Antigua	1,515	1,000	200	1,200	1,200	800	200	1,000	1,200	800	200	1,000
I Belize	3,200	2,400	800	3,200	3,200	2,400	800	3,200	3,200	2,400	800	3,200
I Dominica	2,680	1,600	320	1,920	2,120	1,500	300	1,800	1,800	1,500	300	1,800
I Grenada	1,600	1,600	300	1,900	1,300	1,100	300	1,400	1,300	1,100	300	1,400
I Guyana	400	0	400	400	300	0	500	500	300	0	600	600
I Jamaica	700	4,000	800	4,800	800	0	1,000	1,000	1,000	0	1,000	1,000
I St Kitts-Nevis	2,500	1,050	280	1,330	1,200	950	280	1,230	1,200	1,000	300	1,300
I St Lucia	2,480	2,475	300	2,775	2,300	1,600	300	1,900	600	900	300	1,200
I St Vincent	2,000	1,500	300	1,800	1,300	1,240	300	1,540	1,300	1,000	300	1,300
Caribbean Regional	2,518	200	1,650	1,850	1,750	160	1,650	1,810	1,610	160	1,750	1,910
Total	19,593	15,825	5,350	21,175	15,470	9,750	5,630	15,380	13,510	8,860	5,850	14,710

I - Independent Commonwealth

Caribbean Regional - Services of advisers who are available for more than one country, Regional Training and Aid Seminars (including Dependencies) and Aid Programme Barbados

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Thousands & cash

LATIN AMERICA, CARIBBEAN & PACIFIC DEPARTMENT  
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Pacific  
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		87-88		88-89		88-89		89-90		89-90		90-91	
		Current	Cap	TC	Proposed	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed
		A/F Total			Total	A/F Total			Total	A/F Total			Total
I	Fiji	950	0	1,060	1,060	980	0	1,020	1,020	980	0	1,050	1,050
I L	Kiribati	2,180	650	1,600	2,250	2,180	650	1,600	2,250	2,180	650	1,650	2,300
I	Solomon Islands	4,200	750	3,000	3,750	3,700	750	3,000	3,750	3,700	750	3,100	3,850
I	Tonga	255	0	264	264	250	0	270	270	250	0	270	270
I	Tuvalu	3,680	434	485	919	1,050	175	440	615	975	175	440	615
I L	Vanuatu	4,800	1,685	2,900	4,585	3,550	750	2,900	3,650	3,550	750	3,000	3,750
	Pacific Regional	735	80	580	660	480	0	580	580	480	0	580	580
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	Total	16,800	3,599	9,889	13,488	12,190	2,325	9,810	12,135	12,115	2,325	10,090	12,415
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I - Independent Commonwealth

L - Least Developed Countries

Pacific Regional - University of the South Pacific, Rabi Island,  
TC Officers in Development Division and  
HOMGS : Papua New Guinea and Western Samoa  
BPP : Papua New Guinea

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DEPENDENCIES

	87-88			88-89		89-90			90-91			
	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed	Current	Cap	TC	Proposed
	A/F Total			Total	A/F Total			Total	A/F Total			Total
Anguilla	1,500	1,000	350	1,350	1,050	1,000	400	1,400	1,400	800	400	1,200
British Virgin Islands	700	500	250	750	750	500	250	750	750	500	250	750
Montserrat	1,800	1,500	325	1,825	1,825	1,500	350	1,850	1,850	1,500	350	1,850
* Turks and Caicos Islands	5,650	3,850	1,500	5,350	5,150	3,750	1,500	5,250	4,650	3,650	1,500	5,150
Pitcairn Island	175	0	0	0	0	0	0	0	0	0	0	0
Falkland Islands	10,370	3,000	1,400	4,400	3,627	1,500	900	2,400	2,190	500	300	800
Gibraltar : Gen. Dev't	8,647	7,000	210	7,210	7,330	2,000	210	2,210	2,025	1,500	210	1,710
* St Helena	13,734	20,100	1,100	21,200	17,094	9,500	1,200	10,700	11,686	7,600	1,200	8,800
Total	42,576	36,950	5,135	42,085	36,826	19,750	4,810	24,560	24,551	16,050	4,210	20,260

\* Includes budgetary aid, for St. Helena shipping subsidy and lease payments

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## SECTORAL PROGRAMMES

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	87-88	88-89	88-89	89-90	89-90	90-91
	Current A/F Total	Proposed Total	Current A/F Total	Proposed Total	Current A/F Total	Proposed Total
Scientific Units						
-----						
O.D. Natural Resources Inst. (TDRI & LRDC)	3,032	3,450	3,809	3,680	4,429	3,790
Relocation Costs	3,269	6,174	3,264	1,281	500	0
-----						
Total	6,301	9,624	7,073	4,961	4,929	3,790
Renewable Natural Resources		-----		-----		-----
-----						
O'seas Surveys Directorate : OS	1,309	1,355	1,266	1,396	1,292	1,438
* Other Bodies and Activities	2,095	2,162	2,157	2,231	2,222	2,300
Research & Development Contracts	9,301	10,000	9,000	10,500	9,500	11,000
-----						
Sub Total	12,705	13,517	12,423	14,127	13,014	14,738
		-----		-----		-----

\* - Oxford Forestry Institute, Plunkett Foundation, Centre for Trop. Vet. Medicine, Int. Bee Research, Inst. of Engineering Research, Int. Pesticide Centre, Agri. Extension & Rural Dev't Centre, Tsetse Research Lab., Tropical Virus Unit, International Scientific Co-Operation, O'seas Development Inst. Agricultural Admin. Unit. and Liaison Officers

## Education

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C'wealth Schol. & Fellowship Plan	7,450	7,675	7,675	7,900	7,900	8,137
Low Price Books Scheme	1,200	1,200	1,200	1,200	1,200	1,200
ODA Shared Scholarship Scheme	1,505	1,375	2,178	1,680	2,244	1,715
DW Scholarship & Awards Scheme	621	640	640	659	659	679
Education Aid & Cultural Activities	400	317	437	325	447	332
Research & Development Contracts	131	60	140	62	144	64
-----						
Sub Total	11,307	11,267	12,270	11,826	12,594	12,127
		-----		-----		-----

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## RESTRICTED

Thousands £ cash

## SECTORAL PROGRAMMES (continued)

	87-88	88-89	88-89	89-90	89-90	90-91
	Current A/F Total	Proposed Total	Current A/F Total	Proposed Total	Current A/F Total	Proposed Total
Engineering						
-----						
British Geological Survey	1,213	1,255	1,250	1,293	1,290	1,332
Hydraulics Research Ltd.	1,140	1,179	1,174	1,215	1,208	1,252
Transport & Road Research Laboratory	2,180	2,256	2,245	2,324	2,312	2,394
* Other Bodies and Programmes	807	783	781	791	790	799
Research and Development Contracts	1,449	1,200	1,492	1,240	1,537	1,280
	-----	-----	-----	-----	-----	-----
Sub Total	6,789	6,673	6,942	6,863	7,137	7,057
		-----		-----		-----

\* - Institute of Hydrology, National Centre for Remote Sensing, UK Trust for UN Year of Shelter and General Science Dissemination of Research.

## Economic and Social

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Appropriate Technology	1,492	1,839	1,279	2,137	1,317	2,250
Inst. of Development Studies	1,446	1,392	1,337	1,329	1,274	1,367
* Other Activities	206	217	203	220	205	222
Research and Development Contracts	620	700	639	700	658	700
	-----	-----	-----	-----	-----	-----
Sub Total	3,764	4,148	3,458	4,386	3,454	4,539
		-----		-----		-----

\* - Trade Union Congress and ODI(Ccore Grant)

## Health and Population

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+ Grants to Various Bodies	1,227	1,212	1,189	1,225	1,202	1,239
Research and Development Contracts	2,320	2,500	2,390	2,750	2,462	3,000
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Sub Total	3,547	3,712	3,579	3,975	3,664	4,239
		-----		-----		-----

+ - Bureau of Hygiene and Tropical Diseases, Evaluation and Planning Centre for Health Care, Dept. of Trop. Paediatrics  
Liverpool, Nutrition Policy Unit, TC Medical Lectureships, Centre for Pop. Studies and Inst. of Population Studies.

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Thousands £ cash

## SECTORAL PROGRAMMES (continued)

	87-88	88-89	88-89	89-90	89-90	90-91
	Current	Proposed	Current	Proposed	Current	Proposed
	A/F Total	Total	A/F Total	Total	A/F Total	Total
Overseas Manpower Services						
-----						
Further Training for UK Experts	1,335	1,486	1,361	1,646	1,402	1,747
f Grants to Other Bodies and Associations	864	937	887	1,018	941	1,089
-----						
Sub Total	2,199	2,423	2,248	2,664	2,343	2,836
-----						
f - Women's Corona Society, Christians Abroad, Farnham Castle Int'l. Briefing, Recruitment Expenses, Corps of Specialists, Manpower Centres Scheme and ODI Fellowship Scheme						
Vunteers and Voluntary Agencies						
-----						
Joint Funding Scheme	5,600	9,000	6,000	9,000	6,300	9,000
British Volunteer Programme	8,874	10,600	9,568	11,000	10,000	11,500
British Executive Service O'Seas	306	340	321	360	337	360
Refugee, Relief & Vol. Organisations	1,205	2,030	1,310	661	601	391
-----						
Total	15,985	21,970	17,199	21,021	17,238	21,251
Other Sectoral Aid		-----		-----		-----
-----						
Aid Administration Overseas	4,452	4,585	4,585	4,724	4,724	4,870
Crown Agents Services	0	1,066	0	1,098	0	1,131
Developing Countries' Trade Agency	279	288	288	296	296	305
Development Education	100	100	100	100	100	100
Evaluation of UK Aid Activities	425	450	450	475	475	490
Other Sundry Services	235	175	175	175	175	175
Pre-Investment Studies Scheme	10	0	10	0	10	0
-----						
	5,501	6,664	5,608	6,868	5,780	7,071
-----						
Total (Excluding ODNRI and Volunteers' costs)	45,812	48,404	46,528	50,709	47,986	52,607
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Total All Sectoral Programmes	68,098	79,998	70,800	76,691	70,153	77,648
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RESTRICTED

Thousands £ cash

EUROPEAN COMMUNITY PROGRAMMES

	87-88 Current A/F Total	88-89 Proposed Total	88-89 Current A/F Total	89-90 Proposed Total	89-90 Current A/F Total	90-91 Proposed Total
EDF	104,000	125,000	134,000	136,000	139,000	134,000
Food Aid-National Actions	18,200	17,400	20,700	18,100	22,100	18,400
Turkey 2nd. Financial Protocol	6,000	6,000	6,000	5,000	5,000	0
* Budgetised Programmes	151,200	113,500	150,100	133,500	161,000	139,800
Total	279,400	261,900	310,800	292,600	327,100	292,200

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Thousands £ cash

WORLD BANK GROUP  
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	87-88	88-89	88-89	89-90	89-90	90-91
	Current	Proposed	Current	Proposed	Current	Proposed
	A/F Total	Total	A/F Total	Total	A/F Total	Total
IDA Programmes 1 - 8	125,210	168,900	182,490	178,400	173,070	191,500
IDA 9	0	0	0	0	0	7,500
	-----	-----	-----	-----	-----	-----
Sub Total IDA Programmes	125,210	168,900	182,490	178,400	173,070	199,000
IBRD GCI	5,494	0	5,528	0	9,146	0
IFC GCI	4,357	4,149	4,067	4,149	4,067	0
African Management Services Co.	0	50	0	50	0	50
	-----	-----	-----	-----	-----	-----
	9,851	4,199	9,595	4,199	13,213	50
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MIGA	3,757	0	0	0	0	0
WBG TC	60	65	65	70	70	75
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Total	139,878	173,164	192,150	182,669	186,353	199,125
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Thousands £ cash

## OTHER FINANCIAL INSTITUTIONS

	87-88	88-89	88-89	89-90	89-90	90-91
	Current	Proposed	Current	Proposed	Current	Proposed
	A/F Total	Total	A/F Total	Total	A/F Total	Total
African Development Bank	3,344	1,541	1,389	1,541	1,389	1,541
African Development Fund	8,000	8,500	8,500	9,000	9,000	9,000
AfDB - TC	300	310	320	320	350	330
	-----	-----	-----	-----	-----	-----
Sub Total	11,644	10,351	10,209	10,861	10,739	10,871
		-----		-----		-----
Asian Development Bank	1,174	703	1,687	703	1,687	703
Asian Development Fund	16,000	12,500	15,000	13,000	15,000	13,500
	-----	-----	-----	-----	-----	-----
Sub Total	17,174	13,203	16,687	13,703	16,687	14,203
		-----		-----		-----
Caribbean Dev't Bank	167	334	167	167	167	167
Special Development Fund	1,322	1,900	1,900	2,456	1,900	2,925
	-----	-----	-----	-----	-----	-----
Sub Total	1,489	2,234	2,067	2,623	2,067	3,092
		-----		-----		-----
Inter-American Dev't Bank	2,173	2,048	2,017	1,505	1,512	1,156
Fund for Special Ops.	10,877	8,694	8,721	6,852	7,331	4,488
	-----	-----	-----	-----	-----	-----
Sub Total	13,050	10,742	10,738	8,357	8,843	5,644
		-----		-----		-----
I F A D	4,500	6,592	4,041	5,563	3,076	4,858
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Total	47,857	43,122	43,742	41,107	41,412	38,668
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Thousand & cash

UN PROGRAMMES -----	87-88	88-89	88-89	89-90	89-90	90-91
	Current	Proposed	Current	Proposed	Current	Proposed
	A/F Total	Total	A/F Total	Total	A/F Total	Total
UNDP	23,000	12,500	21,500	24,000	21,500	24,000
UNICEF	7,000	7,500	6,500	7,500	6,500	7,500
UNIDO (Subscription)	1,436	2,838	2,247	2,763	2,247	2,837
IDF	350	400	350	450	350	450
FAO (Subscription)	8,080	8,424	8,380	8,655	8,544	9,343
* Other UN Dev't Programmes	121	123	123	123	123	124
	-----	-----	-----	-----	-----	-----
Total	39,987	31,785	39,100	43,491	39,264	44,254
		-----		-----		-----
UNFPA	5,000	5,250	5,000	5,250	5,000	5,250
WHO Global Aids	1,000	6,000	0	6,000	0	6,000
WHO Human Reproduction Research	2,500	2,500	2,500	2,500	2,500	2,500
+ Other WHO Health & Pop. Programmes	1,592	2,339	1,592	2,239	1,592	2,239
	-----	-----	-----	-----	-----	-----
Total UN Health & Pop. Programmes	10,092	16,089	9,092	15,989	9,092	15,989
	-----	-----	-----	-----	-----	-----
Sub Total to C/F	50,079	47,874	48,192	59,480	48,356	60,243

RESTRICTED

24-Jul-87

RESTRICTED  
Thousand £ cash

UN PROGRAMMES (Continued)	87-88	88-89	88-89	89-90	89-90	90-91
	Current	Proposed	Current	Proposed	Current	Proposed
	A/F Total	Total	A/F Total	Total	A/F Total	Total
UNHCR	3,500	3,500	3,500	3,500	3,500	3,500
UNRWA	5,000	5,250	5,000	5,250	5,000	5,250
Sub Total UN Relief Assistance	8,500	8,750	8,500	8,750	8,500	8,750
UNCHS (Habitat) Foundation Fund	0	35	0	35	0	35
World Food Programme	500	500	500	500	500	500
Sub Total B/F	50,079	47,874	48,192	59,480	48,356	60,243
Total All UN Programmes	59,079	57,159	57,192	68,765	57,356	69,528

\* Other UN Dev't Programmes - UNETPSA, ICCROM, Dev. Fund for Women.

+ Other WHO Programmes - Cold Chain Research, Onchocerciasis Programme, Special Programme (TDR), Action Programme on Essential Drugs, Diarrhoeal Diseases Control Programme and PAHO Caribbean Epidemiology Centre.

@ Subject to review additional aid may be contributed each year from the in year Contingency Reserve.

NB Total Health Programmes contributions should include IPPF contributions (see Other Multilateral).

RESTRICTED

24-Jul-87

RESTRICTED

Thousands b cash

COMMONWEALTH GROUP

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	87-88	88-89	88-89	89-90	89-90	90-91
	Current	Proposed	Current	Proposed	Current	Proposed
	A/F Total	Total	A/F Total	Total	A/F Total	Total
CFTC	8,670	6,720	9,100	7,092	9,570	7,103
C'wealth Science Council	140	159	132	164	136	169
Other Commonwealth	858	877	828	900	855	920
	-----	-----	-----	-----	-----	-----
Total	9,668	7,756	10,060	8,156	10,561	8,192
		-----		-----		-----

Other Commonwealth - C'wealth Distance Learning, C'wealth Youth Programme, C'wealth Media Dev. Fund, C'wealth Foundation and C'wealth Secretariat

RESTRICTED

24-Jul-87

RESTRICTED

Thousands £ cash

## OTHER MULTILATERAL

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	87-88	88-89	88-89	89-90	89-90	90-91
	Current	Proposed	Current	Proposed	Current	Proposed
	A/F Total	Total	A/F Total	Total	A/F Total	Total
Int. Agric Res'ch Centres	7,250	7,500	6,750	7,500	6,750	7,500
IPPF	6,000	6,250	6,000	6,250	6,000	6,250
IPPF (Aids Programme)	0	500	0	500	0	0
ICDDR - Bangladesh	143	150	143	150	143	150
IAEA Footnote A Projects	500	500	500	500	500	500
Colombo Plan Bureau	12	10	14	11	15	12
OECD Development Centre	271	260	232	265	249	275
	-----	-----	-----	-----	-----	-----
Total	14,176	15,170	13,639	15,176	13,657	14,687
		-----		-----		-----

RESTRICTED

FROM: J C MAY

DATE: 5 August 1987

- Chy / Content to write as drafted?
- 25 6 87
- OK or
1. MR MOUNTFIELD <sup>R1</sup>
  2. CHANCELLOR

cc Chief Secretary  
Mr Turnbull  
Mr H Evans  
Mr Cropper  
Mr Davis o/r

### AID FRAMEWORK PROPOSALS 1988/89 TO 1990/91

The Foreign Secretary has written enclosing the proposed allocation of monies from the aid programme, over the coming three financial years, and asking for comments.

#### Background

2. The Aid Framework is prepared at this time each year on the basis of current public expenditure plans to allow for forward planning of disbursements. The Framework is subject to the outcome of the Public Expenditure Survey. The detailed proposals have been discussed with Treasury and DTI officials, and we are broadly content with these.

3. The main points of interest in this year's exercise are;

a. lower than anticipated increases in spending on multilateral institutions, largely due to a decline in expected EC attributions, resulting in

b. maintenance of this year's spending in cash terms for bilateral country programmes over the Framework period

c. the creation of a separate regional programme aid allocation for Sub-Saharan Africa, to support structural adjustment programmes. Previously

all additions to such programmes were financed via the Unallocated Reserve, <sup>a large part of which went to Africa in practice.</sup> Overall, expenditure in the Sub-Saharan area is likely to be maintained in cash terms.

4. The Foreign Secretary makes the now-familiar complaints over the level of funding for the aid programme and the difficulty of meeting multilateral commitments while maintaining an adequate bilateral programme, which has fallen substantially since 1979. He links the latter with procurement opportunities for British business - predictably, a point with which DTI Ministers would agree.

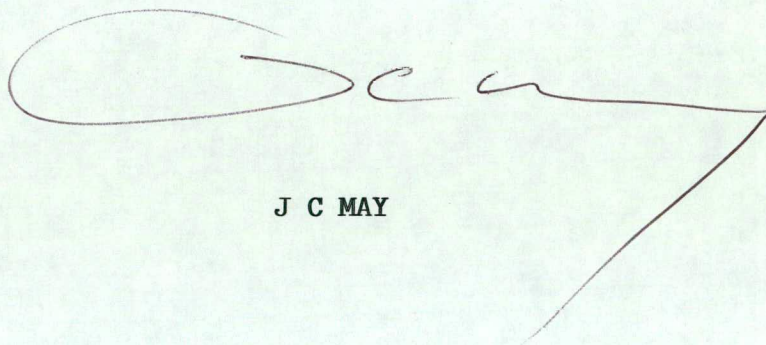
Provision for Sub-Saharan Africa is seen as inadequate due to the overall constraints on the aid budget, but this does not take account of ODA's ability - howbeit limited - to employ funds from the Unallocated Reserve.

5. As last year, the Foreign Secretary is bidding for substantial increases to the aid programme; £75m, £150m and £230m over the Survey period, with much of the increase to be spent on bilateral aid. He appears to be using this opportunity to underline his case. The Framework proposals do not include provision for your debt initiative, a new World Bank GCI, or the additional funds required for ATP soft loans, as these form part of the bid.

#### Chancellor's Reply

6. There is no good reason to enter into discussion of the adequacy or otherwise of the aid programme, as this will be fully explored during the Survey discussions. I suggest you merely welcome the setting up of the Sub-Saharan programme aid facility as a recognition of the problems facing the region; and note that the wider issues raised in the letter will be aired with the Chief Secretary.

7. I attach a draft reply to the Foreign Secretary to that end.



J C MAY

*Minute*  
DRAFT LETTER TO SIR GEOFFREY HOWE

AID FRAMEWORK PROPOSALS 1988/89 TO 1990/91

Thank you for your minute of 30 July concerning the Aid Framework proposals for the next three years.

I am broadly content with your proposed allocations. <sup>I</sup> ~~and~~ welcome the setting up of a regional programme aid allocation for Sub-Saharan Africa in view of the level of support now given to these countries. <sup>as of</sup> I see my proposals on <sup>Sub-Saharan</sup> ~~debt, as an important complement to our aid programme in the region, and intend to advance the initiative strongly over the next couple of months.~~

I note your comments on the size of the aid programme. As you will doubtless give these wider issues a good airing in your discussions with John Major during the Survey, I am sure you will understand if I <sup>make no comment</sup> ~~refrain from commenting upon them~~ myself at this stage.

I am copying this letter to David Young.

NIGEL LAWSON

*pub* *BIF*  
*[Signature]*  
FROM: H G WALSH  
DATE: 25 August 1987

PS/CHANCELLOR

cc: PS/Economic Secretary  
Sir G Littler  
Mr Lavelle  
Mr Evans  
Mr Mountfield  
Ms Life  
Mr Pickford

**WORLD BANK AND OTHER MDB PROJECTS: MR JUDD'S LETTER OF 21 AUGUST TO THE CHANCELLOR**

Mr Judd's letter of 21 August to the Chancellor, about the social and environmental impact of World Bank and other MDB programmes, is for the ODA and I have agreed with ODA officials that it is for Mr Patten to reply. A draft Private Secretary letter is attached for you to send to Mr Judd.

2. This general subject is being pushed fairly hard by OXFAM (see attached copy of a letter from Mr Judd in today's Guardian). ODA (and IF1) will monitor the Bob Geldof ITV programme the 'Price of Progress' at 10.30 tonight which may enhance interest in this subject in the run-up to the Annual Meetings. ODA will bear full responsibility for handling any fall-out from the programme (Mr Lankester will probably appear) in consultation with us and the FCO.

*H.W.*

H G WALSH



**DRAFT PRIVATE SECRETARY LETTER TO MR JUDD OF OXFAM**

Thank you for your letter of 21 August to the Chancellor about the social and environmental impact of development programmes financed by the World Bank and other Multilateral Development Banks.

This subject is the responsibility of the Overseas Development Administration, and I have passed your letter to Mr Patten's office for reply.

## When aid needs monitoring

Sir, — In 1986 the UK government gave more than 11 per cent of its gross aid budget to the World Bank group of agencies. Two aspects of the spending of such a large amount of money deeply disturb us.

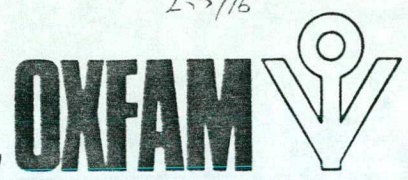
Firstly, tonight's Bob Geldof-narrated television programme shows the horrors of some World Bank-funded projects. The lack of an adequate early warning system for such projects is helping to cause irreversible damage to the poorest people and their environment. Often voluntary organisations like Oxfam can alert the UK government to the appalling possibilities inherent

in such schemes if we have early access to adequate information.

Secondly, the UK government is one of only six countries in the world with its own permanent Executive Director on the Board of the World Bank. Yet Britain's voting record on projects up for approval by the Board remains confidential. Through our taxes, the British people contributed £154 million to the World Bank and related agencies last year. Our voting record on how that money was spent needs to be made public.

**Frank Judd.**  
Director.  
Oxfam, Oxford.

255/16



274 Banbury Road, Oxford OX2 7DZ  
Telephone: (0865) 56777. Telex: 83610  
Facsimile No. 57612

CH/EXCHEQUER	
REC.	24 AUG 1987
ACTION	MR P DAVIS
COPIES TO	CST FST EST SIR P MIDDLETON SIR G LITTLE MR F E R BUTLER MR LAVELLE MR MOUNTFIELD MR PICKFORD

*Mr Wafar*  
*c Mr May*  
*James, I think (or ODA's)*  
*6 24/8*

21st August, 1987

The Rt. Hon. Nigel Lawson MP,  
Chancellor of the Exchequer,  
11 Downing Street,  
LONDON SW1.

*Dear Chancellor*

Oxfam has expressed concern for many years about the potentially serious consequences for the poor of many development schemes financed by the World Bank and other Multilateral Development Banks. Through our working relationship with grassroots organisations in many countries, we have witnessed the pain inflicted by ill-thought-out development projects, where insufficient attention has been given to the social and environmental risks.

On a number of occasions we have discussed these concerns with the World Bank, with the ODA and others, and have introduced officials concerned to our Third World partners who, working as they do with the communities affected, are best able to predict the likely social damage from these projects. Sometimes this action has resulted in considerable improvements in the projects' design.

We have also joined with other Non-Governmental Organisations (NGOs) in calling for major policy changes at the World Bank that will minimise social and environmental risks from future projects. For example, Oxfam is the British organisation represented on the NGO-World Bank Committee and is a member of the UK Aid and Environment Group. We are pleased that there are now new policies at the World Bank and new senior staff appointments to tackle the issue. Policies in themselves will not help the world's poor. What counts now is action to help turn the words of intent into reality.

This means a new relationship of constructive dialogue on the part of MDBs and their major member states, and a much more open style of operation.

For this reason, we welcome the documentary 'Price of Progress' to be screened by ITV on Tuesday night. This Central TV programme clearly describes why a greater degree of accountability is called for. We are pleased that the film raises the issue of taxpayers having a right to know how their contributions are used through MDBs and how their governments are using their voting power at the MDBs to influence projects. We believe that this documentary is a major contribution to the development debate in Britain.

We have four proposals which we would like to place before you today which, while not in themselves solving the enormous problems in hand, would go a long way to heralding the new era of openness which we believe is called for.

1. HMG should use its influence within MDBs to encourage appropriate operational contact with NGOs and grassroots organisations. This would require an Operational Policy Note to define when NGO consultations are called for and the minimum processes expected of MDB staff at different stages of the project cycle for such consultations. NGOs who are already familiar with effective MDB consultations could help prepare such a Policy Note.

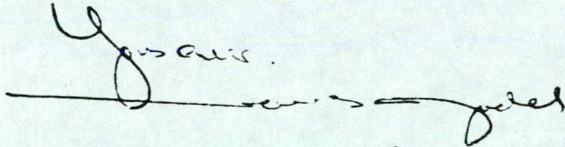
*22/8*

2. HMG should make readily available the Monthly Operational Summaries and tendering information which is currently provided to the business world. At the moment this information is effectively inaccessible to the NGO community without enormous expense. Yet this is essential if any early warning system is to be successful, as it gives earliest notification of projects in the pipeline.

3. HMG should, perhaps through the ODA, compile a list of projects which need careful monitoring because of potential environmental or social difficulties. This 'early warning' list should be made available to Parliament and to NGOs who are concerned about MDB activities. Such a list is already compiled by the US government.

4. British representatives in the Multilateral Development Banks and their advisers in London should discuss voting intentions about specific projects and modifications they intend to propose with British NGOs where it is known that those NGOs, or their Third World partners, have a specific interest in the project in question.

We believe that these concessions would help reduce the risk of social and environmental damage by MDB projects, and I sincerely hope that you will agree to these proposals.

A handwritten signature in dark ink, appearing to read 'Frank Judd', written over a horizontal line.

Frank Judd,  
Director.



\*REPORT: Top Copy Only / 2/9

CH/EXCHEQUER	
DATE	17 SEP 1987
TO	MR P. MOUNTFIELD*
COPIES TO	CST EST SIR P MIDDLETON SIR G LITTLE MR FER BUTLER MR LAVELLE MR ANSON MR H.O. EVANS MR TURNBULL MR PGF DAVIS.

B/f with  
advice Pse  
make sure we  
have  
for by  
21/9.

Foreign and Commonwealth Office

London SW1A 2AH

17 September 1987

Dear Alex

The Government's Reply to the FAC Report  
on Bilateral Aid

I enclose the reply which the Foreign Secretary proposes to make to the report of the House of Commons Foreign Affairs Committee on our Bilateral Aid Country Programmes. We have agreed with the Clerk to the Committee that this reply should be published on Thursday 22 October (the day after Parliament resumes).

Sir Geoffrey Howe has seen and agreed this text and I would be grateful for any comments on it from the Chancellor and from the Secretary of State for Trade and Industry. These will be needed by 23 September, in order to allow time for incorporating any changes and for printing, proof-reading, and advance circulation. I understand that officials have already had an opportunity to comment on an earlier draft.

I am copying this letter and enclosure to Timothy Walker (DTI).

*Yours ever*

(R N Culshaw)  
Private Secretary

Alex Allan Esq  
PS/Chancellor of the Exchequer

## OBSERVATIONS BY THE GOVERNMENT

### INTRODUCTION

The Government welcomes the second report from the Foreign Affairs Committee on **Bilateral Aid: Country Programmes**, and has carefully studied its conclusions and recommendations.

2. The Committee has called for the preparation of a new White Paper outlining the Government's policies and priorities. Although the Government does not believe that this is at present necessary, since no major change in policy is proposed, it accepts that it is right to reply in detail to the Committee's recommendations. This reply, together with the Government's response to earlier enquiries by the Committee and its predecessor, may be taken as the statement of policies and priorities which the Committee is seeking.

3. The Government has always been, and remains, clear about the basic purpose of the aid programme. As indicated in the January 1987 Public Expenditure White Paper (Cmnd 56-II) the aim is to promote sustainable economic and social progress and to alleviate poverty in developing countries. This reply explains in some detail, as the Committee has requested, what that means in practice and how, alongside that fundamental objective, political and commercial considerations are also taken into account. The Government does not recognise the potential conflict of priorities detected by the Committee in paragraph 28 of its report. The powers given to the Secretary of State in the Overseas Development and Co-operation Act 1980 are for the stated purpose of promoting development. The business of the aid programme is aid.

4. The Committee asks the Government to explain the objectives of the bilateral aid programme. The Government is happy to do this. As the foregoing paragraph indicates, the objectives are

not divisible, in the way envisaged by the Committee, as between "developmental" and "non-developmental"; nor are there separate "developmental", "commercial" and "political" objectives. There is one objective, which is the promotion of development. Development has many faces, among them, social, humanitarian, political and commercial. Higher living standards are likely to create stable, thriving and solvent trading partners. Development is concerned with sustainable, long-term benefits rather than transient, short-term ones; with political stability rather than short-term popularity; with the development of markets rather than the securing of an order.

5. Development assistance is appropriate where there is a need. Aid is not necessary for the richer developing countries who can finance their own development plans. Skills rather than finance are appropriate for middle-income developing countries. Both skills and finance are needed by the poorer countries if they are to develop into stable, sensibly managed trading partners. Lord Bauer misunderstands the emphasis of the policy when he asserts (his evidence, page 176, paragraph 12) that the declared purpose of the British aid programme is assistance to the poorest, rather than the promotion of development. The declared purpose is the promotion of development. That means providing more outside help to poor countries than to less poor ones. The Government does not share Lord Bauer's view (later in the same paragraph) that the volume and cost of investible funds is demonstrably not critical for economic progress; on the contrary, the Government believes that the volume and terms of the finance made available for helping developing countries' public investment programmes are crucial factors in their development. The Government considers it right for the UK, as a prosperous trading nation, to continue to provide a large aid programme - currently the sixth largest in the OECD.

6. Nonetheless the Government is concerned to ensure that a substantial part of the aid programme contributes to the long-term alleviation of poverty in developing countries. The ODA

/commits...

commits funds to projects which directly benefit the poor, especially in the natural resources and social sectors, and in conjunction with the voluntary agencies.

7. For aid to succeed in promoting sustainable growth there must be an appropriate policy framework in the recipient country. This framework should include a soundly based investment programme limited to projects and programmes which can be successfully implemented and sustained; concern for the environment and for the development of human resources; and the creation of a climate in which initiative and enterprise can flourish. Together with the international financial institutions and other donors we discuss such policies with recipients. We support activities which are technically sound, financially viable and will bring economic benefits. Through help for the education sector and through our manpower assistance and training, as well as the work of British consultants and contractors, we seek to promote learning, enhance management and technical skills, strengthen local institutions, and increase opportunities for the individual.

8. Some developing countries are facing an urgent need to adjust their economies to permanent changes in the external economic environment. The Government contributes to the discussion of appropriate adjustment programmes and has provided substantial amounts of aid in support of programmes agreed with the International Monetary Fund and the World Bank. The ODA is working to ensure that the adjustment process takes account of the special needs of poor and vulnerable groups, such as through the provision of primary education, health care and safe water supply.

9. The ODA does therefore have available a wide range of aid instruments which enable it to secure differing immediate objectives, all of which ultimately contribute to the promotion of development. The objective of programme aid is to provide

/balance



balance of payments support to enable the purchase of urgently needed imports; it is usually provided in support of an economic reform package. The objective of aid provided in project form may be either the creation of new infrastructure, such as a road, or the creation of new productive capacity, such as a new power station, or the rehabilitation of existing capital assets, such as a tea estate in need of repairs to roads and machinery. Budgetary aid, provided to some remaining British dependencies and recently independent countries, is provided with the objective of bridging the gap between a reasonable level of provision of services and what can reasonably be raised through revenue. The objective of the Aid and Trade Provision (ATP) is to give financial support for British contract bids for sound projects. The objective of technical co-operation is to transfer skills through advice and training.

10. In practice these different aid instruments are closely interrelated so as to respond to the needs and circumstances of particular recipients. Project aid and technical co-operation are frequently offered together with the objective of ensuring a sustainable investment. The sectoral approach to aid described in the 1986 Public Expenditure White Paper (Cmnd 9702-II) focusses these two instruments intensively on sectors where the UK is well placed to help. The ATP is integrated within the ODA's programmes in China, India and Indonesia so as to facilitate certain very large and viable projects beneficial to economic development and capable of being carried out by British firms.

11. In seeking a statement of objectives for bilateral aid the Committee referred to the change in circumstances facing many developing countries since the mid-1970s. This is particularly true for those in sub-Saharan Africa, where a combination of inappropriate policies and deteriorating terms of trade, exacerbated by drought and famine, has led in many countries to a fall in income and consumption per head and a failure of food production to keep pace with rapidly growing populations.

/The

The objective of our bilateral aid programmes in sub-Saharan Africa is to achieve a reversal of this decline, to restore growth prospects and to alleviate poverty and human suffering.

12. The ODA has been discussing with other aid agencies, within the Development Assistance Committee of the OECD, the possibility of measuring the achievements to which aid contributes through performance indicators and targets to be agreed at the country level with recipient governments. These would include both economic performance indicators and social indicators such as life expectancy and infant mortality. The Government considers this worth pursuing, despite the difficulties, since it offers the prospect of a much wider understanding of the ultimate objectives of both development and aid.

13. The Committee rightly notes (paragraph 9) that aid is only one aspect of our economic relations with developing countries. Increasing prosperity for developing countries also depends upon sustained growth in the world economy; upon an improved international trading environment; and upon a resolution of the current debt problems. Through its economic and trade policies the Government is working to create a healthy and expanding economy in the UK and overseas, and a liberal international trading environment.

14. The Government is playing a leading rôle in international discussions on both debt and international trade. We have pressed for improved access to markets in the GATT Uruguay Round; for the removal of distortions in world agricultural trade; and for greater efficiency in and deregulation of commodity markets. These would contribute to the efficiency of the world economy as a whole, and enhance the economic environment in which developing countries operate.

15. Many developing countries are now carrying a severe burden of debt. For the middle income debtors, which borrowed mainly from the commercial banks, a sustained recovery of the world economy combined with the adoption of appropriate domestic

/policies

policies should allow them to take advantage of export opportunities and attract capital inflows.

16. In contrast, the poorer developing countries, which are least able to attract and service commercial debt, rely for a significant part of their external financing on the international donor community, both through multilateral and bilateral channels. Britain contributes substantial amounts through the European Community and the other international development agencies, in particular through the International Development Association of the World Bank. For those poorest and most heavily indebted countries of sub-Saharan Africa which are following appropriate policies, the Government has taken an initiative internationally in suggesting that aid debt should be converted to grants (a process Britain has almost completed for these countries); and that other official bilateral debt should be rescheduled over a longer period of time with more generous grace periods and at concessional rates of interest.

17. The Government agrees with the Committee that much has been learned from past experience about the right and wrong ways of giving aid. It welcomes the contribution made by the Committee to the process of ensuring that aid is effective and gives value for money. The policies and procedures of the Overseas Development Administration have achieved a high quality aid programme, as was recognised by the Development Assistance Committee of the OECD at its 1986 Review of British Aid. The Government welcomes the fact that the Committee found much to commend in the work of the Overseas Development Administration, and in the ways in which policy and practice have adapted to changing circumstances, including the necessary cuts in the early 1980s in both staff and Public Expenditure plans.

## COMMENTS ON THE INDIVIDUAL RECOMMENDATIONS

### Does Aid Work?

- (i) The evidence we have received has led us to the conclusion that there is nothing which must in principle render development aid harmful or ineffective. The failures of aid, which are admitted, are not inherent in the aid process but can generally be ascribed to errors in planning or in execution of a project (paragraph 13).

The Government agrees with the Committee's conclusion. Experience shows that it is foolish to take major investment decisions in a hurry, or without being satisfied as to the economic, financial and technical soundness of a proposal. The short term benefit of making the (always popular) decision to commit resources can quickly be overtaken by the cost to Britain's political and commercial interests of involvement with a poorly designed or executed project.

The effectiveness of aid should not be judged solely on the success or otherwise of individual aid funded activities, as important as this is. It should also be judged by the extent to which donors' aid efforts are complementing the recipient countries' own domestic policies and programmes and leading to progress overall.

## Objectives

- (ii) In their reply to this report the Government should explain at some length and with greater precision the objectives of their bilateral aid programme, in a way which has not been done since the 1975 White Paper (paragraph 19).

The Government has included its reply to this recommendation in the Introduction to this response to the Committee's report.

## The rôle of commercial and industrial considerations

- (iii) The Government's statement of objectives should make plain that the commercial objectives in the aid programme are to be subordinate to the primary objective, namely the promotion of development (paragraph 28).

In setting out above its objectives for bilateral aid, the Government has made it clear that the primary objective of aid is the promotion of sustainable economic and social progress and the alleviation of poverty. The fact that aid may also bring commercial benefits to Britain should be regarded as a perfectly legitimate bonus.

- (iv) We do not recommend a significant relaxation of the present guidelines on tying of bilateral aid (paragraph 29).

The Government welcomes this recommendation. Goods and services funded by bilateral aid should generally be provided by British firms. The ODA is also required to achieve value for money for the taxpayer and the recipient country. This is generally best achieved by competitive tendering.

In the poorer countries generous provision is made within project aid to help meet the local costs of projects incurred within the recipient country. The extent of local cost provision is determined country by country in the light of its economic and budgetary circumstances, and the nature of the project being financed.

- (v) ATP funds do not generally go to priority countries (paragraph 32). While a scheme along the lines of the Aid and Trade Provision has an important and justified place in British public expenditure, to the extent that it represents aid to a company rather than to a country it can create a conflict of objectives and we cannot accept that its funding should be the responsibility of the ODA (paragraph 36). The ATP scheme should therefore continue but not as part of the main aid programme. It should be separately considered within the public expenditure survey and separately funded and cash limited (paragraph 37).

The Government does not accept this conclusion. The Aid and Trade Provision (ATP) should continue to be seen as an integral part of Britain's overseas aid effort.

ATP funds are provided to the recipient government to help finance sound investments within its country. They are on concessional terms, usually grant, and therefore represent a transfer of resources to the country concerned in the same way as other aid funds do. ATP funds are not given to British companies; nor are they intended to subsidise an uncompetitive price or offset inferior or inappropriate technology.

ATP projects are nonetheless different from other bilateral aid projects in that their initial selection is determined by commercial criteria, although of course both the Government and the recipient see them within the context of the project's contribution to the recipient's economy. In each case there must be a reasonable assurance of economic, financial and technical soundness.

The management of ATP is also different in two respects. First, ATP funds are almost always provided to the recipient government in association with commercial loans guaranteed by ECGD. Second, most ATP commitments are not

/planned...

planned on a country by country basis, although there are ATP agreements with the Governments of China, Indonesia, Cameroon, Mauritius and Egypt. But these distinctions do not warrant the ATP being regarded as a less valuable contribution to development overseas than other parts of the aid programme, provided it is used in the appropriate circumstances and for sound investments. Other countries provide similar forms of soft finance from their aid programmes.

In a number of countries, such as China, India and Indonesia, which are poor but creditworthy, the ATP is now an integral part of the British aid programme. ATP arrangements have been offered which enable us to provide concessional finance on a much larger scale than would have been possible under the normal bilateral aid arrangements. The ATP could not easily be disentangled from the aid programme and it would be confusing both in Whitehall and for recipient governments for responsibility for this part of the aid relationship to be handled by the DTI, as the Committee suggests, while leaving the ODA notionally responsible for the "development value" of the ATP.

The Government does not accept that there is any need for conflict between the commercial and other objectives of ATP. Britain's commercial interests are best served by promoting prosperity overseas and by supporting successful projects which will also enhance the reputation of British firms. The Committee noted that the procedures for assessing ATP projects have been improved. Lessons have been learnt from the evaluation of early ATP projects and care is taken to ensure that the ATP is offered only in support of sound investments.



- (vi) The pressure by the UK for a tightening of the rules governing the use of aid funds for export support must be continued (paragraph 37).

The Government accepts this recommendation. Its policy has been to seek agreement internationally to increase transparency and discipline in the use of mixed credits and other less concessional tied aid finance, and to improve the competitive position of UK exporters vis-a-vis that of exporters in low interest rate countries, such as Japan and the Federal Republic of Germany. Significant progress has been made in recent years. Earlier this year agreement was reached within the OECD by which the minimum degree of concessionality in such transactions would be increased, together with a revised basis of calculation which more nearly reflects the cost to each donor government. In the Development Assistance Committee of <sup>the</sup> OECD agreement had previously been reached on the principles governing the use of aid programme funds in these transactions.

However, implementing the Committee's recommendation at (v) above would not be consistent with increased transparency and discipline. It would be seen by others as a significant change in policy, lessening our commitment to the internationally agreed disciplines at a time when we should be pressing other countries to adhere to them.

The Government will be monitoring closely the application of these agreements by all participants. It will continue to keep under review the case for proposing further measures within the OECD to ensure satisfactory transparency and discipline in this area.

## The role of political considerations

- (vii) It is right for the Government to use the limited funds available for bilateral aid in a way which seeks to maximise the political benefit to the UK, so long as this does not impair the quality of development (paragraph 38).

The Government agrees that aid may bring political benefits. The Government recognises, however, that not all short term political pressures are in the best interest of sound long term development. Maximising the political benefit is not therefore a practical objective in itself. If a project conspicuously fails, what seemed politically beneficial in the short term may turn out to be the opposite.

- (viii) Preference should continue to be given to those countries which are friendly to, or have a close connection with, Britain, and we wholeheartedly support the policy of concentration on Commonwealth countries (paragraph 40).

The Government welcomes this conclusion. Aid is an important part of our relationship with developing countries. Preference will continue to be given to Commonwealth and other friendly countries with whom we have close ties. Our long association with these countries also means that Britain is often best placed to help, particularly in the fields of manpower assistance, training and strengthening of institutions.

(ix) **The political value of maintaining a programme in as many countries as possible makes the maintenance of a widely spread programme advantageous overall (paragraph 41).**

The Government recognises the political benefits of a widely spread programme. That does, however, have some disadvantages and the Government believes we should be wary of hanging on to diffusion simply for the sake of it.

The UK has at present one of the most widely scattered aid programmes. Inevitably this means that it has to be spread thinly. In some of our smaller recipients we are incurring administrative costs without having a programme of significant size. The Government believes that over a period of time it might well be sensible to diminish the geographical coverage. Certainly it would be sensible to <sup>focus</sup> ~~use~~ any additional money that might become available,  as do other donors, on countries with the greatest need so as to achieve a more effective impact, while of course fulfilling our obligations to the smaller poor countries.

(x)

The human rights record of a country should be relevant in setting the size, and determining the nature, of the UK bilateral aid programme to that country (paragraph 42); but a poor human rights record should not be regarded as an overriding objection to the establishment of an aid programme so long as such a programme (a) gives no support to the policies which are being criticised and (b) can be effective in assisting those in need (paragraph 43).

Respect for human rights is one of several factors taken into account when determining the level and nature of bilateral aid to a particular country. The Government is committed to the declaration on human rights which the European Community adopted on 21 July 1986 which states that "in the development of their relations with non Member states as well as in their administration of aid, the European Community and its Member states will continue to promote fundamental rights...".

## Humanitarian assistance

- (xi) In future the two objectives of humanitarian assistance and development assistance should be treated more discretely, so that a substantial increase in the funds devoted to emergency relief should not come from a decrease in the funds devoted to development (paragraph 45).

The aid programme is subject to the same overall controls as other programmes of public expenditure, but it is managed in a way that allows it to respond quickly and effectively to developing countries' diverse and changing aid needs, including emergency relief aid. Thus the Government was able to respond generously to the African famine from within existing aid resources without cutting planned development activities elsewhere.

It would impose unnecessary inflexibility in the use of aid funds to treat humanitarian assistance separately. A separate allocation is already made within the aid programme for the British food aid programme, to finance our share of a European Community obligation under the Food Aid Convention. It is the Government's policy that emergency needs should be a first call both on this allocation and on the much larger food aid programme which is administered directly by the European Commission, and the British share of which is attributed to our aid programme. Sums for other humanitarian assistance are provisionally earmarked annually within the ODA's in-year contingency reserve. During the course of each financial year specific allocations of relief aid are made from within total available resources. It is not possible to predict accurately whether the original earmarkings will be sufficient or will prove to be too generous, but because the aid programme is managed flexibly as a single block budget it is possible to provide funds to areas of high priority, including humanitarian assistance, where they can be used effectively at short notice.

## Promotion of growth and aid to the poorest

- (xii) The promotion of general economic growth is an important aid objective. Nevertheless it is important to ensure that too much is not taken for granted in assuming that the poor will benefit from general economic growth or that sustained growth is a prerequisite for improvement in the lot of the poorest people: it remains essential to examine the impact that growth will have on the poor (paragraph 53).
- (xiii) ODA should continue to give priority in their bilateral country programmes to the needs of the poorest people both through:
- (a) continuing the development of techniques for the examination in all project proposals (and also in evaluation studies) of the effects of the project on the poorest people in the country concerned; and
  - (b) giving greater priority to projects designed to attack poverty directly and to be sustainable by the local population after completion of the aid element (paragraph 54).

In its statement of the objectives of bilateral aid above, the Government has explained how it sees the inter-action between growth and the alleviation of poverty and the ways in which bilateral aid can help the poorest income groups both directly and indirectly. In evidence to the Committee the ODA explained how the consideration of social factors was integrated into each stage of the project cycle. The ODA will keep under review those procedures designed to examine the impact of projects on the poorer groups. The ODA already requires explicit consideration of the impact of adjustment programmes on vulnerable groups to be included in proposals in support of IMF and World Bank led programmes.

The policy and the administrative environment in the recipient country

- (xiv) The growing emphasis in aid planning on an assessment of the policy environment and administrative capacity of the recipient is to be greatly welcomed (paragraph 61).
- (xv) Where it is assessed that aid would not be productively spent, and this problem cannot be addressed through effective policy dialogue or specially targeted aid projects, then the Government must always be ready to withdraw particular types of, or even all, further aid, even where some adverse political consequences may flow. This may well be the case where corruption is endemic in a recipient country's administrative system (paragraph 61).

The Government welcomes the Committee's recognition of the importance of a satisfactory domestic policy environment for aid to be effective, and for the recipient country to progress. The Government attaches importance to an effective policy dialogue between the recipient country and the donor community, and believes that both the World Bank and the IMF have key roles to play in that. An increasing number of developing countries are now embarking upon courageous adjustment programmes: considerable Programme Aid assistance for essential imports is already being provided to many poorer countries in economic difficulties adopting appropriate policy responses.

The Government agrees with the Committee that aid should be withheld if it cannot be productively spent. However, even where a country is pursuing inappropriate policies some form of assistance, such as technical co-operation, may be effective. Procurement and payment procedures under the British aid programme are designed to ensure that aid neither supports nor is subject to corrupt practices.

## Conclusions on country allocations

- (xvi) Country allocations should be subject to regular fundamental review (paragraph 65).

The Government agrees with the Committee's recommendation. The procedures for determining the forward allocation of the aid programme, for reviewing individual country programmes and for setting priorities and objectives, provide for such a review. Continuity in aid enables it to be well planned and effectively used. But where circumstances change significantly, for better or for worse, these reviews provide the opportunity for substantial change in the level or type of assistance.



(xvii) Country allocations for bilateral aid should be based on the criteria noted below, listed in order of priority:

(i) The developmental needs of the country concerned are the primary consideration. These needs should be assessed against:

- the degree of poverty. This should be assessed not by reference to per capita income alone, but by reference to the extent to which there are poor people within the country;
- the degree to which the policy environment and the administrative capacity of the recipient country is conducive to development;
- the degree to which the developmental needs of the country give rise to appropriate project opportunities which meet the needs of the poorest people and, in particular, to opportunities which can be met by what ODA has to offer.

(ii) Political considerations are an inevitable and acceptable part of the process. The following principles should be followed:

- countries which are friendly to Britain or have a historic relationship with Britain, in particular the Commonwealth countries, should be favoured;

- the maintenance of at least a small programme in as many countries as possible, for political purposes, is to be encouraged so long as this does not undermine the broad concentration of resources on a much smaller number of main programmes for particular countries.
- a poor human rights record should not by itself preclude the maintenance of a bilateral aid programme, but should affect the size and nature of the programme.

(iii) Commercial considerations should have less influence in country allocations than the factors mentioned above.

The Government accepts as relevant each of the criteria for allocating bilateral country aid programme funds listed by the Committee. Aid allocations have always reflected, and will continue to reflect, the close relationship among these criteria, resulting from our longstanding links with a large number of poor, often anglophone, and predominantly Commonwealth, countries. As has been explained in the Introduction, the Government does not see these criteria as divisible, or susceptible to listing in order of priority.

Countries with relatively high incomes per head should be able to meet their external financing requirements without recourse to concessional aid flows, even though they may contain significant numbers of poor people. The aid programme cannot achieve distributive justice within its recipients; but it can take account of the extent to which a recipient government is concerned about its poorest groups.

## Sectoral priorities

- (xviii) We wish to be reassured that rural development remains a high priority for ODA in their bilateral country programmes (paragrph 74).

High priority continues to be given (particularly, but not exclusively, in Sub-Saharan Africa) to the development of the renewable natural resources sector and to rural development generally. Rural development projects are often substantially less costly than major infrastructural investments, so this priority is not necessarily reflected in aid expenditure statistics.

The Government agrees with the Committee that the boundaries between sectors can be difficult to define, and, for example, that an adequate rural infrastructure is important for agricultural development. The Government has no evidence (as suggested in paragraph 69) that recipient countries no longer look to Britain for assistance with agricultural development: Britain has much to offer in this sector as in others, and the agricultural work being funded through aid in many developing countries indicates the contrary.

(xix) We welcome and further encourage the stress placed by ODA in their evidence on the importance of environmental factors (paragraph 74).

The Government welcomes the Committee's encouragement to continue to place stress on the importance of environmental factors in the aid programme. Since presenting its evidence to the Committee, the ODA has taken a number of further initiatives in this field. It has published a booklet entitled 'The Environment and the British Aid Programme', a copy of which has been provided to the Committee and has been placed in the Library of the House. It has also agreed to fund a study, to be conducted jointly with the World Bank, to examine and to improve our understanding of the linkages between natural resources degradation and national economic and other policies. This study is likely to be based on Nepal. It is reviewing its internal guidelines on the environment in the light of more recent experience and it has initiated studies on its approach to economic appraisal to ensure that it takes adequate account of long-term considerations: the ODA expects to publish the results of this work in due course.

## Programme aid

- (xx) While entirely recognising the importance of properly planned programme aid in the important task of rehabilitating developing countries' economies, we reiterate our reservations about programme aid in general. It should be quite clear in ODA planning that it is not an aid instrument of first resort (paragraph 82).

The immediate need of poor countries which embark upon a structural adjustment programme as a result of economic difficulties is for aid to finance essential imports. These can enable use to be made of existing investments, and can sustain the level of economic activity. Such countries may also have urgent need of technical co-operation to assist in the implementation of agreed reforms. Programme aid is not the instrument of first resort in countries who have managed to avoid the need for major restructuring and who can, as a result, absorb new investment.

The ODA is careful to ensure that programme aid is properly used. In each case a decision is taken as to the appropriate controls over the goods to be supplied from Programme Aid, and the end-users within the recipient country who should benefit. Account is taken of the extent to which recipient governments are introducing market oriented systems for the allocation of foreign exchange.

## Technical co-operation

- (xxi) The importance and value of technical co-operation as a form of aid should be recognised in the planning of ODA's bilateral country programmes (paragraph 80); but further work on establishing ways of ensuring the effectiveness of the Technical Co-operation Training Programme would be valuable (paragraph 91).

The Government fully endorses the Committee's views on the importance of technical co-operation, and this is already reflected in the planning of country programmes. The Government agrees with the Committee's conclusion that Britain is often well placed to give value for money, including in the field of training and assistance with English Language Training. Through its technical co-operation programmes it makes available to developing countries the special strengths and skills which exist in Britain. This is done by providing British experts overseas, training developing country personnel in Britain and providing the services of British consultants.

Increasingly, training is being related to projects and other aid activities which increases its effectiveness. In returns collected at the end of their training, most trainees report that they are satisfied with their training and with the contribution it would make to improving their performance on their return home. Continuing effectiveness is kept under review by Advisers' inspection of the courses, by contact with overseas students in this country, and by visits overseas. This effort will continue.

(xxii) The British Council and relevant academic and business interests should take further steps to examine ways of generating the greatest possible benefits from the presence of overseas students in this country (paragraph 93).

The Government accepts this recommendation. It recognises the commercial benefits which can arise for all concerned from the presence of overseas students in Britain, and notes that the Committee welcomes the initiatives which are already being taken to increase these benefits. The Government has recently taken an initiative to invite companies winning contracts supported by the ATP to fund post-graduate places for overseas students at an appropriate institution in the UK.

## Budgetary aid and the needs of small island economies

- (xxiii) We endorse the proposed special fund for Tuvalu as an imaginative solution to the problem of budgetary aid to that country, provided adequate safeguards as to the operation of the Fund are agreed by ODA (paragraph 96).

The Government welcomes the Committee's endorsement. An Agreement to establish an International Trust Fund for Tuvalu was signed in Suva on 16 June by representatives of the Governments of Australia, New Zealand, Tuvalu and the UK. The House was duly informed and a copy of the Agreement was laid before the House. The Agreement was ratified by the UK on 24 July, following which we made a contribution to the Fund of 8.5 million Australian dollars, costing £3.722 million, at the rate of exchange then current.

The Agreement requires that the Board of Directors of the Fund shall establish and revise from time to time a reinvestment and distribution policy aimed at maintaining, so far as possible, the value of the Fund's capital at its initial real value. The Agreement provides that where the Government of Tuvalu requires from the Fund a lesser amount than the total available for distribution, the sums not needed shall be reinvested. The Agreement also provides for undertakings by the Government of Tuvalu that it shall use its best endeavours to make additional contributions to the Fund from its revenues from whatever source.

The Agreement further provides for the appointment of an Advisory Committee, to which the United Kingdom has nominated a member. This Advisory Committee will advise the Government of Tuvalu on the progress of its economy and make regular reports to the Board of Directors.



(xxiv) We support the de facto practice under which the smaller Commonwealth countries of the Caribbean and the South Pacific receive, for the most part, the highest per capita allocations of British Aid (paragraph 97).

The Government will keep the needs of these countries under review. Account will have to be taken of their relative prosperity, of the size of the overall aid programme and of the other demands on it, and of the support these countries also receive from other donors in their regions.

## Voluntary agencies and the private sector

- (xxv) There should be a moderate increase in the proportion of bilateral aid channelled through voluntary agencies provided this does not distort their sources of finance and provided their capacity to use the funds is not overstretched (paragraph 99).

The Government accepts this recommendation. Voluntary agencies have an ability to reach some of the poorest communities in ways which are not always open through Government to Government aid. Aid is channelled through them extensively in disaster and refugee relief work. We also support their long term projects. Under the Joint Funding Scheme the ODA meets 50% of the cost of agreed projects. This is an effective partnership which ensures respect for the independence of the voluntary agencies. The Joint Funding Scheme has been increased substantially in recent years to a planned figure of £6 million in the current financial year. It is proposed to increase this by 50% for the next financial year, to £9 million, provided the voluntary agencies are able to use it effectively.

We also support the four British volunteer recruitment agencies by providing up to 90% of their income from the Bilateral Aid Programme. We expect there to be about 1500 volunteers in the field in 1988.

(xxvi)

There should be further examination by ODA of the use of private sector instruments for delivering aid where this is in accordance with the developmental priorities outlined earlier in this report (paragraph 101).

The Government believes that direct foreign investment and indigenous private enterprise have an important role to play in developing countries. The Commonwealth Development Corporation, which receives substantial aid programme support, can invest directly in the private sector, and often does so in association with British private investors. Bilateral country programmes can also facilitate direct private investment by helping to create the right environment, by improving the infrastructure necessary for such investments to take place, and by providing finance for joint ventures. As the Committee noted (paragraph 100) some bilateral aid is used to finance indigenous private sector activities, but in ways that do not distort the market.

Aid should not be used to displace direct foreign investment, where that might be more appropriate (paragraph 100); nor to encourage recipient government participation in joint ventures that it would otherwise leave to the private sector; nor to subsidise British direct investment, decisions on which should be taken by individual companies based upon their own commercial judgements.

**Parliamentary scrutiny**

(xxvii) **The Committee has no substantial criticism of the retrospective information made available by ODA (paragraph 112).**

The Government notes that the Committee has welcomed the improvements in the amount of information on the aid programme now available to it.

(xxviii) The ODA's annual country planning allocations should be made available to this Committee on a confidential basis (paragraph 113).

The Government has nothing to add to the evidence given by successive Ministers for Overseas Development, most recently by Mr Patten on 27 January 1987, to the effect that the Aid Framework Allocations are provisional planning figures which it would be inappropriate and possibly misleading to make available.

(xxix) The figures for planned technical co-operation in the Aid Vote should be broken down by country (paragraph 114).

We agree with the Committee that the country totals currently provided in the Main Estimates would be more meaningful if they included technical co-operation. However technical co-operation is not controlled separately from financial aid and therefore any distinction between the two would only be illustrative. Accordingly we propose to provide the Committee with a table of country totals of expenditure arising from commitments including technical co-operation, when the Main Estimates are submitted.

(xxx)

The House should be given a firmer understanding than at present of ODA's objectives in their aid programme in a particular country. The British Aid Review, or some other appropriate publication, should contain a substantive analysis, for each major recipient country, of the way ODA's aid programmes in that country are meeting its developmental needs and priorities (paragraph 115).

The Government accepts that in publishing information on the use of the aid programme it should take the opportunity of explaining how the aid programme is helping to meet some recipient countries' needs and priorities. The ODA will consider how the British Aid Review, published annually, could be improved in this respect, within the limits of available resources.

## Relations with recipient countries

(xxxii) We wish to be reassured that the whole FCO (ie both ODA and the Diplomatic Wing) place the highest possible priority on the maintenance of a close aid dialogue with recipient governments in order to prevent any misunderstandings about what is, and what is not, being offered under the aid programme (paragraph 121).

The Committee may be assured that the FCO as a whole places the highest priority on the maintenance of a close dialogue with recipient countries. Embassies and High Commissions in each territory are closely involved in the administration of country aid programmes.

The Committee has drawn attention (paragraph 118 and 119) to the operation of "umbrella" aid agreements, and has noted correctly that the rate at which aid committed under such agreements is spent depends upon the identification and implementation of suitable projects. As the Committee has also noted the completion dates in such agreements may be extended; this is to ensure that the recipient country does not lose aid committed to it because of delays in project implementation. While forward country planning allocations determine the rate at which new commitments are entered into, equally existing commitments are taken into account in setting future country planning allocations.



**British Council**

(xxxii) We do not comment here on the adequacy of the formal procedures for consultation by ODA on their technical co-operation programmes but urge the development of sufficiently close practical links to ensure that the British Council's relevant expertise is properly utilised (paragraph 127).

The ODA draw on a wide range of Council expertise and welcomes their close involvement in helping to run technical co-operation training programmes. For instance, in the case of India the Council's role is being expanded to give them greater involvement in the management and monitoring of our substantial TC programme. Links between the Council and the ODA are maintained through regular contact among officials at all levels.

(xxxiii) The machinery for the joint planning of the KELT and Book Presentation schemes by ODA and the Council ought to be formalised in a way which gives the Council greater freedom in their administration (paragraph 128).

The KELT scheme was reviewed with the British Council in 1985 and revised guidelines for handling the scheme were introduced. The Books Presentation Programme guidelines were reviewed and revised a year earlier, again in consultation with the Council. These revised guidelines incorporated the delegations of authority thought to be appropriate at the time given the ODA's ultimate accountability for the expenditure involved. The Government will however consider whether more responsibility could be delegated to the Council to enable them to administer those schemes more effectively.

## Crown Agents

(xxxiv) ODA should always pay the closest attention to ensuring the most efficient and appropriate possible contract for procurement in each case.

The ODA Procurement Advisory and Monitoring Unit (PAMU) has particular responsibility for ensuring that the most efficient arrangements are made for all ODA procurement. PAMU maintains and reviews the list of procurement agents who have been approved to undertake aid procurement work in the United Kingdom. Apart from the Crown Agents, five other agents have been employed, and monitoring by PAMU indicates that they are performing well.

The ODA is currently renegotiating its arrangements with the Crown Agents for the provision of procurement services. It is likely that the Crown Agents will remain the main ODA procurement agent, but competition from other agents ensures that they continue to be efficient. Where the ODA employs other agents, specific terms of reference are agreed for the work that they do.

## Influences on project appraisal

(xxxv) ODA should not be hesitant to increase the proportion of their resources spent in administration where this is directly relevant to the improved quality of the aid programme. Priority areas should include further improvement in project appraisal through further expansion in the number of advisers and through the development of techniques for greater involvement of the local community (paragraph 136).

The ODA has had to establish priorities for the use of aid administration resources within overall running cost and manpower ceilings. The ODA agrees that devotion of more resources to project selection appraisal and monitoring would improve the overall effectiveness of aid. However, increased resources for project administration depend on the level of the ODA's overall running costs and on the extent to which the increase offers improvements in value for money from programme expenditure.

FROM: J C MAY

DATE: 22 September 1987

1. MR MOUNTFIELD <sup>17</sup>
2. PS/CHANCELLOR

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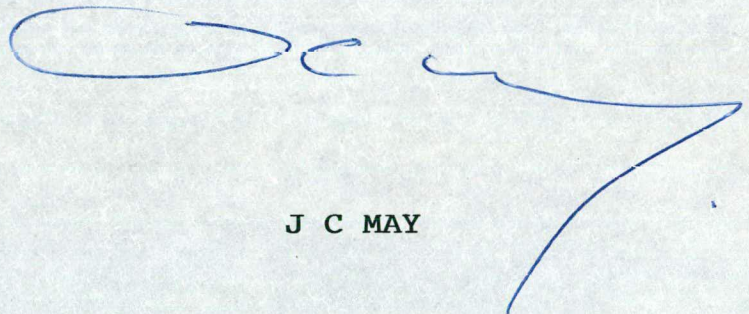
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cc PS/Chief Secretary  
 PS/Economic Secretary  
 Sir P Middleton  
 Sir G Littler  
 Mr F E R Butler  
 Mr Lavelle  
 Mr Anson  
 Mr H P Evans  
 Mr Turnbull  
 Mr P G F Davis

THE GOVERNMENT'S REPLY TO THE FAC REPORT ON BILATERAL AID

Mr Culshaw wrote to you on 17 September enclosing the text of the reply which the Foreign Secretary proposes to make to the report of the House of Commons Foreign Affairs Committee on the UK's bilateral aid country programmes, and asking for comments, if any, from the Chancellor.

2. We have seen the earlier drafts of the report and are broadly content with the revised version. I attach a draft reply for you to send, which incorporates the comments which it would be helpful for the Chancellor to make. A reply is required by 23 September (tomorrow). I hope this leaves time to draw this matter to the Chancellor's attention before he leaves for Barbados.



J C MAY

*Pse type for my sig.*

~~DRAFT~~ REPLY TO R N CULSHAW ESQ, PS/FOREIGN SECRETARY

THE GOVERNMENT'S REPLY TO THE FAC REPORT ON BILATERAL AID

Thank you for your letter of 17 September enclosing the reply which the Foreign Secretary proposes to make to the report of the House of Commons Foreign Affairs Committee on our Bilateral Aid Country Programmes.

The Chancellor has seen the proposed reply and is generally content. He welcomes the emphasis on the need for adjustment, particularly in sub-Saharan Africa, the importance of sustained growth in the world economy, and the reference to the Government's leading role in discussion on debt and trade, especially in agricultural trade and the deregulation of commodity markets. He also thinks that the reply is right to correct the Committee's view of the function of the Aid and Trade Provision and to outline the difficulties which would result if it were to be separated from the aid programme.

A copy of this letter goes to Timothy Walker in DTI.

*JMG T —*

FROM: P MOUNTFIELD  
DATE: 22 October 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Economic Secretary  
Sir P Middleton  
Sir G Littler o/r  
Mr F E R Butler  
Mr Anson  
Mr H P Evans  
Mr Turnbull  
Mr P Davis

*Thanks. with  
C. M. Patten  
Patten*

**THE GOVERNMENT'S RESPONSE TO THE FAC REPORT ON BILATERAL AID**

You do not need to intervene in the bad-tempered correspondence which rests with Mr Patten's letter of 20 October to Mr Alan Clark. But, since this mentions your earlier intervention, you might like to know the background.

2. The Commons Select Committee on Foreign Affairs published its report on 'bilateral aid: country programmes' in June. It was quite a thorough piece of work, concentrating on aid-effectiveness and value-for-money. It also said some useful things about the adjustment process in the developing world, about debt, agricultural trade, deregulation in commodity markets etc. But the Committee, which tends to be dominated by aid enthusiasts, was also highly-critical of the Aid-and-Trade Provision (ATP) and - perhaps in response to the consistent line taken by the industrial lobby - recommended that this should be transferred to the DTI. It did so more to preserve the purity of the aid programme than to ensure larger resources for ATP.

3. The government reply was cleared with departments at official level in the usual way: the Treasury saw large chunks of it, though not the whole. I think ODA were probably unwise not to clear the whole of the text with us, and with DTI, though we saw no reason to complain.

4. The final version of the draft reply was circulated to Ministers on 17 September, and you wrote on 23 September, on

our advice, accepting the draft and welcoming in particular the passage which justified the retention of ATP in the aid budget.

5. DTI took longer to get their act together. But over the following four weeks they have made desperate attempts, in successive Ministerial letters, to amend the draft, even to the point of having it corrected at proof stage. Eventually, Sir G Howe lost patience, and sent the report to the printers in a form which still did not incorporate all the recommendations sought by Mr Clark.

6. But there is considerable ill-feeling about all this. It began when Mr Clark made 'a few unscripted remarks' at a lunch in the City, which amounted to an attack on the way the aid programme is run, and the insufficient bias (as he sees it) towards UK commercial interests. That speech was not cleared with Mr Patten in advance. A running feud has developed, and although some kind of truce was patched up, Mr Clark's latest attempt to amend the government reply suggests that war is breaking out again.

7. The government reply is published today. Mr Patten is giving it considerable publicity, and has written a signed article in this morning's Independent, which goes some way gently to refute the Clark arguments. (It is also a very good defence of the present UK aid programme and its allocation.)

8. Treasury officials have been happy to sit on the sidelines and watch DTI and ODA fight this one out. I doubt if Treasury Ministers will wish to get involved either. I believe myself that the advice we gave you in September is correct, and that the government reply (in the ODA final version, without the latest Clark amendments) gets the balance right.

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CHANCELLOR OF THE EXCHEQUER

Aid Framework:

Use of the Unallocated Reserve for 1988/89

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1. I enclose a copy of the paper, which I have agreed, setting out how we propose to use the Unallocated Reserve in the Aid Framework for 1988/89.

2. These proposals represent a continuation of the policies reflected in the existing Aid Framework for 1988/89 - 1990/91 agreed earlier this year. We have as far as possible augmented our bilateral country programmes. In particular we have set aside further amounts for Programme Aid for Sub Saharan Africa in support of structural adjustment.

3. Your own debt initiative and our contribution to the enlarged SAF have earned us political credit internationally, but it is also essential that we deliver sufficient bilateral assistance in individual cases, in support of the adjustment process, to sustain our credibility in sub Saharan Africa. If the strategy for the region is to work (both the IMF and World Bank believe that a much larger volume of concessional resources will need to be mobilised if adjustment programmes are to be politically sustainable) we shall

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come under increasing pressure to do more bilaterally. I am already concerned that the level of resources we have been able to allocate for Programme Aid to the region may need to be spread more thinly next year. Sudan is now following a shadow IMF programme, we need to provide some support for Kenya, and there is the possibility that Zambia might edge back towards an agreement with the IMF on the basis that donors collectively provide rather more support than last time.

4. I have allocated £6.5 million next year to meet the level of our interest subsidy contribution to the SAF as part of the recent PES settlement. In accordance with the understanding we reached on the financing of the additional interest subsidy contribution announced at the IMF Board meeting on 11 December, I shall increase this allocation to £8.5 million once we have made the agreed claim on the Reserve during the course of the next year.

5. I have also made a modest start towards our manifesto commitment on students. This is an area where much greater allocations could be justified if only there were more aid resources available.

6. I should draw attention to the modest improvements which we have been able to make to the bilateral/multilateral ratio this year. This is something to which I know the DTI attach importance. If the overall budget were greater, I would wish to do even better.



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7. These proposals were agreed by our officials in the inter-departmental Joint Aid Policy Committee, save for some last minute adjustments, needed to accommodate larger than anticipated calls from the Commission in 1988/89 in respect of the EDF. My officials will draw these changes to the attention of your officials.

8. I should welcome any comments from you or David Young, to whom I am copying this, before I have these proposals put into effect.

A handwritten signature in blue ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office

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FROM: J C MAY  
DATE: 16 June 1988

PS/CHANCELLOR

cc Mr Lankester  
Mr Mountfield  
Mr Bottrill  
Mr Davis

RETROSPECTIVE TERMS ADJUSTMENT (RTA)

Your minute of 9 June asked why we could not call a spade a spade and refer to RTA as writing off old aid loans.

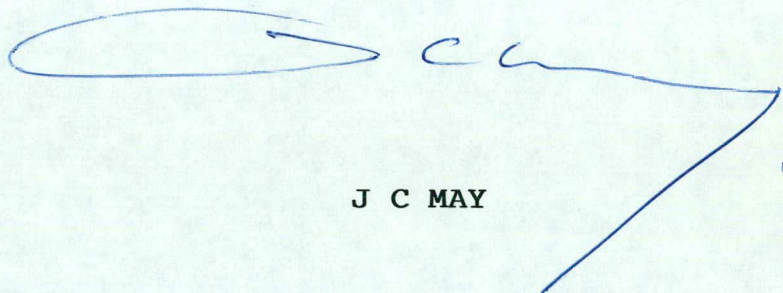
2. Plain speaking is an attractive idea - even if one more praised than practiced - and there is much to commend the substitution of RTA by "writing off old aid loans" in many circumstances. However, in the same way that, in certain situations, you might wish to call a spade a shovel the same might apply for RTA.

3. The background to this is the 1978 UNCTAD resolution 165 (S/IX) on "debt and development problems of developing countries" which called upon donor countries to adopt measures to adjust the terms of past bilateral official development assistance to bring them into line with the then prevailing softer terms. The resolution was adopted by consensus. Since then the abbreviation RTA has become common international currency in such bodies as the UN and the OECD DAC. These organisations and some individual countries use "retroactive terms adjustment" as the full revision of this standard abbreviation, while we use the "retrospective" formulation. (With such terms as "ex-post terms correction" floating about at one time, we might think ourselves lucky with what we have.)

4. Behind all this lies a distinction between, on the one hand, retrospectively amending the terms of aid loans by converting them to grants with effect from a date agreed with the recipient country, and thereby waiving the amounts due in repayment and servicing after the agreed date, and on the other hand simply writing off old aid loans which have in effect become bad debts due to default (Uganda; and Pakistan in respect of loans to the former East Pakistan).

5. There are certain advantages in dropping references to RTA and talking about the writing off of old aid loans. This would allow us - in appropriate circumstances - to include in the figures for action taken to assist sub-Saharan African countries the write off for Uganda granted after Amin's downfall in respect of default by his regime and a special write off of Rhodesian debt as part of Zimbabwe's independence settlement. To this can be added the obvious advantage that the notion of writing off old aid loans means something to most people and is thus to be preferred in political speeches and in general briefing. However, given the common usage of the term RTA in international fora and the specific meaning attached to it, I think officials should continue to use that term when dealing with such matters. In certain situations we may need to add a rider that debt relief by the writing off of old aid loans has been primarily RTA: this is essentially the formulation for one of the notes for supplementaries to the oral PQ by Bowen Wells MP on Sub-Saharan African debt *on 16 June.*

6. I have discussed this matter at official level with ODA and they are content with the formulation I suggest.



J C MAY

FROM: MISS S E BURTON

DATE: 28 June 1988

PS/CHANCELLOR 14/2

cc Mr Lankester  
Mr Mountfield  
Mr Bottrill  
Mr P G F Davis  
Mr May o/r

**RETROSPECTIVE TERMS ADJUSTMENT (RTA) AND WRITE-OFF OF AID LOANS**

You asked for a note of the total write-off figures including the write-offs for Uganda and Zimbabwe mentioned in Mr May's minute of 16 June. This is set out below.

(1) RTA (converting aid loans to grants)

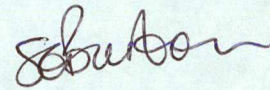
<u>Sub-Saharan Africa</u>		<u>Other Africa</u>	
	£m		£m
Botswana (1979)	20.68	Egypt (1979)	17.80
Ethiopia (1984)	2.57		
Ghana (1985)	50.88	<u>Rest of World</u>	
Kenya (1978)	68.88	Afghanistan (1979)	0.98
Lesotho (1979)	0.40	Bangladesh (1979)	15.67
Malawi (1979)	30.70	*India (1979)	564.16
Mozambique (1983)	22.50	Indonesia (1979)	39.85
Senegal (1988)	1.07	Nepal (1979)	1.97
Sierra Leone (1979)	10.41	Pakistan (1979)	76.42
Sudan (1979)	9.91	Sri Lanka (1979)	9.91
Tanzania (1979)	3.50	Western Samoa (1979)	0.20
The Gambia (1979)	5.22		
Uganda (1981)	16.45		
EAC (1984)	2.45		
	<hr/>		<hr/>
Total	245.52		709.16
	<hr/>		<hr/>

\* For India, an equivalent amount of local cost aid was offered instead of normal RTA.

(2) In addition to RTA, special debt cancellation has been granted to Uganda (in respect of defaults under the Amin regime) and to Zimbabwe (as part of the independence settlement) as follows:-

	£m
Uganda (1981)	5.64
Zimbabwe (1980)	22.90

In summary then, the total write-off figure ((1)+(2) above) is £972.48 million of which £274.06 million relates to Sub-Saharan Africa.



MISS S E BURTON

Prof A G Tyrie

FROM: A G TYRIE

DATE: 15 JULY 1988

cc PS/Chancellor  
Mr Lankester

MR J MAY

Alex.  
Problem to A Tyrie  
16/7

CPS PAPER ON AID

As I mentioned over the 'phone, the CPS are planning to produce a paper on aid and development. Frank Vibert, the author, has sent me a draft, which I attach. I would be very grateful for any comments you might have. He is coming to see me at 4.00p.m. on Monday.

A very poor paper. Important to him out a 2 changes  
good out, he might help:  
① Recognition of the fact that  
the UK is subsidising almost all  
engagement in the direct markets

A G TYRIE

③ Smart about what is actually going on in these areas - eg MIGA, "menu of options", & (of course!) the sub-Saharan debt problem.

② Bunge - put together whole of the 2nd of p 16. US is currently engaged in measures to support for US agree & support for US agree trade liberalisation (while special agree).



FINANCE FOR DEVELOPMENT

Reshaping Financial Flows To Developing Countries.

CONTENTS

1. INTRODUCTION.
2. PRIVATE CAPITAL.
3. THE BRITISH AID PROGRAM.
4. THE MULTILATERAL FINANCE INSTITUTIONS.
5. SURVEILLANCE AND SUPERVISION.
6. A SUPPORTIVE TRADING SYSTEM.
7. CONCLUSIONS AND RECOMMENDATIONS.

1. INTRODUCTION.

The present government has embarked on a program<sup>mc</sup> to reshape Britain- its institutions, the attitudes of its society and the aspirations of its individual citizens. It is a program<sup>mc</sup> which still has far to go. This pamphlet, however, addresses a subject beyond Britain's borders- the problems of developing countries.

With the domestic reform program having so far yet to go, why should the government concern itself with the issues of developing countries?

-Because Britain has a long standing tradition of concern for the welfare of those living in poverty; a concern backed by historical ties, and recognized in a network of voluntary aid organizations;

-Because many of the developing countries have become significant trading partners, either as markets for British exports, or as sources of British imports;

-Because as a leading financial center<sup>mc</sup> and as a proponent of the free flow of capital, Britain has a vital interest in seeing an end to the instability brought into the international finance system by the debt problems of developing countries;

-Because Britain's social structure cannot itself be insulated from outside problems; for example, pressures for illegal immigration, or the supply of drugs.

The interest of the developed countries in the problems of developing countries was indeed recognized at the Toronto Summit in June 1988. Quite unusually, issues relating to developing countries were prominent on the

Agenda and in the Communique. Recognition is important. Practical steps have still to follow.

This pamphlet sets out a number of practical steps for the British authorities. There is a common theme to the steps recommended:

- Too much reliance has been placed on financing development through capital provided in the form of loans;
- Too much reliance has been placed by developing countries on the role of the public sector.

The broad thrust of the recommendations of this pamphlet is for the government to adopt in its approach to the financing of development many of the themes that it has been following in its approach to domestic issues:-

- To encourage the flow of private capital in the form of private direct investment and equity finance;
- To counter public sector bias and to recognize the efforts of those developing countries that are stressing the primacy of the private sector;
- To enhance the role of voluntary organizations concerned with the poorest developing countries.

It means a reshaping of Britain's approach to the financing of development.

## 2. PRIVATE CAPITAL

In theory, developing countries should pass from a stage of relying on external assistance from official sources to being able to stand on their own feet in global capital markets and rely on private sources.

During the 1960's and 1970's many developing countries, particularly those in Latin America and East Asia, were indeed able to turn to private sources of capital. However, because of an ingrained suspicion of foreign investors, as well as a policy of favoring the public sector to lead their development, they met their financings through borrowings. It was to the foreign private commercial banks that they turned for loans.

For their part, commercial banks had a ready made lending instrument- the syndicated loan. It enabled large amounts of lending to be organized in one operation. At the same time the syndication process spread the risk over a large number of banks that participated in a typical syndicate.

Such loans were biased toward public sector recipients. It was public sector agencies that could absorb large transactions. It was also public sector borrowers, or the governments themselves, that could provide the borrowing government guarantees that reassured the lenders.

For every loan that is made, a debt is created. The rapid increase in commercial bank lending that took place in the 1970's led to an unmanageable accumulation of debt by the early 1980's.

The syndicated loan proved to have had several important flaws:-

- Borrowing government guarantees proved worthless because governments did not exert the discipline to match their borrowings to their repayment capacity- particularly export earning capacity.

- Many of the participants in the syndicates did not feel that the size of their participation warranted thorough credit analysis, were ill equipped to carry out such analysis and there was inadequate monitoring of collective exposure.

- The syndicated loan was an instrument that appealed only to the banking sector and not to other investors so that the risks remained concentrated within the international banking system as a whole.

When borrowers ceased to service their debt in 1982 the stability of the international banking system was threatened. This threat has now largely disappeared. The capital bases of many banks have been strengthened and most have put in place substantial provisions against loss. Nevertheless, while the stock of debt remains as high as at present, the prospects of developing countries are clouded and normal international commercial banking flows cannot be resumed. This in turn impairs international trade and the cohesion of international markets.

Because of its importance as an international finance center Britain has an interest in speeding the return to market normalcy<sup>it</sup>. Moreover, three out of the four major U.K. banks have had their international standing eroded by the volume of loans they have outstanding to developing countries.

Calls for governments to bail out commercial banks from their exposure to developing countries by buying their loans should be resisted. Market mechanisms are emerging to reduce the stock of debt to the underlying capacity of borrowers to repay. This is occurring through the emergence of a secondary market where the external indebtedness of developing countries can be bought and sold at a steep discount. The borrowing country can in turn capture the benefits<sup>e</sup> of these discounts and repatriate (at a discount) these

foreign exchange obligations and transform them into more manageable domestic obligations. <sup>1</sup>

The U.K. authorities should encourage this market process of debt reduction.

In particular;

-U.K. banks could be allowed to spread over a number of years the balance sheet impact of selling their developing country assets at a discount.

-borrowers could be encouraged to institute more vigorous steps to enable external debts to be converted into equity investments and for other domestic uses.

Over the longer term, the lesson is that countries in Latin America and Asia that are in a position to look to markets to meet external financing needs can not rely, as in the past, on debt creating loan finance. Private capital in non debt creating forms has to be encouraged. This means above all that developing countries should turn to attract private direct investment and private portfolio investment. A favorable environment must be created, both for the domestic investor, and for the foreign investor.

This commitment to the private sector can only come from the developing countries themselves. Nevertheless, the British authorities can fund technical assistance in the area of privatisation and in the development of emerging equity markets and capital market institutions.

Finally, the real risk of making general purpose loans to governments and public sector agencies in developing countries should be emphasized so that,

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<sup>1</sup> The repatriation of debt can take a number of different forms- residents, or non-residents of the borrowing country can be encouraged to convert external debt into equity investments; resident corporate or individual investors can be encouraged to use their overseas holdings to invest in domestic debt obligations via the secondary market; other uses for discounted debt can be facilitated, for example, trade financing.

as countries emerge from their present difficulties, a cycle of over borrowing is not repeated. The Bank of England should give a higher risk weighting to such assets in the future.



3. **THE BRITISH AID PROGRAM**

The poorest developing countries can not easily attract private capital from abroad. The British official aid program rightly focuses mainly on these countries.

There are many demands on Britain's aid program:-

- A part must be reserved to support bilateral political objectives;
- A part, and if necessary an increasing part, must be reserved to defend British exporters where contracts might be lost because of aid offers from other countries;
- A part is needed for humanitarian and emergency relief efforts;
- A part is pre-empted by contributions to multilateral organisations including the institutions of the Common Market.

These various demands reduce the discretionary element in the British aid program. Nevertheless, the program can be channeled more effectively than at present. It can serve as a vehicle for some of the key themes of the government.

One important objective would be to insure that as much as possible of the aid program supports productive investments in the private sector of recipient countries. This involves having in place an aid mechanism with knowledge of local business and with on the scene investment appraisal capacity. A capacity to make equity investments, portfolio investments and investments in support of local or incoming British direct investment would be desirable. The Commonwealth Development Corporation has this capacity. It has long been in search of a clear focus for its activities. It should be provided with an enlarged capital base and private corporate share holders. Its capital

structure should be such that it can stand on its own feet in the market. It should be charged with handling a major part of Britain's bilateral aid program<sup>me</sup> and for channelling it into private sector investments. Its charter should allow it to provide working capital and to finance maintenance imports and rehabilitation of private sector enterprises. It should be free to operate in all developing countries.

A second important objective for the aid program<sup>me</sup> is to insure that welfare and relief oriented assistance does indeed reach the poorest in the developing countries and does not get siphoned off in the public sector. Aid channelled by government agencies frequently takes on a public sector coloration in the recipient country. Britain's voluntary aid organisations may have better grass roots contacts in developing countries and effective means of reaching those most in need. They should be encouraged. That part of the British aid program that is primarily welfare or emergency relief oriented should be channelled through the voluntary organisations.

Welfare and emergency relief needs may sometimes over ride other considerations in the country allocation of the British aid program. However, the degree to which the country concerned fosters the private sector and provides an equitable environment for foreign private investors should become a key allocation criterion.

If Britains aid program<sup>me</sup> can be structured to encourage the efforts of the voluntary organisatins, can be more sure of reaching those most in need, and can become more private sector oriented, a furthur<sup>e</sup> expansion in the program<sup>me</sup> and in the discretionary bilateral share would be justified.

4. THE MULTILATERAL FINANCE INSTITUTIONS

Developing countries meet a part of their financing needs from the multilateral development institutions- notably the World Bank and the Regional Development Banks. Britain is a leading shareholder in the World Bank and a member of the Regional Development Banks. Its support for them should continue.

The multilateral institutions are subject to the same dangers as public sector agencies in a domestic context. They can ossify. They can lose their relevance. They can have a public sector bias. In certain respects they are more difficult to change than a bureaucracy in a national context because no single share holder can institute change without the support of others. Their capacity for internal regeneration is poor.

Change, however, is needed. The overwhelming focus of the World Bank and the Regional Development Banks has been on the provision of loan finance. They have used their government provided capital to borrow to the maximum and to lend to the maximum. This was a valuable function when international markets did not provide loan capital to developing countries. However, the volume of commercial bank debt of developing countries is sufficient witness to the fact that too much loan capital has become available.

The purpose of public sector institutions is to make up for imperfections in the market place. The major imperfection in the pattern of global finance since the 1960's has been an insufficiency of non debt creating finance- particularly an insufficiency of private direct investment and portfolio investment flows.

The World Bank has a specialized affiliate to encourage private direct and portfolio investment- The International Finance Corporation. This should become the centerpiece of World Bank activities. Its main handicap is a fragile balance sheet and a lean profit record. It needs to be strengthened. This can be achieved by a transfer of resources from within the World Bank group. For example, the World Bank's portfolio of loans in areas of relevance to the private sector- energy, industry and agriculture could be transferred to the IFC along with project staff in these areas.

Other multilateral development institutions should be encouraged to set up affiliates to foster private direct investment. The Common Market has no institutional capacity in this area. One needs to be established. The European Investment Bank might be adapted for this purpose.

## 5. SURVEILLANCE AND SUPERVISION

The integration of national capital markets and the creation of a global market for finance has been one of the striking developments of recent years. This is of benefit to all countries, both developed and developing. It helps ensure an efficient channelling of savings, a competitive market place and continuing financial innovation. It is a necessary accompaniment to a dynamic trading environment. Britain has rightly been at the forefront of this movement.

Because of the size of international capital flows and the speed with which capital can be transferred, multilateral surveillance has become more important over the years. So also, have the efforts of national banking supervisors to coordinate their approach to the banking systems under their authority.

An important gap remains in the system of international cooperation- that dealing with the flow of international equity capital. Many national markets are thin, are potentially easily destabilized and the rules governing financial intermediaries outside the commercial banking sector vary enormously. It is important that equity markets grow. It is particularly important that this growth also takes place within developing countries so that they can attract their share of international portfolio investment and rely less on loan capital. In order to provide an international environment that will promote a flow of private equity capital, efforts must be made to strengthen supervision of equity markets and to coordinate supervisory standards

Through the Bank of England, Britain has played a leading role in increasing international cooperation among supervisors of national banking systems and in generating agreement on common financial standards for commercial banks. This effort now needs to be extended to financial institutions outside the commercial banking sector and to embrace equity markets. The Bank of England could again play a key role in organising this effort.

## 6. A SUPPORTIVE TRADING ENVIRONMENT

It is the aim of all developing countries to reach eventual financial self sufficiency. In order to achieve this goal they must have unrestricted access for their exports to the markets of developed countries, including Britain.

One of the great achievements of the post war world has been the dismantling of international trade barriers. In recent years, however, progress in this direction has been under threat from protectionist sentiment. Non tariff obstructions have increased. Trade in agricultural commodities remains grossly distorted by patterns of price support, subsidies and restrictions to market access. This trade is of particular importance to developing countries.

Britain supports the aim of developing countries to reach financial self sufficiency. Accordingly, it must support a continued dismantling of barriers to their exports.

It is important for the U.K. to continue to press for an early and successful conclusion to the Uruguay round of international trade negotiations. It should give unequivocal support to the efforts of the United States to reduce distortions in international trade in agricultural produce.

The Common Agricultural Policy of the Common Market imposes a significant handicap on the developing countries. The latter would derive more benefit from unrestricted access to the Common Market for their agricultural produce than from the Common Market aid program.

Within the Common Market, the U.K. should press for trade and aid to be seen in its totality. It should cap its contributions to Common Market aid

programs<sup>me</sup> until progress is made in reducing trade barriers in the way of agricultural exports of developing countries.



7. CONCLUSIONS AND RECOMMENDATIONS

The decade of the 1960's was a period of optimism about the prospects of developing countries. Post war reconstruction in the developed world had taken place much faster and more successfully than had been imagined in the aftermath of the war. It was believed that this success could be duplicated in the developing world. Independence for many of the developing countries was also believed likely to accelerate their progress. Active official aid programs were well established in almost all the developed countries. The World Bank embarked on a major expansion program. Regional development banks were being established.

By the mid 1980's the optimism had collapsed. Problems of servicing loan capital had overwhelmed many of the developing countries. Independence was accompanied in a number of cases by regression. Successes were few.

It has become commonplace to blame policies in the developing countries themselves for many of the shortcomings. This is surely correct. In particular, too little reliance has been placed on the private sector. External financing was obtained, in the main, by public sector borrowing. Inflows in the form of private direct investment were generally discouraged. This public sector bias has been reinforced by the way in which capital has been channelled by both official and private lenders in the developed world. A move away from loan capital as a means to finance development and measures to counter public sector bias are essential.

## Measures To Encourage Private Sector Direct and Equity Investment

The main elements in a program to encourage a greater flow of private direct and equity investment are as follows:-

-U.K. banks should be encouraged to reduce their loan exposure to developing countries by selling such loans at a discount for conversion into equity investments. This could be done by allowing banks to spread the balance sheet impact over the remaining lives of the loans.

- The Commonwealth Development Corporation should be reconstituted to become the leading instrument for official assistance to the private sector.

- A technical assistance program should be funded by the government to enable the expertise of the City of London to be tapped by emerging equity markets and capital market institutions in developing countries.

- The Bank of England should be asked to initiate international efforts to provide a regulatory framework for international flows of portfolio investment.

- The U.K. should work with other leading share holders to make the International Finance Corporation the centerpiece of the World Bank group so as to shift emphasis in the international finance institutions from the provision of loan finance to the encouragement of equity flows.

- The regional development banks and the European Investment Bank should be encouraged to set up affiliates for the purpose of fostering private direct investment and portfolio flows.

## Measures To Counter Public Sector Bias

Measures to counter public sector bias in the channelling of finance should include the following:-

- The allocation of the U.K. official aid program<sup>me</sup> should take into account whether recipient countries are taking steps to foster their private sectors and to provide a favorable environment for foreign private investment.

- U.K. voluntary agencies should be encouraged in their activities and be asked to administer a part of the U.K. aid program<sup>me</sup> aimed at the poorest in the developing countries.

- The risk perceptions of private lenders contemplating loans to governments or government agencies should be heightened by the authorities applying a higher risk weighting to such assets.

## A Supportive Trading Environment

To assist developing countries reach their goal of financial self sufficiency<sup>2</sup> it is important for the U.K. to press for an early and successful conclusion to the Uruguay round of trade negotiations. The U.K. should give unequivocal support to [the] efforts [of the United States] to reduce distortions in agricultural trade. Within the Common Market the U.K. should press for the burden on developing countries of the Common Agricultural Policy to be removed.

\*\*\*\*\*

By encouraging self sufficiency and private sector oriented policies in developing countries, by enhancing the role of Britain's voluntary agencies and by encouraging a greater reliance on private direct investment, the government would reshape Britain's approach to the financing of development to conform to the principles guiding its approach to domestic issues.



BF 23/8  
(or with advice)

\*  
ENCLOSURE  
TO TOP COPY  
ONLY

28/7/88

CH/EXCHEQUER	
REC.	28 JUL 1988
ACTION	Mr H.P. EVANS
COPIES TO	CST, FST, PMG, EST SIR P. MIDDLETON, SIR G. LITTLE, MR LANKESTER, MR MONCK, MR BURGNER, MR MOUNTFIELD, MR R.G. ALLEN, MR S.W. MATTHEWS, MR PGF DAVIS

✓  
28/7

FCS/88/148

CHANCELLOR OF THE EXCHEQUER

BF with advice of [unclear]

2/8  
15/8

The Aid Framework 1989/90 - 1991/92

- / 1. I enclose Aid Framework proposals for the years 1989/90 to 1991/92 which have been prepared with difficulty within existing planned resources, including the agreed additions to meet the full cost of the IMF's Structural Adjustment Facility (ESAF).
2. We have continued to scrutinise carefully our multilateral aid spending. Even so multilateral aid allocations increase by about £100 million over the Aid Framework period, thereby absorbing two-thirds of the cash increase in the planned aid budget.
3. Most of the increase is accounted for by expected increases in our contributions to the European Community aid programmes, including our share of EC budget expenditure on aid over which we have little or no control, the cost of the ESAF, and the new World Bank GCI.
4. Given the burden sharing nature of most multilateral aid negotiations we have done well to limit the growth of multilateral spending as a proportion of our total aid budget while still securing our commercial and political interests. But it is clear that there is no further



scope for reducing our share in multilateral organisations, which in many cases is now significantly below our relative economic strength. So long as our aid as a proportion of GNP is below that of nearly every other donor, and given that about half our multilateral contributions go to European Community, the share of multilateral aid in our programme is bound to be higher than for others.

5. I am pleased to see that the overall value of goods and services which multilateral organisations procure from Britain has continued to increase in relation to the level of our contributions. Last year for every £1 we contributed, orders from Britain amounted to £1.85.

6. The reduction in our aid as a percentage of GNP to only 0.28% in 1987 has set us further apart from others, particularly our EC partners. Only Austria, Ireland, New Zealand and the United States (whose aid budget in absolute terms is more than five times ours) provide less as a proportion of GNP than us. In absolute terms we fell to seventh place in 1987, and this year we can expect to fall to eighth place.

7. Total bilateral aid allocations are broadly constant in cash terms up to 1991/92. Even after any additions from the Unallocated Reserve, bilateral aid overall, and country programmes in particular, will continue to fall further in real terms. This is a trend which we should now be reversing but which it is not possible to do within existing resources. That is why I attach such importance to my PES bid for aid.



8. Within the total for country programmes that we have been able to set aside we have sought to shift the balance towards sub-Saharan Africa in order to support further the IMF and World Bank-led Structural Adjustment Programmes and as part of our positive measures policy in Southern Africa. But shifting the balance of resources in this way, something we have been doing in each of the last few years, is becoming increasingly more difficult without making further, damaging reductions elsewhere. The Aid Framework proposals will result in further significant reductions in the real value of our assistance to a wide range of countries.

9. The ATP allocation has been held at £86 million annually pending the outcome of the PES discussions. I have bid for the additional sums needed in 1990/91 and 1991/92, over and above the £20 million already provided, to finance the level of soft loan business which we originally envisaged but allowing for the fact that the ATP interest subsidy cost has fallen with the decline since 1985 of Consensus interest rates. It is important that the issue is resolved this year because within the present ceiling we have very little headroom left for making new soft loans commitments.

10. I shall be discussing this and other PES matters with John Major in due course. But as you can see, if we are to continue to play a constructive role in international discussions; if we are to reverse the decline in the value of our bilateral aid; and if we are to protect our political and commercial interests, additional resources are required in line with our own economic success domestically.



11. I would welcome any comments you and David Young (to whom I am copying this minute) may have before officials put the proposals into effect.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
28 July 1988



*Handwritten initials/signature*

FROM: J C MAY  
DATE: 17 AUGUST 1988

- 1. MR LANKESTER
- 2. CHANCELLOR

*ASICA 12*  
*17/8*  
*Handwritten signature*

cc Chief Secretary  
Sir G Littler  
Mr H Evans  
Mr Mountfield o/r  
Mr Turnbull  
Mr Davis o/r  
Miss Burton  
Miss Jenkins

**AID FRAMEWORK PROPOSALS 1989-90 TO 1991-92**

The Foreign Secretary has written enclosing the proposed allocation of monies from the aid programme over the coming three financial years and asking for comments.

**Background**

2. The Aid Framework is prepared at this time each year on the basis of current public expenditure plans to allow for forward planning of disbursements. The Framework is subject to the outcome of the Public Expenditure Survey. The detailed proposals have been discussed with Treasury and DTI officials, and we are broadly content with these.

3. The main points of interest in this year's exercise are:-

(a) A planned increase in multilateral aid from 38 per cent of the total available to 40 per cent by 1991-92. Much of this reflects the UK contributions to the IMF Enhanced Structural Adjustment Facility and the World Bank General Capital Increase. Contributions to the European Development Fund are also set to rise.

(b) As a consequence of (a), there is pressure on the ability to maintain the real value of bilateral country programmes, particularly in Sub-Saharan Africa: in cash terms, however, allocations show an increase for all

bilateral country programmes over the period. Within these figures **increases** are planned for certain countries, notably China, Sri Lanka, Kenya and Uganda, and **reductions** for others such as Zambia, Mozambique and the dependent territories.

(c) **An unchanged level of expenditure on ATP soft loans funding.** This is the **subject of a bid in the current survey.**

4. **The Foreign Secretary makes his familiar complaints about the difficulties of juggling his budget to meet multilateral commitments while maintaining an adequate bilateral aid programme.** He is also concerned about our "ranking" in the league table of the **proportion of GNP spent on aid,** and wishes to see the aid programme benefit from the economic strength of the country by increasing resources in line with growth. His bid in the survey, at £44/£75/£94 million, while more modest than last year's, is designed to maintain the aid budget's share of GNP and to provide for real growth in expenditure.

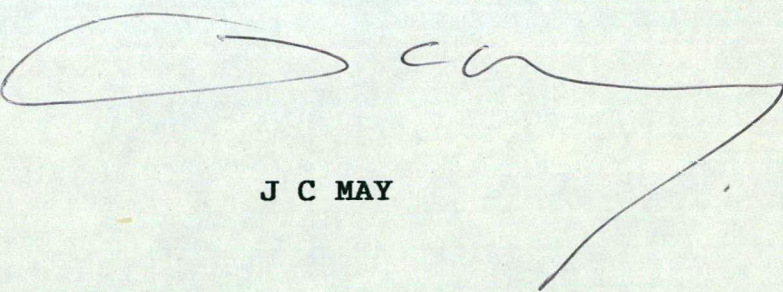
5. While there are undoubted pressures on the aid programme the **Foreign Secretary presents too partial a case.** He **fails to mention the benefits to Sub-Saharan Africa** which will accrue once agreement is reached in the Paris Club on the mechanics of implementing your and complementary schemes for debt relief. The costs will be **additional to the aid programme** and will count as aid. Moreover, **pressures are aggravated to some degree by the wide spread of the programme,** which covers over 125 countries. **Many countries, such as those in Francophone Africa, with few obvious links with the UK are included.** The **diplomatic wing favours this** - ambassadors like to have a bit of aid. The DTI also likes to have a **foot in the door** of as many countries as possible. But it **adds to administrative costs** and uses up aid which could probably be spent to better effect in countries where we have stronger ties and greater knowledge and experience. While the aid programme appears to be well run, there is always room to improve the value of the money spent. Quality is as important as quantity, a point Mr Patten himself has argued many times in the House.

6. In this context, we have also been looking at the costs of aid tying. The existing tying of most of the bilateral programme to procurement in the UK probably reduces the value of aid to the recipients by a significant margin. The Treasury Solicitor has also recently advised that tying may well be in breach of the EC Supplies Directive. The arguments in favour of tying are largely political. Mr Patten and DTI Ministers are likely to oppose any substantial untying. If Treasury Ministers are to raise the issue, we need to prepare the ground carefully. We are preparing a paper on the subject which will, I hope, enable us to reach a clearer view on whether it is worth pushing.

#### Chancellor's Reply

7. There is no good reason to enter into discussion of the adequacy or otherwise of the aid programme, as this will be fully explored during the Survey discussions. Such matters are primarily for the Chief Secretary, but there may be some advantage in previewing part of the Survey discussions in your response. The draft reply therefore mentions the importance of your debt relief scheme for Sub-Saharan Africa and the additionality of the costs to the aid budget, while suggesting that a review of priorities, in particular the wide spread of the aid programme, may help to make necessarily limited resources go further. We would be inclined not to mention the possibility of untying at this stage.

8. I attach a draft.



J C MAY

~~DRAFT~~ REPLY TO FOREIGN SECRETARY

pl type as  
(Final) minute to  
F. Sec.

Thank you for your minute of 28 July concerning the Aid Framework proposals for the next three years.

I am broadly content with your proposed allocations, and am pleased to see the provision made for the UK contributions to the IMF's Enhanced Structural Adjustment Facility and the cost of the World Bank General Capital Increase. Both have an important role to play in support of structural adjustment policies in the poorest countries which are a prerequisite for sustainable development.

I note your comments on the size of the aid programme and the difficult choices involved in the allocation of resources. The aid programme is not of course unique in this regard. Furthermore Sub-Saharan Africa, to which you rightly give high priority, will benefit from additional funds under my debt initiative and the complementary schemes considered at the Toronto Summit and now under detailed discussion in the Paris Club.

If, as you say, shifting resources to Sub-Saharan Africa is leading to unwelcome reductions elsewhere, then it may be that you could consider concentrating aid on a smaller number of countries. I am struck both by the wide spread of the bilateral country programmes and the inclusion of a number of countries with no obvious historical or trading ties with the UK.

You and Chris Patten will doubtless give these and wider issues a good airing in your discussion with John Major next month so I will refrain from commenting further upon them myself at this stage.

I am copying this letter to David Young.