PREM 19/1096

Policy Review. The 1981 – 82 Aid Programme. UK Contribution to the International Development Association (IDA) Aid Framework 1981 – 82 to 1983 – 84

Overseas Aid

Part 1 June 79
Part 2 March 80
Part 3 April 82

PREM 19/1096

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~6.4.82~~		~~19.7.83~~					
~~10.4.82.~~		~~26.7.83~~					
~~15.4.82~~		~~2/9/83.~~					
~~16.4.82~~		~~9.9.83~~					
~~19.4.82~~		~~13.9.83~~					
~~21.4.82~~		~~19.9.83~~					
~~23.4.82~~		~~23.9.83~~					
~~5.5.82~~		~~26.9.83~~					
~~7.5.82~~		~~6.10.83~~					
~~12.5.82~~		~~12.10.83~~					
~~28.5.82~~		~~18.10.83~~					
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~~6.5.83~~							
13.7.83							

● PART 3 ends:-

Ch/Ex to FCS 14.12.83

PART 4 begins:-

FCS to Ch/Ex 4.1.84

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

N. S. P. R.

A. J. C. 15/12

FOREIGN SECRETARY

IDA7

Thank you for your minute of 13 December, and the note by ODA officials which you enclosed.

2. I am content with the negotiating position you recommend, providing that you agree to absorb all the associated costs within the currently agreed provision for the Aid Programme. In addition to the financial implications noted in paragraph 7 of the ODA paper, these would include:

a. the cost of any IBRD shares we might need to buy under the proposed selective capital increase to maintain equal ranking with the French; and

b. the consequential effects on our IDA and IBRD contributions of any decline in the value of sterling against the US dollar below the $1.50=£1 rate currently assumed for the 1984-85 Estimates.

If the value of sterling were to decline to, say, $1.40 by the time of the IDA7 agreement, my officials calculate that the additional cost (above the present Aid Framework provision) of a 6.7 per cent IDA contribution could amount to:

£m

1984-85	1985-86	1986-87	1987-88
+ 0.9	+ 3.6	+ 6.5	+8.0

You will no doubt wish to bear this in mind should you decide to agree to a UK share above 6.5 per cent.

3. I also agree that our officials should consider the wider question of what our position should be if - as seems likely - the United States refuse to change theirs.

4. Copies of this minute go to the Prime Minister and Norman Tebbit.

(N.L.)

14 December 1983

Overseas Policy Review

Prime Minister
To be aware of this issue
AT 13/12

FCS/83/266

CHANCELLOR OF THE EXCHEQUER

MT

IDA 7

1. Negotiations for IDA 7 continued on 9-10 December in Paris. The UK, France, the FRG and Japan (the G4) got down to serious negotiations on the linked issues of burden-sharing in IDA 7 and ranking in the World Bank. To take advantage of the presence of the Japanese negotiator in Europe, the next round would be held in Paris on the afternoon of 15 December. I think we need to decide now on what the UK position should be in the next stages.

2. I enclose a note by officials describing the latest position in the IDA negotiations. I agree with the conclusion that the UK's objective should now be to achieve a share of $12 billion of an IDA 7 at 6.5%, on the assumption that the United States put in 25%, but that if necessary we should go to 6.7% although not during the next round.

3. The financial implications described in paragraph 7 of the officials' note are manageable.

4. If, as seems likely, the United States does not come up with a contribution that provides 25% of $12 billion, the extremes faced by other donors will be broadly between a reasonably sized IDA 7 (around $11 billion), in which donors pay the amounts that they would have contributed to a $12 billion total, or full adherence to the principle of burden-sharing, at $9 billion.

5. As soon as it becomes clear that there is no further hope of moving the United States, the Management will canvass proposals to cope with this new situation, which we shall have to examine carefully.

6. I am copying this minute to the Prime Minister and to the Secretary of State for Trade and Industry.

GEOFFREY HOWE

Foreign and Commonwealth Office

13 December, 1983

SEVENTH REPLENISHMENT OF IDA

Note on Discussion held on 9-10 December 1983, Paris, between Deputies from UK, France, Japan and Federal Republic of Germany

1. A detailed description of the Deputies' meeting in Paris is contained in MODEV telegram No 253 to Washington. Briefly, the United States confirmed that they would not go above $750m per annum for IDA 7 which would give a total of $9 billion and a US share of 25%. The rest confirmed their attachment to $12 billion (in a few cases 12 billion SDR - ie around $12.5 billion). The burden-sharing negotiations between the four major donor countries were based on $12 billion on the assumption of a US share of 25%. The thought underlying this was that, although all knew that it was unlikely the US would permit an IDA 7 of $12 billion, they felt pressure on the US had to be maintained.

2. The Japanese strongly reaffirmed their interest in getting to second place in the World Bank ranking from their present fifth position. The UK, France and Germany made it equally clear that Japan would have to pay for it by taking a considerably larger share in IDA 7 than they had in IDA 6 - 14.65%. The UK's position was that its share had to be reduced from its 10.1% in IDA 6 (and 7.6% in FY 84) to a figure more in line with its economic circumstances. Our delegation said that we had in mind a figure of 6%. The French started at their IDA 6 share of 5.38% but moved quickly to 6%. Germany argued for a reduction from the IDA 6 share of 12.5% to something between 8.5% and 10.8%. The Japanese offered 16% as their maximum.

3. Management explained the position as they saw it: an earmarking of 25% for the USA (which constituted a 2% reduction from IDA 6), the balance from the rest of the G 5 constitution, around 45% with other donors plus Part II countries (ie the recipients) to make up the 30% balance. There would almost certainly have to be a small 'unallocated' gap. Agreement between the G 4 would be needed to encourage the smaller donors.

/4.

4. The total to be met by the four major countries is a maximum of around 44.8% based on an appropriate share of $12 billion. (Management's suggested allocation between the main groupings was:

United States	25%
UK, Japan, France and FRG	44.7%
Other donors	29.%
Unallocated	1.3%
	100.%

5. The G 4 argued that they should not have to bear the full US shortfall of 2%: the Japanese made it a condition they should not, but that they would be ready to join with others in the G 4 to share a pro-rata proportion of the 2% with the rest - ie 1.25:75% respectively. This then brought the G 4 share to 44%. After the group had totally rejected a scenario which included the UK at 7.4%, Management put forward various illustrative formula to achieve this. These involved a 19.5% or 19.6% share from Japan, a share from the UK and France of 6.5% or 6.7% and a German share of 11.7% or 11.5%.

6. The most we could have hoped for was to get the Japanese to 20% in exchange for second place in the World Bank. We may be extremely lucky to get them to 19%. If we and the French put in 6.5% each, this would leave the FRG with 12%. But this would require a bigger shift from the Germans than we believe they are ready to make, and if necessary to obtain agreement, it might be necessary for the UK to go to 6.7%, although our negotiations should not use this authority at the next round in Paris unless, in the unlikely event, other negotiators had authority which enabled a solution to be reached with a UK share of 6.7%. (The subsequent round is likely to be on 10 January, the day before the Deputies meet in Washington.) The compensation for going up to this level could be that it would bring the French up to us if they attach enough importance to sharing fourth place with us in the World

/Bank.

Bank. This would mean a 1.4% improvement on their IDA 6 share but a far greater (more than double) their outlay in French francs because of the variation in exchange rates.

Financial implications of a 6.7% UK share of IDA 7

7. Using a US dollar/sterling exchange rate of 1.50 (the Treasury's instruction for 1984/85 framework entries), a 6.7% contribution compares at £536 million against £520 million 6.5% spread over 10 years. Changes in estimated disbursement in the Aid Framework period patterns would be as follows:

	1984/85	1985/86	1986/87	1987/88	£ms
Current (6.5%)	8.0	35.0	62.0	77.0	
Revised (6.7%)	8.25	36.0	63.9	79.3	
Additional Commitment	+0.25	+1.0	+1.9	+2.3	

Financial Implications to UK of Certain Changes in IBRD Rankings

8. One of the Japanese stipulations connected with a high IDA 7 contribution by them (made after consultations with Tokyo by the Japanese Deputy) was firm agreement by January 15 to a World Bank Selective Capital Increase of around $8 billion, with changes involving Japan to second place, and adjustment of the FRG, French and UK rankings as agreed between them. The European countries could not, of course, guarantee agreement of all other IBRB member countries; there is, however, already a good consensus on a $8 billion SCI and our soundings of the United States delegation lead us to belive that their present opposition will be removed once agreement is reached on the technical matter of the World Bank's ''sustainable lending level''. This should not prove an impediment to a settlement by 15 January. The practical difficulties of documentation preparation and receiving of formal period of notification to all members for subscription changes are being examined by Bank Management.

9. The French apparently attach such political importance to sharing equal third position with Germany and the UK that they are intent, if necessary, to take it up at a high political level.

/If

If they succeed (and this would mean Germany agreeing as well as ourselves), it is likely that the UK would be allocated 2214 shares (compared with 529 if we shared equal fourth position with France). The cost would be about £15 million of which £1.5 million would be payable in cash and the remaining £13.5 million in Promissory Notes (compared with £3.75 and £0.375 million respectively for the 529 shares. It would, however, be entirely at our discretion as to whether, and when, we subscribed to these additional shares or redeemed the Promissory Note. We would be deemed to have purchased them (and therefore assumed joint third place) when the cash payment was made and the Promissory Note deposited, but not redeemed. But this does not need to be decided now.

International Division
Overseas Development Administration
12 December, 1983

INTERNATIONAL/CURRENCY SITUATION: ADVANCE COPIES

PS
PS/PUS
MR BULLARD
SIR C TICKELL
MR HAYES
GEOG DUS.....
GEOG AUS.....
HD/ERD (2)
~~HD/GEOG~~
HD/~~EID~~ ESID (2)
.....
.....
NEWS DEPT
RESIDENT CLERK

PS NO 10 DOWNING ST

File

CABINET OFFICE

SIR R ARMSTRONG
MR P MOUNTFIELD
MR R L WADE GERY

TREASURY

PS TO CHANCELLOR OF THE EXCHEQUER
SECOND PERM. SEC. O.F.
MR J G LITTLER
MR P E MIDDLETON
MR J B UNWIN
MR R G LAVELLE
MR G E FITCHEW
MR M A HALL
MR BEASTALL
MR D L C PERETZ
(7) OVERSEAS SECTION

BANK OF ENGLAND

MR EWBANK
MR LOEHNIS
MR COOPER

MR FRIOST
MR BARNES
UN, B.

DEPT OF TRADE 1 VICTORIA ST

PS/S OF S TRADE
MR W M KNIGHTON
MR S ABRAMSON

RESTRICTED
DESKBY 140900Z
FM UKDEL IMF/IBRD WASHINGTON 132300Z DEC 83
TO IMMEDIATE ODA
TELEGRAM NUMBER MODEV 128 OF 13 DECEMBER
AND TO IMMEDIATE ABIDJAN (FOR ARBUTHNOTT LEADING UK DEL TO ADB MEETING)

ADVANCE COPY
IMMEDIATE

IBRD SELECTIVE CAPITAL INCREASE AND IDA7

AT THE PARIS MEETING, THE JAPANESE INDICATED THAT, IF THEY WERE TO TAKE A SUBSTANTIAL SHARE IN IDA 7 WHICH SOLVED THE PROBLEM OF BURDEN SHARING, THEY WOULD WISH THERE TO BE A SIMULTANEOUS SETTLEMENT OF THE SCI, YIELDING SECOND POSITION IN THE IBRD TO THEM.

IN AN ATTEMPT TO MEET THE JAPANESE WISHES, WHILE PRESERVING THE POSITION OF THE OTHER MAJOR SHAREHOLDERS, THE BANK PROPOSES TO ADOPT A TWO-STAGE PROCEDURAL APPROACH. THEY ACCORDINGLY PROPOSE TO ISSUE A PAPER WITHIN THE NEXT FEW DAYS FOR BOARD DISCUSSION IN THE WEEK ENDING 14 JANUARY (THUS GIVING THE BOARD THE MINIMUM TIME REQUIRED TO CONSIDER THE PROPOSALS). THIS PAPER WILL PROPOSE AN SCI OF 70,000 SHARES WITH A TOTAL VALUE OF DOLLARS 8.44B.

AN SCI OF 70,000 SHARES WITH A TOTAL VALUE OF DOLLARS 8.444B, AS PREVIOUSLY ENVISAGED. THE PAPER WILL NOT, HOWEVER, ATTEMPT TO SETTLE THE RANKING QUESTION.

2. TO DEAL WITH THE LATTER POINT, THE MANAGEMENT PROPOSE TO INSERT WORDING AS FOLLOWS. QUOTE

11. ADJUSTMENTS TO COUNTRY RANKING:
THE COMPROMISE SELECTIVE CAPITAL INCREASE SET OUT IN THE PRECEDING PARAGRAPH WOULD NOT ACHIEVE ALL OF THE RANKING ADJUSTMENTS THAT WOULD HAVE BEEN ACHIEVED IN THE LARGER (DOLLARS 17 BILLION) SELECTIVE CAPITAL INCREASE. GIVEN THE IMPORTANCE ATTACHED TO THE FULL RANKING ADJUSTMENTS AS THEY AFFECT THE MAJOR SHAREHOLDERS, THE UNITED KINGDOM HAS AGREED TO CONSIDER ACCEPTING A LOWER ALLOCATION OF SHARES THAN THE 2,984 SHARES THAT WOULD BE ALLOCATED TO IT UNDER THE STANDARD METHODOLOGY FOR CALCULATING SELECTIVE INCREASES. THE EFFECT OF THIS REDUCTION — IF IT WERE FINALLY AGREED — WOULD BE THAT JAPAN WOULD BECOME THE SECOND LARGEST SHAREHOLDER IN THE BANK: IN OTHER WORDS, IT WOULD ACHIEVE THE RANKING THAT WOULD HAVE RESULTED FROM A SELECTIVE CAPITAL INCREASE OF DOLLARS 17 BILLION. IN ADDITION, IT IS PROPOSED THAT THE SHARES ALLOCATED TO CHINA BE INCREASED TO 1,660 SHARES FROM THE 1,022 CALCULATED IN THE STANDARD WAY. CHINA WAS ALLOCATED THE SIXTH LARGEST SUBSCRIPTION TO THE CAPITAL STOCK OF THE BANK IN 1980. THE ADDITIONAL SHARES PROPOSED FOR IT WOULD MAINTAIN THAT POSITION.

12. THE PRECISE NUMBER OF SHARES THAT THE UNITED KINGDOM MIGHT FOREGO IS STILL UNDER CONSIDERATION, AS IS THE RANKING AMONG THE THIRD, FOURTH AND FIFTH LARGEST SHAREHOLDERS. THE PROPOSED INCREASES IN THE SUBSCRIPTIONS OF INDIVIDUAL MEMBERS, EXCEPT THE INCREASES FOR THE UNITED KINGDOM, GERMANY AND FRANCE, ARE SET FORTH IN ATTACHMENT 1. A REVISED VERSION OF ATTACHMENT 1 WILL BE DISTRIBUTED SEPARATELY, WHEN THE QUESTION OF THE SPECIFIC NUMBER OF SHARES TO BE ALLOCATED TO THESE THREE SHAREHOLDERS IS RESOLVED. UNQUOTE.

WOOD HAS ASKED SMITH IF THIS WORDING WOULD BE ACCEPTABLE TO THE UK. SMITH SAID THAT HE WOULD NEED TO CLEAR THE WORDING WITH YOU. HE SUGGESTED AD REFERENDUM THAT THE FOLLOWING AMENDMENTS, WHICH WOOD ACCEPTED, SHOULD BE MADE. AFTER QUOTE SELECTIVE INCREASES UNQUOTE AT THE END OF THE SECOND SENTENCE, ADD QUOTE IF THAT WOULD HAVE SIGNIFICANT ADVANTAGES FOR THE WORLD BANK GROUP AS A WHOLE UNQUOTE. IN THE FOLLOWING SENTENCE OMIT QUOTE FINALLY UNQUOTE

HAVE SIGNIFICANT ADVANTAGES FOR THE WORLD BANK GROUP AS A WHOLE UNQUOTE. IN THE FOLLOWING SENTENCE OMIT QUOTE FINALLY UNQUOTE BETWEEN QUOTE WERE UNQUOTE AND QUOTE AGREED UNQUOTE.

3. SMITH MADE CLEAR TO WOOD THAT THE UNITED KINGDOM, TOGETHER WITH FRANCE AND GERMANY, WOULD NOT BE ABLE TO REACH FINAL AGREEMENT ON THE SCI UNTIL THE QUESTIONS OF BURDEN SHARING UNDER IDA 7 WERE SATISFACTORILY RESOLVED. HE CONSIDERS, HOWEVER, THAT THE PROPOSED WORDING, AS AMENDED ABOVE, WOULD ADEQUATELY PROTECT THE UK POSITION.

4. YOU SHOULD KNOW THAT, WITH AN ARRANGEMENT FOR FRANCE, GERMANY AND THE UK TO SHARE EQUAL THIRD POSITION IF THAT IS WHAT IS AGREED BETWEEN FRANCE AND GERMANY, THERE ARE ALTERNATIVE SCENARIOS TO THAT UNDER WHICH THE UK WOULD FOREGO SUFFICIENT SHARES, ONLY TO BRING THEM DOWN TO GERMANY'S CURRENTLY PROPOSED ALLOCATION, I.E. UNDER WHICH THE UK WOULD RETAIN 2214 SHARES AT A COST OF POUNDS STERLING 15.5 MILLION. THE MANAGEMENT WOULD PREFER NOT TO GIVE A SPECIAL INCREASE TO FRANCE AND, TO AVOID THAT, GERMANY WOULD NEED TO AGREE NOT TO TAKE UP SOME OF ITS ALLOCATED SHARES. THIS HAS BEEN PUT TO THE GERMANS. THIS COULD LEAD TO THE UK BEING ALLOCATED ONLY 1,909, AT A COST OF APPROXIMATELY POUNDS STERLING 13.5 MILLION, WHICH IS CLOSER TO THE SCENARIO IN PARA. 5 OF SMITH'S TELELETTER TO BARNES OF 5 AUGUST. IN ANY EVENT, THE UK WOULD NOT BE OBLIGED TO SUBSCRIBE TO ITS ALLOCATED SHARES AND, IF IT DECIDED TO DO SO, COULD DETERMINE THE TIMING BOTH OF PAYING THE 10 PERCENT CASH ELEMENT AND OF THE SUBSQEUENT REDEMPTION OF THE PROMISSORY NOTES DEPOSITED FOR THE REMAINING 90 PERCENT.

5. GRATEFUL TO LEARN IMMEDIATELY THAT WE CAN CONFIRM TO MANAGEMENT THAT WE HAVE NO OBJECTION TO THE ISSUE OF A PAPER CONTAINING THE ABOVE WORDING.

6. ODA PLEASE ADVANCE TO FRIOST AND BARNES (UN,B), APPLEYARD (FCO), BEASTALL (TREASURY) AND COOPER (BANK OF ENGLAND).
WICKS

NNNN

10 DOWNING STREET

(2)

Prime Minister

To note Alan Walter's views on aid for your bilateral with Sir Geoffrey Howe.

AT
18/10

SECRET

PRIME MINISTER

FCO BID FOR INCREASED AID PROGRAMME

In your bilateral with the Foreign Secretary I suggest you take as an absolute sticking point that the aid programme be not increased. You may well agree with the Foreign Secretary that bilateral aid should be restored to its 1982/83 level. But this should only be done if at the same time multilateral aid is reduced.

At present, our commitments to multilateral aid, such as IDA and LOME, are increasing and will continue to grow. If we held the aid programme constant then eventually all aid would be multilateral. There would be no bilateral at all.

It is very difficult to withdraw from our commitments under LOME, but there is at present an opportunity to reduce our commitments to IDA. Contrary to what has been alleged by Mr. Clausen, we do not get a good deal from IDA. See flag A. The opportunity to revise our commitments to IDA 7 arise because the Americans have not yet contributed their IDA 6. It is unlikely that they will complete IDA 6, without attaching clauses which IDA cannot accept. Similarly, it is very unlikely that the Americans will contribute anything to IDA 7. Congress would not appropriate the cash. I suggest, therefore, we use this as our opportunity for reducing multilateral aid and correspondingly increasing our bilateral component.

See A Parsons views at Flag B

You may, however, believe that you have committed the United Kingdom to new IDA replenishments. Your letters to President Mabutu and Mrs. Gandhi made it clear that you supported the principle of IDA. We have, in good faith, made special contributions to IDA for the fiscal year 1984, providing an additional grant of £105 million for that period. There is a good case for going no further with grants of this kind while the principal contributor is not meeting the commitment. It would be extraordinarily quixotic for us, one of the poorer nations in the developed world, to continue with IDA contributions when the richest nation has ceased to do so.

The latest standard letter is at Flag C

T152/83

ALAN WALTERS
18 October 1983

SECRET

SUBJECT

JD

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T152/83

10 DOWNING STREET

THE PRIME MINISTER

17 October 1983

Dear Mr. President,

Thank you for your letter regarding further funding of the International Development Association.

We are in no doubt about the importance developing countries attach to the Association's resources as a means of promoting their economic and social development. Britain is a strong supporter of IDA, and the likely size of the next Replenishment (IDA 7) is therefore of some concern to us.

Unfortunately, the negotiations on IDA 7 are taking place at a time when public expenditure constraints are operating in many donor countries, including the United Kingdom, as part of the measures needed to strengthen their own economies. Because of this, the World Bank's target of $16 billion does not command full international support among donor countries, and we fear that such a level will be unattainable. Donor countries will also want to adhere to the principle of fair burden-sharing, and not use their limited resources to make good any shortfall in the contributions of others.

Whilst we cannot predict the eventual outcome of the IDA 7 negotiations, I can assure you that the United Kingdom stands ready to support the next Replenishment within the limits of what donors collectively can afford. The UK's contribution will have to be more in line with our relative economic strength among donors; this means much less than the 10.1% level which we contributed to IDA 6, and now acknowledged by other donors as being very high.

/ We

JR

We do, of course, have a substantial bilateral aid programme, with its concentration on assistance to the poorest countries; and we shall also continue to play our part in the various European Community programmes to help developing countries.

Yours sincerely

Margaret Thatcher

His Excellency General Mohammed Zia-ul-Haq

Foreign and Commonwealth Office

London SW1A 2AH

12 October 1983

Type letter pl.

A.S.C. 12/10

Dear John,

International Development Association

I enclose a draft reply to the enclosed copy of a letter to the Prime Minister from President Zia of Pakistan.

You are aware of the background from previous letters on the same subject. Negotiations on IDA 7 were held in Washington last month at the time of the IMF/IBRD Annual Meetings, but they proved inconclusive. Further discussions among donor countries are due to take place in Paris between 21-23 November.

We shall forward the signed copy of the Prime Minister's letter by bag, if you agree.

I am copying this to John Kerr (Chancellor's Office).

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

12 OCT 1903

DRAFT LETTER FOR SIGNATURE BY THE PRIME MINISTER

To: His Excellency General M Zia-ul-Haq
President of the Islamic Republic of Pakistan

Thank you for your letter regarding further funding of the International Development Association.

We are in no doubt about the importance developing countries attach to the Association's resources as a means of promoting their economic and social development. Britain is a strong supporter of IDA, and the likely size of the next Replenishment (IDA 7) is therefore of some concern to us.

Unfortunately, the negotiations on IDA 7 are taking place at a time when public expenditure constraints are operating in many donor countries, including the United Kingdom, as part of the measures needed to strengthen their own economies. Because of this, the World Bank's target of $16 billion does not command full international support among donor countries, and we fear that such a level will be unattainable. Donor countries will also want to adhere to the principle of fair burden-sharing, and not use their limited resources to make good any shortfall in the contributions of others.

Whilst we cannot predict the eventual outcome of the IDA 7 negotiations, I can assure you that the United Kingdom stands ready to support the next Replenishment within the limits of what donors collectively can afford. The UK's contribution will have to be more in line with our relative economic strength among donors; this means much less than the 10.1% level which we contributed to IDA 6, and now acknowledged by other donors as being very high.

/We

We do, of course, have a substantial bilateral aid programme, with its concentration on assistance to the poorest countries; and we shall also continue to play our part in the various European Community programmes to help developing countries.

AR 12/10.

بسم الله الرحمن الرحيم

THE ISLAMIC REPUBLIC OF PAKISTAN

General M. Zia-ul-Haq

ISLAMABAD

13 Zilhaj 1403 AH

21 September 1983

Her Excellency
The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister of the United Kingdom,
London

Dear Madam Prime Minister,

Your Excellency will recall that in early 1982, I had addressed a letter to you expressing my deep concern at the decision of the United States to reduce its contribution to IDA VI and proposed various specific steps to maintain and increase the flow of IDA resources to developing countries. I was particularly gratified at your positive response to this suggestion, which was instrumental in containing a situation which could have created a major crisis in multilateral economic cooperation.

Your constructive and bold action and your demonstrated support for IDA encourages me to write to you again to underline the great importance that Pakistan and the developing world attach to the Seventh Replenishment of International Development Association (IDA) at levels higher than previous replenishments. I do not have to stress that IDA represents a very positive and fruitful achievement in international economic cooperation. It is a vital investment in the economic development of the Third World and in international peace itself.

.....2

IDA has contributed in important social and economic sectors affecting the poorest people in the developing countries. It has compiled an impressive record of working effectively towards alleviating the problems of poverty and under-development during the last two decades. It is, therefore, absolutely essential that the VIIth Replenishment of IDA is agreed at levels higher in real terms than those agreed for IDA VI. IDA VIIth replenishment to the order of 16 billion dollars for a three-year period starting from 1 July 1984, would, according to available estimates, be the absolute minimum which is needed to meet the requirements of the developing countries for concessional flow of assistance from this organization.

We are, therefore, greatly concerned to learn that the United States is planning to limit its contribution to IDA VII to the reduced level of $750 million per year and is also considering a reduction in its contribution in percentage terms which would bring the overall target for IDA VII down to $9 billion only, as against the commitment of $12 billion for IDA VI. We are also given to understand that some other major donors may be considering a reduction in their shares for IDA VII as well in line with the reduction in the U.S. contribution. We strongly believe that any such reduction, or even the maintenance of previous levels of commitment, for the next replenishment period would in effect mean a major loss in real terms of the resources available to IDA.

I am aware that the contribution of Your Excellency's Government to IDA has been generous in the past and I am confident that a similarly positive approach to IDA replenishment will continue to mark your policies. I am writing, therefore to

....3

urge you to give your personal attention to this matter and as an expression of your commitment and support to IDA, and a continuation of your enlightened economic policies, ensure an effective and adequate level of replenishment for IDA VII.

The timely replenishment of IDA VII is an investment in the future of millions of people in many developing countries, and would constitute a positive contribution to the world development and peace. Your continuing support would strengthen the ability of the World Bank system to address itself to the basic needs of the people of the developing world.

With profound regards,

Yours sincerely,

M. Zia-ul-Haq

General
(M. Zia-ul-Haq)

Overseas Aid, Policy, p73

JD 4/10

c FCO
ODA

10 DOWNING STREET

THE PRIME MINISTER

6 October 1983

cc MASTER
OPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T145/83

Dear Mr. President,

Thank you for your letter about the current problems of the International Development Association.

Britain has always been one of IDA's strong supporters, and I share your concern over the likely size of the next Replenishment (IDA 7). Unfortunately, however, this further funding of the Association is being negotiated at a time when public expenditure constraints are necessary in many donor countries, including the United Kingdom, as part of the measures needed to strengthen their own economies. Because of this, the World Bank's target of $16 billion for IDA 7 does not command full international support among donor countries, and I fear that it will prove unattainable. As you know, contributions to IDA have always been based on the principle of fair burden-sharing; donors wish strongly to adhere to this, and not to use their limited resources to make good any shortfall in the contributions of others.

Whilst I cannot predict the eventual outcome of the IDA 7 negotiations, I assure you that the United Kingdom stands ready to support the next Replenishment within the limits of what donors collectively can afford; but our percentage share will have to be more nearly in line with our relative economic strength among donors, and therefore much less than the 10.1 per cent which we contributed to IDA 6.

/We do,

We do, of course, have a substantial bilateral aid programme, with its concentration on assistance to the poorest countries; and we shall also continue to play our part in the various European Community programmes to help developing countries.

Yours sincerely

Margaret Thatcher

His Excellency Dr. Belisario Betancur Cuartas.

Sir Yue-Kong Pao C.B.E., LL.D., J.P.

WORLD-WIDE SHIPPING GROUP
16th Floor, World Shipping Centre
Harbour City
7, Canton Road, Kowloon
Hong Kong
Tel.: 3-7327333 Telex: HX43247

4th October, 1983.

The Rt. Hon. Mrs. Margaret Thatcher, MP
Prime Minister
10 Downing Street
London W1
ENGLAND

813

Dear Prime Minister,

I am writing this to apologize to you again for not being able to keep my appointment with you on the 4th October. Vertigo, a condition which has troubled my wife Sue interminably for the past year or two took an unexpected turn for the worse on Sunday, the day I was to depart for London, and on her doctor's advice I thought it prudent to call off my trip so that I could be near her in case of need.

Missing the opportunity of talking with you at this particular point of time was a big disappointment for me indeed, but I hope I can count on the privilege of visiting you again on my next trip to London and I will in due course ask our London associates to approach your office to seek another appointment.

You have no doubt been kept fully advised of the progress on the Hong Kong talks and what damaging effects the current element of uncertainty about the future has already had on Hong Kong's economic, social and monetary fronts. It must be everyone's hope now to see the talks moving towards an earliest possible conclusion for the good of Hong Kong.

With kindest regards,

Yours sincerely

Y. K. Pao

Foreign and Commonwealth Office

London SW1A 2AH

4 October, 1983

Type letter pl.

AR 4/10.

Dear Andrew,

International Development Association

I submit a draft reply to the enclosed letter (in original) to the Prime Minister from President Betancur in Colombia.

The background to the negotiations on the Seventh Replenishment of IDA is contained in the Foreign and Commonwealth Secretary's minute of 2 September to the Chancellor of the Exchequer, copied to the Prime Minister. Negotiations on IDA 7 were held in Washington late last month at the time of the IMF/IBRD Annual Meetings, but they proved inconclusive. Further discussions among donor countries are due to take place in Paris between 21-23 November.

We shall forward the signed copy of the Prime Minister's letter by Bag, if you agree.

I am copying this to John Kerr (Chancellor of the Exchequer's Office).

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A Turnbull Esq
10 Downing Street

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT: **TEL. NO:**

Your Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

.....In Confidence

CAVEAT.....

Enclosures—flag(s).....

TO: His Excellency Dr Belisario Betancur
President of the Republic of Colombia

Copies to:

SUBJECT:

Thank you for your letter about the current problems of the International Development Association.

Britain has always been one of IDA's strong supporters, and I share your concern over the likely size of the next Replenishment (IDA 7). Unfortunately, however, this further funding of the Association is being negotiated at a time when public expenditure constraints are necessary in many donor countries, including the United Kingdom, as part of the measures needed to strengthen their own economies. Because of this, the World Bank's target of $16 billion for IDA 7 does not command full international support among donor countries, and I fear that it will prove unattainable. As you know, contributions to IDA have always been based on the principle of fair burden-sharing; donors wish strongly to adhere to this, and not to use their limited resources to make good any shortfall in the contributions of others.

Whilst I cannot predict the eventual outcome of the IDA 7 negotiations, I assure you that the United Kingdom stands ready to support the next Replenishment within the limits of what donors collectively can afford; but

/our

our percentage share will have to be more nearly in line with our relative economic strength among donors, and therefore much less than the 10.1% which we contributed to IDA 6.

We do, of course, have a substantial bilateral aid programme, with its concentration on assistance to the poorest countries; and we shall also continue to play our part in the various European Community programmes to help developing countries.

HR 4/10.

A.W.O. Ltd. 11.82. 56-3683. 200m.

HL

10 DOWNING STREET

From the Private Secretary

29 September 1983

I enclose a letter to the Prime Minister from the President of Pakistan about the VIIth Replenishment of IDA. I should be grateful if you could arrange for the Embassy in Islamabad to acknowledge receipt of this letter. I should also be grateful if you could provide a suitable draft reply for the Prime Minister's signature by Thursday 13 October.

BU13/101

WR

John Holmes, Esq.,
Foreign and Commonwealth Office.

DSG

JR 8th

CRO

10 DOWNING STREET

overseas policy.

THE PRIME MINISTER

26 September 1983

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 140/83

cc MASTER
OPS

Dear Mr. President,

Thank you for your letter of 26 July about the funding of the International Development Association. I must also apologise for taking an inexcusably long time to reply. Please forgive me.

I agree that IDA is an effective means of promoting development. Its concessional finance makes an important contribution to the economic and social advance of the developing countries. I also agree that it is important to maintain concessional flows to the world's poorest countries, and especially to those in Africa. The Association's Management does, of course, accord sub-Saharan Africa high priority for IDA resources, including technical assistance.

At Williamsburg, we reaffirmed the need to implement commitments to the multilateral aid agencies. The United States Government is now on course to complete its contribution to the Sixth Replenishment of IDA during its fiscal year 1984. All other donors, including the UK, are providing additional resources to alleviate the shortfall in IDA's commitment authority in that year.

All participating governments have accepted that IDA 7 must command full international support, with contributions based on the principle of fair burden-sharing among

/donors.

donors. But I should not disguise from you our view that the World Bank President's target of $16 billion is likely to prove unrealistically high in the context of the current budgetary problems of those many donors, including the United Kingdom, which feel obliged to exercise strict control over public expenditure as part of their measures to deal with their own economic problems.

Whilst I cannot predict the eventual outcome of the negotiations, I assure you that Britain stands ready to support the next Replenishment within the limits of what donors can afford; but our percentage share will have to be more in line with our relative economic strength among donors, and therefore much less than the 10.1% which we contributed to IDA 6.

In addition to our support to IDA we have a substantial bilateral aid programme, with its concentration on assistance to the poorest countries; and we shall, of course, also continue to play our part in the various European Community programmes to help developing countries.

Yours sincerely

Margaret Thatcher

His Excellency Abdou Diouf,
President of the Republic of Senegal

MFS.

cc FCO
Overseas Policy

10 DOWNING STREET

THE PRIME MINISTER

26 September 1983

cc MASTER
OPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 139/83

Excellency,

Thank you for your letter about the funding of the International Development Association.

I agree with you that it is important to maintain concessional flows to the world's poorest countries. As you will know, our own bilateral aid programme is second to none in directing assistance to the poorest. About two-thirds of our funds go to them, almost all in the form of grants.

At Williamsburg, we re-affirmed the need to implement commitments to the multilateral aid agencies. The United States Government are now on course to complete their contribution to the Sixth Replenishment of IDA during its fiscal year 1984. All other donors, including the UK, are providing additional resources to alleviate the shortfall in IDA's commitment authority in that year.

All countries participating in the next Replenishment (IDA 7) have accepted that it must command full international support, with contributions based on the principle of fair

/burden-sharing

burden-sharing among donors. But I should not disguise from you our view that the World Bank President's target of $16 billion is likely to prove unrealistically high in the context of the current budgetary problems of those many donors, including the United Kingdom, which feel obliged to exercise strict control over public expenditure as part of their measures to deal with their own economic problems.

Whilst I cannot predict the eventual outcome of the negotiations, I assure you that Britain stands ready to support the next Replenishment within the limits of what donors can afford; but our percentage share will have to be more in line with our relative economic strength among donors, and therefore much less than the 10.1 per cent which we contributed to IDA 6. Our aim is to put the next Replenishment in place by July 1984, however, and we share your expectation that it will cover the usual three-year period.

I look forward to meeting you again soon at the Commonwealth Heads of Government Meeting in Delhi.

Yours sincerely

Margaret Thatcher

His Excellency Lieutenant General H.M. Ershad ndc, psc.

Foreign and Commonwealth Office

London SW1A 2AH

23 September 1983

Pl. type letter.

MR 23/9

Dear Michael,

International Development Association

I enclose a draft reply to the enclosed copy of a letter to the Prime Minister from President Diouf. This is dated 26 July. It reached the FCO in mid-August from the Senegalese Embassy here. I am afraid that there was then an inexcusable delay in acknowledging receipt to the Senegalese (which was done in early September), and arranging a translation and drafting and clearing a reply. I can only apologise for this. The reasons are being investigated thoroughly.

The background to the negotiations on the Seventh Replenishment of IDA is contained in the Foreign and Commonwealth Secretary's minute of 2 September to the Chancellor of the Exchequer, copied to the Prime Minister.

In view of the delay, we shall telegraph the reply, if you agree.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

M C Scholar Esq
10 Downing Street

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: PRIME MINISTER

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:

Your Reference

His Excellency Abdou Diouf
President of the Republic of Senegal

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Thank you for your letter of 26 July about the funding of the International Development Association. I must also apologise for taking an inexcusably long time to reply. Please forgive me.

I agree that IDA is an effective means of promoting development. Its concessional finance makes an important contribution to the economic and social advance of the developing countries. I also agree that it is important to maintain concessional flows to the world's poorest countries, and especially to those in Africa. The Association's Management does, of course, accord sub-Saharan Africa high priority for IDA resources, including technical assistance.

At Williamsburg, we reaffirmed the need to implement commitments to the multilateral aid agencies. The United States Government is now on course to complete its contribution to the Sixth Replenishment of IDA during its fiscal year 1984. All other donors, including the UK, are providing additional resources to alleviate the

Enclosures—flag(s).....

/shortfall

shortfall in IDA's commitment authority in that year.

All participating governments have accepted that IDA 7 must command full international support, with contributions based on the principle of fair burden-sharing among donors. But I should not disguise from you our view that the World Bank President's target of $16 billion is likely to prove unrealistically high in the context of the current budgetary problems of those many donors, including the United Kingdom, which feel obliged to exercise strict control over public expenditure as part of their measures to deal with their own economic problems.

Whilst I cannot predict the eventual outcome of the negotiations, I assure you that Britain stands ready to support the next Replenishment within the limits of what donors can afford; but our percentage share will have to be more in line with our relative economic strength among donors, and therefore much less than the 10.1% which we contributed to IDA 6.

In addition to our support to IDA we have a substantial bilateral aid programme, with its concentration on assistance to the poorest countries; and we shall, of course, also continue to play our part in the various European Community programmes to help developing countries.

A.W.O. Ltd. 11.82. 56-3683. 200m.

Foreign and Commonwealth Office

London SW1A 2AH

23 September 1983

Dear Michael,

International Development Association

I submit a draft reply to the enclosed copy of a letter to the Prime Minister from Lt General Ershad.

The background to the negotiations on the Seventh Replenishment of IDA is contained in the Foreign and Commonwealth Secretary's minute of 2 September to the Chancellor of the Exchequer, copied to the Prime Minister.

We shall forward the signed copy of the Prime Minister's letter by Bag, if you agree.

I am copying this to John Kerr (Treasury).

Yours ever

John Holmes

J E Holmes
Private Secretary

M C Scholar Esq
10 Downing Street

DRAFT LETTER FOR SIGNATURE BY THE PRIME MINISTER

To: His Excellency Lt General H M Ershad ndc, psc
President of the Council of Ministers of Bangladesh

Thank you for your letter about the funding of the International Development Association.

I agree with you that it is important to maintain concessional flows to the world's poorest countries. As you will know, our own bilateral aid programme is second to none in directing assistance to the poorest. About two-thirds of our funds go to them, almost all in the form of grants.

At Williamsburg, we re-affirmed the need to implement commitments to the multilateral aid agencies. The United States Government are now on course to complete their contribution to the Sixth Replenishment of IDA during its fiscal year 1984. All other donors, including the UK, are providing additional resources to alleviate the shortfall in IDA's commitment authority in that year.

All countries participating in the next Replenishment (IDA 7) have accepted that it must command full international support, with contributions based on the principle of fair burden-sharing among donors. But I should not disguise from you our view that the World Bank President's target of $16 billion is likely to prove unrealistically high in the context of the current budgetary problems of those many donors, including the United Kingdom, which feel obliged to exercise strict control over public expenditure as part of their measures to deal with their own economic problems.

Whilst I cannot predict the eventual outcome of the negotiations, I assure you that Britain stands ready to support the next

/Replenishment

Replenishment within the limits of what donors can afford; but our percentage share will have to be more in line with our relative economic strength among donors, and therefore much less than the 10.1% which we contributed to IDA 6. Our aim is to put the next Replenishment in place by July 1984, however, and we share your expectation that it will cover the usual three-year period.

I look forward to meeting you again soon at the Commonwealth Heads of Government Meeting in Delhi.

NELSONS MD: Policy

Pt 3

بسم الله الرحمن الرحيم

THE ISLAMIC REPUBLIC OF PAKISTAN

cc Master
ops.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T137C/83

General M. Zia-ul-Haq

ISLAMABAD

13 Zilhaj 1403 AH
21 September 1983

Her Excellency
The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister of the United Kingdom,
London

Dear Madam Prime Minister,

27.3.82 in PA2

Your Excellency will recall that in early 1982, I had addressed a letter to you expressing my deep concern at the decision of the United States to reduce its contribution to IDA VI and proposed various specific steps to maintain and increase the flow of IDA resources to developing countries. I was particularly gratified at your positive response to this suggestion, which was instrumental in containing a situation which could have created a major crisis in multilateral economic cooperation.

Your constructive and bold action and your demonstrated support for IDA encourages me to write to you again to underline the great importance that Pakistan and the developing world attach to the Seventh Replenishment of International Development Association (IDA) at levels higher than previous replenishments. I do not have to stress that IDA represents a very positive and fruitful achievement in international economic cooperation. It is a vital investment in the economic development of the Third World and in international peace itself.

.....2

IDA has contributed in important social and economic sectors affecting the poorest people in the developing countries. It has compiled an impressive record of working effectively towards alleviating the problems of poverty and under-development during the last two decades. It is, therefore, absolutely essential that the VIIth Replenishment of IDA is agreed at levels higher in real terms than those agreed for IDA VI. IDA VIIth replenishment to the order of 16 billion dollars for a three-year period starting from 1 July 1984, would, according to available estimates, be the absolute minimum which is needed to meet the requirements of the developing countries for concessional flow of assistance from this organization.

We are, therefore, greatly concerned to learn that the United States is planning to limit its contribution to IDA VII to the reduced level of $750 million per year and is also considering a reduction in its contribution in percentage terms which would bring the overall target for IDA VII down to $9 billion only, as against the commitment of $12 billion for IDA VI. We are also given to understand that some other major donors may be considering a reduction in their shares for IDA VII as well in line with the reduction in the U.S. contribution. We strongly believe that any such reduction, or even the maintenance of previous levels of commitment, for the next replenishment period would in effect mean a major loss in real terms of the resources available to IDA.

I am aware that the contribution of Your Excellency's Government to IDA has been generous in the past and I am confident that a similarly positive approach to IDA replenishment will continue to mark your policies. I am writing, therefore to

....3

urge you to give your personal attention to this matter and as an expression of your commitment and support to IDA, and a continuation of your enlightened economic policies, ensure an effective and adequate level of replenishment for IDA VII.

The timely replenishment of IDA VII is an investment in the future of millions of people in many developing countries, and would constitute a positive contribution to the world development and peace. Your continuing support would strengthen the ability of the World Bank system to address itself to the basic needs of the people of the developing world.

With profound regards,

Yours sincerely,

M. Zia-ul-Haq

General
(M. Zia-ul-Haq)

Overseas Aid Policy A3

Prime Minister (4)

MCS 19/9

FCS/83/177

CHANCELLOR OF THE EXCHEQUER

IDA and the World Bank Selective Capital Increase

1. Thank you for your minute of 9 September.

2. I do see that there would be advantages in supporting a selective capital increase for the IBRD of $8 billion if that can be agreed as part of an acceptable package. It is important, as you recognise, that the decision on the SCI should be linked to satisfactory decisions about the French and Japanese shares in IDA 7. There is a public expenditure implication: the cost would be about £3.75 million (although this could probably be paid over a period of 5 years). This is not a large sum, but we have no provision for it and with all the pressures on the aid programme, it can only add to our difficulties. However, I can see that you would find it helpful in Trinidad and Washington to support a SCI of $8 billion as part of an acceptable package, and so should not wish to stand in your way.

3. I am copying this minute to the Prime Minister and to Cecil Parkinson.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
19 September, 1983

Overseas Aid - Policy Review: PBS

CC MASTER
OPS

República de Colombia
Presidencia

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 135A/83

Bogotá, Septiembre 19 de 1983

Señora Primer Ministro:

Con mi más atento saludo, permítame hacerle algunos comentarios en relación con la actual situación que atraviesa la Asociación Internacional de Fomento (AIF) ("International Development Association", IDA).

Como consecuencia de la recesión mundial, los precios de los artículos primarios provenientes del mundo en desarrollo, han alcanzado los niveles más bajos de los últimos treinta años, y esto ha afectado especialmente a los países más pobres: estos, que son los principales receptores de la AIF, utilizan esos fondos para financiar proyectos de desarrollo como parte de su lucha contra la pobreza.

Por tal razón se han elevado las necesidades financieras de la AIF; por lo cual la administración del Grupo del Banco Mundial está buscando la séptima reposición de recursos por una suma de US$16 mil millones. De otra parte, China, como miembro del Banco Mundial, cumple los requisitos para obtener préstamos de la AIF y aunque esto redunda en nuevas oportunidades para el comercio internacional, plantea también una mayor demanda hacia los recursos escasos de la Asociación.

Comprendo las limitaciones financieras de los estados en virtud de las actuales políticas administrativas; comprendo las presiones ejercidas sobre el presupuesto de Gran Bretaña y el hecho de que las naciones industrializadas han tenido que pasar también por un período de penuria

Su Excelencia
MARGARET THATCHER
Primer Ministro de Gran Bretaña
Londres

República de Colombia
Presidencia

económica; y soy consciente de que el pueblo Británico ha estado dispuesto a cooperar cuando quiera que han surgido situaciones aflictivas en el mundo.

El apoyo al crecimiento de los países más pobres que significa la AIF, podría correr peligro si no se asignan a tiempo los recursos adecuados para recuperar la economía de dichos países.

Colombia ha recibido digna y oportuna ayuda de la Asociación para su desarrollo; por ello, considera pertinente, dirigirse a los gobiernos donantes, haciendo suya la voz de los dos mil millones de personas más pobres del mundo, que atraviesan una situación desesperada, para solicitar su cooperación a fin de que la AIF continúe contribuyendo al desarrollo a través de su ayuda económica: es ahora imperativo que las economías más sólidas agoten esfuerzos tendientes a evitar consecuencias políticas y económicas impredecibles, que podrían derrumbar el ya frágil andamiaje del mundo.

Dada la situación que contempla la AIF, me he permitido hacer el mismo llamado a sus colegas de Canadá, Alemania Federal y los Estados Unidos de América, y de otros países industrializados, para que, junto con Gran Bretaña, brinden su decisivo apoyo a la AIF.

Reciba, señora Primer Ministro, el testimonio de mi más alta consideración.

Belisario Betancur

BELISARIO BETANCUR
Presidente de Colombia

TOP SECRET

GRS 200

UNCLASSIFIED
FM BOGOTA 231530Z SEP 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 189 OF 23 SEPTEMBER

LETTER FROM PRESIDENT BETANCUR TO THE PRIME MINISTER

1. WE HAVE JUST RECEIVED A LETTER FROM THE PRESIDENT ADDRESSED TO THE PRIME MINISTER FOR ONWARD TRANSMISSION TO HER. FOLLOWING IS UNOFFICIAL TRANSLATION:-

BEGINS

WITH MY BEST WISHES, PLEASE LET ME MAKE SOME OBSERVATIONS ABOUT THE CURRENT SITUATION AFFECTING THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA).

AS A CONSEQUENCE OF THE WORLD RECESSION, THE PRICES OF PRIMARY PRODUCTS ORIGINATING IN THE DEVELOPING WORLD HAVE REACHED THEIR LOWEST LEVELS OF THE LAST THIRTY YEARS. THIS HAS PARTICULARLY AFFECTED THE POORER COUNTRIES. THESE, WHO ARE THE MAIN RECIPIENTS OF IDA FUNDS, USE SUCH FUNDS TO FINANCE DEVELOPMENT PROJECTS AS PART OF THEIR STRUGGLE AGAINST POVERTY.

FOR THIS REASON THE FINANCIAL REQUIREMENTS OF THE IDA HAVE INCREASED: AS A RESULT THE ADMINISTRATION OF THE WORLD BANK IS SEEKING A SEVENTH REPLENISHMENT OF RESOURCES AMOUNTING TO US DOLLARS 16000 MILLION. ON THE OTHER HAND, CHINA AS A MEMBER OF THE WORLD BANK, MEETS THE REQUIREMENTS TO OBTAIN LOANS FROM THE IDA, AND ALTHOUGH THIS WILL BE OF ADVANTAGE IN CREATING NEW OPPORTUNITIES FOR INTERNATIONAL TRADE, IT WILL ALSO BRING ABOUT AN INCREASED DEMAND FOR THE LIMITED RESOURCES AVAILABLE TO THE ASSOCIATION.

I REALISE THE FINANCIAL LIMITATIONS IMPOSED ON STATES BY VIRTUE OF THE PRESENT ADMINISTRATIVE POLICIES: I UNDERSTAND THE PRESSURES EXERTED UPON THE BUDGET OF GREAT BRITAIN AND THE FACT THAT THE INDUSTRIALISED NATIONS HAVE ALSO HAD TO GO THROUGH A PERIOD OF ECONOMIC STRIGENCY AND I AM CONSCIOUS THAT THE BRITISH PEOPLE HAVE FELT DISPOSED TO COOPERATE WHENEVER DISTRESSING SITUATIONS HAVE OCCURRED IN THE WORLD.

THE SUPPORT TO THE GROWTH OF THE POOREST COUNTRIES THAT THE IDA REPRESENTS MIGHT BE IN DANGER IF ADEQUATE SUPPORT IS NOT FORTHCOMING IN GOOD TIME TO RESTORE THE ECONOMIES OF SUCH COUNTRIES.

COLOMBIA HAS RECEIVED APPROPRIATE AND TIMELY ASSISTANCE FROM THE ASSOCIATION FOR HER DEVELOPMENT: SHE THEREFORE FEELS IT APPROPRIATE TO ADDRESS HERSELF TO THE DONATING GOVERNMENTS, MAKING HER VOICE THAT OF THE TWO THOUSAND MILLION POOREST PEOPLE OF THE WORLD, WHO ARE IN A DESPERATE SITUATION, TO REQUEST THE DONATING COUNTRIES COOPERATION SO THAT IDA MAY CONTINUE ITS CONTRIBUTION TO DEVELOPMENT THROUGH ITS FINANCIAL ASSISTANCE. IT IS NOW IMPERATIVE THAT THE STRONGEST ECONOMIES DO THEIR UTMOST TO PREVENT UNPREDICTABLE POLITICAL AND ECONOMIC CONSEQUENCES WHICH MIGHT BRING DOWN THE ALREADY SHAKY FRAMEWORK OF THE WORLD.

/ IN VIEW

IN VIEW OF THE SITUATION WHICH CONFRONTS THE IDA, I HAVE TAKEN THE LIBERTY TO MAKE THE SAME REQUEST OF YOUR COLLEAGUES IN CANADA, THE FEDERAL REPUBLIC OF GERMANY, AND THE UNITED STATES OF AMERICA AS WELL AS OTHER INDUSTRIALISED COUNTRIES, SO THAT, ALONG WITH GREAT BRITAIN THEY MAY OFFER THEIR DECISIVE SUPPORT TO THE IDA.

VERY RESPECTFULLY

BELISARIO BETANCUR
PRESIDENT OF COLOMBIA

ENDS

2. SIGNED ORIGINAL FOLLOWS BY BAG.

ROBSON

LIMITED
SAMD
APD
NEWS D
PS
PS/LADY YOUNG
PS/MR WHITNEY
PS/MR RAISON
PS/PUS
MR GIFFARD
MR URE
MR AINSCOW

THIS TELEGRAM
WAS NOT
ADVANCED

JH 552

cc AP

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

19 September 1983

The Rt Hon Sir Geoffrey Howe QC MP
Foreign and Commonwealth Secretary
Foreign and Commonwealth Office
Downing Street
London SW1

NRBPM
MCS 19/9

Dear Geoffrey,

SEVENTH REPLACEMENT OF IDA

Thank you for copying to me your minute of 2 September to Nigel Lawson. I have noted what you say about the negotiating position now facing us on the seventh IDA replenishment and I strongly support the line that you propose we take.

My concern is principally that the bilateral programmes and the Aid and Trade Provision (ATP) should not be crowded out or reduced as a result of our multilateral commitments. I share entirely your criticism of the European Community aid expenditure; we will need to ensure that in the forthcoming Lome negotiations we seek to restrict our commitments as far as possible and I would welcome an early consideration of the financial implications of the negotiating tactics open to us.

I recognise that of the multilateral institutions IDA is probably among the most effective. And I note too your estimate of likely indirect and direct exports generated by our IDA contribution. These are interesting statistics that my officials will want to look at in more detail. But the fact remains that in terms of additionality - that is business gained which would not have been won if the UK funds had not been there - it is still better to spend on our bilateral programme, and particularly on the ATP, than on multilateral programmes. A marginal increase in our multilateral contribution does not necessarily produce an extra return to industry in this country; such an increase if applied to the ATP certainly would benefit our firms, and on around a four to one basis.

I agree that further cuts to your bilateral country programmes (and, I would add, to the ATP) cannot be considered. And in the circumstances, I think that it is entirely right that we should lower our horizons on the contribution that we will make to the IDA replenishment, and, if necessary, on the role that we might

play in the replenishment negotiations.

I am copying this letter to the Prime Minister and to Nigel Lawson.

Yours ever,

Geoff.

OVERSEAS AID Pt 3 Policy Review. 82/83 Aid Programme

cc MASTER PP

file RM
cc tro

10 DOWNING STREET

THE PRIME MINISTER

13 September 1983

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 131/83

Dear Mr. President,

Thank you for your letter about the funding of the International Development Association.

I agree with you that the IDA's concessional finance makes an important contribution to the economic and social advancement of the developing countries; I also agree that it is important to maintain concessional flows to the world's poorest countries, and especially to those in Africa. The Association's Management does, of course, accord sub-Saharan Africa high priority for IDA resources, including technical assistance.

As you know, our own bilateral aid programme is second to none in directing assistance to the poorest. About two-thirds of our funds go to them, almost all in the form of grants.

I am sure you will agree that aid by itself is not enough and that the severe economic difficulties which face governments can often only be solved through the application of imaginative and new domestic policies. Like you, I acknowledge the IDA's unique and useful role in providing policy advice in this difficult area.

At Williamsburg, we re-affirmed the need to implement commitments to the multilateral aid agencies. The United States Government are now on course to complete their contribution to the Sixth Replenishment of IDA during fiscal year 1984. All other donors, including the UK, are providing additional resources to alleviate the shortfall in IDA's commitment authority in that year.

KB

Negotiations about the size of the next Replenishment (IDA 7) are now under way. All participating governments have accepted that IDA 7 must command full international support, with contributions based on the principle of fair burden-sharing among donors. But I should not disguise from you our view that the World Bank President's target of $16 billion is likely to prove unrealistically high in the context of the current budgetary problems of those many donors, including the United Kingdom, which feel obliged to exercise strict control over public expenditure as part of their measures to deal with their own economic problems.

While I cannot predict the eventual outcome of the negotiations, I assure you that Britain stands ready to support the next Replenishment within the limits of what donors can afford; but our percentage share will have to be more in line with our relative economic strength among donors, and therefore much less than the 10.1% which we contributed to IDA 6.

Finally, may I say how much I value the personal contact represented by this correspondence between us. I very much hope that we shall continue to exchange views in this way and that the warm and friendly relations between our two countries will be further strengthened.

Kind regards.

Yours sincerely

Margaret Thatcher

His Excellency The Honourable Daniel Arap Moi, CGH, EBS, MP.

Foreign and Commonwealth Office

London SW1A 2AH

9 September 1983

Dear Michael,

International Development Association

I submit a draft reply to the enclosed letter (just received) to the Prime Minister from President Moi.

The background to the negotiations on the Seventh Replenishment of IDA is contained in the Secretary of State's minute of 2 September to the Chancellor, copied to the Prime Minister (copy enclosed).

We shall forward the signed copy of the Prime Minister's letter by Bag, if you agree.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

M C Scholar Esq
10 Downing Street

DSR 11 (Revised)

GR/ Please type letter

DRAFT: ~~minute/letter/telegram/despatch/note~~

TYPE: Draft/Final 1+

FROM: The Prime Minister

MCS 9/9

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:

Your Reference

HE Daniel T Arap Moi
President of the Republic of Kenya

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Thank you for your letter about the funding of the International Development Association.

I share your assessment of the contribution which IDA's concessional finance makes to the economic and social advancement of the development countries; and I agree that it is important to maintain concessional flows to the world's poorest countries, and especially to those in Africa. The Association's Management does, of course, accord sub-Saharan Africa high priority for IDA resources, including technical assistance.

As you know, our own bilateral aid programme is second to none in directing assistance to the poorest. About two-thirds of our funds go to them, almost all in the form of grants.

Enclosures—flag(s).....

Of course, aid by itself is not enough. Severe economic difficulties facing governments can often only be solved through the application of imaginative and new domestic policies. Like you, I acknowledge IDA's unique and useful role in providing policy advice in /this

this difficult area.

At Williamsburg, we reaffirmed the need to implement commitments to the multilateral aid agencies, and the United States Government are now on course to complete their contribution to the Sixth Replenishment of IDA during fiscal year 1984. All other donors, including the UK, are providing additional resources to alleviate the shortfall in IDA's commitment authority in that year.

Negotiations about the size of the next Replenishment (IDA 7) are now under way. All participating governments have accepted that IDA 7 must command full international support, with contributions based on the principle of fair burden-sharing among donors. I should not disguise from you, however, our view that the World Bank President's target of $16 billion is likely to prove unrealistically high in the context of the current budgetary problems of those many donors, including the United Kingdom, which feel obliged to exercise strict control over public expenditure as part of their measures to deal with their own economic problems.

Whilst I cannot predict the eventual outcome of the negotiations, I can assure you that Britain stands ready to support the next Replenishment within the limits of what donors can afford; but our percentage share will have to be more in line with our relative economic strength among donors, and therefore much less than the 10.1% which we contributed to IDA 6.

/Finally,

Finally, I should like to add how much I value the personal contact wh~~ich~~ represented by this correspondence ~~of this nature affor~~ds between us. I very much hope that you will continue not to hesitate ~~to continue to~~ to write a~~bout matters of mutual interest~~ as you did, and that the warm and friendly relations between our two countries will be further strengthened by this means.

FCS/83/166

THE CHANCELLOR OF THE EXCHEQUER

Seventh Replenishment of IDA

1. I have been considering what position we should take on the 7th replenishment of IDA. Negotiations on this have already begun but have made very little progress. It will certainly be discussed at the Commonwealth Finance Ministers Meeting in Trinidad, the annual meetings of the Bank and Fund in Washington, and CHOGM in Delhi.

2. As you know, the pressure on the aid programme is very great and although it has been our aim to increase bilateral aid within the total, exactly the reverse has been happening. Multilateral aid now accounts for about 40% of the aid programme and this is likely to rise to something nearer 50% over the next three years. Our own 'country' programmes have been reduced by no less than one-third in real terms over the past three years to 1982/3 and are likely, on present plans, to fall by a further 18% real by 1986/87.

3. The most serious aspect of this problem is the rate at which our spending through the European Community is rising. This is not the best form of aid expenditure - we do not believe that the European institutions spend the money very well (and far too much of it is food aid) nor does the UK get a good share of procurement from it. What more we can do to restrain the growth of European aid expenditure and to protect our own bilateral programmes from being squeezed out by it are questions which we are considering further.

4. On the other hand, IDA is probably the best form of multilateral aid. The money is well spent. Two-thirds of it goes to the Commonwealth and we shall be under a good deal of pressure from Commonwealth countries - you at the

/meetings

meetings in Trinidad and the Prime Minister and I at the Heads of Government meetings in Delhi - to be positive about the next IDA replenishment. In terms of procurement, the UK gained £90 million in direct exports financed by IDA in the Bank's fiscal year 1982 and when estimated indirect benefits are added, the estimated total of exports generated amounts to some £150 million. This compares with payments in that year of £130 million.

5. As you know, the US Administration has been taking a very negative line on IDA 7 and has recently proposed a contribution of only $750 million a year and a US share of not more than 25%. This would imply a total replenishment of only $9 billion, compared with the $12 billion of IDA 6. No other influential country seems likely to take the lead in favour of more, though it would not be difficult, I suspect, to get a movement going for a replenishment of, say, $12 billion, although even this would obviously mean a reduction in real terms compared with IDA 6; a Community initiative, ahead of the annual Bank/Fund meetings, could, for example, emerge at the EC Finance Ministers Meeting on 10th and 11th September.

6. But we have been trying to reduce our share in IDA in recent years. It was 10.1% in IDA 6 (very substantially more than our share of the GNP of the donor countries); in the special arrangements negotiated last September to keep IDA 6 going for a fourth year, we got it reduced to 7.6%. We have said we think it should come down further towards our GNP share of 5.6%. In negotiating terms, it would not be realistic for us to take the lead in a movement for a larger replenishment while at the same time trying to get our share reduced further. To adopt a forward position would mean in practice that we would have to be ready to accept a share of 7.6%.

7. As things stand, we do not have the money for this. As one of my bids in the Public Expenditure Survey, I proposed an addition to the aid programme to enable us to support a replenishment of $14 billion with a 7.6% share. The sums involved in the PES period and the two following years work out as follows:-

	1985/86	1986/87	1987/88	1988/89	£ million
$12 bn	1	4	10	15	
$14 bn	3	9	23	31	

I also proposed a larger addition to protect the bilateral country programmes from further real reduction. Of course we have still to discuss these but Peter Rees's initial reaction has understandably been unenthusiastic. Unless extra money is made available even a $12 billion replenishment at 7.6% would mean a further squeeze on the bilateral country programmes, which we should find it impossible to contemplate.

8. I am driven, somewhat regretfully, to the conclusion that we cannot get out in front on the IDA 7 replenishment. We must recognise that the outcome is likely to be a replenishment less than $12 billion and perhaps as low as $9 billion. This is bound to lead to criticism and pressure, including some directed specifically at us, at Delhi as well as in Trinidad and Washington. We can argue that, so far as the UK is concerned, this in itself will mean no loss to the developing countries because we shall spend any money we save in this way through our own country programmes and spend it well, but this will not cut much ice, particularly if those programmes are themselves reduced.

9. This does not give you much of a hand to play at the Trinidad and Washington meetings. The best I can suggest is that you allow the Americans, Germans and others to make the running on this subject but indicate as necessary that we are ready to contribute to a reasonable replenishment of IDA, that

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is up to $12 billion, but that our share must be reduced from 7.6% to something nearer our share in the total GNP of the donor countries (of course, if the final IDA total looks like being only $9 billion, the arguments for our share staying at 7.6% or something like it will be stronger: 5.6% of $9 billion would look very negative).

10. I am copying this letter to the Prime Minister and to Cecil Parkinson.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

2 September, 1983

ASC to see
Prime Minister (2)

MCS 9/9

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

FOREIGN SECRETARY

IDA

Thank you for your minute of 2 September about the IDA seventh replenishment.

2. I agree that at the CFM and IBRD meetings (and if the issue comes up at the EC Finance Ministers' Meeting this weekend) I should say that we are ready to contribute to an IDA 7 of up to $12 billion, but that our share must be reduced from 7.6 per cent to something closer to our GNP share.

3. However, I think it would make our position seem a little more positive if I were also to say that we hope that a Selective Capital Increase for the IBRD of about $8 billion can be agreed as part of an acceptable package. You will recall that in your speech to the Development Committee in April you spoke of a Selective Capital Increase based on the relative increases agreed in the IMF quota review, and pointed out that this could provide a basis for a modest expansion in lending. As you know, such an Increase would mean that we move down from second place in the IBRD either to third place (after Japan and equal with Germany and France) or to fourth (after Japan and Germany and equal with France). Like you, I see no difficulty in this, and we would of course continue to make it conditional on a suitably large contribution to IDA 7 by those who move up.

4. Our suggestion of an $8 billion selective capital increase would be on the basis that the cost to the UK would be negligible because all, or nearly all, our shares would be reallocated to secure the changes in ranking. I should be grateful if you would confirm you have no objection to my putting it forward.

5. I am copying this minute to the Prime Minister and to Cecil Parkinson.

John Kerr

pp. (N.L.)

(Approved by the Chancellor)

9 September 1983

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Foreign and Commonwealth Office

London SW1A 2AH

7 September 1983

Prime Minister

MT

Dear John,

8/9

The Bangladesh High Commission have requested us to pass to the Prime Minister the enclosed letter from Lt Gen Ershad, the President of the Council of Ministers in Bangladesh, about IDA.

We will advise on a substantive reply to the letter in due course.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

(2)

Prime Minister

FCS/83/166

MCS 2/9

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(GEOFFREY HOWE)

Foreign and Commonwealth Office

2 September, 1983

a MASTER
GPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 123/83

RESTRICTED

GR 500
RESTRICTED
FM NAIROBI 291047Z AUG 83
TO IMMEDIATE FCO
TEL NO 443 OF 29 AUGUST 1983

FOLLOWING IS TEXT OF LETTER TO THE PRIME MINISTER FROM PRESIDENT MOI CONCERNING THE I.D.A. BEGINS:-

unable to trace here, have asked FCO - no trace but will prepare a draft reply

IN MARCH, 1982 I WORTE TO YOU REGARDING THE SITUATION OF IDA, I AM ONCE AGAIN COMPELLED TO WRITE ON THIS MATTER WHICH IS OF CRITICAL IMPORTANCE FOR THE DEVELOPING COUNTRIES, AND FOR THOSE IN AFRICA, IN PARTICULAR.

AS YOU KNOW, IDA IS THE PRIMARY SOURCE OF CONCESSIONAL FINANCING FOR THE WORLD'S POOREST COUNTRIES AND IS A KEY ELEMENT IN THE MULTILATERAL ASSISTANCE FRAMEWORK, ESPECIALLY IN AFRICA WHERE IT IS THE MAJOR SOURCE OF SUCH FINANCING AND AN INDISPENSABLE FACTOR FOR STABILITY AND PROGRESS IN THE REGION, FURTHER MORE, IDA HAS DEMONSTRATED A UNIQUE ABILITY TO PROVIDE POLICY ADVICE AND TO PROMOTE MORE EFFICIENT SECTOR AND PROJECT MANAGEMENT IN THE RECEIPIENT COUNTRIES.

THE PROLONGED GLOBAL RECESSION HAS CAUSED COMMODITY PRICES TO FALL TO THEIR LOWEST LEVEL IN THIRTY YEARS, OVERSEAS DEVELOPMENT AID FLOWS TO STAGNATE AND EXPORT VOLUMES TO CONTRACT. THESE FACTORS HAVE SERIOUSL DAMAGED THE ECONOMIES OF THE IDA RECEIPIENTS, IT IS, INDEED, A STARK FACT THAT REAL PER CAPITA INCOMES IN MANY COUNTRIES OF AFRICA IN 1982 WERE BELOW THE LEVEL OF THE EARLY 1960S.

THE GROWTH PROSPECTS FOR THE POOREST COUNTRIES ARE NOT FAVOURABLE FOR THE REST OF THE EIGHTIES, BUT, UNLESS ADDITIONAL CONCESSIONAL FINANCING SUCH AS IDA PROVIDES COULD BE SECURED, IT COULD WELL BE THAT THERE WOULD BE NO GROWTH, NO PROGRESS WHATSOEVER IN THE 1982S. SUCH A CONSEQUENCE WOULD BE TRAGIC AND WOULD INVOLVE HIGHT COSTS IN TERMS OF ECONOMIC AND POLITICAL DEVELOPMENTS AND OF HUMAN SUFFERING.

IT IS ESSENTIAL, THEREFORE, THEAT IDA'S SIXTH REPLENISHMENT, WHICH HAS BEEN EXTENDED FROM THE PLANNED THREE YEARS TO FOUR, BE COMPLETED AS SCHEDULED, SO THAT THE SEVENTH REPLENISHMENT BEGINS IN

RESTRICTED

/ JULY 1984.

JULY 1984, AND THAT THE REPLENISHMENT LEVEL BE SET AT A MINIMUM OF US DOLLARS 16 BILLION. THIS WOULD REPRESENT A SLIGHT INCREASE IN REAL TERMS AS COMPARED WITH THE U K DOLLARS 12 BILLION AGREED TO IN 1979 FOR THE SIXTH REPLENISHMENT. IT WOULD, HOWEVER, ENTAIL A 44 PERCENT REDUCTION IN REAL PER CAPITA LENDING COMPARED WITH 1980.

THE CASE FOR CONCESSIONAL LENDING AT THE LEVELS INDICATED IS CLEAR. THE CONSEQUENCES OF NOT ACHIEVING THESE LEVELS ARE BOTH OBVIOUS AND HORRENDOUS. IT IS ONLY THROUGH YOUR COOPERATION AND COMMITMENT THAT THESE CONSEQUENCES COULD BE AVERTED.

I AM THEREFORE APPEALING TO YOUR EXCELLENCY FOR YOUR GOVERNMENT'S ADDITIONAL SUPPORT FOR THIS PROGRAMME, WHICH MEANS SO MUCH TO THE POOR COUNTRIES OF THE WORLD.

YOURS SINCERELY,

ENDS

2. ORIGINAL FOLLOWS BY BAG.

ALLINSON

LIMITED
EAD
APD
NEWS D
PROTOCOL D
OADS
PS
PS/MR RIFKIND
PS/MR RAISON
PS/PUS
SIR J LEAHY
MR SQUIRE

COPIES SENT TO
No. 10 DOWNING STREET

cc MATTER
OPS

STATE HOUSE
P.O. BOX 40530
NAIROBI, KENYA

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T118c/83

22ND AUGUST, 1983

DEAR MADAM PRIME MINISTER,

THE CURRENT SITUATION FACING IDA

IN MARCH, 1982 I WROTE TO YOU REGARDING THE SITUATION OF IDA. I AM ONCE AGAIN COMPELLED TO WRITE ON THIS MATTER WHICH IS OF CRITICAL IMPORTANCE FOR THE DEVELOPING COUNTRIES, AND FOR THOSE IN AFRICA, IN PARTICULAR.

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THE PROLONGED GLOBAL RECESSION HAS CAUSED COMMODITY PRICES TO FALL TO THEIR LOWEST LEVEL IN THIRTY YEARS, OVERSEAS DEVELOPMENT AID FLOWS TO STAGNATE AND EXPORT VOLUMES TO CONTRACT. THESE FACTORS HAVE SERIOUSLY DAMAGED THE ECONOMIES OF THE IDA RECIPIENTS. IT IS, INDEED, A STARK FACT THAT REAL PER CAPITA INCOMES IN MANY COUNTRIES OF AFRICA IN 1982 WERE BELOW THE LEVEL OF THE EARLY 1960s.

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...../2.

STATE HOUSE
P.O. BOX 40530
NAIROBI, KENYA

 22ND AUGUST, 1983

IT IS ESSENTIAL, THEREFORE, THAT IDA'S SIXTH REPLENISHMENT, WHICH HAS BEEN EXTENDED FROM THE PLANNED THREE YEARS TO FOUR, BE COMPLETED AS SCHEDULED, SO THAT THE SEVENTH REPLENISHMENT BEGINS IN JULY 1984, AND THAT THE REPLENISHMENT LEVEL BE SET AT A MINIMUM OF US$16 BILLION. THIS WOULD REPRESENT A SLIGHT INCREASE IN REAL TERMS AS COMPARED WITH THE US$12 BILLION AGREED TO IN 1979 FOR THE SIXTH REPLENISHMENT. IT WOULD, HOWEVER, ENTAIL A 44 PERCENT REDUCTION IN REAL PER CAPITA LENDING COMPARED WITH 1980.

THE CASE FOR CONCESSIONAL LENDING AT THE LEVELS INDICATED IS CLEAR. THE CONSEQUENCES OF NOT ACHIEVING THESE LEVELS ARE BOTH OBVIOUS AND HORRENDOUS. IT IS ONLY THROUGH YOUR COOPERATION AND COMMITMENT THAT THESE CONSEQUENCES COULD BE AVERTED.

I AM THEREFORE APPEALING TO YOUR EXCELLENCY FOR YOUR GOVERNMENT'S ADDITIONAL SUPPORT FOR THIS PROGRAMME, WHICH MEANS SO MUCH TO THE POOR COUNTRIES OF THE WORLD.

YOURS SINCERELY,

Daniel T. Arap Moi

(DANIEL T. ARAP MOI)
PRESIDENT OF THE REPUBLIC OF KENYA

RT. HON. MARGARET THATCHER, M.P.
PRIME MINISTER OF GREAT BRITAIN
AND NORTHERN IRELAND,
10 DOWNING STREET,
LONDON S.W.I

cc MASTER
OPS

T118B/83

بسم الله الرحمن الرحيم

Lt Gen H M Ershad ndc,psc
PRESIDENT OF THE COUNCIL OF MINISTERS
DHAKA

22 August 1983

DO No. 5510/6/CMLA

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T118B/83

The Right Honourable
Mrs Margaret Thatcher,
Prime Minister of the United Kingdom of
Great Britain and
Northern Ireland,
London

Excellency,

You are aware that three years of global recession which has thwarted development in almost all the nations of the world, brought unprecedented miseries for the developing countries, particularly the least developed ones amongst them. Far from maintaining the momentum of progress which the developing countries attained in the 60s and a major part of the 70s, average per capita income for the developing countries declined in 1981 and again in 1982.

It is encouraging to note and to hear that the industrialised countries are slowly emerging from the recession and there are clear signals of recovery in many of them. The challenge now will be to turn the recovery in the developed countries into a vehicle for revival of international development cooperation for sustained growth for the entire world.

While the low income countries as a group received in recent years less than 40% of official development assistance, the share of the least developed countries have been disappointing indeed. Stagnation in the levels of official development assistance to these countries, coupled with unprecedented decline in their export earnings and deterioration in their terms of trade, drastically reduced their import capacity and investment programme. For Bangladesh the loss in the terms of trade in 80-82 amounted to a loss of income of the order of a

بسم الله الرحمن الرحيم

billion dollars or nearly 10% of the GDP leading to declining investments. In 82-83 also the export earnings have been 10% lower than the level attained in 1979-80. Per capita income declined severely in 81-82. And in 82-83 also because of lower investment levels, GDP growth barely kept ahead of population growth.

The developing countries, particularly the least developed ones, need substantial flows of capital and concessional assistance for reversing the declines in production, income and employment. We believe that rising investment levels, apart from helping to restore per capita incomes, will have a major role in reviving international trade to the mutual benefit of the developed and developing countries. In this context the role of the International Development Association (IDA) is of crucial importance. IDA has played a significant role in the least developed countries not only in quantitative terms but also in qualitative terms. 90% of IDA funds go to developing countries with per capita income below $ 400 a year and for many least developed countries it is the largest source of external capital flow. It was, therefore, a matter of great regret that the management of the World Bank was forced to cut-down IDA's lending programme by 20% in 1981, 35% in 1982 and 28% in 1983. This happened mainly because of short-fall in contributions for the 6th replenishment. It is, therefore, extremely urgent that the balance of IDA 6th replenishment be made available in FY'84 so that a minimum level of IDA lending programme can be maintained this year.

IDA operations have established that properly administered development assistance can strengthen the economic institutions and increase the productivity of domestic resources. Recent studies have also recognised the effectiveness of IDAs operations and its unparalleled ability to provide policy advice. IDA financed projects have not only high rates of return throughout the developing world, but more importantly, have helped promote efficient sector and project management. All the while IDA's emphasis on combatting poverty in the least developed and low income countries have remained paramount without sacrificing

بسم الله الرحمن الرحيم

PRESIDENT OF THE COUNCIL OF MINISTERS
DHAKA

standards of efficiency and quality. Higher levels of IDA-7 will undoubtedly, mean greater effectiveness of World Bank management advice in the least developed countries.

The negotiations for the 7th Replenishment of IDA have commenced, but the prospects remain highly uncertain. The outcome of these negotiations will have profound influence on the lives of hundreds of millions of people thoughout the developing world. With the entry of China, IDA's constituency now covers 2.1 billion people in the developing world. While we were looking forward to a replenishment level of $ 20 billion, views seem to have been converging on a level of $ 16 billion only, which will mean very little increase over IDA 6 in real terms. In our opinion a replenishment level below $ 20 billion will be an ineffective response to the needs of the developing countries and IDA's ability to assist the recipients. We fully agree with the President of the World Bank that "the need for IDA is great, the effectiveness of IDA is beyond question but the political will to support IDA is in doubt ....Failure to sustain and strengthen IDA would be turning our backs on the poorest peoples of the World".

IDA-7 has already been delayed by one full year and is now scheduled to begin in July, 1984. A consensus on the level of IDA-7 is as urgent as the need for making it effective from July,84. Aware of your very special concern for IDA and also deeply appreciating your help in strengthening IDA in its difficult days in the past, we hope that your government will do everything possible to conclude IDA-7 negotiations at an early date. For the sake of consensus a replenishment level of $ 16 billion for the next three year cycle may be vigorously pursued.

In this connection I would like to draw your kind attention to a suggestion made in the Copenhagen meeting of the IDA Deputies for a five year time horizon for the 7th Replenishment of IDA. Even though we would have liked a longer time horizon for each replenishment, it is our considered view that under the present uncertain economic conditions the practice of three year replenishment should be

بسم الله الرحمن الرحيم

PRESIDENT OF THE COUNCIL OF MINISTERS
DHAKA

maintained. The extension of time horizon for replenishment at this time may only reduce annual IDA flows unless there is proportionate increase in the total volume of replenishment. We hope your Government will fully appreciate this and direct the negotiators accordingly.

Please accept, Excellency, the assurances of my highest consideration.

H M ERSHAD

E/333

Senegal

Le Président de la République N°107/PR/SP.

CC MASTER
OPS

Dakar, le 26 Juillet 1983.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 111A/83

Madame le Premier Ministre,

C'est en ma qualité de Chef d'Etat du pays qui exerce aujourd'hui la présidence du Groupe africain au sein des Institutions de Bretton Woods que j'interviens auprès de Vous pour souligner, encore une fois, l'importance, pour les pays africains au Sud du Sahara (et aussi pour les autres pays du Tiers-Monde bénéficiaires de ressources IDA), des consultations en cours en vue de la Septième Reconstitution, à un niveau suffisant, des ressources de l'IDA.

L'environnement économique international défavorable, la stagnation de l'assistance publique bilatérale, la détérioration des termes de l'échange ont infligé aux pays africains un choc sévère et imposent la mise à la disposition de ces pays de ressources concessionnelles que

./-

l'IDA seul peut et doit fournir. Je crains que la détérioration continue de cet environnement économique, accompagnée de surcroît d'une réduction des ressources de l'IDA pendant la période de la Septième Reconstitution, ne crée des conditions propices à la destabilisation économique, politique et sociale de ces pays. C'est Vous dire, Madame le Premier Ministre, que la conjoncture actuelle requiert, plus aujourd'hui qu'hier, que les pays donateurs de ressources IDA continuent à soutenir l'action de l'IDA en faveur des pays les plus pauvres.

Deux des questions principales qui ont été posées pendant la phase initiale de consultations pour la Septième Reconstitution concernent l'efficacité de l'IDA, en tant que source concessionnelle de financement, et le volume de l'assistance multilatérale en faveur des pays les moins avancés, pendant cette Reconstitution. Je voudrais Vous faire brièvement part de mes sentiments sur ces deux questions.

En ce qui concerne l'efficacité de l'IDA qui a fait l'objet d'études sérieuses au cours des deux dernières années, il est maintenant établi que l'IDA demeure la source principale d'assistance multilatérale. Le rapport du Département américain du Trésor sur les Institutions multilatérales de financement a reconnu l'efficacité des opérations de l'IDA et a noté, en particulier, que l'Association constituait un instrument privilégié du dialogue économique avec les pays enmprunteurs. Quant à l'étude rétrospective des deux premières décennies de l'IDA, elle conclut que l'IDA constitue un moyen efficace de promouvoir le développement et a un rôle capital à jouer dans l'établissement des bases de développement à long terme des pays les plus pauvres du monde. Ces conclusions reflètent mon appréciation personnelle de la performance de l'IDA.

./-

S'agissant des moyens financiers à mobiliser pendant la période de la Septième Reconstitution, le niveau de 16 milliards de dollars recommandé par la Direction de l'IDA me paraît raisonnable, compte tenu de la situation particulièrement difficile des pays d'Afrique au Sud du Sahara dont le revenu réel par habitant a régressé en moyenne depuis 1973. Ce niveau me paraît d'autant plus raisonnable qu'il constitue en fait une réduction du volume réel des crédits de l'IDA par tête d'habitant par rapport au niveau atteint en 1980, compte tenu de l'admission de la République populaire de Chine au sein des Institutions de Bretton Woods. Je crains qu'une réduction de ce volume ne compromette sérieusement les efforts des Gouvernements africains à prendre les mesures de réforme structurelle recommandées par le Rapport sur le Développement accéléré en Afrique au Sud du Sahara, dont les conclusions ont été adoptées par la réunion des Gouverneurs africains tenue à Dakar en mars 1982.

Votre Gouvernement aura un rôle prépondérant à jouer pour déterminer le niveau et le calendrier de cette Septième Reconstitution dans l'intérêt de la relance des activités économiques aussi bien des pays les plus pauvres que des pays industrialisés, et de la stabilité économique, politique et sociale du monde entier.

Veuillez agréer, Madame le Premier Ministre, les assurances de ma très haute considération.

Abdou DIOUF

adame Margaret THATCHER
remier Ministre du Royaume
e Grande Bretagne

L O N D R E S -

The President of the Republic

No. 107/PR/SP.

Dakar, 26 July 1983

Dear Prime Minister,

It is in my capacity as Head of State of the country at present holding the presidency of the African Group within the Institutions of Bretton Woods that I am writing to you to underline once more the importance of the current discussions on the Seventh Replenishment, at a sufficiently high level, of IDA's resources both for the African countries south of the Sahara (and also for the other Third World countries which are beneficiaries of IDA resources).

The unfavourable international economic environment, the stagnation of bilateral official aid and the deterioration in the terms of trade have had a severe impact on African countries and make it essential for concessionary funds, which IDA alone can and must provide, to be made available to these countries. I am afraid that the continued deterioration of the economic environment, accompanied, moreover, by a reduction in IDA's resources during the period of the Seventh Replenishment, will create conditions that will lead to economic, political and social instability in these countries. In other words, the present economic situation makes it essential, now more than ever, that those countries who donate resources to IDA should continue to support the work of IDA on behalf of the poorest countries of the world.

Two major questions which have been posed during the initial round of talks for the Seventh Replenishment concern the effectiveness of IDA as a concessionary source of finance and the volume of multilateral aid to be given to the least developed countries during this Replenishment. I would like briefly to put to you my view on these two questions.

As [illegible] as the effectiveness of IDA is concerned, and this has been the subject of serious study over the past two years, it has now been established that IDA is still the principal source of multilateral aid. The report by the US Treasury on multilateral finance Institutions acknowledged the effectiveness of the work of IDA and noted in particular that the Association was privileged instrument of economic dialogue with the borrowing countries. The retrospective study on the first twenty years of IDA concludes that IDA is an effective means of promoting development and that it has a major role to play in establishing long-term foundations for the development of the poorest countries of the world. These conclusions reflect my own assessment of the achievements of IDA.

As far as the financial resources to be made available during the period of the Seventh Replenishment are concerned, the level of 16 thousand million dollars recommended by the Directors of IDA seems to me to be reasonable, taking into account the particularly difficult situation in the African countries south of the Sahara where real per capita income has, on average, fallen since 1973. This level seems all the more reasonable to me because it in fact constitutes a reduction in the real volume, per capita, of IDA credits in comparison with the level reached in 1980, taking into account the admission of the People's Republic of China to the Institutions of Bretton Woods. I am afraid that a reduction in this volume would seriously jeopardise the African Governments in their effects to take the measures of structural reform recommended by the Report on Accelerated Development in Africa south of the Sahara, the conclusions of which were adopted by the meeting of African Governors held in Dakar in March 1982.

Your Government will have a key role to play in determining the level and time-table of the Seventh Replenishment on the interests of the revival of economic activities in both the poorest countries and the industrialised countries as well as the economic, political and social stability of the whole world.

/Complimentary close/

sgd. Abdou DIOUF

Mrs Margaret THATCHER

Prime Minister of the Kingdom of Great Britain

LONDON

PM/83/58

PRIME MINISTER

Aid/Trade Provision: Medellin Metro Colombia

I have seen Cecil Parkinson's minute and subsequent correspondence about the Medellin mass transit project in Colombia. (I understand that the attempt to reach agreement on excluding any aid contribution to this project from any of the countries involved has failed because of a French mixed credit offer.) I understand that EX is meeting to discuss this tomorrow. It may therefore be helpful to colleagues to have my views on the proposal, including Nigel Lawson's minute of 21 July.

I was, incidentally, sorry that this issue came to you before Tim Raison, as the Minister primarily responsible for the aid programme, or I, had had the chance to look at it ourselves and discuss it with DTI colleagues. Cecil Parkison and I had a word about this in the House last week and we both agree that it is better if at all possible for us and DTI to keep in close step on these issues.

We have now had an opportunity to look further into the economic and financial viability of the project. I am bound to say that I have reservations about it, partly in view of the inadequate nature of some of the preparatory work, although I am pleased to see that British consultants have been retained to carry out the detailed design. In any mass transit system- however, there are necessarily uncertainties, particularly about the number of passengers it will attract. Overall, the judgement of our experts is that the project may be marginally viable in economic terms. But the finances of the project will depend largely on whether the Medellin authorities are successful in their attempts to regulate the exiting bus system and to reduce the level of subsidy which it provides to the bus companies.

The project does of course involve substantial foreign borrowing at a time when Colombia's requirements for external commercial finance are causing some concern. Nevertheless, Colombia has managed its finances with reasonable prudence in the past and I understand ECGD are ready to underwrite the export credit involved. There is no question about the Colombian Government's commitment to the project. The country is stable politically and our bilateral political relations are both close and active. Demonstrating HMG's support for a contract of this size could be an important element in strengthening both our bilateral relations and our positions more generally in South America. I recognise also the industrial and commercial case advanced by Cecil Parkinson, although at the same time it has to be realised thatif we allocate resources to this project, there will be correspondingly less for other projects.

The GEC bid will involve an ATP contribution of £66m over 3 years. It is clearly a major decision to give this degree of priority to a single contract. We should all be clear that if the case goes ahead and is successful it will pre-empt about one third of planned ATP spending in the period 1985/86-1987/88. I shall not be able to allocate further funds to ATP from existing resources to offset this major commitment. Provided none of us have any doubts on this score, I am prepared to agree to an offer of up to £66m of ATP on the basis proposed by Cecil Parkinson.

I am copying this minute to other members of EX.

Foreign and Commonwealth Office
26 July 1983

V329

DEPARTMENT OF TRADE & INDUSTRY
1 VICTORIA STREET
LONDON SW1H 0ET
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From the
Minister for Trade

John Coles Esq
Private Secretary to
the Prime Minister
10 Downing Street
London SW1

26th July 1983

Dear John,

AID AND TRADE PROVISION (ATP): COLOMBIA
MEDELLIN MASS TRANSIT RAILWAY

Further to my letter of 21 July, members of EX Committee should be aware that as a result of the Canadian initiative the French have now informed us that they intend to make mixed credit available to the Colombians for the Medellin mass transit scheme and will shortly be formally notifying this to the OECD consensus. We do not yet have details of the terms of the French mixed credit but these are expected to be within the normal consensus guidelines, ie 20 - 25% aid input.

Unless the French could be persuaded to withdraw from this position and, both because of the limited time available and the current French attitude to the consensus, this seems extremely unlikely, we believe it necessary to offer ATP if our companies are to remain competitive. Other consensus members whilst ready to join a common line have also indicated that they would be prepared to match mixed credits from others and will therefore presumably now do so. The Canadians in particular when initiating the present round of consultations said that they were intending to match mixed credit offers unless others denied that they were intending to extend concessional terms.

The timescale is now very tight. Tomorrow is the latest point at which a decision can be taken if the companies are to be able to finalise their bids in Colombia and our Ambassador in Bogota is to have an opportunity to inform the Colombian authorities of an aid offer.

I am copying this minute to Private Secretaries to members of EX Committee and to Sir Robert Armstrong.

Yours sincerely,

Jonathan Rees

JONATHAN REES
Private Secretary to the
Minister for Trade (PAUL CHANNON)

P.01079

PRIME MINISTER

Aid and Trade Provision (ATP):
Colombia: Medellin Mass Transit Railway.

The Colombian Government intends to construct a 30 kilometre light rail mass transit system in the city of Medellin. The total value of the order is assessed at about £450 million. Companies from several countries are competing for the order, including France, Japan, Italy, West Germany and Canada. Two United Kingdom companies are interested:

(i) The General Electric Company (GEC) is bidding as head of an international consortium with Stirling International (UK-based but Italian-owned) and Linke Hoffman Busche (West Germany). Several other UK firms, including Metro Camell and Vickers are involved as sub-contractors. The UK element is assessed at £250 million.

(ii) Hawker Siddeley (HS) are members of a consortium led by Hawker Siddeley (Canada). The UK element is assessed at about £150 million.

2. Mass transit systems based on light railways are regarded as a market with good prospects. The Secretary of State for Trade and Industry argues in his minute to you (undated, but despatched in the week beginning 11 July) that to secure the Medellin contract would give this country a chance to establish itself in the field; and that there are therefore strong industrial arguments for backing our contenders.

FLAG A

3. Both GEC and HS say that they are convinced that soft finance will have to be offered. There is said to be a 'reasonable indication' that other countries are prepared to offer aid. Because the Colombian law on public tendering forbids any amendment to

a tender after it has been opened, if soft finance is to be offered it must be offered at the outset. It is apparently not possible to see whether any other bids offer soft finance and then match this ex post facto. The Secretary of State for Trade and Industry therefore seeks approval for an offer of assistance from the Aid and Trade Provision. The cost would be as follows, spread over the years 1985-86 to 1987-88:

GEC Bid

(i) If UK content only is supported: £54 million.

(ii) If UK and other EC content is supported: £63.5 million.

(It is apparently not intended to cover local costs, which would increase the cost to £73 million).

HS Bid

£ 37 million.

FLAG B

4. The Canadian Government is reported (letter of 21 July from Mr Channon's Private Secretary to yours) to be trying to organise an understanding among the competing countries that they will not offer aid or soft credit. All Ministers are agreed that we should back this initiative. But the Secretary of State for Trade and Industry apparently doubts whether it will be successful. He therefore maintains his request for authority to offer up to rather more than £60 million support and to notify this assistance to the Organisation for Economic Cooperation and Development (OECD).

FLAG C

5. We understand that FCO Ministers, with some reluctance, are willing to accept that such assistance should be offered. Treasury Ministers, however, oppose it (minute of 21 July from the Chancellor of the Exchequer), mainly on the grounds that it will pre-empt too large a part of the ATP, which is already the subject of a bid for additional resources in the Public Expenditure Survey.

MAIN ISSUES

6. There is no doubt that the best outcome would be for the Canadian initiative to be successful: then no one would need to

offer soft finance. The essential issue before the Committee is therefore:

(i) if the initiative is unsuccessful, should the UK offer assistance on the scale proposed?

If the Committee answers that question in the affirmative, two further questions will arise:

(ii) should the same type of assistance be offered to GEC and HS?

(iii) Should we notify our offer to the OECD as an 'initiation' (paragraph 5 of the minute from the Secretary of State for Trade and Industry)?

Case for assistance

7. Most of the relevant arguments are clearly set out in the papers; and it is unnecessary to repeat them here. There are, however, two points that you may wish to explore.

8. First, no doubt securing the Medellin contract would give British firms a useful entrée to the market. But how serious a set-back would failure to secure it be? The note by officials suggests that there is a large number of potential future orders (several in countries rather more credit-worthy than Colombia) as well as a large number of firms interested in the market. It is not obvious that failure to secure an early foothold will jeopardise prospects for later contracts.

9. Secondly, there is the sheer size of the commitment. The ATP runs at about £60 million a year. Support at the maximum level proposed would therefore take up about one-third of the available resources for each of three years. There is no lack of candidates for support from the ATP. Is the present one meritorious enough to take such a high proportion of the available money?

GEC and HS

10. The Secretary of State for Trade and Industry tacitly assumes that if assistance is agreed for GEC it must also be offered on the

same terms to HS. This is presumably because it could be regarded as objectionable to discriminate between two UK firms. In the HS case the UK content will be less and the Canadians will be in the lead. Is the Committee nevertheless content to offer assistance to HS?

Notification

11. It is usual for a country initiating an offer of credit on terms more favourable than normal for export deals to notify the OECD to that effect. But the Committee may wish to consider whether the UK should volunteer to do so in this case. We are supporting the Canadian initiative to avoid soft credit; if that initiative fails, it will presumably be because some other country has refused to cooperate. It seems more natural to expect that country to notify the OECD. Alternatively, might it be possible to wait until the contract has been awarded, and leave the successful bidder or bidders to notify?

HANDLING

12. You will wish the Secretary of State for Trade and Industry to open the discussion and to report on the current situation, particularly with regard to the Canadian initiative. All members of the Committee will wish to contribute thereafter.

CONCLUSIONS

13. You will wish the Committee to reach conclusions on the following:

(i) If the Canadian initiative is unsuccessful, should the Secretary of State for Trade and Industry be authorised to offer assistance from the ATP -

(a) to the extent of about £60 million to GEC; and

(b) to the extent of about £37 million to HS (assuming that the Canadian Government will support the bid of the Canadian led consortium of which HS is a member)?

(ii) If such assistance is authorised, should it be notified to the OECD as an initiation?

PG

P L GREGSON

26 July 1983

Prime Minister

cc Mr. Mount O/R

MR. SCHOLAR

MCS 26/7

ATP: COLUMBIAN MASS TRANSIT RAILWAY

I have suggested recently in various minutes that one route to reducing government expenditure would be to phase out industrial subsidies of various kinds. I believe that these subsidies:

i. are inconsistent with the market philosophy of the Government;

ii. tend to cushion companies from the (necessary) pressures exerted on them by the Government's macro policy, and hence weaken its impact;

iii. distort decision-making in damaging ways, since officials preferences and judgements are allowed to override those of managers and risk-takers;

iv. are politically marginal in the sense that £100m lopped off education or health is far more damaging than a reduction of £100m on subsidies to industry, exports, agriculture.

ATP support for capital projects is among the most generous; it offers a tiny percentage of manufacturing activity a subsidy which is typically equal to 30% of gross output (as much as 65% in some cases). The Medellin project could no doubt open doors to other, similar projects for GEC (projects which are likely to be supported in their turn to the tune of 30%). If the long term implications of this contract are sufficiently important to GEC, surely the company itself, with its long purse of £1400m, can afford to play a long game, and secure contracts such as this without ATP support? If GEC is not so prepared, why should the Government be? This programme is therefore a prime candidate for economies. A commitment to aid this project, on no firm evidence that other countries are proposing to offer aid, would exhaust the ATP provision over the next two years, and put pressure on its expansion, as more developmentally worthy candidates emerge.

/Columbia is presented

Columbia is presented in the correspondence as the least bad South American prospect. This is not to say it is a good one. The IMF is observing Columbia's debt position with increasing concern. The Columbiangovernment is currently seeking $1 billion in foreign loans to balance its budget. Its problem in this regard will increase if this dubious project proceeds.

N.O.
NICHOLAS OWEN
26 July 1983

RESTRICTED

JH 133

PRIME MINISTER

Prime Minister (1)

£60m for Colombia and GEC? Agree the proposal in para 9?

Subject to comment from colleagues. Yes MT

MCS 18/7

AID AND TRADE PROVISION (ATP): COLOMBIA: MEDELLIN MASS TRANSIT RAILWAY

Tenders for the construction and equipment of a mass transit railway in the city of Medellin in Colombia must be submitted by 31 July. Officials in the Standing Committee on Aid and Trade (SCAT) have considered the matter but have not found it possible to reach agreement on whether ATP support should be given.

2 There are two British contractors who are fighting for this job: GEC as UK leader of a group, and Hawker Siddeley as partner in a Canadian consortium. Clearly in the latter case, aid support would only be available if the Canadian Government agreed to offer broadly comparable terms to the Canadian partners. The details of the project and its importance to the companies and their dependent suppliers and contractors are outlined in the attached note prepared by my officials.

3 I believe the important points are:

a) The project represents the first opportunity for the United Kingdom to secure or be a major participant in a complete turn-key package for a light rail mass transit system. The light rail system - as distinct from heavy underground systems (such as that sold to Hong Kong, and the London Transport system) - is an advanced sector of technology for which there is rapidly growing world demand.

If successful, this will be a tremendous boost to the railway equipment industry in the UK.

b) Colombia is the only really economically stable country in South America at present. In spite of being a comparatively small market, a conspicuous success here would greatly enhance the UK's commercial prospects in South America as a whole. Politically Colombia was helpful to the UK over the Falklands, and our help in this case would be well appreciated.

4 The Colombian Authorities have requested attractive and competitive financial terms and there is a reasonable indication that other countries (principally, Japan, France, West Germany and Canada) are prepared to offer aid or mixed credit.

5 The Colombian law on tendering does not permit any bid to be amended after the date of opening. This means that we cannot match competitors' offers of mixed credits, but will be forced to make our own offer and be prepared to notify it to OECD as an initiation.

6 The ODA have, I understand, concluded that the project does not meet their standards of developmental soundness. I would indeed be surprised if there were not other and perhaps more pressing social and economic priorities for investment in

Colombia. There is, however, no doubt about the Colombian Government's intention to proceed. The scheme has been carefully prepared by one of our leading firms of consultants and checked by another UNDP funded consultant. Nor do our competitors appear to have any doubts. This is a case, therefore, where industrial and commercial considerations must surely take precedence.

7 ECGD credit is available to cover that part of any UK offer not subject to aid. The terms can be settled by officials against the general objective that they should be no less competitive than those likely to be advanced by other credit insurers.

8 There has been a low level Canadian initiative to have an informal understanding on financial terms for the project with OECD partners. Unless this is pursued further I do not think we dare assume that others will not offer aid and mixed credit terms. Should anything come of the Canadian initiative I would of course inform colleagues.

9 The Colombians may decide to spread the work among a number of consortia; or, they may award the contract on an exclusive turn-key basis. In the latter case, the projected call on ATP resources would be heavy - £60 + M in the case of GEC over the 3

years 1985/86, 1986/87 and 1987/88. It would be possible to spread the aid over a longer period were resources available in 1983/84 and 1984/85. As it is, the unavoidable concentration of aid into the three later years will put pressure on our ability to support other projects during that period and especially in 1985/86. However, the sums can be accommodated in the way proposed and I consider that this project is of sufficient priority to warrant the commitment.

10 This case is urgent. Companies must know by the middle of the month what the position is so that they can finalise bid documents. The timing of aid offered to the Colombians will be determined in consultation with our Embassy in Bogata.

11 I would not put this case forward if I were not convinced that in spite of the large sums of money involved this is a good project on trading grounds and also politically. I therefore invite colleagues' agreement that I be authorised to offer ATP support to GEC as outlined in para 9, and to Hawker Siddeley if Canadian Government support is forthcoming.

12 I am copying this minute to Members of EX and Sir Robert Armstrong.

C.P.

C P

July 1983

Department of Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

Aid and Trade Provision (ATP): Colombia: Medellin Mass Transit Railway

Note by Projects and Export Policy Division (PEP)

Background

Two UK consortia, one led by GEC and the other including Hawker Siddeley (HS) are bidding for a project involving the design, construction, supply of equipment, financing and commissioning of a 30km metro system in the industrial city of Medellin in Colombia.

GEC's bid will be led by GEC Traction for the UK in consortium with Stirling International, a UK based but wholly Italian owned contractor, and Linke Hoffman Busche, a German manufacturer of rail vehicles. Further members of the GEC organisation (GEC General Signal, GEC Telecommunications, GEC Transport Projects Ltd) and other UK companies, Metro Cammell, Balfour Beatty Power Construction and Vickers will be involved as sub-contractors.

The Hawker Siddeley bid will be led for Canada by Hawker Siddeley (Canada) who manufacture rail vehicles and for HS (UK) by Westinghouse Brake and Signal Co. The group includes Balfour Beatty Construction, other members of the HS (UK) group, Bush Electrical Machines, HS Power Engineering, HS Revenue Controls, HS Rail Projects Ltd, the Foundation Company of Canada and Electrak Incorporated (a BICC US subsidiary).

The potential contracts are substantial with a total value of the order of £450m ($628m). In the case of GEC the offshore content would be £270m ($405m) of which £252m ($334m) would represent the UK element.

The value of the UK element of the HS bid would be £148m ($231m) and the value of the Canadian content £120m ($256m).

ECGD cover

ECGD have agreed, without commitment, that support will be available. Their terms, at present, are 11.35% for 10 years from commissioning for 85% of the UK element only.

However the financial terms the Medellin MTA require for this contract include capitilisation of pre-commissioning interest without which bids will be non-compliant. ECGD are therefore to seek Treasury agreement to their offering interest capitalisation as well. Given intra-EEC credit agreements it seems unlikely, if GEC's partners are unable to persuade their respective credit agencies to offer support, that ECGD will be able to avoid offering support for the EEC content also. They intend however with the aim of limiting their market exposure to avoid covering EEC costs if at all possible. Although the companies will argue strongly for support for local costs, that would not be possible without a substantial increase in the market limit for Colombia, which is probably not justified at present.

Need for ATP support

Both groups have asked for ATP to support their bids because they are convinced that, to comply with the stated wishes of the client on the financing of the Medellin mass transit authority, the successful tenderer will need to offer soft finance. Although we have no direct evidence at present there is reasonable indication that the French and Canadians are considering aid support for the contract.

Under Colombian tendering rules bidders are required to submit their final technical and financial proposals at the time of tender. Because there is no opportunity for

subsequent amendment of finance packages a matching offer of aid is precluded and an initiation is therefore necessary.

The ATP inputs will vary according to the credit options included as the table illustrates:-

	Credit package	Aid needed (subsidy) GEC £m %	Hawker Siddeley £m %
1	UK content only	£54 (31.2)	£37 (27.91)
2	UK and EEC content	£63.5 (31.7)	£37 (27.91)
3	UK and EEC content plus capitalisation of pre-commissioning interest	£63.5 (32.5)	£37 (27.96)
4	UK and EEC content plus local cost support (the inclusion of capitilisation does not affect aid but increases subsidy by 1%)	£73 (36.4)	£40 (30.9)

Aid would be drawn in 1985/86 and the two following financial years with (in the maximum case) just over £20m needed in each of the three years. Although a substantial sum of ATP, these amounts could nevertheless be accommodated at present.

Industrial case for support

This contract is one of the few major mass transit projects to be undertaken in the world this year and will therefore be fiercely contested. Some twelve groups have prequalified among whom the strongest competition is likely to come from the French, Japanese, Italians, Germans and Canadians.

The UK's main expertise in the past has been in "heavy" underground systems (London Transport) for which there is a limited world market. However because of the huge costs involved in constructing heavy systems countries are likely to turn, where this is appropriate, increasingly to the sort of light rail system proposed in Medellin. The UK is however deficient in light rail technology, the nearest to it being Tyne and Wear, a medium weight system.

Medellin would therefore give the UK the chance to establish itself in the light rail vehicle field. It would also be of particular assistance to Metro Cammell in helping to bridge their current serious production gap pending a resumption of London Transport ordering.

The contracts would also represent a valuable addition to the workload of both the GEC and HS companies involved, most of whom are suffering from a serious shortage of work in areas such as traction equipment, signalling and braking.

It is difficult to assess accurately the number of light rail development likely to take place in the world over the next few years but cities such as Perth, Seattle, San Jose, Casablanca, Tuen Mun (HK), Kuala Lumpur and Abuja (Nigeria) are all actively looking at such systems. In the longer term cities such as Tripoli, Kuwait, Quito, Brisbane and Valencia (Venezuela) are potential customers.

Commercial case

Although Colombia, in common with her neighbour, is facing economic problems she appears to be in a far better position than any other to contain these. ECGD

therefore currently regard Colombia as a creditworthy market.

Reserves and foreign debt are at acceptable levels and the debt service ratio is 13%.

We therefore see Colombia, with whom our bilateral relations are good, as the priority market in South America at present and the Medellin MTR as the only major project likely to be let there for some time. Our share of the Colombia market is only 2% which compares very unfavourably with, for example West Germany's 6% and Japan's 11%.

Conclusion

This project represents a high priority for Government support. An ATP contribution is likely to be needed to match the terms of the finance packages that we believe will be offered by competitors. In order to complete the preparation of their bids the companies will need an indication by 15 July of the terms on which HMG is prepared to make finance available.

PEP1C
Department of Trade and Industry

July 1983

C

810

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

PRIME MINISTER

ATP: COLOMBIA: MEDELLIN MASS TRANSIT SYSTEM

I have seen Cecil Parkinson's minute on this case. wed mcs (dated 21/7)

Geoffrey Howe will no doubt be commenting, but my understanding is that the project does not pass the economic tests usually required before UK Aid funds can be offered. Although I agree that it is often right to give precedence to industrial and commercial considerations in ATP cases, I think we would leave ourselves open to serious criticism if we agreed to offer such a large amount of ATP for a project which is likely to be of no economic benefit to the recipient country and which could even worsen its financial situation.

2. This apart, the amounts of ATP proposed (up to the equivalent of one whole year's total allocation if GEC's bid succeeds) would leave little room for supporting future cases within the present provision for ATP. I know that Geoffrey Howe has made an additional bid in PES to increase that provision, but I do not at present see how this could be agreed, given the many other pressures on public expenditure, and I am sure that agreement certainly cannot be assumed in advance.

3. I was interested to learn from paragraph 8 of Cecil's minute that the Canadians have suggested that OECD partners should reach an informal understanding on the financial terms for this project (which would, I understand, exclude Aid offers). Today's letter from Paul Channon's office confirms that this initiative is very much alive, and I entirely agree that it deserves our full support. Understandings

of this kind are one of the few practicable ways by which we can attempt to limit the present self-defeating competition in offering mixed credits and other export subsidies and make a reality of our Williamsburg commitment to reverse the tide of protectionism.

4. I conclude that it would be a mistake to offer ATP in support of this project, and that we ought instead to give the Canadian proposal our very strong backing.

5. I am copying this minute to Cecil Parkinson, Geoffrey Howe, and Sir Robert Armstrong.

N.L.

21 July 1983

Received
23.00 hrs.
21/7

V253

CONFIDENTIAL

B

DEPARTMENT OF TRADE & INDUSTRY
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From the
Minister for Trade

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

21st July 1983

Dear John,

AID & TRADE PROVISION (ATP): COLOMBIA: MEDELLIN MASS TRANSIT RAILWAY

13/7

When Mr Parkinson minuted the Prime Minister last week about this project, he referred to the low level Canadian initiative to have an informal understanding with OECD partners on financial terms for the project, and undertook to inform colleagues should anything come of this initiative. This letter is to bring you and copy addressees up to date.

We have now been informed that the Canadian initiative has been revived. It seeks agreement on two fronts - firstly to bar aid inputs for the project, and secondly to regulate the form of export credit cover which might be given. Both my Minister and Mr Parkinson agree that we should respond positively to this initiative. If agreement could be secured that no aid, or soft credit terms, were made available for the project, then this must be the preferred solution. Officials have therefore been instructed to indicate willingness to try and reach a common line with other OECD countries.

On the other hand, it is still too early to say if anything will come of this initiative. It is clearly very much at the last minute. The timescale is short. Final bids need to be formulated within the next couple of days if they are to be put to the Colombian Authorities by the end of this month. Therefore both Mr Channon and Mr Parkinson believe we need to retain the flexibility to offer ATP support for this project should competitor countries not give clear undertakings that they will not be offering aid. We would therefore still be grateful for agreement that we be

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authorised to offer ATP support to GEC as outlined in paragraph 9 of Mr Parkinson's minute, and to Hawker Siddeley if Canadian Government support is forthcoming. In the meantime we will continue to keep you and other copy addressees informed of the progress of the Canadian initiative.

I am copying this minute to Private Secretaries to members of EX and to Sir Robert Armstrong.

Yours sincerely,

Jonathan Rees

JONATHAN REES
Private Secretary to the
Minister for Trade (PAUL CHANNON)

RESTRICTED

cc DT

10 DOWNING STREET

From the Private Secretary

19 July, 1983.

Reply to the House of Commons Foreign Affairs Committees' Report on the ODA's Scientific and Special Units (HC 25 I/II)

Thank you for your letter of 19 July. Subjec to the comments of the Lord Privy Seal's Office, we have no objection to your publishing the Government's reply to this Report as a White Paper on 27 July.

I am sending copies of this letter to Nicholas Huxtable (Lord Privy Seal's Office), and Murdo Maclean (Chief Whip's Office).

M.A. Power, Esq.,
Overseas Development Administration.

RESTRICTED

OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SW1E 5DH
Telephone 01-213 5409

From the Minister

19 July 1983

Dear Willie,

REPLY TO THE HOUSE OF COMMONS FOREIGN AFFAIRS COMMITTEES' REPORT ON THE ODA'S SCIENTIFIC AND SPECIAL UNITS (HC 25 I/II)

I am writing to seek agreement to publication as a White Paper of the Government's reply to this report.

I enclose a copy of the proposed reply which has been agreed by Sir Geoffrey Howe and Mr Raison. The Foreign Affairs Committee was highly critical of the cuts which have had to be made to ODA's Scientific and Special Units and of the scrutinies which led to these economies, and a certain amount of unfavourable press comment has resulted. The reply rejects these criticisms.

Mr Raison hopes the reply can be published before the summer recess, in part to dispel any notion within the Units themselves that the FAC report will allow them to re-open the decisions on their future. He would like to publish the reply on Wednesday, 27 July, and proposes to hold a short press conference that morning. HMSO have advised that to meet this timetable they need clearance by midday tomorrow at the latest.

I should be grateful for your confirmation that we can proceed on this basis.

Copies of this letter and enclosures go to the Chief Press Secretary and to the Private Secretaries of the Chancellor of the Exchequer, the Lord President of the Council, the Chief Whip and the Secretary of the Cabinet.

Yours ever,

Mike Power.

(M A Power)
Private Secretary

W F S Rickett Esq
10 Downing Street
SW1

4TH REPORT FROM THE FOREIGN AFFAIRS COMMITTEE
SESSION 1982-1983

THE OVERSEAS DEVELOPMENT ADMINISTRATION'S SCIENTIFIC AND SPECIAL UNITS

OBSERVATIONS BY THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

(Marginal references are to the relevant paragraphs; numbers in parentheses with the prefix 'Q' refer to Questions in oral evidence in Volume II of the Report)

1. The Government has studied with interest the Report published on 16 June and has noted its conclusions and recommendations. It regrets however that the Committee in its Report did not take into account more fully the context within which the Government decisions on the future of the scientific and special units of the Overseas Development Administration (ODA) were taken.

2. A variety of factors was considered and carefully balanced by the Government before reaching decisions about future arrangements for the units. A key factor was the likely demand for the services of the units in the future. The services are provided to developing countries as aid. The needs of developing countries are legion, but only a limited proportion of them can be met by the British aid programme. The programme is very effective: but because of increasing expenditure arising from multilateral commitments, notably membership of the European Community and of the World Bank, resources available for bilateral aid have necessarily been squeezed. Within the bilateral aid programme, priorities have to be

/determined

determined in agreement between developing country governments and the British Government and not all developing countries give the highest priority to the types of aid which engage the services of the ODA's scientific units.

3. The Rayner Scrutinies and other reviews showed that the effective demand for the units' services in future would be somewhat less than in the past, the likely fall in demand being more marked in the case of the services provided by the Directorate of Overseas Surveys and the Land Resources Development Centre. The demand for the units' services may also be affected by the cost as compared with outside alternatives; although the evidence suggests that they will be competitive with private sector alternatives where these are available. It has also been concluded that the level of demand for the units' services will be uncertain and likely to fluctuate. These conclusions have been an important factor in the Government's thinking about the future size of the units: the decisions that have been taken should have the result that, for the foreseeable future, the standing capacity in the units will be fully occupied, provided they remain cost-effective and competitive. Temporary excess demand, or upward fluctuations in demand can best be met by contracting work out rather than by retaining larger standing capacity within the Civil Service.

4. The reviews were also concerned with questions of cost-effectiveness and efficiency. The Government has made good management and the efficient use of resources policies

/in their

in their own right and has sought to reduce manpower levels generally in the Civil Service. The need to contain public expenditure is a further reason to make sure that the units are as cost-effective as possible. Two scrutinies carried out for ODA under the direction of Lord Rayner, one of the Directorate of Overseas Surveys and the other of support services in the Centre for Overseas Pest Research and the Tropical Products Institute recommended economies - which are being realised - in support costs such as those for communications, printing and office services. The scrutinies directed attention to the need to consider the relocation of widely scattered units as a means of lowering costs and securing closer management by their directors. They provided guidance on the capacity of the private sector to handle some of the work done by the units and on ways to measure and compare costs. They also argued that the units should be more subject to competition for aid funds, and recommended that this could be achieved by new arrangements for commissioning, in which particular pieces of work are clearly specified and priced so that their bids for resources within the aid programme can be weighed properly against other claims.

/5. As the

5. As the result of careful consideration of all factors, the Government decided to make changes. It was decided that the standing capacity represented by the Tropical Products Institute and the Centre for Overseas Pest Research should for the most part be maintained, but that some staff reductions were desirable and that the two units should be combined into a single Tropical Development and Research Institute, concentrated so far as possible on one site; that the Land Resources Development Centre should also be maintained within the ODA, but on a reduced scale in view of reduced demand; and that the work of the Directorate of Overseas Surveys to developing countries could most effectively be provided by amalgamating that unit with the Ordnance Survey.

6. The following paragraphs respond to the conclusions and recommendations of the Committee in paragraphs 112 to 117 of the Report.

/The unit's

The unit's reputation, and their role in pursuit of the aid programme's objectives

7. The Government agrees with the Committee's principal
Para 102 conclusion that the ODA's own in-house units enjoy and deserve an extremely high international reputation for the valuable work they do. There are now three such units following the amalgamation of the former Centre for Overseas Pest Research (COPR) and the Tropical Products Institute (TPI) as the Tropical Development and Research Institute (TDRI). Changes made in the last four years in the organisation of ODA and of the units have given a more flexible and cost-effective aid programme. The two units, the Tropical Development and Research Institute and the Land Resources Development Centre (LRDC), which will remain within the Administration are concerned directly with increasing food production in the developing world, which is one of Government's major aid objectives.

The units' costs and the consequences of cost savings

8. The units are funded from the aid programme of which they
Para 103 form an integral part. The ODA has been forced to re-examine all activities within the aid programme to ensure that they meet the needs of developing countries in the most cost-effective way and many economies have been made. As explained in ODA evidence (Q12) a reduction in the resources available for the bilateral aid programme has already been made, and this cannot but affect the resources available for work in the scientific units. Within the bilateral programme the priorities of developing country governments vary: not all at present give the highest priority to British aid in the

/development of

development of natural resources or survey and mapping services. Their demands fluctuate and it is necessary to offer a flexible response. This can be done by supplementing, as necessary, the work of somewhat smaller staffs in the units by expertise available in government departments, universities, research institutions and the private sector.

9. The report over-emphasises the loss of specialist staff likely to arise from the planned cuts in unit budgets. The decrease in staff numbers of the TDRI will amount to some 25% over the 7 year period from 1979 to 1986. The Government does not accept that cuts of this order are likely to damage the units' reputation and effectiveness. The change is being achieved partly by a concentration of scientific activities and partly by reductions in support staff proportionately greater than reductions in operational staff: in other words, by improving the direction, efficiency and cost-effectiveness of TDRI's work. The reduction in the LRDC from 78 staff in 1982 to 45 in 1985 is based on a careful assessment of likely demand for the Centre's services. It also takes account of the need to cope with fluctuations in demand and the opportunities for using an increasing capacity in the private sector. The largest change, the reduction of some 60% in the Directorate of Overseas Surveys (DOS) , the case for which was argued conclusively in the Rayner Scrutiny of the Unit is, again, made necessary by changing and uncertain demand and the intention that some work will be contracted out.

10. The Committee's concern about the dispersal of specialist expertise is focussed on the expertise available in the in-house units, but British expertise is available to the aid programme from a variety of sources. The evidence given to the Committee by Professor Bunting (Annex 8 to the Committee's Report) points out that what he calls 'the knowledge services' available to the aid programme have always been largely obtained form outside the ODA. He rightly draws attention to some disadvantages as well as advantages in a heavy reliance on other agencies' capacity, but there is nothing in the Government's present plans for reorganisation which should impair the special features of the in-house units to which Professor Bunting calls attention: namely, their inter-disciplinary character and the continuity which they offer.

The 'Rayner Scrutinies' of the COPR, TPI and DOS

11. The Government is well satisfied that the scrutiny programme
Para 104 has in generalproved its value many times over. The improvements stemming from Rayner Scrutinies are on record and are substantial. The scrutiny of COPR and TPI was in two parts. The first part looked at support services, all of which are provided in Britain. The second part compared costs for work done by the units with work contracted out to the private sector, i.e. costs of achieving similar benefits by different means; this was made clear in evidence (Q660). The study of DOS covered benefits to developing countries and to Britain, as was made clear by the examining officer (Q781). In considering the recommendations ODA took into account the need

/to compare

to compare the benefits arising from work done by the units with the benefits from other aid programme activities.

(a) The evidence given to the Committee by ODA witnesses made it clear that the work of all of the units and their impact is examined annually by Management Committees and also that areas of work had been subjected to external technical review by peer groups: what was lacking was a full costing of the work and an examination of its efficiency. The examining officers' terms of reference were deliberately directed towards this.

(b) The evidence needed about costs was available in this country. The views of developing country governments and international agencies are well known to ODA from a continual feedback of views and comment on the work of the units from ODA visits to developing countries, from Heads of Missions and Development Divisions and from representatives of developing country governments.

(c) On training and information dissemination, it should be explained that the scrutinies were more concerned with alternative methods of providing services than with assessing the value of those services. The examining officers of the COPR/TPI did not undervalue the importance of training or suggest that too much information was being provided, as was made clear to

/the Committee

the Committee in oral evidence. Despite this the Committee appeared to think, for example, that shorter print runs implied that less information would be disseminated (Q685). This is not the case. The concern was only that the aid programme should not pay for publications that will be unwanted and unused.

(d) The inter-disciplinary character of individual projects undertaken by COPR and TPI was taken into account by the examining officer and was reported. ODA took into account the inter-disciplinary character of TPI and COPR and the qualitative aspects of all the units in reaching decisions on recommendations on this and other studies on the future of the units.

Size of the LRDC

12. The Committee claims that the decision to reduce the size of the Centre was not based on considerations of cost-effectiveness. Cost comparisons were made by an independent accountant and this was recognised by the Committee as shown by the second sentence in paragraph 41 of their Report. No significant cost difference was found between similar work done in the Centre or contracted out. The principal factor taken into account in reaching these decisions, as mentioned above, was concern about a reduced and fluctuating demand. Special efforts were made to assess that demand and it was

/necessary

necessary to distinguish between the wishes expressed for assistance that the Centre could give and the priority accorded to such work by developing country governments in their requests for aid. LRDC has been encouraged to win contracts from others but the volume of such contracts is small. The evidence available about future demand, understood as work that could be paid for, showed a likely reduction in demand and also much difficulty in

/making

making confident estimates of demand. The evidence of demand was not considered strong enough to justify retaining a Centre of the present size.

Cost comparisons

13. The Government does not accept the Committee's
Para 106 contention that cost comparisons, a major part of the Rayner scrutinies, were of doubtful validity.

(a) At the time of the examination of COPR and TPI, methods of calculating their overheads were not well developed, but valid comparisons could still be made between the total costs of work carried out by the units and by analogues; much useful comparative material is set out in the appendices to part II of the study. Comparisons of overhead costs in the DOS scrutiny were difficult but not impossible.

(b) The comparison of costs of a representative sample of the work of COPR and TPI with similar work done by universities and firms in the private sector gave no conclusive evidence that the units were more or less expensive. The Committee does not appear to have appreciated that no major decisions on the future of COPR and TPI were made on the basis of this examination. The uncertainties surrounding the comparisons used for DOS were considered not to be so large as to throw doubt on the conclusion that

/contracting

contracting out would be significantly cheaper.

(c) ODA has considerable experience in supervising the performance of projects by outside contractors and the likely burden of this work was taken into account before reaching any decision on the recommendations made by the examining officers.

Effectiveness of TPI and COPR; need for work by DOS

14. The Government agrees that COPR and TPI were very
Para 107 effective and their funds generally well spent; that is why they are being retained. There is room for even greater efficiency (see paragraph 4 above) through their amalgamation as TDRI.

15. The ability of the British aid programme to meet the needs for survey and mapping work must be judged by the priority given to that work within the scarce resources available for development. In the past a core-funded DOS used its resources to offer survey and mapping projects to developing countries free of charge in addition to their normal aid allocation (as was explained by ODA in evidence to the Committee, Q840). Now, in the new system, developing country governments, in co-operation with the British Government, will be able to choose between survey and mapping and other aid projects.

Benefits: standards of work

16. The Committee's complaints that the Rayner Scrutiny

examining officers did not examine benefits as well as

Para 108 costs is misconceived. One object of the scrutinies was to examine the costs of alternative methods of providing the services available from the units whose value is known and accepted; and, as part of that question, how much standing capacity should be maintained in view of likely demand for those services. (See paragraph 3 above.)

17. The reference to needlessly high standards referred to certain particular pieces of work and was not a general comment. One examining officer made the point that DOS should ascertain the relationship between increased accuracy and resulting costs; the other reported comments made to him on the technical standards adopted for one or two pieces of work in TPI. However, these comments did not affect the overall results and conclusions of their studies.

Training in DOS

18. The claim that the changes proposed will lead

Para 109 to a very substantial reduction in the capacity to offer practical training to survey and mapping staff of developing countries is not accepted. It is recognised that opportunities for on-the-job training will depend on the number of survey projects undertaken overseas. Such training can, however, be provided by survey staff seconded overseas as at present. The Overseas Directorate of the Ordnance Survey will be able to offer practical training in Britain in map

production on a similar scale to that offered at present by DOS.

Relocation and the 'Rothschild Principle'

19. The Committee was informed by ODA that TPI and
Para 110 COPR were to be amalgamated and relocated on a single site if this relocation proved to be cost-effective. Amalgamation took place on 1 April this year and is showing savings in support staff even before relocation. A detailed feasibility study on possible new locations is currently in progress.

20. The Committee provides no evidence for its view that the 'Rothschild Principle' has only a limited applicability to the kind of work the units do. No comment is offered here on the matter except that the introduction of a system to commission work should allow the programmes of the units to reflect more accurately the requests of client countries as explained in more detail in paragraph 24 below.

Reuniting DOS and LRDC

21. Other than in its use of cartographers and maps
Para 111 the LRDC has now little but its origins in common with DOS. Amalgamating DOS and LRDC would give neither any significant advantage. On the other hand, the possibility of co-locating LRDC with TDRI on a new site has much to commend it and is already being considered.

22. The committee questions the wisdom of placing

overseas survey and mapping work under another government department. There are a number of successful models already existing for such an arrangement and it is an option which the Committee itself recommends for study in paragraph 117(b) of its Report.

23. ODA's decision to decrease the size of LRDC does not reflect any lack of appreciation for the Centre but rather the reduced demand on the aid programme for work of the type done by the Centre.

FIRST MAIN RECOMMENDTATION: THAT RESOURCES OF COPR AND TPI BE INCREASED

24. The Government recognises the high quality and
Para 112 value of the work done by the COPR and TPI. It is because of this that it was decided to continue these units, merged into a single Tropical Development and Research Institute. Indeed, it was decided that reductions in the overall size of the Institute would be proportionately less than reductions in the bilateral aid budget. Some concentration on areas of highest priority to developing countries was called for but a major reduction in numbers of senior scientific staff was not foreseen. It has been necessary already to drop some activities which are of lower priority or which can be carried out elsewhere. Any increase in resources for the Institute, as suggested by the Committee, would have to be at the expense of other parts of the aid programme. The bulk of the activities of

../the TDRI

the TDRI will be organised as discrete projects and, as these projects end, the redeployment of resources will thereafter depend upon the willingness and ability of spending divisions in ODA to commission new work in the light of priorities agreed with developing country governments. In the event that this process leads to an increased demand for work in post-harvest technology or pest control, which are the two activities covered by TDRI, the surplus may be contracted out, not necessarily used to expand the Institute.

Need for the work of DOS

25. The Committee's claim that the need for work by
Para 113 DOS may increase is surprising. It gives no evidence for this, however, and the Committee's views need to be considered together with its own recognition that demand for the work of DOS has declined and will continue to decline (paragraph 47 of the Report). The introduction of the arrangements described in paragraph 15 above has made survey and mapping projects compete directly with other technical cooperation activities for limited resources and a study of demand conducted while the Committee met indicated that demand will fall. An Overseas Directorate enjoying the much wider resources of the Ordnance Survey is the best way to meet the varied needs for work in this sector. The Rayner Scrutiny in recommending the size of staff took into account the services that should be retained and all the other work that needs to be done. The Ordnance Survey is an

internationally respected organisation and will seek to foster the esprit de corps of staff working on its overseas programme.

The LRDC

26. The need for the development of land resources is
Para 114 well recognised; indeed, one of the goals of the aid programme is to reach the poorer sections of the population living in rural areas. However, the effective demand for work of the type done by LRDC fluctuates and is very difficult to predict. Some work of this type has always been handled by direct recruitment and contracting out hence it was thought right to reduce the size of the LRDC, knowing that an excess demand could be met by these alternative means. ODA professional advisers, both in headquarters and in the Development Divisions, normally monitor all work in the renewable natural resources sector. The LRDC will retain the capacity to monitor specialised projects within the natural resources sector as needed, but this should place no great burden on the Director and his staff.

Benefits to the United Kingdom and the renewal of the national cadre of expertise

27. The committee's reference to the benefits to
Para 115 the United Kingdom of the units is endorsed. The need to renew and sustain the pool of experience in the UK is fully recognised and ODA is currently examining the future needs for specialised manpower in all sectors. The staff of the in-house units have an important part

../to play

to play in their specialised areas.

Training, the size of the units and the avoidance of false economy

28. The importance of training as an aspect of the
Para 116 units' work is well recognised but the training carried out by the units is only a small proportion of the total training provided in the natural resources sector. Commissioning should make demand for training more apparent. The need for the units not to fall below a certain minimum size is self-evident: making them genuinely more cost-effective has been the primary aim of the detailed examinations since 1979.

SECOND MAIN RECOMMENDATION: TO SUSPEND THE IMPLEMENTATION OF DECISIONS AND TO INVESTIGATE OTHER OPTIONS

29. The Government has carefully considered the
Para 117 Committee's proposal that the main decisions on the future of the units should be suspended. These decisions were taken, as explained above, as a result of detailed examination of the likely levels of demand for the services of each of the units and of the most cost-effective way of providing those services.

30. The Government believes that the decisions which have been taken on the future organisation of the units will enable them to play an effective and important part in the British aid programme, maintaining the high standards which have earned them world-wide respect. The amalgamation of the Tropical Products Institute and

../the Centre

the Centre for Overseas Pest Research to form the Tropical Development and Research Institute has already taken place. It will enable important cost savings and improvements in efficiency to be made without any significant reductions in scientific activity. These benefits of the merger will be all the greater when most of the new Institute is located on a single site; plans for this relocation are already well advanced. The Land Resources Development Centre will continue in being at a level which will enable it to meet fully the likely demands for its services and the Government will consider whether it too should be co-located with the TDRI. The incorporation of the Directorate of Overseas Surveys into the Ordnance Survey is in the Government's view the best means of providing high class survey and mapping services from the UK to developing countries. Arrangements for this reorganisation are also well advanced.

31. The activities of the units have been under investigation for a long period. The Government believes that it is now in the best interests of all concerned that the decisions which have been taken and are being implemented should stand, so that they can make the most effective contribution to the British development effort.

JH 140

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1. Prime Minister (2) cc NO
2. Mr Coles AR 13/7.
To note. This is a bottomless pit.
MCS 13/7

PRIME MINISTER

FINANCIAL ASSISTANCE FOR EXPORTS: AID AND TRADE PROVISION

This note is just to warn you in advance of a problem which we will soon be facing on ATP (Aid and Trade Provision). You will remember that ATP is the main response we use to the aggressive use of mixed credits and tied project aid by our competitors. Since 1979 commitments of £250M have enabled UK companies to secure business worth over £1.1 billion. In short, the immediate problem is that ATP funds (£66M) for 1983/84 and 1984/85 are already fully committed. (There may of course be some slippage as contracts are lost or postponed but this is taken into account in our calculations.)

2 I therefore have it in mind to put a paper to E(A) suggesting an increase of about £40M per annum in the funding available for ATP. The problem is one of timing, though. Nigel Lawson will not, I am sure, want to consider any such paper in advance of the discussions later this year on the 1983 Public Expenditure Survey.

3 Unfortunately, though, tender dates will not wait. It therefore seems likely that in the coming months companies will be beating a track to both our doors complaining that the lack of ATP funds means they cannot bid for some otherwise very worthwhile contracts, and pointing to the employment and market

opportunities lost. Their complaints will be all the more strident since, as I am sure you are aware, the multi-lateral take of our aid budget continues to increase. I understand the reasons for this, but it does look as if we are moving away from the commitment we made in 1980 to increase the emphasis we gave to industrial and commercial considerations. Industry's criticisms will, I think justifiably, be all the more pressing if in the event we do decide in the Autumn to increase ATP resources, and they have missed out on important contracts in the intervening months.

4 Finally, on a related note, I should also warn you that I intend to put in a paper shortly to colleagues recommending a very large chunk of ATP support for the Medellin mass transit railway in Colombia. This relates to the financial years 1985/86 to 1987/8, when the availability of ATP resources is not yet exhausted. Even so, I recognise that the ATP support I recommend (about £20M in each of 3 years) will be a substantial burden. But I believe the project well worth supporting for the reasons my paper will outline. However, let me stress that this is a separate issue, since it relates to commitments which run on beyond the present period for which resources are already fully committed.

C.P.

C P

13 July 1983

Department of Trade and Industry

Prime Minister
The dip in the UK's overseas aid will probably be reported in tomorrow morning's newspapers (Tuesday). The OECD's own note on the UK indicates (Flag A) that fluctuations in disbursements make the percentage very volatile: it was 0.44% in 1981.
FERB 6.6.

GUIDANCE FOR PRESS OFFICERS

1982 FINANCIAL FLOWS TO DEVELOPING COUNTRIES

Attached is a draft of the press notice on the flow of Resources from the members of the Development Assistance Committee (DAC) of the OECD to Developing Countries in 1982. The final text will be released at a background press conference given by the Chairman of the DAC, Mr Rutherford M Poats, in Paris on Friday 3 June, embargoed to 6 June.

The release shows that the UK's aid performance, when measured as a proportion of GNP, fell to 0.38% in 1981. (This figure was announced in Parliament on 25 April.) The DAC press notice shows that the UK performance fell below the DAC average for 1982 (0.39% of GNP) for the second time in 3 years. The last time was 1980 when UK's performance was 0.35% compared to the DAC average of 0.38%. Prior to that we had been above the DAC average since 1963.

The following is a question and answer brief for use as necessary.

1. Why has the UK oda/GNP performance fallen so sharply in 1982?

A. The fall reflects the decrease in cash disbursements of bilateral official development assistance, mainly due to a lower-than-expected disbursement of aid to India in the 9 months, April-December 1982. Over the same period Gross National Product grew in cash terms. Calendar year figures are used to enable comparisons to be made between the members of the Development Assistance Committee of the OECD, but the British aid programme is planned and managed, like all public expenditure, on a financial year basis. On the financial year basis the Indian programme was growing in this period.

2. What was the shortfall in aid to India in 1982?

A. In calendar year 1982 gross expenditure on aid to India was only £54 million compared to £169 million in 1981. Unforeseen delays resulted in a slower-than-expected disbursement of our aid. However, disbursements of aid to India for the whole of the financial year 1982/83 were on target at about £105 million, a cash increase compared with £102 million in 1981/82.

/3.

3. The UK's official development assistance declined by 12% in cost terms between 1981 and 1982 compared with an overall average growth in real terms of 11.7% for all DAC members. What does this bring the total cost terms reduction to in UK oda since the present Government took office in 1979?

A. UK oda has fallen by almost 21% in cost terms since 1979, which was a peak year. The 1982 figure is 5% lower in cost terms than that for 1978.

4. When will the Government reach the UN target of 0.7% of GNP?

A. The present Government like their predecessor accept the UN target in principle but cannot commit themselves to a timetable for achieving it. Progress towards the target will depend essentially on two factors: the level of public expenditure that UK can afford and the extent of the other pressing and valid calls that are made upon the public purse.

5. What percentage of the UK's aid went to the poorest countries in 1982 and how does this compare with 1981?

A In 1982 the poorest fifty countries in the world received 57 per cent of Britain's bilateral aid. This compared to 66 per cent in 1981, 67 per cent in 1980, 72 percent in 1979 and 64 percent in 1978. Most of the decline in 1982 compared with 1981 was accounted for by slow drawings by India (see Q2). Had India's drawings been more evenly spread throughout the last two financial years, bilateral aid to the poorest would have been 62 percent of the total in 1982 and 64 percent in 1981.

The other factor affecting the poorest's share in 1982 was the £33 million payment for a steel project in Mexico financed from the Aid and Trade Provision (ATP). ATP funds cannot be pre-allocated by country.

These two factors more than account for the decline [excluding ATP and allowing for a more even disbursement pattern by India would have meant that the share of the poorest fifty countries rose to 68 per cent in 1982 from 65 per cent in 1981].

6. What was the figure for UK private flows in 1982 compared with 1981?

A. Private flows fell to £2.2 billion (an estimated 0.8%) in 1982 from £3.7 billion (1.5% of GNP) in 1981. This was largely due to a decline in private bank lending. Nevertheless, the UK still achieved an estimated ratio of 1.25% of GNP for the total net flow of resources, thus surpassing once again the UN target of 1% of GNP for the total net flow of resources from each economically advanced country to developing countries.

7. When will the UK meet the 0.15% of GNP aid target to LLDCs (least developed countries) established at the Conference of Least Developed Countries in Paris in 1981?

A. The percentage of UK aid to the LLDCs in 1982 was 0.11% of GNP, the same as the revised figure for 1981. This compares favourably to the DAC average for 1982 of 0.08%. We have accepted the target, but are not committed to any timetable for achieving it.

OECD

Press Release

NOT FOR PUBLICATION
BEFORE 00.01 HOURS (PARIS TIME)
MONDAY 6th JUNE, 1983

PRESS/A(83)26

Paris, 30th May, 1983

RESOURCES FOR DEVELOPING COUNTRIES 1982 AND RECENT TRENDS

Aid from DAC countries in 1982 increased in dollars by 9 per cent over 1981, and as a share of their GNP from 0.35 per cent to 0.39 per cent. The sharp upturn in 1982 was due to a large extent to increased contributions to the multilateral aid institutions which had been unusually low in 1981. Taking the past five years together, DAC net aid has been on a rising trend at an average annual rate of about 5 per cent in real terms.

Preliminary estimates suggest that the total resource receipts of developing countries, including private capital amounted to over $100 billion in 1982. The total resource outflow from DAC Member countries represented 1.29 per cent of their GNP.

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NOTES TO EDITORS

ON TERMS AND DEFINITIONS USED

DEVELOPMENT ASSISTANCE COMMITTEE (DAC): Members: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Economic Communities. Observers: the IBRD and the IMF.

AID: The word "aid" or "assistance" refers only to flows which qualify as "official development assistance" (ODA), i.e., grants or loans:

- undertaken by the official sector;
- with promotion of economic development or welfare as main objectives;
- at concessional financial terms (if a loan, at least 25 per cent grant element).

In addition to financial flows, technical co-operation is included in aid. It comprises grants (and a very small volume of loans) to nationals of developing countries receiving education or training at home or abroad, and to defray the costs of teachers, administrators, advisers and similar personnel serving in developing countries.

TOTAL FLOWS: In addition to aid, include grants from private agencies (private aid) and transactions at commercial terms: export credits, bilateral portfolio investment (including bank lending) by residents or institutions in DAC countries; direct investment (including reinvested earnings) and purchases of securities of international organisations active in development.

Bilateral flows are provided directly by a donor country to a developing country. Multilateral flows are channelled via an international organisation active in development (e.g., IBRD, UNDP).

Transactions are reported at two stages: commitment i.e., when the donor undertakes a firm obligation to furnish assistance specified as to volume, purpose, financial terms and conditions, and disbursement i.e., the actual provision of funds. Unless otherwise stated, the disbursements figures are shown net, i.e., less capital repayments on earlier loans ("net flow").

DAC statistics exclude grants, loans and credits for military purposes, and loans and credits with a maturity of less than one year.

GRANT ELEMENT: reflects the financial terms of a transaction: interest rate, maturity (interval to final repayment) and grace period (interval to first repayment of capital). It measures the concessionality (i,e., softness) of a loan, in the form of the present value of an interest rate below the market rate over the life of a loan. Conventionally the market rate is taken as 10 per cent. Thus, the grant element is nil for a loan carrying an interest rate of 10 per cent; it is 100 per cent for a grant; and it lies between these two limits for a soft loan. Generally speaking, a loan will not convey a grant element of over 25 per cent if its maturity is less than 10 years, unless its interest rate is well below 5 per cent. If the face value of a loan is multiplied by its grant element, the result is referred to as the grant equivalent of that loan.

DEBT: The figures in section IV relate to the total indebtedness of all developing countries on the DAC list to all creditor sources, in respect of all loans and credits with an original maturity of one year or over, including both official and private sector borrowers (excluding, however, official military transactions, as well as IMF credits and corporate equity holdings). The information is collated from several sources, of which the two main ones are the OECD/IBRD Creditor Reporting System and the IBRD Debtor Reporting System, and processed to eliminate overlaps. For technical information, see the Statistical Annex to the 1981 Annual Report of the Chairman of the DAC.

DEVELOPING COUNTRIES: The list used by the DAC includes: all countries and territories in Africa except South Africa; in America except the United States and Canada; in Asia except Japan; in Oceania except Australia and New Zealand; and the following in Europe: Cyprus, Gibraltar, Greece, Malta, Portugal, Turkey and Yugoslavia. Particular groups within the list mentioned in this Release are the United Nations list of 36 Least Developed countries; "Low-income" countries - defined by the OECD Secretariat as those with an average per capita GNP in 1980 of not more than $[illegible] as shown in the IBRD World Atlas, or computed using that method; "Middle-income" countries - defined by the OECD Secretariat as those with per capita GNP exceeding $[illegible] in 1980, but in this Release, excluding (a) all OPEC Members other than Indonesia and Nigeria, and (b) the "newly-industrialised countries", (NIC's), shown as a separate group (Argentina, Brazil, Greece, Hong Kong, Korea (Rep.), Mexico, Portugal, Singapore, Taiwan and Yugoslavia). The DAC list and the sub-groups specified by the OECD Secretariat are designed for statistical purposes, not as guidance for eligibility for aid or other preferential treatment. For the list of the countries in the various groups, see DAC Chairman's Report, "Development Co-operation", 1982 Review, Statistical Annex, Table G.4.

RESOURCES FOR DEVELOPING COUNTRIES 1982 AND RECENT TRENDS

I. VOLUME

(a) Recent ODA Volume Performance

Net disbursements of Official Development Assistance (ODA) by DAC Members combined in 1982 rose by 9 per cent or $2.3 billion to $27.9 billion, representing 0.39 per cent of their GNP compared with 0.35 per cent in 1981. This performance has to be seen against the background of the continuing economic and financial difficulties faced by donor countries.

Aggregate aid figures are conventionally calculated by converting national data to United States dollars using current exchange rates. The dollar again appreciated markedly against most Members' currencies in 1982, on average by 10 per cent. In constant 1981 dollars the increase in aid would thus have been 19 per cent. However, this increase has to be adjusted for the increase in price levels, which for Members combined was a little over 7 per cent. In constant prices and exchange rates (i.e., "in real terms") the aid increase in 1982 was thus about 11 per cent.

The increase recorded in 1982 was due to a large extent to higher disbursements to multilateral agencies, in particular contributions to IDA and regional banks, reversing the decline in 1981, and preserving the ability of the multilateral institutions to maintain their aid disbursements on a steady upward path. In practice, some of Members' disbursements were payments delayed from 1981. The United States accounted for a substantial portion of the overall increase.

In view of the fact that part of the unusually high increase in Members' 1982 ODA represented deferred disbursements from 1981, a better estimate of overall trends in aid volume is given by the two year average for 1981/1982. On this basis, the average annual rate of increase of ODA has risen from 3.7 per cent in real terms during the Seventies to 5.0 per cent during the most recent five-year period (1976/1977 to 1981/1982), or about twice as fast as GNP, so that over this period the aggregate ODA/GNP ratio has risen from 0.33 per cent to 0.37 per cent.

ODA from the United States recovered from 0.20 per cent of GNP in 1981 to 0.27 per cent in 1982. Substantial increases were also recorded by Australia, Austria, Norway and Sweden.

These last two countries, whose ODA outflows were the highest either has ever achieved, joined Netherlands to form a group of three DAC countries devoting over 1 per cent of their GNP to development aid. Overall, twelve countries reported a higher ODA/GNP ratio than in 1981: in addition to those mentioned, Denmark, Finland, France, Germany, Italy, Japan and Switzerland. A further two (Belgium and Netherlands) maintained the ratios reached in 1981. Only three DAC Members (Canada, New Zealand, United Kingdom) reported a decline of their ODA/GNP ratio.

As regards non-DAC donors, it appears on the basis of preliminary and incomplete data that OPEC aid in 1982 fell somewhat below the level of $8.2 billion or 1.49 per cent of GNP reached in 1981. Net aid disbursements from CMEA donors are estimated to have risen marginally from $2.1 to $2.2 billion, remaining as a share of GNP at the ratio of 0.13 per cent, as in 1981.

(b) Aid to the Least-developed Countries

DAC Members aid channelled directly and through multilateral aid programmes to the 36 Least-developed countries has risen rapidly in recent years. It roughly doubled in dollars between 1975 and 1981 from $2.8 billion to $5.5 billion (see Table 3), equivalent to an increase in real terms of some 30 per cent and, as a share of donors' GNP, rose from 0.07 per cent to 0.08 per cent. The preliminary indications for 1982 are that there was a further substantial increase in real terms, with Members raising their share by a further point to 0.09 per cent. DAC Members' aid was of the order of 7 per cent of the combined GNP of the Least-developed countries, and one-third of their imports.

(c) Prospects

As will be seen from the country notes, Official Development Assistance has been given relatively high priority in the current tight budgetary situation compared to most other major categories of public expenditure. Based on existing plans and budgetary indications, the medium term prospects are for some further increase in ODA in real terms from DAC countries as a group, although the rate of increase is not likely to reach that recorded over the past few years.

Chart I

ODA IN REAL TERMS

(1981 prices and exchange rates)

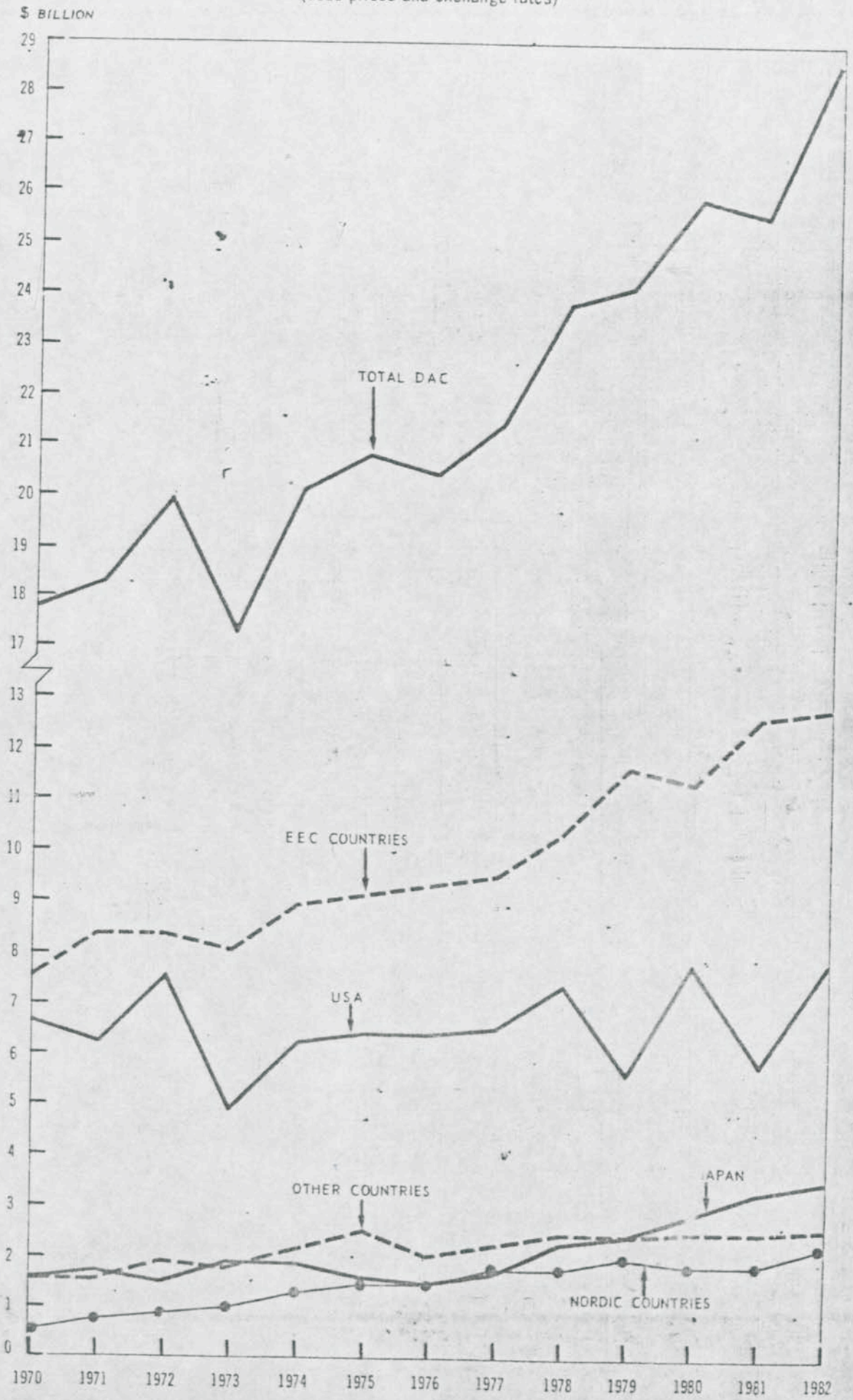

Table 1

Key Totals for DAC Members

	1970	1975	1979	1980	1981	1982
	a) $ billion, net, current prices					
Official Development Assistance	6.9	13.8	22.4	27.3	25.6	(27.9)
Grants by Private Voluntary Agencies	0.9	1.3	2.0	2.4	2.0	(2.0)
Non-Concessional Flows	8.1	29.7	51.2	45.7	60.4	(63.1)
Total Flow of Resources	15.9	44.8	75.6	75.4	88.0	(93.0)
	b) $ billion, 1981 prices and exchange rates					
Official Development Assistance	17.8	21.1	23.7	26.5	25.6	(28.5)
Grants by Private Voluntary Agencies	2.3	2.0	2.1	2.3	2.0	(2.0)
Non-Concessional Flows	20.9	45.4	54.2	44.3	60.4	(64.5)
Total Flow of Resources	41.0	68.5	80.0	73.1	88.0	(95.0)
	c) As per cent of GNP					
Official Development Assistance	0.34	0.36	0.35	0.38	0.35	(0.39)
Grants by Private Voluntary Agencies	0.04	0.04	0.03	0.03	0.03	(0.03)
Non-Concessional Flows	0.41	0.77	0.78	0.63	0.83	(0.87)
Total Flow of Resources	0.79	1.17	1.17	1.04	1.21	(1.29)

Table 2

OFFICIAL DEVELOPMENT ASSISTANCE TO THE LEAST-DEVELOPED COUNTRIES(1) (2)

	% of GNP			% of total ODA			$ million		
	1975	1981	1982*	1975	1981	1982*	1975	1981	1982*
Australia	0.07	0.05	0.12	11.1	13.0	20.3	65.4	84.6	178.9
Austria	0.02	0.04	..	9.6	8.4	..	7.6	26.3	..
Belgium	0.13	0.16	0.16	21.8	27.4	26.8	82.1	157.7	133.1
Canada	0.15	0.11	0.12	27.6	28.1	28.0	242.4	309.8	328.3
Denmark	0.21	0.25	0.26	36.3	34.0	34.1	74.5	137.2	141.5
Finland	0.07	0.09	0.08	39.0	30.5	27.4	18.8	41.4	39.5
France	0.09	0.12	0.12	15.3	16.5	16.3	320.6	687.7	650.3
Germany	0.09	0.12	0.12	22.2	26.4	24.9	374.8	839.2	785.0
Italy	0.03	0.06	..	23.8	32.9	..	43.4	218.8	..
Japan	0.03	0.05	0.06	14.0	18.3	20.1	160.7	577.7	607.8
Netherlands	0.14	0.29	0.28	19.2	27.0	25.9	116.6	408.1	381.0
New Zealand	0.11	0.03	0.04	20.9	11.8	13.1	13.7	8.0	8.6
Norway	0.22	0.28	0.35	33.6	34.1	35.0	61.8	159.4	198.1
Sweden	0.26	0.20	0.30	31.3	31.2	30.0	177.1	285.9	293.8
Switzerland	0.04	0.09	0.08	22.7	35.0	31.9	23.5	83.0	80.0
United Kingdom	0.08	0.11	0.11	20.6	26.3	28.0	186.6	577.3	501.8
United States	0.05	0.03	0.05	19.2	16.2	19.9	798.8	939.0	1,653.2
Total DAC Countries	0.07	0.08	0.09	20.0	21.6	22.4	2,764.6	5,540.8	(6,260.0)

* Preliminary data. .. : Not available.

(1) Including Members' share of ODA channelled through multilateral organisations.

(2) The 36 LLDC's are:

Afghanistan, Bangladesh, Benin, Bhutan, Botswana, Burundi, Cape Verde, Central African Rep., Chad, Comoros, Djibouti, Ethiopia, Equatorial Guinea, Gambia, Guinea, Guinea-Bissau, Haiti, Laos, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Sao Tome & Principe, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Upper Volta, Western Samoa, Yemen, Yemen, Dem.

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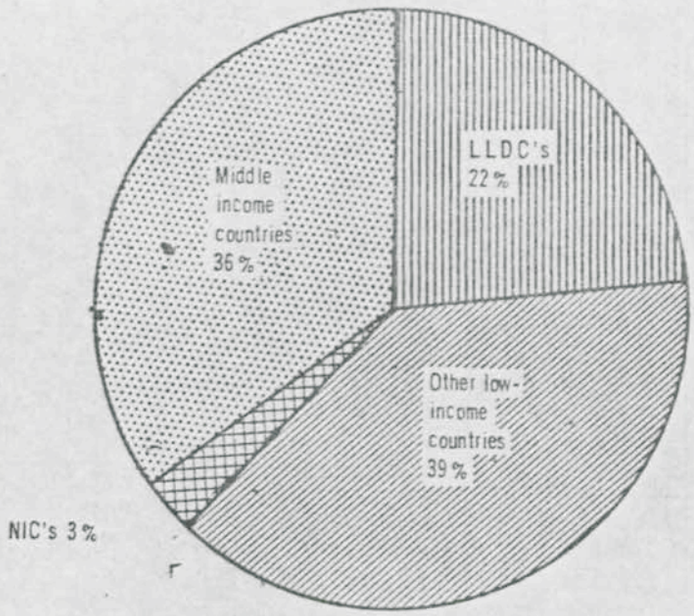
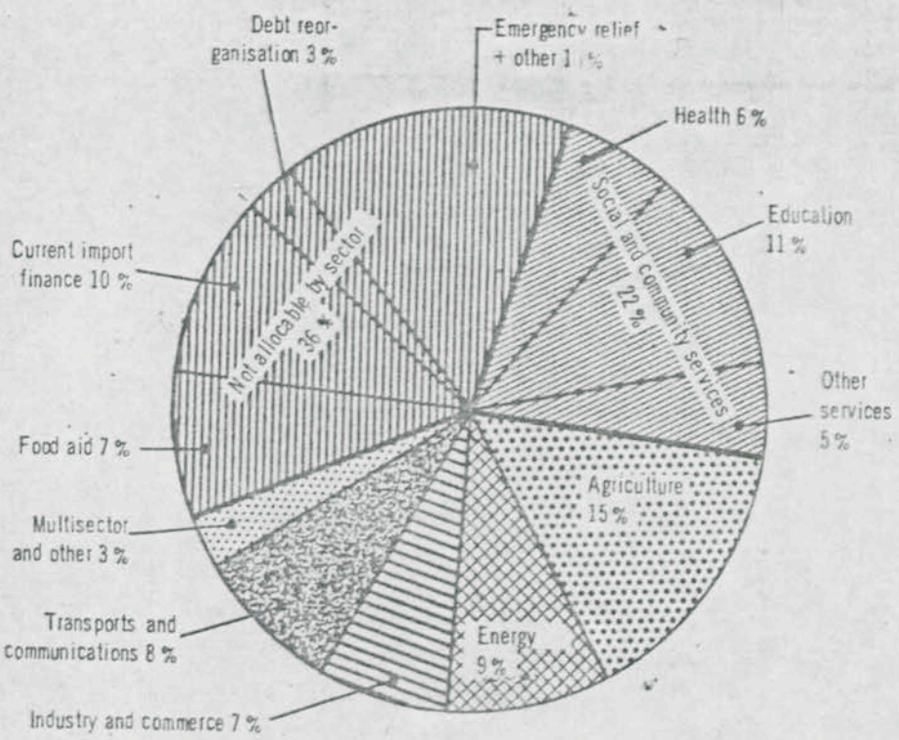
Chart II

ODA BY DESTINATION AND PURPOSE

a) DAC ODA BY DESTINATION : 1980/81 average net disbursements = $ 26.4 billion



b) BILATERAL ODA BY PURPOSE : 1981 commitments = $ 22.7 billion



II. INDIVIDUAL DAC COUNTRIES' ODA PERFORMANCE(1)

The Netherlands in 1982 exceeded the 0.7 per cent of GNP target for the eighth consecutive year, repeating the record level of 1.08 per cent reached in 1981. Its ODA outflows increased by 4 per cent in national currency. The recently-formed Dutch government has decided to continue to allocate about 1.2 per cent of GNP to development co-operation (a slightly broader concept than ODA as defined by DAC).

A new record level was reached by Sweden in 1982 with an increase in its net ODA outflows of one-third in national currency and 23 per cent in real terms. This brought the dollar value of Sweden's aid to almost one billion dollars, corresponding to 1.02 per cent of GNP. As the rise was due to the issue of two notes to IDA in 1982, this high ratio may not be repeated for some time. Aid appropriations are planned to remain at 1 per cent of GNP in the foreseeable future.

Norway reported a 36 per cent increase of its ODA in national currency (23 per cent in real terms), carrying its net ODA disbursements in 1982 to $566 million or 1.01 per cent of GNP. This is the highest level reached by Norway, which has exceeded the 0.7 per cent of GNP target each year since 1976. All parts of the programme participated in the increase. Budgetary appropriations were 1.05 per cent of GNP in 1982 and 1.10 per cent in 1983.

Denmark raised its ODA disbursements by 20 per cent in national currency (9 per cent in real terms), and its ODA/GNP ratio recovered to the record level of 0.77 per cent reached in 1979. Higher bilateral grants accounted for the entire increase. According to the most recent medium-term budgetary plan the Danish ODA/GNP ratio should remain in the neighbourhood of 0.80 per cent.

After a steep increase in 1981, total ODA in 1982 from France, including aid to the Overseas Departments and Territories (DOM/TOM), rose further, by 16 per cent in national currency to 0.74 per cent of GNP, the highest ratio since 1965. France has declared its intention to reach the 0.7 per cent target for ODA excluding flows to the DOM/TOM by 1988. ODA excluding the DOM/TOM amounted to $2.6 billion or 0.48 per cent of GNP. France's development co-operation budget and the data shown in governmental presentations of France's aid include an additional $430 million (equivalent to 0.08 per cent of GNP), being the budget-financed share of the assessed premium element in the long-term Franco-Algerian gas contract.

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(1) Countries are listed in the order of their ranking in 1982 in terms of ODA as a share of GNP.

After a sharp recovery in 1981, Belgium's ODA outflows in 1982 increased by a further 6 per cent in national currency, but decreased slightly in real terms. The ODA/GNP ratio remained at the 1981 level of 0.59 per cent. Belgium's policy is to raise aid appropriations to an amount equal to 0.7 per cent of GNP. In 1982, despite general budget cutbacks, its aid appropriations were increased by about 15 per cent.

In 1982 Australia's ODA disbursements recovered by 54 per cent in national currency, and as a ratio of GNP from 0.41 per cent to 0.57 per cent. This recovery was largely due to a delay in the lodgement of a promissory note to IDA to the second half of the 1981/1982 fiscal year. Accordingly, the 1981 ratio understated Australia's recent sound aid performance and the 1982 ratio correspondingly somewhat overstates the trend performance.

Austria's ODA disbursements increased again in 1982 by 24 per cent (16 per cent in real terms) after a steep rise in 1981. Its ODA/GNP ratio rose from 0.48 per cent to 0.54 per cent, the highest level ever recorded by Austria. This increase reflects in particular further growth in concessional export credits, but bilateral and multilateral grants also increased substantially. Austria has stated its intention to reach the 0.7 per cent target by the end of the decade.

Germany's ODA outflows of $3.2 billion in 1982 were equivalent to 0.48 per cent of GNP as against 0.47 per cent in 1981. The projected average annual growth rate in the medium-term financial plan for 1983/86 of the Ministry for Economic Co-operation is of the order of 4 per cent.

Canada's ODA increased by 3 per cent in national currency but fell by 7 per cent in real terms. The ODA/GNP ratio declined slightly from 0.43 per cent in 1981 to 0.42 per cent because legislation enabling payment of $125 million to international financial institutions was passed only in the last quarter of the 1982/1983 fiscal year, with the result that the payments were made too late to be included in 1982 outlays. Had these payments formed part of the 1982 total, Canada's ODA/GNP ratio would have shown an increase from 0.43 per cent in 1981 to 0.46 per cent in 1982. The Canadian government has committed itself to an interim target of 0.5 per cent by fiscal year 1985/86, and to make its best effort to reach 0.7 per cent by 1990.

After a very sharp rise in 1981 to 0.44 per cent of GNP, the United Kingdom's aid disbursements fell by 12 per cent in real terms in 1982, reducing the ODA/GNP ratio to 0.38 per cent. The figures were affected in part by the timing of disbursements of ODA to India. In calendar year 1982, £54 million ($86 million) was disbursed, compared with

Table 3

ODA PERFORMANCE OF DAC COUNTRIES IN RECENT YEARS

	As % of GNP.						$ million		Annual Growth rate of real ODA 1981-1982	Annual Growth rate of real ODA 1976/1977-1981/1982 (5 years)
	1970	1975	1980	1981	1982*	1981-1982 average	1981	1982*	(%)	
Australia	0.62	0.65	0.48	0.41	0.57	0.49	649	892	+ 37.7	+ 6.3
Austria	0.07	0.21	0.23	0.48	0.54	0.51	313	361	+ 15.5	+27.0
Belgium	0.46	0.59	0.50	0.59	0.59	0.59	575	497	- 1.5	+ 5.4
Canada	0.41	0.54	0.43	0.43	0.42	0.42	1,189	1,185	- 7.2	- 0.7
Denmark	0.38	0.58	0.74	0.73	0.77	0.75	403	415	+ 9.0	+ 7.5
Finland	0.06	0.18	0.22	0.28	0.30	0.29	135	144	+ 9.5	+16.0
France incl. DOM/TOM	0.66	0.62	0.64	0.73	0.74	0.74	4,177	3,991	+ 3.1	+ 6.5
France excl. DOM/TOM	0.42	0.38	0.38	0.45	0.48	0.47	2,592	2,597	+ 8.2	..
Germany	0.33	0.40	0.44	0.47	0.48	0.47	3,181	3,163	+ 1.8	+ 8.7
Italy	0.16	0.11	0.17	0.19	(0.24)	(0.22)	666	(820)	(+ 24.8)	+18.0
Japan	0.23	0.23	0.32	0.28	0.29	0.28	3,171	3,023	+ 5.6	+11.7
Netherlands	0.61	0.75	1.03	1.08	1.08	1.08	1,510	1,473	- 1.5	+ 7.5
New Zealand	0.23	0.52	0.33	0.29	0.28	0.28	68	65	- 0.6	- 4.5
Norway	0.32	[illegible]	0.85	0.82	1.01	0.91	467	566	+ 22.8	+ 6.9
Sweden	0.38	0.82	0.79	0.83	1.02	0.92	919	987	+ 23.1	+ 2.2
Switzerland	0.15	[illegible]	0.24	0.24	0.25	0.25	237	251	+ 2.4	+ 7.2
United Kingdom	0.39	0.39	0.35	0.44	0.38	0.41	2,194	1,794	- 12.0	+ 0.1
United States	0.32	0.27	0.27	0.20	0.27	0.24	5,782	8,302	+ 35.6	+ 1.1
TOTAL DAC	0.34	0.36	0.38	0.35	0.39	0.37	25,636	27.919	+ 11.2	+ 5.0
of which EEC	0.41	0.45	0.47	0.53	0.53	0.53	12,706	12,153	+ 0.8	+ 6.4

* 1982 figures are provisional. Those for Italy are Secretariat estimates.

£169 million in 1981, although disbursements of aid to India for the whole of the financial year 1982/83 are expected to be on target. On present budgetary planning, resources for the aid programme should increase in cash terms after 1982/1983 at a rate which would probably maintain their real value, and perhaps increase it slightly.

Japan's ODA increased by 8 per cent in national currency and 6 per cent in real terms. In particular, bilateral ODA increased by 18 per cent in national currency, more sharply than in 1981. The ODA/GNP ratio is estimated to be 0.29 per cent in 1982. Japan has been making efforts towards the expansion of its ODA under its New Medium Term Target.

Finland's ODA again rose in 1982 to $144 million, with all sections of the ODA programme contributing to the increase. The growth was 20 per cent in national currency and 10 per cent in real terms. The corresponding ratio of 0.30 per cent of GNP is the highest figure so far reached by Finland. The government is determined to achieve further rapid growth to reach 0.7 per cent by the end of the decade.

In spite of an increase in national currency of New Zealand's aid flows in 1982, its ODA/GNP ratio declined further from 0.29 per cent in 1981 to 0.28 per cent in 1982, the lowest figure since 1972. This decline reflects the government's policy of reducing general public expenditure in real terms in the light of severe economic and budgetary problems.

Net ODA from the United States expanded in 1982 to $8.3 billion, the highest dollar amount ever. In real terms this corresponds to an increase of 36 per cent. The ODA/GNP ratio recovered to its 1980 level of 0.27 per cent from 0.20 per cent in 1981. This increase was due in large part to the issue of letters of credit to IDA and regional development banks, thus more than doubling multilateral contributions (some of these letters of credit were prepared for issue in 1981, but fell victim to delays in the legislative process, and therefore were omitted from the 1981 statistics). Bilateral grants also showed a sharp increase: +23 per cent in nominal terms, equal to 16 per cent in real terms. ODA commitments further increased in 1982 by 12 per cent to $11.7 billion.

In 1982 Switzerland's ODA outflows resumed their steady if moderate growth, reaching 0.25 per cent of GNP, the highest ratio achieved so far. Implementation of the current financial plan should produce a further small rise in the ratio.

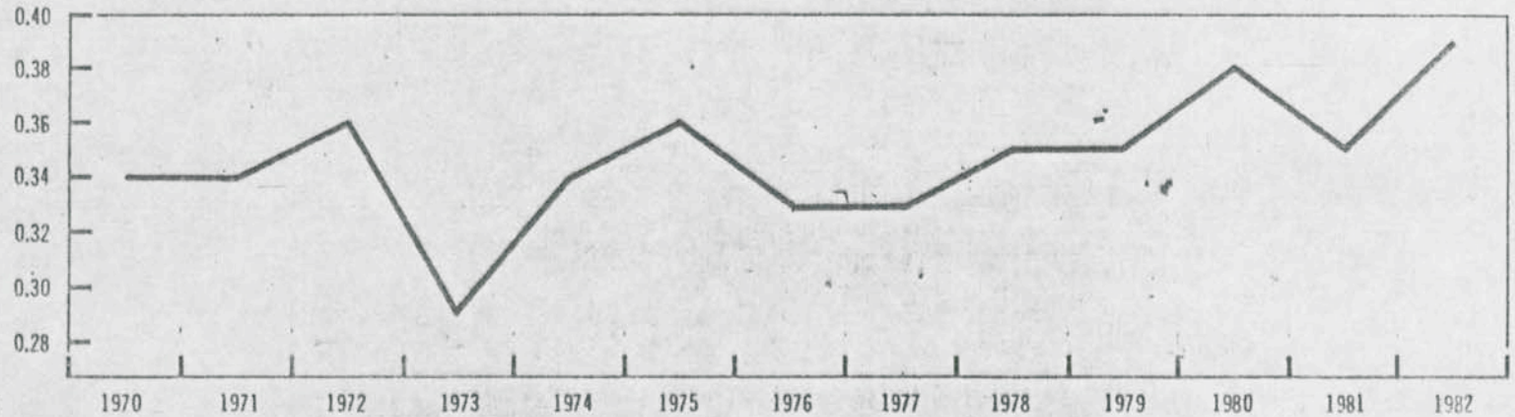
Firm data are not yet available for Italy. The Secretariat estimates that Italy's ODA outflows were of the order of $800 million in 1982, equivalent to about 0.24 per cent of Italy's GNP.

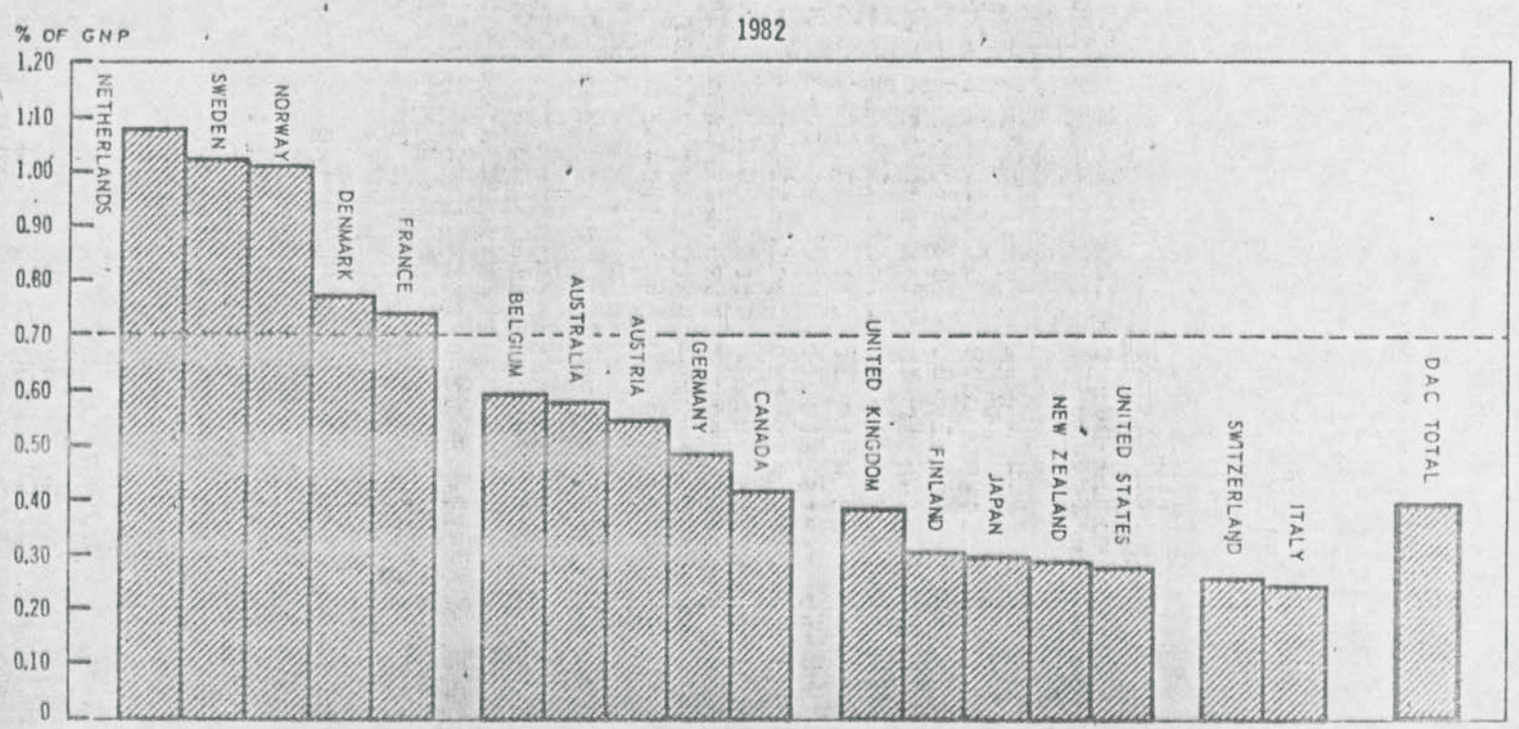
Chart III

ODA AS PERCENTAGE OF GNP

1970-1982

Total DAC





III. TOTAL RESOURCE RECEIPTS OF DEVELOPING COUNTRIES

The data in this section relate to developing countries' net resource receipts from all bilateral and multilateral sources, including non-DAC sources(1). Preliminary estimates indicate that the net total of all categories of financial resources reaching developing countries in 1982 (Official Development Assistance, official and private non-concessional flows, and private sector grants) amounted to over $100 billion. This was slightly lower in nominal terms than in 1981, but there was a marginal increase in real terms.

Within the total, the flow of concessional resources increased by about 6 per cent in real terms, and their share rose to 35 per cent. This is within the range observed in recent years.

Non-concessional flows declined by some $3 billion, of which lower levels of direct private investment accounted for approximately $1.5 billion. The main factor in the decline was a slowdown in the net outflow of bank sector loans, estimated at $18.5 billion (including lending out of offshore centres), compared with $24 billion in 1981. The 1982 figure, moreover, may overstate the true increase in net long-term lending. Several debt reorganisations affecting major debtor developing countries were undertaken in 1982. A significant volume of short-term maturities was converted into long-term debt, and to this extent, the actual provision of new long-term resources was below the level indicated by the statistics.

By contrast, provisional data on export credits (of which the bulk is provided by DAC Member countries) indicate that despite some flagging of exports (or perhaps because of it), gross and net export credit lending were both higher than in 1981. Some export credit lending is financed by banks, and is taken into account in establishing the bank flow estimates just cited. Allowing for this, and for a number of other statistical adjustments, it is estimated that the net flow of export credit to developing countries, excluding credits covering military procurement, rose to some $17 billion, compared with $13 billion in 1981.

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(1) By contrast, Table I deals essentially with outflows from DAC donor countries only. These are shown as amounting to 1.29 per cent of DAC donors' GNP. The figures include Members' contributions to multilateral organisations, which reach developing countries only with a lag.

Table 4

TOTAL NET RESOURCE RECEIPTS OF DEVELOPING COUNTRIES FROM ALL SOURCES, 1979-1982

	1979	1980	1981	1982	1979	1980	1981	1982
	$ billion				Per cent of total receipts			
Official Development Assistance	30.61	36.39	35.44	36.30	35.8	37.1	33.8	35.4
Bilateral								
a) DAC countries	15.91	18.02	18.28	18.65	18.6	18.4	17.4	18.2
b) OPEC countries	6.58	8.26	6.91	..	7.7	8.4	6.6	..
c) CMEA countries	1.80	2.17	2.10	2.15	2.1	2.2	1.9	2.1
d) Other countries	0.12	0.20	0.20	..	0.1	0.2	0.2	..
Multilateral agencies	6.20	7.74	7.93	(8.50)	7.2	7.9	7.6	(8.3)
Of which: OPEC-financed	0.26	0.29	0.41	..	0.3	0.3	0.4	..
Non-concessional flows	54.94	61.81	69.42	(66.10)	64.2	62.9	66.2	64.6
Bilateral								
a) Direct investment	13.42	10.36	16.13	(14.60)	15.7	10.5	15.4	(14.3)
b) Bank sector[a]	19.67	23.00	24.00	(18.50)	23.0	23.4	22.9	(18.1)
c) Bond lending	1.14	1.60	2.30	..	1.3	1.6	2.2	..
d) Private export credits	9.49	12.20	11.33	(14.00)	11.1	12.4	10.8	(13.7)
e) Official export credits	1.72	2.46	2.01	..	2.0	2.5	1.9	..
f) DAC other official	1.14	2.24	1.96	..	1.3	2.3	1.9	..
g) OPEC countries[b]	1.00	2.00	3.00	..	1.2	2.0	2.9	..
h) Other countries[c]	3.20	3.10	3.00	..	3.7	3.2	2.9	..
Multilateral	4.16	4.85	5.69	(6.00)	4.9	4.9	5.4	(5.9)
Of which: OPEC-financed	0.22	0.13	0.27	..	0.3	0.1	0.3	..
Total receipts	85.55	98.20	104.84	(102.40)	100.0	100.0	100.0	100.0
Total receipts as % of recipients' GNP	2.8	3.7	3.4	(3.4)	-	-	-	-
Memorandum items								
Short-term (i.e maturity: one year or less) bank lending	16.0	26.0	25.0	..				
Private sector grants	1.95	2.31	2.02	2.05				
IMF Purchases, net[d]	0.52	2.61	6.40	6.70				
IMF Trust Fund (incl. under ODA, above)	0.68	1.64	0.43	0.00				

a) Excluding (i) bond lending and (ii) export credits extended by banks which are included under private export credits. Including loans by branches of OECD banks located in offshore centres, and participation of non-OECD banks in international syndicates.
b) Official flows only : no information is available on private flows.
c) Includes Ireland, Luxembourg, Spain, Yugoslavia, India, Israel.
d) All purchases minus repayments including reserve tranches but excluding loans by the IMF Trust Fund included under multilateral ODA above.

Notes: 1. 1982 data are preliminary estimates. 2. Figures concerning non-DAC Member countries are based as far as possible on information released by donor countries and international organisations, and completed by OECD Secretariat estimates based on other published and unpublished sources. It has therefore not been possible fully to verify that they comply in all respects with the norms and criteria used by DAC Members in their statistical reports made directly to the OECD Secretariat.

Source: OECD Secretariat.

file

da

cc: J Kerr, HMT

10 DOWNING STREET

From the Private Secretary

6 May 1983

IDA: Letter from Mrs. Gandhi

Thank you for your letter of 3 May. I enclose a reply from the Prime Minister to Mrs. Gandhi's letter of 16 April. I should be grateful if you would arrange for its despatch.

A J COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

RM

file

dlg

cc MASTER
OPS
Overseas Aid: Policy Review
PE I.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 58/83.

10 DOWNING STREET

THE PRIME MINISTER

6 May 1983

Dear Prime Minister,

Thank you for your letter of 16 April about the Sixth and Seventh Replenishments of the International Development Association (IDA).

I share your concern that the continuity of IDA's programme is threatened by the shortfall in the appropriation made by the United States Congress for their fiscal year 1983. The British Government is doing everything possible, in co-operation with our European partners, to encourage the US Administration to press for a supplementary appropriation, in the hope that IDA 7 may still begin on 1 July 1984. I have been much encouraged to see the firm statements made recently by senior members of the Administration to Congress in support of the full appropriation of the US contribution by then.

I also fully share your concern at the plight of low income countries and understand how important the size of IDA 7 will be in helping to alleviate their problems. But I am sure you will agree that this time the replenishment must be based on realistic expectations that commitments will be met promptly and in full. We do not want a repeat of the IDA 6 story.

/ Any

dlc

Any discussion of IDA at Williamsburg will clearly need to focus on these issues. I would expect to see some support for maximising the size of IDA 7 within the limits of what donors can afford, and I would certainly want to argue for that approach myself. We shall do all we can to ensure that IDA continues to play its vital role in the development of the poorest countries.

Every good wish

Yours sincerely

Margaret Thatcher

Her Excellency Shrimati Indira Gandhi.

610

Foreign and Commonwealth Office

London SW1A 2AH

3 May, 1983

Please type reply.

AR 5/5.

Dear John,

I enclose a letter from Mrs Gandhi of 16 April to the Prime Minister about the International Development Association (IDA), together with a draft reply.

India receives a large proportion of its development aid from IDA and the World Bank, and the volume of those flows is determined to a significant extent by the size of the various replenishments of IDA. The level of those replenishments is, in turn, influenced greatly by the contribution of the United States Government, as the major donor, with burden sharing among other donors broadly reflecting their relative shares of the total of their gross national products (although the UK share has traditionally been considerably higher than its relative share of GNP).

The Prime Minister was briefed about the present situation on the replenishment of IDA in connection with the visit on 13 and 14 April of Mr Clausen, President of the World Bank. Broadly Mrs Gandhi's message is the same as Mr Clausen's: the US Administration should be urged to persuade Congress to appropriate its full appropriation of $900m to IDA 6 as originally negotiated (about $15-16 billion); and the IDA issues should be discussed between the leaders of the world's greatest industrial nations at the Williamsburg Summit. Recent reports from Washington indicate that both Mr Shultz and Mr Regan have made strong statements to Congressional Committees in support of the US's IDA 6 contributions, although it is not clear whether the issue has been brought to the attention of the President himself.

The UK gained great political credit last year, particularly in Indian eyes, for our forthcoming attitude on releasing our IDA 6 contributions. There would be advantage in maintaining a reasonably sympathetic stance on IDA 7 both at Williamsburg and thereafter at the UNCTAD Conference in Belgrade and at the Commonwealth Heads of Government Meeting. The attitudes of the other major donors, as expressed so far, leave little grounds for any expectation that the ambitions of Mrs Gandhi and Mr Clausen will be realised in practice; this may relieve us from the necessity of being in the van of those urging restraint. The draft reply thereafter attempts to stress that the best result is likely to be achieved by taking account of the realities of the situation and working for the biggest possible IDA 7 within the limits of what donors can afford.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT: **TEL. NO:**

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO: Prime Minister of India

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Thank you for your letter of 16 April about the Sixth and Seventh Replenishments of the International Development Association (IDA).

~~I was pleased to have your assessment of the value of the efforts made during last year by donor countries to prevent a hiatus in IDA's commitment authority in 1984.~~ I share your concern that the continuity of IDA's programme is ~~now once again~~ threatened by the shortfall in the appropriation made by the United States Congress for their fiscal year 1983. The British Government is doing everything possible, in co-operation with our European partners, to encourage the US Administration to press for a supplementary appropriation, in the hope that IDA 7 may still begin on 1 July 1984. I have been much encouraged to see the firm statements made recently by senior members of the Administration to Congress in support of the full appropriation of the US contribution by then.

Enclosures—flag(s).....

I also fully share your concern at the plight of low

/income

income countries and understand how important the size of IDA 7 will be in helping to alleviate their problems. But I am sure you will agree that this time the Replenishment must be based on realistic expectations that commitments will be met promptly and in full. We ~~want no~~ do not want a repeat of the IDA 6 story.

Any ~~consideration~~ discussion of IDA at Williamsburg will clearly need to focus on these issues. I would expect to see some support for maximising the size ~~of~~ of IDA 7 within the limits of what donors can afford, and I would certainly want to ~~take that line~~ argue for that approach myself. ~~I can assure you that~~ We shall do ~~everything within our means~~ all we can to ensure that IDA continues to play its vital role in the development of the poorest countries.

S4200(22454)DD.0532198 300M 7/79 GWB LTD.GP.870

V214

cc DTI

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01 215 5144
SWITCHBOARD 01 215 7877

From the
Minister for Trade

2

Prime Minister

Good point, which you have already been told about (at Mustair McAlpine's)

MCS 4/5

Private Secretary to the
Rt Hon Timothy Raison MP
Minister for Overseas Development
Overseas Development Administration
Eland House
Stag Place
London SW1E 5DH

3rd May 1983

Dear Mike,

INVOLVEMENT OF UK MANUFACTURERS IN MAJOR PROJECTS OVERSEAS

One of the criticisms directed at the use of the Aid and Trade provision is that when it comes to the benefit accruing to the UK economy this is concentrated within just a few, usually major, companies within the UK. We in this Department have always challenged that view since it has been very clear to us that although one company for a particular project may be the lead contractor there are very many other companies involved in the same project who benefit from the business that has been gained. Up until now we have not been able to quantify this specifically but following discussions with Balfour Beatty we now have rather more precise information on the companies that are involved in one particular order.

Balfour Beatty looked at the projects involving mini-hydro power generation and wood burning power stations in the Philippines. These two projects together had a total UK content value of about £23M with an aid input of about £6.4M. As the enclosed list shows Balfour Beatty have identified more than 300 direct sub-contractors; and one of those sub-contractors, Towler, has identified 120 sub-sub suppliers. Obviously not all the sub-contractors will have the same number of suppliers but nonetheless this illustrates the extent to which the benefit from this order has worked its way down through a large number of companies. Indeed Balfour Beatty themselves only accounted for about 12% of

the work that arose from the contract and the balance was spread around a wide selection of British industry, effectively none of which could have expected to have obtained work of this type if the contract had been awarded to Balfour Beatty's main competitors for this business ie Swedish, French or Chinese companies. A copy of Balfour Beatty's analysis is enclosed. This type of exercise was relatively easy in this case, since the projects consisted of a number of similar units: the same pyramid effect will of course apply to other projects, though inevitably more difficult to identify. But this case does illustrate the basic point.

I am copying this letter to Number Ten, and to the Private Secretaries to the Chancellor; Chief Secretary; Foreign Secretary; Leader of the House, Chairman of the Party and to the Secretaries of State for Industry; Defence; Scotland; Northern Ireland and Wales.

Yours sincerely

Jonathan Rees

JONATHAN REES
Private Secretary to the
Minister for Trade (PETER REES)

cc MASTER
OPS.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 47c/83.

PRIME MINISTER
INDIA

New Delhi
April 16, 1983

Dear Prime Minister,

I am writing about the continuing problems of International Development Assistance-VI and the prospects for IDA-VII which have become matters of great concern to developing countries, particularly the low income ones.

At the Toronto Meeting of the World Bank and International Monetary Fund, donor countries recognised the crucial role of multi-lateral concessional flows in the development programmes of low income countries, and agreed to provide a reasonable level of commitment authority for the fiscal years 1983 and 1984. It was then hoped that over the four years of IDA-VI (Fiscal years 1981-84) the aggregate commitment authority would slightly exceed the originally stipulated level of $ 12 billion for the three year period, FY - 1981-83. The stretch out of IDA-VI over a four year period, resulting in smaller annual appropriations was unfortunate but, considering the circumstances, the action of donor countries in preventing a hiatus in IDA's commitment authority was a step forward.

...2

This gain is now threatened by a shortfall in the appropriation made by the United States Congress and the possibility that IDA-VI could be further stretched out into a fifth year. I should like to share with you the serious concern of developing countries over these developments. In the present uncertain international economic environment, low income oil importing countries suffer from severe resource constraints. So every possible effort has to be made to maintain an orderly and adequate flow of concessional funds to such countries.

The Seventh Conference of Heads of State/Government of Non-aligned Countries held in March 1983 in New Delhi called, among other measures, for a substantial increase in the seventh replenishment of IDA. We are concerned at reports that in the current negotiations on the replenishment of IDA-VII, a low level of replenishment is being considered. We are disturbed that far from securing an increase in real terms, even modest proposals to maintain the level of IDA-VI in real terms appear to be encountering resistance in some donor countries.

I need hardly stress the consequences on low income countries of a reduction in concessional flows in the eighties. Their situation is already grave and it cannot but worsen. We are aware of the budgetary and other constraints in several IDA donor countries, but we hope there will be sympathetic understanding of the rapidly deteriorating economic situation of the low income countries. The amounts involved in raising the size of IDA-VII are relatively small, but in terms of improving prospects of low income countries and of generally strengthening the climate for international cooperation, the gains would be substantial.

....3

May I hope that in the forthcoming deliberations at Williamsburg, it would be possible for the leaders of the major industrial countries to focus on these issues? We look to you for a lead in this matter as you have always supported multi-lateral development assistance and could bring your undoubtedly great influence to bear on other major donors to maintain the level of IDA-VI in real terms and raise the size of IDA-VII.

With warm regards,

Yours sincerely

Indira Gandhi

The Rt. Hon'ble Margaret Thatcher
Prime Minister of Britain
London.

Overseas Aid

DEPARTMENT OF TRADE
1 Victoria Street
London SW1H OET

Tel Direct Line 01-215 5144
Switchboard 01-215 7877

I attach enclosures refered to, but unfortunately not sent with Jonathan Rees' letter of 3/5/83 to PS/Minister for Overseas Development - ODA, on "Involvement of UK Manufacturers in Major Projects Oversea."

PM's Box 45

With the Compliments of

the Minister for
Trade's Office

Apologies for the inconvenience.

CS 117

Balfour Beatty

Balfour Beatty
Engineering Limited
BBE Projects Division
Marlowe House
Sidcup Kent DA15 7AU
England

Telephone 01-300 3
Telex 25588
Cables Civmech
Sidcup Telex

PED/PB.2712/GFB/DMM

Date 13th September 1982

Janet Langdon/J. Poole
Department of Trade
Projects & Export Policy Division
1 Victoria Street
LONDON SW1H OET

JP o/R

Dear Janet/Jeff

BBEL CONTRACTS FOR MINI HYDRO POWER GENERATION AND WOOD BURNING POWER STATIONS

Involvement of U.K. Manufacturers

Further to our recent discussion in your offices regarding the impact of Balfour Beatty Engineering contracts for renewable energy, for which we have received U.K. Government support, please find enclosed comprehensive lists of the manufacturers involved, their location and number of employees. These lists have been separated for Mini Hydro work and Wood Burning Power Station activities. We are also enclosing a further list kindly supplied by Towler to indicate the sub-suppliers used by one of our Main Sub-Contractors. The exercise has been carried out to assist you in identifying the impact of these contracts on U.K. trade and could be used to demonstrate to any interested parties, their far reaching effect.

Yours sincerely,

Gerry Bone

G.F. BONE
MARKETING DIRECTOR

copy to: Mr. K.M. Odell
Mr. P.A. Duckworth

MANUFACTURER:	LOCATION:	NO EMPL
Brush Switchgear Ltd.	Loughborough, Leics.	Over
Brush Electrical Machines Ltd.	" "	
B.I.C.C.Ltd.	Helsby, Warrington	
Bowthorpe EMP Ltd.	Brighton, Sussex	100 -
Clifford & Snell Ltd.	Croydon, Surrey	20 -
Crompton Instruments UK Marketing	Northampton	100 -
Craig & Derricott Ltd.	Walsall, Staffs	80 -
Cutler Hammer Europa Ltd.	Bedford	150 -
G.E.C.Switchgear Ltd.	Higher Openshaw, M'ter	450 -
G.E.C.Measurements Ltd.	Stafford	450 -
Stone Platt Ltd.	Crawley, Surrey	100 -
U.K.Solenoid Ltd.	Newbury, Berks.	40 -
Tempatron Ltd.	Reading, Berks.	20 -
Hall & Watts Ltd.	London N.W.10	20 -
Brush Transformers Ltd.	Loughborough, Leics.	250
Accurate Controls Ltd.	Sunbury-on-Thames, Mddlx	30
Aluminium Printers Ltd.	London N.W.9	10
Appareils Scientifiques de Précision	FRANCE	
B.I.C.C.Connollys Ltd.	Liverpool	200
B.I.C.C.Ltd.	Prescot, Merseyside	Over
Burmah Control Ltd.	Swindon, Wilts.	30
Enfield Winding Wires Ltd.	Enfield, Middlx.	100
D.K.Moriarty Ltd.	Colchester, Essex	20
Nottingham Thermometer Co.	Bullwell, Nottingham	20
Peglar & Louden Ltd.	Newport, Gwent.	20
Simwest Ltd.	Stourbridge, W.Midlands	20
R.H.Symonds Ltd.	Enfield, Middlx.	20
Webster Wilkinson Ltd.	Telford, Salop.	30
Weir Electrical Instruments Ltd.	Bradford-on-Avon, Wilts.	20
Ward Brooke Ltd.	High Wycombe, Bucks.	20
Arcontrol Ltd.	Sevenoaks, Kent.	80
South Wales Transformers Ltd.	Pontypridd, Glam.	150
Gilbert Gilkes & Gordon Ltd.	Kendal, Cumbria	200
British Timkin Ltd.	Buston, Northampton	350
Bestobell Valves Ltd.	Rotherham, Yorks.	200
Bearing Factors Ltd.	Nelson, Lancs.	15
Brown & Tawse Tubes Ltd.	Manchester	30
Boving d.	London W.C.2	200

MANUFACTURER:	LOCATION:	NO.OF EMPLOYE
Honeywell Controls	Bracknell, Berks.	350 - 40
R.Hough Ltd.	Blackburn	30 - 5
Glapwell Contracting Ltd.	Chesterfield	10 - 2
Krupp Steel Co.Ltd.	Derby	10 - 2
Kell Foundry Ltd.	Gloucester	30 - 4
Hyson Kershaw Ltd.	Huddersfield	20 - 3
Germyn Industries Ltd.	Sevenoaks, Kent	20 - 3
Mawdsleys Ltd.	Dursley, Glos.	350 - 40
Morley Engineering Co.Ltd.	Pudsey, W.Yorks.	40 - 5
T.Morley's Co.Ltd.	Birmingham	20 - 3
W.S.McMillan Ltd.	East Kilbride	30 - 4
J.S.Naylor's Son Ltd.	Keighley	30 - 4
Newby & Son Ltd.	West Bromwich	30 - 4
Northern Valve Services Ltd.	Thornaby, Cleveland	20 - 3
Neesham Ltd.	Gloucester	30 - 4
Parsons Peebles Ltd.	Edinburgh	450 - 50
Parsons Peebles Ltd.	Birmingham	250 - 30
Parkfield Foundries Ltd.	Stockton-on-Tees	80 - 10
Thames Wire Co.Ltd.	Hoddesdon, Herts.	15 - 2
Pentagon Electric Products Ltd.	Birmingham	15 - 2
Pirelli General Cables Ltd.	Southampton	450 - 50
Renold Ltd.	Bradford	200 - 25
International Rectifiers	Oxted, Surrey	15 - 2
Radio Resistors Ltd.	Hitchin, Herts	10 - 1
Royate Engineering Ltd.	Bristol	30 - 4
Walter Somers Ltd.	Halesowen, W.Midlands	100 - 15
Solenoids & Regulators Ltd.	Birmingham	60 - 8
Steel Cabinets (Telford) Ltd.	Telford, Salop.	30 - 4
Solent & Pratt Ltd.	Southampton	200 - 25
R.S.Components Ltd.	London E.C.2	15 - 2
Ross Electrical Ltd.	Glasgow	15 - 2
Rose Bros.Ltd.	Gainsborough	15 - 2
Reynold Power Transmission Ltd.	Bradford	200 - 25
Trionite (J.T.Price) Ltd.	Newcastle	100 - 15
Robert Taylor & Co.	Stirlingshire	60 - 8
Torkmatic UK (Sales) Ltd.	Newbury, Berks.	40 - 6
Tipton Non-Ferrous Foundry Ltd.	Tipton, Staffs.	30 - 4
C.G.Thornton Ltd.	Birmingham	15 - 2

MINI HYDRO GENERATING SETS - PHILIPPINES

MANUFACTURER:	LOCATION:	NO.OF EMPLOYEE
Francis Brown Ltd.	Stockton-on-Tees	50 - 6
British Rototherm Co.Ltd.	Margam, Nr.Port Talbot	80 - 10
British Brown Boveri Ltd.	Telford, Salop.	40 - 5
Birkett & Sons Ltd.	Cleckeaton, Yorks.	60 - 8
Bijay Engineering(Scotland)	Paisley	60 - 8
Backer Electric Co.Ltd.	Rotherham, Yorks.	20 - 3
E.W.Bearings Ltd.	Gloucester	15 - 2
Bray Chromalox Ltd.	Leeds	15 - 2
B. & R. Ltd.	Harlow, Essex	15 - 2
E.N.Bray Ltd.	East Kilbride	40 - 5
Clarks Crank & Forge	Lincoln	80 - 10
Cast Metals Ltd.	Blackburn	40 - 5
Coley Thermometer Ltd.	Brentford, Middlx.	20 - 3
Custom Transformers Ltd.	Malmesbury, Wilts.	40 - 5
Townsend Coates Ltd.	Leicester	30 - 4
J.T. & E.Castings Ltd.	Wigan	20 - 3
Sema (UK) Ltd.	Wembley, Middlx.	10 - 1
Cuthbertson & Laird Ltd.	Burnbank, Hamilton	30 - 4
Clayton Goodfellow Ltd.	Blackburn	60 - 8
Dunlop & Rankin Ltd.	Leeds	20 - 3
John Folkes (Lye Forge) Ltd.	Kidderminster, Worcs.	60 - 8
Eva Bros.Ltd.	Clayton, M'ter.	80 - 10
Foundrometers Ltd.	Leeds	40 - 5
George Emmott (Pawsons) Ltd.	Keighley	40 - 5
Electronic Materials Ltd.	Gateshead	30 - 4
Firth Vickers (Foundry) Ltd.	Sheffield	350 - 40
Edgars (Steel Stockholders) Ltd.	Kirkbride	15 - 2
E.R.D.(North)Ltd.	Glasgow	20 - 3
J.H.Fenner & Co.Ltd.	Burnley	150 - 20
G.E.C.(Rugby)Ltd.	Rugby	400 - 45
Genristo Ltd.	Nottingham	20 - 3
Herringshaw Steels Ltd.	Hyde, Cheshire	15 - 2
Hillfoot Steel (Stockholders) Ltd.	Wolverhampton	15 - 2
Industrial Fasteners Ltd.	Gloucester	15 - 2
P.Hewins Ltd.	Stroud, Glos.	15 - 2
H.T.S.Industrial(Midlands)Ltd.	Bridgeworthy, Shrops.	20 - 3
A.Herriot Ltd.	Glasgow	20 - 3

MANUFACTURER:	LOCATION:	NO.OF EMPLOYE
U.K.Solenoids Ltd.	Berkshire	40 -
Wyco Bearings	Liverpool	15 -
Vierod & Woods Ltd.	Bradford	40 -
Victaulic & Co.Ltd.	Hitchin, Herts.	100 - 1
Woodward Governors Ltd.	Slough, Bucks.	80 - 1
Varatic Ltd.	" "	50 -
Vickers Ltd.	Newcastle-on-Tyne	100 - 1
Wellman Bibby & Co.Ltd.	Dewsbury, W.Yorks.	30 -
Wiltshire Wholesale Electric	Gloucestershire	15 - 2
Blackwell Contracts Services Ltd.	Chesterfield	20 - 3
J.Bennett	Kendal, Cumbria	20 - 3
Crosley, Potter Cowan	Newcastle-upon-Tyne	30 - 4
Walkersteel General Products	Blackburn	15 - 2
F.L.T.Metals Ltd.	Brentford, Middlx.	15 - 2
Industrial Trading Co.Ltd.	Worcester	20 - 3
Harrison & Clough Ltd.	Keighley	20 - 3
Woodberry Chillcott Ltd.	Gloucester	30 - 4
Robert Fraser & Sons Ltd.	Manchester	40 - 5
Spunalloys Ltd.	Walsall, W.Midlands	40 - 5
Carlton Sign & Engraving Ltd.	Newark, Notts.	15 - 2
Holcroft Castings & Forgings Ltd.	Rochdale	30 - 4
Darwins Alloy Castings Ltd.	Sheffield	60 - 8
Hawker Siddeley Power Transf.Ltd	London E.17	350 - 40

WOODBURNING POWER STNS. - PHILIPPINES

MANUFACTURER:	LOCATION:	NO.OF EMPLOYEES
A.E.I.Cables Ltd.	Gravesend, Kent.	300 - 350
Peter Brotherhood Ltd.	Peterborough	750 - 800
Ampy Automation - Digalog Ltd.	"	40 - 50
David Brown Gear Industries Ltd.	Huddersfield	350 - 400
Babcock Bristol Ltd.	Kidderminster	40 - 50
British Rotothorn Co.Ltd.	Glamorgan, S.Wales	60 - 80
B.I.C.C.Ltd.	Prescot	Over 5000
J.Brown(Dukinfield)Ltd.	Cheshire	20 - 30
Brooke Crompton Parkinson Motors Ltd.	Altrincham	400 - 450
Blackburn Starling Eng.Ltd.	Nottingham	50 - 60
B & R Relays Ltd.	Harlow, Essex	15 - 20
E.N.Bray Ltd.	Waltham Cross, Herts.	40 - 50
Clarke's Crank & Forge Co.Ltd.	Lincoln	80 - 100
Clifford & Snell Ltd.	Croydon, Surrey	20 - 40
Cruikshank & Co.Ltd.	Denny, Glasgow	100 - 150
Flexibox Ltd.	Manchester	100 - 150
John Folkes (Lye Forge) Ltd.	Kidderminster	60 - 80
Eva Brothers Ltd.	Manchester	80 - 100
Don Forge & Eng.Co.Ltd.	Rotherham	300 - 350
Eldon Electric Ltd.	Staines, Middlx.	50 - 60
G.E.C.Ltd.	Stafford	Over 5000
G.E.C.Industrial Controls Ltd.	Rugby	400 - 450
Wright Hingley Ltd.	Dudley, W.Midlands	80 - 100
I.G.F.Ltd.	Congleton, Cheshire	40 - 50
Highland Electric Ltd.	Dunfermline	40 - 50
Kelburn Eng.Co.Ltd.	Barrhead, Glasgow	80 - 100
Richard Klinger Ltd.	Sidcup, Kent.	350 - 400
Morley Electrical Eng.Co.Ltd.	Pudsey, W.Yorks.	100 - 150
Nash Eng.Co.(GB)Ltd.	Northampton	100 - 150
Norton Devices Ltd.	Ipswich, Suffolk	15 - 20
Parsons Peebles Ltd.	Birmingham	250 - 300
Parsons Peebles Ltd.	Edinburgh	450 - 500
Pokorney Mfg.	Illinois, U.S.A.	
Serck Heat Transfer	Birmingham	250 - 300
Spiral Tube	Derby	100 - 120
Walter Somers Ltd.	Halesowen, W.Midlands	100 - 150
Thames Wire & Cable Ltd.	Hoddesdon, Herts.	20 - 30
Chas.Thornton Ltd.	Birmingham	20 - 30

MANUFACTURER:	LOCATION:	NO. OF EMPLOYEES
U.K.Solenoid Ltd.	Newbury, Berks.	40 - 50
Worthington-Simpson Ltd.	Redditch	300 - 350
Woodward Governor Ltd.	Slough, Bucks.	80 - 100
Henry Witham & Son Ltd.	Sheffield	80 - 100
Watford Electric Co.Ltd.	Kempston, Beds.	80 - 100
Towler & Son Ltd.	Clacton-on-Sea, Essex	100 - 150
Allthread Distributors	Braintree, Essex	15 - 20
Anglia Welding Co.	Clacton-on-Sea	20 - 30
Arrow Pipework Co.Ltd.	Barking, Essex	80 - 100
Anglia Handling Divn.of Lloyds British Testing Co.Ltd.	Great Yarmouth, Norfolk	15 - 20
B.R.Ainsworth & Co.Ltd.	Barking, Essex	20 - 30
Allister Welding Co.Ltd.	London E.16	20 - 30
Bestobell Mobrey Ltd.	Slough, Bucks.	150 - 200
Babcock Bristol Ltd.	Croydon, Surrey	30 - 40
Bowden Controls Ltd.	Dyfed, Wales	100 - 120
Birch Eng.(Cuffley)Ltd.	Harpenden, Herts.	60 - 80
Brown & Tawse Ltd.	London E.3	20 - 30
Beldam Packing & Rubber Co.Ltd.	Brentford, Middlx.	40 - 50
Bestra Ltd.	Hitchin, Herts.	40 - 50
Brown & Sons Ltd.	Clacton-on-Sea,Essex	20 - 30
J.Bridge Steel Stockist Ltd.	Birmingham	20 - 30
Brooks & Walker Ltd.	London S.E.22	40 - 50
B.S.C.Ltd.	Glasgow	Over 5000
Britton Engineering	Clacton-on-Sea	40 - 50
B.D.T.Welded Fabrications Ltd.	Poole	40 - 50
Barlow Fastners Ltd.	Ipswich, Suffolk	20 - 30
Bloomfield Steel Construction	Tipton, Staffs.	50 - 60
S.Batchelor & Sons Ltd.	Haverhill, Suffolk	20 - 30
B.J.H.Metal Fabrications Ltd.	Watford, Herts.	40 - 50
W.B.Bawn(Wickford)Ltd.	Wickford, Essex.	40 - 50
Chum Fans Ltd.	Manchester	40 - 50
C-Ring Eng.Ltd.	Barking, Essex	20 - 30
Carpenter & Peterson	Powys	50 - 60
Croda Paints (C/o Rolls & Co.)	London N.9	20 - 30
Clyde Blowers Ltd.	Clydebank, Scotland	80 - 100
Casemore Eng.Ltd.	Erith, Kent	40 - 50
Clarke Group	Hackney, London E.5	40 - 50

MANUFACTURER:	LOCATION:	NO. OF EMPLOYE
J.H.Carruthers & Co.Ltd.	East Kilbride	40 - 5
D.K.L.	Leicester	40 - 5
Dee Cee Contracts & Supplies Ltd.	Dartford, Kent	10 - 1
E.W.Bearings Ltd.	Colchester	10 - 1
A & G Fabrications Ltd.	Clacton-on-Sea	40 - 5
Foxboro Yoxall Ltd.	Redhill, Surrey	80 - 10
Fisher Controls Ltd.	Croydon, Surrey	450 - 50
E.A.Engineering Appliances(1978)Ltd.	London W.4	20 - 3
Fielding & Bacon Ltd.	Erith, Kent	80 - 10
E.Green & Son Ltd.	Wakefield, W.Yorks.	150 - 20
Gestra (UK) Ltd.	Hitchin, Herts.	40 - 50
GKN Steelstock Ltd.	South Ockenden, Essex	20 - 30
Hydra-Tight Ltd.	Walsall	20 - 30
High Pressure Forgings Ltd.	Tipton, Staffs.	80 - 100
A.J.Howard Ltd.	Southend-on-Sea, Essex	30 - 40
Harmers Foundry Ltd.	Walton-on-Naze, Essex	40 - 50
Hindle Cockburn Ltd.	Leeds	400 - 500
Hosequip Ltd.	Colchester, Essex	30 - 40
Hopkinsons Ltd.	Huddersfield	300 - 350
Hayward Tyler Ltd.	London W.1	250 - 300
J.P.S.Engineering Ltd.	Croydon, Surrey	15 - 20
K.S.B.Manufacturing Ltd.	London S.E.1	80 - 100
Kingsteel Ltd.	Norwich	20 - 30
JBS Factors Ltd.	Clacton-on-Sea	15 - 20
M.Lynch & Sons Ltd.	Rochester	15 - 20
T.G.Lynes & Sons Ltd.	London N.1	20 - 30
Masoneilon Ltd.	Uxbridge	60 - 80
M.S.W.Control Instruments Ltd.	Crawley, Sussex	50 - 60
Mackneys Div.	South Ockenden, Essex	15 - 20
Morganite Ceramic Fibres Ltd.	Wirral, Merseyside	60 - 80
C.McNeil Ltd.	Motherwell	40 - 50
M.S.C.Controls Ltd.	Crawley, Sussex	40 - 50
Mechelec Ltd.	Bromsgrove	60 - 80
Ormonde Ashton Ltd.	Ashton-under-Lyne	30 - 40
National Vulcan Eng.Ltd.	Manchester	50 - 60
Niagara Eng.Co.Ltd.	London S.W.5	30 - 40
Nu-Way Heating	Droitwich	100 - 150
Peabody Water Services	High Wycombe, Bucks.	30 - 40

MANUFACTURER:	LOCATION:	NO. OF EMPLOYEES
M.J.Pneumatic & Hydraulic Supplies Ltd	Birmingham	20 - 30
Pipe & Tubes Supplies Ltd.	Bourne End, Bucks.	20 - 30
W.S.Profiles Ltd.	London W.13	20 - 30
Phoenix Steel Tube Co.	West Bromwich	150 - 200
Shaw Son & Greenhalgh Ltd.	Huddersfield	100 - 150
G.R.Stein Refractories Ltd.	Sheffield	50 - 60
Seatru Ltd.	Bristol	40 - 50
C & A Stewart Ltd.	Glasgow	20 - 30
Stephens Miraclo Extremultus Ltd.	Dukinfield, Cheshire	20 - 30
Senior Economisers Ltd.	Watford, Herts.	30 - 40
Spirax Sarco	Cheltenham	100 - 150
Sydney Smith Dennis Ltd.	Nottingham	80 - 100
Sunnybank Fabrication	Kirkham, Lancs.	30 - 40
Henry Righton	London N.1	20 - 30
Salmons Northfleet Ltd.	Gravesend, Kent.	15 - 20
Rose Engineering	Clacton-on-Sea	20 - 30
Rayne Foundry Eng.Co.	Braintree, Essex	40 - 50
Scandura Ltd.	Cleckheaton	30 - 40
Smith & Grace(Sales)Ltd.	Ipswich, Suffolk	15 - 20
Triangle Controls Ltd.	Ormskirk	60 - 80
Unit Superheater & Pipe Co.Ltd.	Swansea	300 - 350
Tridan Eng.Ltd.	Clacton-on-Sea	20 - 30
West Ltd.	Ipswich	30 - 40
W.S.Profiling Ltd.	Haverhill, Suffolk.	20 - 30
Walthamstow Engraving Ltd.	London E.17	20 - 30
Willingale (Eng.) Supplies Ltd.	Sudbury, Suffolk	15 - 20
Brush Transformers Ltd.	Loughborough	200 - 250
Associated Tapchangers Ltd.	London E.17	80 - 100
Bowthorpe EMP Ltd.	Brighton	100 - 120
CMP Glands Ltd.	Newcastle-on-Tyne	10 - 15
EMP Electric Ltd.	London N.17	15 - 20
Moriarty Ltd.	Colchester	40 - 50
British Rototherm Ltd.	Port Talbot	80 - 100
Ward Brooke Ltd.	High Wycombe, Bucks.	20 - 40
Webster Wilkinson Ltd.	Telford	30 - 40
Brush Switchgear Ltd.	Loughborough	Over 5000
Brush Elect.M/C Ltd.	"	

MANUFACTURER:	LOCATION:	NO. OF EMPLOYEES
Brookness Ltd.	Adenshaw, Manchester	30 - 40
Crompton Instruments Ltd.	Northampton	100 - 150
Craig & Derricott Ltd.	Walsall	80 - 100
G.E.C.Measurements Ltd.	Stafford	450 - 500
G.E.C.Switchgear Ltd.	Manchester	450 - 500
Stone Platt Ltd.	Crawley, Sussex	100 - 150
Cutler Hammer Europa Ltd.	Bedford	150 - 200
NEI Bruce Peebles Ltd.	Edinburgh	450 - 500
Bijay Eng.(Scotland)Ltd.	Paisley	60 - 80
Painter Bros.Ltd.	Hereford	150 - 200
Loundsdale Electric Ltd.	Paisley	150 - 200
Felco Hoists Ltd.	Kingston-upon-Thames	100 - 150
Dale Electric of Gt.Britain Ltd.	Filey, Yorks.	200 - 250
Davenport Engineering Ltd.	Bradford	80 - 100
Aerex Ltd.	Sheffield	350 - 400
Davenport Metal Fabrication Ltd.	Leeds	40 - 50
Fenton's Maintenance	Hull	40 - 50
Galvanised Bolts & Nuts Ltd.	Halesowen	20 - 30
Inertia Switch Ltd.	Hartley Whitney, Hants.	30 - 40
Highfield Gears Ltd.	Huddersfield	80 - 100
Harrison & Clough Ltd.	Keighley	30 - 40
Kwikseal Prod.Ltd.	Chesham, Bucks.	20 - 30
Turboflex Ltd.	High Wycombe, Bucks.	40 - 50
Sigmund Pulsometer Pumps Ltd.	Reading	150 - 200
Delta Enfield Metals Ltd.	Enfield, Middlx.	150 - 200
Fletcher Stewart Ltd.	Derby	30 - 40
Entecon Ltd.	Camberley, Surrey	20 - 30
Hardy Spicer Ltd.	Birmingham	450 - 500
Mole Foundries Ltd.	Stourbridge, Worcs.	40 - 50
Warwill Ltd.	Gwent	30 - 40
B.D.Profiles Ltd.	Warley, W.Midlands	30 - 40
Flexitalic Gaskets Ltd.	Heckmonwike, W.Yorks.	20 - 30
Chas.H.Andrews Export Ltd.	London S.E.1	15 - 20
G.D.Underwood Ltd.	Sidcup, Kent.	15 - 20

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Overseas Aid 2

Prime Minister

CR 28/4

From the Secretary of State

The Rt Hon Francis Pym MC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London
SW1

27 April 1983

MT

Dear Francis,

AID AND TRADE

In the context of our recent correspondence on ATP - and I will be writing shortly on the substance of these matters - I thought it might be useful to send to you a copy of a recent letter I have received from Pat Limerick, until very recently Chairman of the BOTB, reporting on a discussion on Aid and Trade held at the March meeting of the Board.

In particular you will note the Board's view - and the majority of its members are those who are involved at the sharp end of exporting - that while other countries use aid assisted credits the ATP is a necessary measure to help our industry in countering the competition.

You will not be surprised to read of the Board's concern at the current shortage of ATP buy you may care to note that the Board are also concerned about the level of our multilateral commitments and about the need to take a greater industrial advantage of the bilateral programme.

From the Secretary of State

I am copying this letter to the Prime Minister and the other members of EX Committee.

Yours,

Arthur.

LORD COCKFIELD

FIS SW

10 DOWNING STREET

From the Private Secretary

20 April, 1983

INTERNATIONAL DEVELOPMENT ASSOCIATION, SPECIAL FUNDING ARRANGEMENTS: PUBLICATION OF A COMMAND PAPER

Thank you for your letter of 15 April. We have no objection to your publishing as a Command Paper the text of the resolution by the Executive Directors of IDA authorising the arrangements for the special contributions in fiscal year 1984. I note that you propose to publish this paper next week.

I am copying this to David Heyhoe (Lord President's Office), John Kerr (H.M. Treasury), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

W. F. S. RICKETT

John Holmes, Esq.,
Foreign and Commonwealth Office

Foreign and Commonwealth Office

London SW1A 2AH

15 April 1983

Dear Willie,

International Development Association, Special Funding Arrangements: Publication of a Command Paper

I am writing to seek agreement to publication as a Command Paper of the text of a resolution by the Executive Directors of the International Development Association (IDA) authorising arrangements for special contributions to help sustain its lending programme during its fiscal year 1984 (1 July 1983 - 30 June 1984). A copy of the proposed text of the Command Paper is attached.

The Sixth Replenishment of IDA, UK participation in which was approved by Parliament in two stages in March 1981 and July 1981, provided IDA with lending resources for a three year period to 30 June 1983. The US contribution was approved in full by the US Congress, but only after a lengthy delay, and on the basis that it would be phased over four or more years instead of the three allowed under IDA 6. This has now caused a short-fall in IDA's commitment authority in its fiscal year 1984 by which time the majority of donors, including the UK, will have completed their IDA 6 contributions, and before arrangements for a further replenishment (IDA 7) can be made. The IDA has asked member governments to contribute to special funding arrangements in its fiscal year 1984 to help alleviate the short-fall in its commitment authority. The UK has agreed to participate, subject to Parliamentary approval; this is now being sought, and the Command Paper is required in this connection.

The Command Paper consists simply of the text of the resolution with a brief explanatory foreword. It is non-controversial and its publication is unlikely to give rise to any comment. In order to expedite the Parliamentary process we should like it to be published as soon as possible. The text has been cleared at official level with the Treasury.

/I am

I am sending copies of this letter and enclosures to the Private Secretaries of the Leader of the House of Commons, the Paymaster General, the Financial Secretary to the Treasury, the Secretary of the Cabinet and the Government Chief Whip.

I should be grateful to receive your agreement to publication as proposed. We would propose to publish in the week beginning 25 April.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

W Rickett Esq
10 Downing Street

INTERNATIONAL DEVELOPMENT ASSOCIATION

Replenishment of IDA Resources

Resolution of the Executive Directors
dated 26 October 1982

Presented to Parliament by the Secretary
of State for Foreign and Commonwealth
Affairs by Command of Her Majesty

LONDON
HER MAJESTY'S STATIONERY OFFICE
£ net

Cmnd

FOREWORD

1. The purpose of this Command Paper is to lay before Parliament the text of the Resolution dated 26 October 1982 by the Executive Directors of the International Development Association authorising arrangements for special contributions.

2. It is the intention of Her Majesty's Government, subject to Parliamentary approval, to make an Order under section 6(2) of the Overseas Development and Co-operation Act 1980, to enable them to make payments in accordance with the terms of the Resolution.

INTERNATIONAL DEVELOPMENT ASSOCIATION

Resolution NO. IDA 82-6

ARRANGEMENTS FOR SPECIAL CONTRIBUTIONS

Section A. Introduction

1. WHEREAS

(a) The commitment on credits of the Sixth Replenishment of the Association's resources is expected to be phased over a longer period than originally contemplated, due to shortfalls in unqualified contribution commitments received from a major contributor to the Sixth Replenishment;

(b) As a result, delays and shortfalls in the availability of resources to the Association for commitment on credits have occurred and are further expected to occur;

(c) The other members of the Association have agreed to undertake a joint effort to maintain assistance to the poorest developing countries on concessional terms on a more adequate level pending a further general replenishment of the Association's resources;

(d) For this common purpose, these members are prepared to make special contributions, as provided in Section C of this Resolution, for supplementing the resources available for lending by the Association during the period extending to June 30, 1984;

(e) Some members wish to make such special contributions in the form of additional contributions to the Association's regular resources, designated as contributions to an "FY84 Account" and to be subject to the terms and conditions set forth in Section D of this Resolution;

(f) Other members wish to make such special contributions to a special fund administered by the Association, and the Association is prepared to establish and administer such a special fund on the terms and conditions set forth in Section E of this Resolution; and

(g) Members considering the arrangements for such special contributions set forth in this Resolution as an appropriate basis for recommendation to legislatures, intend to request, where necessary, their legislatures to approve such arrangements with a view to obtaining approval to make such special contributions, it being understood that no commitment by a member government can be made until such approval has, where necessary, been obtained from its legislature;

2. NOW THEREFORE it is hereby resolved as follows:

Section B. Definitions

3. Whenever used in this Resolution:

(a) "Association" means International Development Association;

(b) "Sixth Replenishment" means the replenishment of the Association's resources authorized by Resolution No. 117 of the Board of Governors of the Association, adopted on March 26, 1980;

(c) "Special Drawing Right" or "SDR" means a special drawing right as valued from time to time by the International Monetary Fund in accordance with its Articles of Agreement;

(d) "freely convertible currency" means a currency as defined in Article II, Section 2(f) of the Articles of Agreement of the Association;

(e) "Special Contribution" means any contribution, either to the FY84 Account or the Special Fund, notified in accordance with paragraph 5(a) of this Resolution;

(f) "FY84 Account" means the resources accepted by the Association pursuant to Section D of this Resolution;

(g) "Special Fund" means the special fund established pursuant to Section E of this Resolution;

(h) "SF Contribution" means a Special Contribution to the Special Fund;

(i) "Special Fund Credit" means a credit made by the Administrator out of the resources of the Special Fund;

(j) "Administrator" means the Association acting in its capacity as Administrator of the Special Fund; and

(k) "SF Contributor" means a member of the Association which has notified an SF Contribution.

Section C. General Provisions Regarding Special Contributions

4. The total Special Contribution of each member of the Association participating in the arrangements provided for in this Resolution shall be

an amount which, together with such member's total subscription and contribution to the Sixth Replenishment (valued on the basis of the unit of obligation of such subscription and contribution and exchange rates as of August 31, 1982), is at least equal to four-thirds of: (i) such total subscription and contribution (in terms of either the unit of obligation of such subscription and contribution or, at such member's option, the national currency equivalent of such subscription and contribution as of October 5, 1979, if such subscription and contribution is expressed in a unit of obligation other than the national currency of such member); or (ii) the amount representing such member's share in the Sixth Replenishment agreed upon by the contributors to the Sixth Replenishment as the basis for initial drawings on such subscription and contribution.

5. Special Contributions shall be made in the following manner:

(a) Each member of the Association desiring to make a Special Contribution shall deposit with the Association one or more formal notifications, in form and substance satisfactory to the Association, whereby such member shall obligate itself to make a Special Contribution in a specified amount in accordance with the terms of this Resolution. Such notifications shall indicate whether a Special Contribution is made to the FY84 Account or to the Special Fund and may be deposited until March 31, 1984, or such later date as the Executive Directors of the Association may determine.

(b) Special Contributions shall be expressed in terms of: (i) Special Drawing Rights; or (ii) the currency of the member making such Special Contribution or of another member of the Association, provided, in either case, that such currency is a freely convertible currency.

(c) The full amount of each Special Contribution notified in accordance with paragraph 5(a) of this Resolution shall be payable within 90 days after the deposit of such notification, or in such other installments and on such other date(s) as shall be agreed between the Association and the member making such Special Contribution; provided, however, that: (i) the total amount paid from time to time by each such member shall at least be equal to the amount estimated by the Association to be required from that member for purposes of disbursements on credits made from the FY84 Account or on Special Fund Credits, as the case may be; and (ii) no payment shall be postponed by more than one year from the date specified above.

(d) Payments on account of any Special Contribution shall be made in the currency in which the Special Contribution is expressed or any currency which the Association determines to be adequately convertible, or otherwise usable, for purposes of the operations

to be financed with the resources contributed pursuant to this Resolution.

6. (a) Until June 30, 1983, or such later date as the Executive Directors of the Association may determine, any member which has made a Special Contribution may notify the Association that the balance (if any) of such Special Contribution, as reasonably determined by the Association, which is not expected to be needed for disbursement on credits of the Association or Special Fund Credits already negotiated by the Association, is to be converted: (i) into an SF Contribution, if said Special Contribution was made to the FY84 Account; or (ii) into a Special Contribution to the FY84 Account, if said Special Contribution was an SF Contribution.

(b) Upon such notification, such balance, if any, shall be deemed to be an SF Contribution instead of a Special Contribution to the FY84 Account, or a Special Contribution to the FY84 Account instead of an SF Contribution, as the case may be.

7. Members are entitled to request that their Special Contributions be taken into account in the next general replenishment of the Association's resources, and any such request shall be considered in the course of the negotiations of such replenishment. It is understood that Special Contributions are to be regarded as without prejudice to any arrangements in connection with subsequent replenishments.

Section D. The FY84 Account

8. The Association is authorized to accept Special Contributions, as provided for in Section C of this Resolution, as additional contributions to the Association's regular resources.

9. The rights and obligations of the Association and the members of the Association in regard to the Special Contributions made by such members pursuant to this Section shall be the same (except as otherwise provided in this Resolution) as those which govern the ninety percent portion of the initial subscriptions of original members payable under Article II, Section 2(d) of the Articles of Agreement by members listed in Part I of Schedule A of the Articles; provided, however, that (i) notes or similar obligations may also be substituted, as provided in Article II, Section 2(e) of the Articles of Agreement, in respect of any such Special Contribution of a member payable in a currency other than the currency of that member; (ii) the proviso of Article IV, Section 1(e) and the provisions of Article IV, Section 2 of the Articles of Agreement shall not be applicable to such Special Contributions; and (iii) any voting rights to be accorded to the members making such Special Contributions on account

thereof are to be granted through the authorization of additional subscriptions for such members by the Association's Board of Governors.

Section E. The Special Fund

10. There is hereby established a special fund (the Special Fund) constituted by the Special Contributions (the SF Contributions) which shall from time to time be contributed thereto, as provided in Section C of this Resolution, and any other assets and receipts of the Special Fund, to be held in trust, managed and used in accordance with the provisions of this Section by the Association, acting as Administrator of the Special Fund.

11. In addition to Section C of this Resolution, the following provisions shall govern the payment of SF Contributions:

(a) Payment may be made in the form of cash or through deposit of non-interest bearing notes of the SF Contributor payable on demand and to the order of the Association, as Administrator of the Special Fund. Such notes shall be deposited in the depository of the respective SF Contributor for the Association.

(b) To the extent feasible, the Administrator shall draw on the SF Contributions on an approximately pro rata basis in accordance with the Association's normal procedures in order to meet disbursements on Special Fund Credits.

12. Pending disbursement on Special Fund Credits, the Administrator may invest funds held by the Special Fund. The income from such investments shall become part of the resources of the Special Fund.

13. The resources of the Special Fund shall be used by the Administrator for making credits (Special Fund Credits) to members of the Association in accordance with the following principles and procedures:

(a) Each Special Fund Credit shall be made for the purpose of financing a specific development project or program. The policies, practices and procedures governing the allocation of Special Fund resources, the selection and appraisal of projects or programs to be financed out of such resources and the approval and administration of Special Fund Credits, including the terms and conditions thereof, shall be the same as those applicable with respect to development credits made out of the Association's regular resources, except as otherwise specifically provided in this Resolution.

(b) Each Special Fund Credit shall be evidenced by a separate agreement between the borrower and the Administrator, indicating

in particular that resources made available under such Credit are provided from the Special Fund.

(c) Special Fund Credits may be denominated in one or more of the currencies in which SF Contributions are expressed or the SDR, and shall be repayable in terms of any of those currencies or the SDR.

(d) The proceeds of Special Fund Credits may be used to finance expenditures for goods produced in, or services supplied from, any of the following countries: (i) any Part II member of the Association; and (ii) any Part I member of the Association (A) which has notified, or has advised the Administrator in writing that it intends to make, an SF Contribution in a minimum amount conforming with paragraph 4 of this Resolution, or (B) which has notified, or has advised the Association in writing that it intends to make, a Special Contribution in such minimum amount to the FY84 Account and has advised the Association in writing that such Special Contribution is to be treated in the same manner as an SF Contribution for purposes of any future adjustment of the voting rights of the members of the Association.

(e) The charges payable by borrowers under Special Fund Credits shall be paid directly to the Association, in any currency acceptable to the Association, and shall be retained by the Association in order to compensate it for its services as Administrator.

(f) The principal repayments of Special Fund Credits shall become part of the Association's general resources and shall be subject to the same terms and conditions as funds derived from the subscriptions and contributions to the Sixth Replenishment.

14. The administration of the Special Fund shall be governed by the following provisions:

(a) The Administrator shall have the authority to perform such acts and enter into such contracts as may be necessary for the accomplishment of the purposes of the Special Fund consistent with this Resolution and the Articles of Agreement of the Association.

(b) The Special Fund shall be kept separate and apart from all other accounts and assets of the Association. For this purpose, the Administrator shall establish and maintain appropriate records and accounts to identify the SF Contributions and any other resources of the Special Fund, the Special Fund Credits, and the receipt and disbursement of funds relating to the operations of the Special Fund.

(c) The Administrator shall report on the operation of the Special Fund in the annual report of the Executive Directors to the Board of Governors of the Association and shall include in that report the financial statements and the opinion of the auditors referred to in paragraph 14(d) of this Resolution.

(d) The Administrator shall prepare, as soon as practicable after the end of each fiscal year of the Association, detailed financial statements of the Special Fund (including statements of its assets and liabilities, the origin and application of its resources, and related statements), which shall be audited by the Association's own external auditors.

15. The Special Fund shall become effective and start operations on the date on which the first notification of an SF Contribution shall be deposited, provided such SF Contribution is in a minimum amount conforming with paragraph 4 of this Resolution or the member of the Association depositing such notification has advised the Administrator in writing that it intends to make an SF Contribution in such minimum amount.

16. The arrangements governing the Special Fund set forth in this Resolution may be amended by Resolution of the Executive Directors of the Association, provided that, before any such proposed amendment is presented to the Executive Directors for consideration, at least two-thirds of all SF Contributors whose SF Contributions represent not less than three-quarters of the aggregate SF Contributions must have notified the Administrator that they agree to such amendment.

17. The functions of the Association as Administrator of the Special Fund shall terminate upon a decision to that effect by the Executive Directors of the Association, taken in accordance with the provisions of paragraph 16 of this Resolution. Upon such decision by the Executive Directors, the Administrator shall take all action necessary for winding up its activities as Administrator in an expeditious and orderly manner, in accordance with such decision. Unless otherwise provided in such decision, the Special Fund shall thereupon terminate and Special Fund Credits shall be treated as part of the Association's regular lending portfolio so that the Association shall continue to receive the charges payable on such Credits and principal repayments thereof, as provided in paragraph 13(e) and (f) of this Resolution.

26 October, 1982

From the Chairman
The Earl of Limerick

1 Victoria Street
London SW1H OET
Telephone 01-215 3187

British Overseas Trade Board

The Rt Hon the Lord Cockfield
Secretary of State for Trdae
Department of Trade
1 Victoria Street
London SW1H OET

31 March 1983

Dear Secretary of State.

AID AND TRADE

At its March meeting the Board discussed future prospects for aid assisted trade. We had before us a very helpful paper prepared by the Overseas Projects Board's Standing Group on Aid and Trade and, as this is quite short I am attaching it. We also had the benefit of a helpful and constructive contribution from Sir William Ryrie, the Permanent Secretary of the ODA. I think you will want to know the Board's views and conclusions on this important issue.

The Board generally endorsed the conclusions contained in the paper. In particular we see the Aid and Trade Provision as a necessary measure to help industry in countering the growing use of aid assisted credit by other countries. Of course we acknowledge that it would be best if all Governments concerned would desist from the practice: but there is little prospect of this happening, and as long as their competitors can invoke aid to support their bids for projects in the developing countries, British firms need similar facilities to enable them to match. Given that our ATP is used to match what is available from others, the Board were surprised to hear from Sir William that some countries believe us to be aggressive in our use of aid support. It is difficult, in my view, to attach a great deal of weight to such accusations, given the evident self-interest of those making them and the fact that we, through our scrupulous regard for the rules on mixed credit, lay ourselves open to criticism by notifying the majority of our offers as "initiations" when in practice we are matching the undeclared use of soft terms by others.

The Board were concerned to hear that the ATP was virtually committed for 1983/84 and that there was already a heavy level of commitment for the following year. They realise that not all the commitments turn into actual business, but the offers of support already aim off for this. ATP is the most commercially effective use of aid and its form does not detract from the basic developmental objective. The Board

appreciate the dangerof a credit race in which individual victories will go to the country with the deepest purse or the most pressing political problem, and in which there are no prizes for second placing; but a significant increase in the quantum of ATP is needed just to enable our firms to compete on equal terms with their competitors.

The Board also took the view that both in the case of ATP and of the bilateral aid programme generally, better use could be made of the funds available. The administration and process for approval needs to be more responsive, rapid, and flexible so that we can obtain a better return for industry without detriment to the developmental issues involved. The suggestion was also made that our bilateral aid could be of greater advantage if it was not given in such large individual amounts but was spread more widely. Sir William explained that the problem here was that previous Administrations had committed large amounts to large, long term projects and there was little room for manoeuvre, except as these projects were completed.

Finally, the Board was concerned about the amount of our aid which was committed to the multilateral agencies. Our share of business deriving from some, at least, of the multilateral programmes is low. The use of ATP on the otherhand achieves complete additionality, with a multiple benefit for British exports. Anything that could be done to alter the balance in favour of bilateral aid would be of advantage to British industry. In the meantime the Board will be taking another look at the question of procurement under contracts financed by the multilateral agencies to see if there is any way in which our performance can be further improved: I know that you yourself spoke at the recent aid conference in Birmingham.

In summary, the Board concluded that we need to work even harder with industry to improve the benefit derived by British exporters under multilateral aid programmes; to encourage the Government's stated objective of moving the balance towards bilateral aid, while realizing the constraints; to spread bilateral aid more widely to obtain better gearing as long standing commitments wind down; and, most importantly, to seek an increase in the ATP element of bilateral aid and to streamline the administration so that our firms can continue to match the competition responsibly while we all seek to avoid an aid race. I hope the report and the Board's endorsement of it will prove useful to you in your discussion with colleagues.

I am sending a copy of this letter to the Minister for Overseas Development.

Yours sincerely

Limerick

LORD LIMERICK

CONFIDENTIAL

cc Sir Anthony Parsons

MR. COLES

MULTILATERAL VERSUS BILATERAL AID

I hope this complements Sir Anthony Parsons memorandum of 23 March. Fortunately, I think there is a high degree of agreement. I was not proposing that we change the existing balance of multilateral/bilateral aid. Although I would like to do it, I don't think it is feasible.

However, if multilateral aid is allowed to grow at the built-in rates the whole aid package would be eventually multilateral. What I was suggestion was that we should contain the very rapidly growing multilateral component. This is entirely consistent with Tony Parsons' view that the present balance is about right.

From the point of view of national interest, I think it is not true that we "do pretty well" out of IDA compared with other contributing countries. The 20 year review (page 33) shows that, relative to our contribution, our procurement share was lower than those of Germany, Japan and France - our major competitors. And our contributions are larger relative to our national income than any other major country. For example in IDA 6 we contributed twice as much as France, yet the French national income is 40% or 50% higher than ours. Similarly, Germany contributed about 30% more than we did, but her national income is almost 80% more than ours.

I judge that these statistics are clearly consistent with a considerable reduction in our IDA contribution. The fact that the Americans are also unilaterally reducing their contribution, quite dramatically, is a window of opportunity which we should not miss.

AW

ALAN WALTERS
24 March 1983

CONFIDENTIAL

cc Mr. Walters

MR. COLES

MULTILATERAL VERSUS BILATERAL AID

I have read with interest Alan Walters' two minutes of 16 and 22 March in so far as they relate to the above subjects. I have also discussed the question with Alan Walters.

I have served in a number of developing countries which have been the recipients of British bilateral aid, and I have also had a fair amount of experience of multilateral aid in my association with the UN. Personally, I believe that the arguments are more finely balanced than Alan Walters suggests.

It is certainly true that bilateral aid has the twin advantages that it can be directed to countries for political reasons of national interest and that it is normally tied to British goods and services. Nevertheless, the first of these blessings is to some extent mixed, and the second can be a two-edged sword. Many developing countries tend to resent the fact that they are recipients of aid with political strings, however carefully disguised, attached to it. They also are inclined to resent aid being tied. The bilateral management of aid can also cause irritations for what might be described as "neo-Colonialist" reasons. Hence, the advantages of bilateral aid are not unalloyed. They give us jobs for our money.

As regards multilateral aid, it is equally true that it is at the mercy of huge international bureaucracies and is frequently directed to countries which are hostile to the United Kingdom. On the other hand, there is no doubt that we do acquire political credit from important developing countries for being generous contributors to multilateral aid agencies. Furthermore, if the multilateral agency is at all efficient, it's task of managing project aid is often easier than in the case of bilateral aid. Receiving countries do not resent being bossed about by a management team from a club of which they are themselves members. In these circumstances, the "neo-Colonialist" stigma disappears.

From the point of view of national interest, we do pretty well out of off-shore purchases from multilateral agencies. In the case of IDA, I believe that we get 14% of off-shore procurement, ie 140 pence for

/every £1

every £1 that goes into our 10% contribution to IDA. As regards UNDP, and the "soft" funds of the Asian and African Development Banks, I think that we get back more than twice what we put in. I think that we get about 30% back from what we put into LOME. Presumably the French get a great deal more because of the mainly Francophone nature of the ACP countries.

Against this background, I for one would not recommend a major switch in our aid programme away from multilateral aid in the direction of bilateral aid. From my three years in New York, my own feeling is that we have got the balance about right.

I hasten to add that I am strongly opposed to our getting carried away into making exaggerated promises in the jungles of the multilateral talking shops such as UNCTAD and Global Negotiations.

A.D. PARSONS
23 March 1983

10 DOWNING STREET

Kay CF

This is already on our file. PM replied to Molinter on 14/3/83

Please return to me

AD.

23/3

DJH

cc RJ

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

22 March 1983

AR 23/3

Dear Arthur,

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

I have seen your minute of 4 February to the Prime Minister copied to other members of E Committee about the report by EX(O) Committee on the criteria for the support of overseas projects. I have also seen the Prime Minister's reply and comments by other colleagues.

Subject to your reservation about the feasibility of establishing priority project areas, which I believe would be particularly difficult to apply and defend in the multifarious construction industry, I am content for officials to follow up EX(O)'s recommendations. I believe that these will lead to worthwhile improvements in the process of evaluation of proposals for Government support of overseas projects and more flexible and speedier decision-making.

I am copying this letter to the recipients of your minute.

Yours

TOM KING

The Lord Cockfield

OVERSEAS AID
Policy Review
Pt 3.

✓ Overseas Policy file

cc Sir Anthony Parsons

MR. COLES

US ECONOMY AND THE WILLIAMSBURG SUMMIT

Foreign and Commonwealth Secretary's minute of 8 March. I think the Foreign Secretary's ideas spring from somewhat vague and misleading remarks that were made by Don Regan and George Shultz. During the visit of Vice President Bush and Martin Feldstein I brought up the press reports that had appeared intimating that Don Regan was more interested in some exchange control mechanism and intervention than he had hitherto appeared to be.

Feldstein said that both Regan and Shultz were apt to talk in rather vague terms about possible initiatives which might have some desirable consequences. However, they would not be proposing any such initiatives themselves. In fact in some cases Feldstein said they were merely saying there were "two sides to the question."

I think much of the Foreign and Commonwealth's Secretary's understandings should be reviewed in that light. For example, it is quite inconsistent with existing decisions by the United States to "do more through the IDA". Indeed they have already announced that they are proposing a substantial reduction in the replenishment for IDA 7. And they have already reduced to about one-third their contributionsto the Inter-American Development Bank and the Asian Development Banks. At least these are the proposals of the Administration which need to be ratified by Congress. But it is very unlikely Congress will propose any increase; on the contrary they are more likely to decrease the contributions.

I suspect this will be the main message about aid from San Diego.

AW

ALAN WALTERS
22 March 1983

010

cc Sir Anthony Parsons

MR. COLES AR 5/4

The letter from the Prime Minister to President Mobutu expressed our support for IDA in terms of unmitigated enthusiasm. I think we should first of all tone down some of this boosting of the IDA. In part, we should do this because a multilateral IDA aid is, and must be, a substitute for bilateral aid. We do not control IDA dispersements at all. They are substantially under the control of the bureaucrats and the World Bank. Thirdly, IDA funds can be and have been dispersed to countries which have not only a very oppressive and poverty-creating regimes, but also regimes which are the dedicated enemies of the West and friends of the East. Fourthly, the expenditure of IDA grants may go to any country on the international bidding basis. I believe, however, there is an exception in the sense that low income countries which supply the goods get a preference. If we had bilateral aid, we could not merely choose the appropriate recipient on political grounds, but we could also ensure that the orders do come to the United Kingdom if we wish so to do.

As a matter of record, certainly before 1980, 40% of all IDA funds went to one recipient - India. India may indeed claim to be a poor country, but she has also produced an atomic bomb. This was hardly the sort of poor country that President Eisenhower had in mind when he took the initiative in 1960 to establish IDA. It is undoubtedly true that since Robert McNamara arbitrarily decided that China's income per head was low enough to make it a recipient of IDA funds, there is now an overwhelming numerical but naive case for expanding IDA funds. The pressure is already on, through Brandt, UNCTAD, NIEO agencies, United Nations etc. No doubt there will be similar pressures from the expansion of the Lome Fund as well as for additional capitalisation for the World Bank.

I think our basic policy should be to resist these multilateral aid agencies. Aid should be kept under our control and not distributed to be controlled and dispersed as the largesse of a bureacracy of an international agency.

ALAN WALTERS
16 March 1983

SUBJECT

File

cc Master Overseas Ops

c. FCO

10 DOWNING STREET

THE PRIME MINISTER

14 March 1983

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 30/83

Dear Mr. President,

I have read with much attention Your Excellency's letter of 26 January, in which you set out, on the eve of the recent meeting in Paris of the International Development Association, your deep anxiety over the economic problems faced both by your country and by other countries in Sub-Saharan Africa. I fully share your concern.

The United Kingdom has been a staunch supporter of the International Development Association since its inception in 1960. We much regret the present shortage of resources and have done our utmost to help overcome this by allowing International Development Association management to commit in full the £555m grant that the United Kingdom pledged under IDA VI. In addition to this we have joined other donors in making a special contribution to IDA for the fiscal year 1984. The United Kingdom will provide a further grant of £105m for that period.

As you know, the Association is currently paying particular attention to Sub-Saharan Africa, and I understand that the recent meeting of IDA donors' representatives in Paris considered concentration on the countries most in need to be of paramount importance. Sub-Saharan Africa was, of course, uppermost in mind.

/ Looking

Looking beyond the fiscal year 1984, while we realise the scale of needs we cannot yet be certain what volume of resources IDA VII will have. Many donor countries, like the United Kingdom, are having to implement stringent economic measures of their own. I can assure Your Excellency, however, of my Government's continuing determination to play its part in the negotiations leading to the seventh replenishment (IDA VII) which we hope will be a fully collaborative donor countries' effort.

I should like to take this opportunity to assure Your Excellency of my Government's continuing determination to assist in international endeavours in this field.

Yours sincerely

Margaret Thatcher

His Excellency President Mobutu Sese Seko Kuku Ngbendu Wa Za Banga

Foreign and Commonwealth Office

London SW1A 2AH

8 March 1983

Type letter pl.

MR 9/3.

Dear John.

We have received a letter from President Mobutu to the Prime Minister, in which President Mobutu asks for British support at the IDA meeting which took place on 1 - 2 February in Paris and outlines the major economic problems now facing Third World countries and in particular those African countries south of the Sahara. I attach the letter and translation. Although it is dated 26 January, bags from Kinshasa are infrequent and the letter did not arrive here until well after the IDA meeting had taken place.

The letter needs to be read against the background of Zaire's current efforts to persudade the IMF to grant Zaire a new programme of credit. President Mobutu seems to be trying to polish his country's image as a responsible member of the international financial community.

The IDA meeting in Paris to which President Mobutu refers was one of a series arranged to discuss the seventh replenishment of IDA's funds. The meeting was inconclusive on how the funds should be allocated but confirmed that sub-Saharan Africa is to receive particular attention in the financial years 1983 - 1987.

I enclose a draft reply.

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

DSR 11 (Revised)

RESTRICTED

DRAFT: ~~Minute/letter/telegram/despatch/note~~

TYPE: Draft/Final 1+

FROM:

Prime Minister

DEPARTMENT: TEL. NO:

Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:

HE President Mobutu Sese Seko
Kuku Ngbendu Wa Za
Banga of the Republic of Zaire

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

I have read with much attention Your Excellency's letter of 26 January, in which you set out, on the eve of the recent meeting in Paris of the International Development Association, your deep anxiety over the economic problems faced both by your country and by other countries in Sub-Saharan Africa. ~~You may be assured that~~ I fully share ~~this~~ your concern.

The United Kingdom has been a staunch supporter of the International Development Association since its inception in 1960. We much regret the present shortage of resources and have done our utmost to help overcome this by allowing International Development Association management to commit in full the £555 m grant that the United Kingdom pledged under IDA VI. In addition to this we have joined other donors in making a special contribution to IDA for the fiscal year 1984. The United Kingdom will provide a further grant of £105 m for that period.

Enclosures—flag(s).....

/As

As you know, the Association is currently paying particular attention to Sub-Saharan Africa, and I understand that the recent meeting of IDA donors' representatives in Paris considered concentration on the countries most in need to be of paramount importance. Sub-Saharan Africa was, of course, uppermost in mind.

Looking beyond the fiscal year 1984, while we realise the scale of needs we cannot yet be certain what volume of resources IDA VII will have. Many donor countries, like the United Kingdom, are having to implement stringent economic measures of their own. I can assure Your Excellency, however, of my Government's continuing determination to play its part in the negotiations leading to the seventh replenishment (IDA VII) which we hope will be a fully collaborative donor countries' effort.

I should like to take this opportunity to assure Your Excellency of my Government's continuing determination to assist in international endeavours in this field.

AR r. 3

cc RJ

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
SW1H OET

7 March 1983

N. S. P. R.

AR 7/3.

Dear Arthur

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

Thank you for sending me a copy of your minute of 4 February on this subject to the Prime Minister, a copy of whose reply I have also received.

I entirely support your wish to see adroit, flexible and speedy support from Government for overseas projects where this is appropriate. I therefore welcome the changes proposed in the report by EX(O) Committee and I believe these could take us a long way towards achieving our objectives in this field. I would hope that we can give officials clear guidance that, in implementing the system, we wish to err in favour of assisting worthwhile projects provided our competitors do not explicitly deny that they are offering mixed credit. As we all know, the problem of obtaining "reasonable evidence" of what other countries are offering is a notoriously difficult one, and we can be sure that certain of our competitors will not be within the spirit of the rules even if they are within the letter of them.

Paragraph 18(b) of Annex I (the Working Group's detailed report) recommends against <u>employment</u> being included as a main criterion for assessing applications for support. I think there are cases where the location of the jobs generated by a

Overseas Aid Policy Review pt 3

particular project could make employment a crucial criterion. In the case of British Rail Engineering, for instance, the task of restructuring the industry so that it can supply BR efficiently and so win more overseas orders, is particularly difficult given the location of many of the workshops in the depressed areas. The fact that BR recently secured the Congo order for the Shildon Works (happily without the need to resort to mixed credit) is proving very helpful to them in carrying through their restructuring plans. So I would hope the location of employment will continue to be given proper weight in appropriate cases.

I hope that under the new arrangements, my department will be kept fully in touch with ATP applications, and not just those involving British Rail Engineering as at present. Assistance has been given to a variety of projects with a large transport content, and some of the biggest projects coming up in Asia are transport projects, as I have seen from my recent visit to the Far East. We keep in close touch with the transport equipment, services and supplies industries, and with their overseas markets; and we have sponsored conferences and seminars to promote UK interests. I should therefore wish my officials to be kept in touch so that we can help in making the fully coordinated effort that is required.

Yours ever

David

DAVID HOWELL

2.60

cc RJ
Overseas
Aid

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

21 February 1983

The Rt. Hon. Lord Cockfield
Secretary of State for Trade

N. B. P. M.

A. J. C. 22/2.

Dear Arthur

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

Thank you for sending me a copy of your minute of 4 February to the Prime Minister enclosing the report by officials. I agree that officials should follow up the recommendations.

I note what you say about priority project areas and markets. However, it is important that we should be highly selective in our use of abnormal subsidy levels and mixed credit initiations. Otherwise we shall only provoke yet further use of export subsidies by our competitors and in the end we shall be the losers from this process. I therefore regard the drawing up of criteria which will help us to be more selective in cases above the "threshold" as an integral part of the package of proposals.

I am copying this minute to the Prime Minister, other members of E and Sir Robert Armstrong.

Yours

GEOFFREY HOWE

Trade: Terms Barriers, Non-Tariff pp3

JH 959

Overseas Aid

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

18 February 1983

Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
London SW1

N.B.P.M.

A.J.C. 21/2.

Dear Arthur,

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

You copied to me your minute of 4 February to EX(O) Committee members on the review of the criteria for support for large overseas projects, and the Prime Minister's comments on 8 February.

2 I go along entirely with your view of our overall objectives and your concerns: there are just a couple of points that I would like to underline before officials begin to work.

3 First, the growth of officially supported competition for major capital goods business in third markets means that our exporters are having to look increasingly to the Government for help. The value of any new procedures will be directly proportional to the extent to which they enable cases to be dealt with more speedily and effectively. I attach particular importance to a real measure of delegation as an alternative to the present bureaucratic straight jacket which inhibits decision making, introduces unnecessary rigidity, delay and uncertainty, and results in far too high a proportion of cases having to be referred to Ministers. From that standpoint, I would hope that it will not be assumed that projects above the specified thresholds are necessarily controversial and require Ministerial decisions.

4 Secondly, we really must tackle the problem of "initiation" effectively. It is intolerable that our greater scrupulousness and honesty in observing the spirit of the Consensus guidelines should lead to our being placed continually on the defensive, often by those who cynically exploit the laxness of the present disciplines. I go along with moves for a more effective and tighter regime for mixed credits. But until this is achieved, we must not place ourselves at an unnecessary disadvantage in competing for those major overseas opportunities that our companies contest competitively - as you have also pointed out, themselves only a small minority of such ventures.

5 I share your qualms about the practicability of setting priorities for project areas. This would appear to be not far removed from the establishment of sectoral priorities, a course which we rejected during a discussion in E Committee last year, and I certainly share your scepticism about our ability to defend such performances unless based on clearly enunciated criteria.

6 Subject to these reservations, I would wish officials to follow up the report's recommendations with all speed, so that the new procedures and the system of delegation can be introduced at an early date.

7 I am sending copies of this letter to the Prime Minister and other members of E Committee, and to Sir Robert Armstrong.

Yours ever

Peter

c RJ.

TRADE

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 21/8/5

15th February 1983

N.B.P.R.

A.J.C.

N.a.

Dear Arthur

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

TPM with ASC

I am generally content with the proposals in your minute of 4th February 1983 and in the EX(O) Committee Report which you attached. I particularly welcome the emphasis on flexible and prompt support for overseas projects, to which we attach equal importance in the defence sector.

Although my Department is not in a position at present to offer mixed credit facilities in support of defence sales business, we particularly welcome the more positive approach to reporting mixed credit offers as "matching" whenever possible. This is one of the areas in which I believe we are at a distinct disadvantage, from time to time, with our competitors, and where further flexibility could be of real advantage to the Defence Industry.

I am copying this to the recipients of your letter.

Yours ever

Michael Heseltine

The Rt Hon The Lord Cockfield

✓cc RJ

N. B. P. M.

A. J. C. 14/2.

FCS/83/30

SECRETARY OF STATE FOR TRADE

Criteria for Support of Overseas Projects

with AJC?

1. Thank you for copying to me your minute of 4 February on this subject to the Prime Minister, whose reply I have now seen.

2. Subject to the views of other members of E, I am content that officials should follow up the Report's recommendations. I agree with you that they should pursue an examination of priorities; but that we should look carefully at the results of their work.

3. I am copying this to other members of E and to Mr Hatfield in the Cabinet Office.

(FRANCIS PYM)

Foreign and Commonwealth Office
14 February 1983

File

RD Overseas Aid

10 DOWNING STREET

From the Private Secretary

8 February, 1983

E Cttee:- HO LPS
FCO DInd
HMT D/T
DES D/Trans
NIO Chief Sec.,
MOD CDL
MAFF D.Energy
DOE D.Emp

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

The Prime Minister has seen your Secretary of State's minute of 4 February enclosing a report by EX(O) Committee on the above subject.

Subject to the reservations expressed by Lord Cockfield and subject to the views of other members of E, the Prime Minister agrees that officials should be invited to follow up the Report's recommendations.

I am copying this letter to the Private Secretaries of other members of E Committee and to Richard Hatfield (Cabinet Office).

A. J. COLES

J. Rhodes, Esq.,
Department of Trade

Trade

N.B.P.R.

A.&C. 8/2.

h.a.

SECRETARY OF STATE FOR TRADE

To

Private Secretaries to Members of E + Sir Robert Armstrong:

The attached document should have been enclosed with Lord Cockfield's letter of 4 February concerning the criteria for support of overseas projects. to PM.

Apologies for omission.

Pat Fearey
PS/SOS(T)
8/2/83

C1997

ANNEX

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS
REPORT OF INTERDEPARTMENTAL WORKING GROUP

REMIT

Pt 2

This Working Group was set up following a discussion in E Committee on 25 February of UK trading policy and the practices of our competitors. The terms of reference of the Group were:

> "To examine appropriate criteria for extending exceptional financial support for overseas project business, bearing in mind particularly the need to improve long term competitiveness."

2 The Group approached this remit by considering:

a the objectives of Government support for major project business;

b the various instruments of such support and the international environment in which they operate;

c the operational criteria for applying these instruments in pursuit of the stated objectives;

d the possibilities for refining and improving these criteria, so that scarce resources are used to best effect.

WHAT ARE PROJECTS?

3 Project exports differ in several important respects from other exports of products or services, both in scale - normally at least £20 million of UK value and often much more - and in their multidisciplinary nature, often involving a number of different suppliers of goods and services in for example airports, irrigation schemes, or power stations. Projects arise mainly in the developing countries, and each is a "one off" in that the technical, environmental, political and financial circumstances differ every time. The skills of the lead contractor are crucial, even though most of the benefits from winning a major project - usually some 80% - go to a host of sub-contractors and through them to even more suppliers all selected competitively, not to mention the parallel benefits to those providing finance, insurance, shipping and other project services.

4 This dispersal of benefits makes it difficult to estimate the proportion of UK trade attributable to project business. Estimation is further complicated by the fact that neither the trade statistics nor ECGD's business figures identify projects separately, since project-related orders are not necessarily exported together. Our best assessment is that, in terms of initial sales, projects account for between 5% - 10% of UK exports. These first-order figures understate the value of such business in related orders and the gains to future earning prospects. Although most projects won by UK bidders benefit from ECGD insurance and interest support, only a small proportion of them receive additional and support from the Aid/Trade Provision or other official instruments.

WHY SUPPORT EXPORTS?

5 Funds to support large export projects are inevitably a scarce resource. Subsidies paid to win export orders involve a higher burden of taxation on the economy, including industry. In addition, the competitive pressures faced by other sectors of industry are likely to be worsened to the extent that the support for large projects pushes up the exchange rate, with the consequence that export of other goods are lower and imports higher. It is essential therefore to ensure that the benefits of project support outweigh these potential costs. This is most likely to be the case if the support raises the long term potential productivity and output of the economy by improving the competitiveness, profitability and future market prospects of British exporters as a whole.

6 The arguments for government support for project bids are discussed at Annex A. These arguments rest on the special risks and uncertainties of project business and also on the propensity of other governments to support their national bidders. However, the justification for agreeing support must look beyond the business immediately at stake and give predominant weight to the contribution that winning a particular project can make to the competitiveness and viability of the activities involved. In this respect, support for export projects should be designed to complement the aims of industrial policies.

OBJECTIVES OF PROJECT SUPPORT

7 The central aim of industrial policy is to secure a profitable, competitive and adaptable productive sector by creating a climate conducive to enterprise, by helping to raise industrial efficiency, and by encouraging the development of new improved products and processes. Amongst the subsidiary means through which this central aim is pursued, those most relevant to the field of large overseas projects are:

a Increased UK output and improved company performance assisted by selective financial instruments; and

b Encouragement of the development and rapid adoption of key technologies to maintain competitiveness".

c Tactical support for UK companies to ensure competition on equal terms in world markets.

8 Annex B gives examples of cases through which it is hoped that these broad aims may be realised more specifically by securing particular projects. Within the overall aims of industrial policy, support for projects is directed towards:

a concentrating support on UK bids which would establish British competitors in particular markets, for example by setting reference points for future competitions, establishing market "beachheads" from which follow on business may accrue, or by establishing British technical standards in a territory;

b confining support to UK firms which have clearly established their basic competitiveness, both on price and performance, and seeking to ensure that winning the project in question would further benefit a viable market strategy;

c using the lever of Government support to encourage desirable activities which might otherwise not arise, for example new project groupings, closer links between consultants and contractors, international co-operation between suppliers, more aggressive pricing, or more imaginative marketing;

d seeking the elimination of "unfair" competition, both by working within international fora for voluntary constraints on the use of distortive measures, and by deploying our own support in ways which neutralise competitors'.

SOURCES OF SUPPORT FOR PROJECTS

9 The main sources of Government support for UK firms bidding for projects overseas are:

DIPLOMATIC - representation on behalf on UK interests to purchasing Governments and their agencies by representatives of HMG, eg by visiting Ministers or from Post.

ECGD- has a dual role as export credit insurer and as a channel for interest support, providing buyer or supplier export credits guaranteed at fixed interest rates, and also additional special cover for tender-to-contract, bonding, joint-and-several, and other risks.

OVERSEAS PROJECT FUND - assistance with pre-contractual costs, including feasibility studies and consultancies.

SCIENCE AND TECHNOLOGY ACT - assistance for specified development or research costs arising from export projects.

INDUSTRY ACTS - assistance to companies incurring special capital costs in the pursuit or commission of projects.

AID AND TRADE PROVISION - offers of bilateral tied aid, linked to export credit used to counter uncommercial soft terms or other "associated financing" offered by competitors' Governments. Further details of these schemes are at Annex C.

10 This range of support is broadly comparable in scope, though not necessary in value to what is known to be available to exporters in other countries. Annex D illustrates the project support provided by our main competitors. It is believed, on the basis of reports and enquiries, that the scale and flexibility of the schemes operated by some - though not all - competitor countries (especially France and Japan) is significantly greater than in the UK. Moreover, a criticism from industry is that some of our competitors appear better geared to use their supportive measures for maximum impact in competitive situations.

CRITERIA

11 Although the categories are not formalised under the present procedures, applications for support are examined effectively against three kinds of criteria:

a Qualifying - representing the test of eligibility and differing in certain respects as between one scheme and another; examples include the minimum scale of UK content in a contract and the requirement for "additionality" in OPF cases;

the developmental and value-for-money tests applied to ATP cases; and the general requirement that any bid supported is intrinsically competitive.

b Quantitative/qualitative - common to all schemes and used to assess the strength or weakness of the particular claim to support. Reflecting the wide diversity of projects, their constituent parts and demands, a range of factors are considered in appraising cases eg market penetration, launching of new technology, the generation of employment, the maintenance of capacity etc.

c Background factors - these should take into account such items as evidence of other offers of soft credit and the room available under ECGD's country limits.

12 Comparatively little time was spent discussing the qualifying criteria. Many of them represent statutory requirements; all are intrinsic to the specific aims of the different schemes and are liable to review in terms of effectiveness and changing policy priorities. The Working Group considered that it would be best for such criteria to be reviewed individually as need arose.

13 The Group therefore concentrated around the second category. The current mechanisms of project support have evolved by adapting existing financial instruments and their associated criteria, not originally designed for the pursuit of overseas business on a commercial basis. One consequence, producing a valid criticism of the presentation of ATP cases in particular is that the open format too often encourages dispute on which factors are relevant in a particular case, as well as on their relative merits. The proposed changes outlined below should produce a more consistent and workable framework.

THE EVALUATION PROCESS

14 The Group agreed, in line with the Financial Management Initiative, that the criteria for assessing applications for support must reflect as closely as possible the stated objectives of that support. They concluded that the list could be simplified and refined under four main headings as follows:

a PROJECT SPECIFIC INFORMATION - quantative information related to the project and the support required. The following quantifiable aspects were identified as those which, to the extent that they were applicable, should be included in submissions:

(a) Contract value.
(b) Value of UK content.
(c) Number and value of UK subcontracts.
(d) Size of UK and world market for particular products or systems.
(e) Employment.
(f) Subsidy element.

b MARKET EFFECTS - the establishment of a product in a new promising market or the introduction of British standards in a significant product area, or alternatively increasing market share/penetration through the establishment or reinforcement of a UK presence in a particular market.

c PRODUCT EFFECTS - the launching and establishment of new technology or improved mature products, for example by supporting reference sales which demonstrate UK capability in a key market in order to create opportunities elsewhere.

d PRODUCTIVITY EFFECTS - reinforcing the ability of a company to realise investment and improvements in processes, productivity, marketing potential, or project capability, for example through the improvement of production technology or maintenance or increase of throughput to sustain or achieve competitive unit costs and pricing.

15 In assessing market effects, the Group proposed that geographical country background assessments should be produced to assist the consideration of market based cases. It was acknowledged that the strategic importance of, or prospects in, a territory could only be one factor in the assessment of a case, and not necessarily a determining one; these considerations would, however, clearly be significant where the main claim to support rested upon future prospects in a territory. In this context the Group agreed that it would be valuable to have available a set of geographical assessments prepared by DOT. These assessments should include a statement of key market data for each territory such as population, GNP per head, imports/exports, debt ratio, ECGD rating and limits and other relevant aspects.

16 As regards product effects the Group considered that the clearest benefits were likely to arise from supporting cases involving the establishment or launching of new technology either in the product or the production process. Nevertheless, there may be other cases where benefits will arise from securing increased market penetration with projects based on relatively mature products, especially if this represents part of a strategy of achieving a higher world market share leading to an improved long term competitive position for the UK firms or industry in question.

17 As regards productivity effects it was agreed therefore that applicants should be asked how success in the project in question would help to improve their longer term competitiveness and viability. Normally this would entail relating the contract to the company's overall strategy in terms of marketing, production and product development. A statement of this kind will not only assist those concerned in judging the merits of a case but will also encourage companies to look critically at their reasons for pursuing a particular opportunity and why it is important to them. This approach also carries the presumption that only companies who can show a reasonable expectation of a longer-term competitive and viable future will qualify for support.

18 Two factors which have hitherto featured as key criteria in their own right are follow-on orders and the maintenance/generation of employment. In practice both concepts are covered by the headings listed above:

a) follow-on orders - represent the tangible realisation of the market, product or productivity effects. These benefits are difficult to quantify, especially at the stage of project evaluation. However, since it is clearly desirable in assessing applications to take a view of the applicant's own judgement of the probability and size of continuing or additional business on normal commercial terms, the Group agreed that this should be

among the factors addressed in the submission.

b) whilst arguably less speculative than the prospects for follow-on business, the Group did not consider that employment should be included as a main criterion - not least because every successful project should lead to the generation or maintenance of some employment. Nonetheless, it was agreed that an applicant's assessment of the employment effects, identifying the localities where it is likely to occur, should be given for information in submissions.

19 The Group agreed that proposals making a strong case on all or some of these basic criteria should be dealt with on a delegated basis, provided the support requested fell within acceptable limits in terms of the level of subsidy sought, the availability of ECGD cover, and the defensibility (in terms of International agreements) of offering mixed credit. The following threshold conditions below which cases would be dealt with in this way, were proposed:

(a) cases involving the use of ATP with an overall subsidy level from all project specific sources (including Industry Act and Science and Technology Acts) greater than that implied by a "basic" ATP package (ie one implying a 25% grant element for OECD purposes and 75% ECGD cover on Consensus terms for the balance). The figure is calculated by discounting the total financial package at prevailing market interest rates, and will therefore vary over time as market rates change. At current medium term interest rates (around 12%) the implied subsidy threshold would be 34%.

(b) cases not involving ATP to be subject to another, but lower subsidy threshold currently under discussion separately between HM Treasury and ECGD.

(c) applications regarding follow on business in a market where the original project benefitted from ATP.

(d) cases involving "contract splitting" except those involving tehnical cooperation.

(e) cases requiring the initiation of soft or mixed credit (see discussion below).

(f) cases which either require an increase in ECGD's country exposure beyond that which the EGC is able to agree or which would leave insufficient room within the country limit for a reasonable amount of commercial business.

20 Exceptionally strong grounds - in terms of the criteria in para 14 - should be required for providing support beyond these thresholds. It was agreed that assessment of claims in this category would be helped by reference to a list of those project areas and those overseas markets offering particularly good prospects. The Department of Trade and Industry would assess the feasibility of drawing up such a listing - which would of course be subject to periodic review, and could not be exclusive.

21 Procedurally, "exceptional" cases should be assessed as now through the interdepartmental machinery of SCAT and/or EGC. Where agreement cannot be reached by officials within a timescale consistent with competitive market requirements, it was proposed that a submission should be made by the sponsoring Department for collective determination by Ministers.

MATCHING AND INITIATION

22 Ministers have agreed that, while limited and judicious initiation of mixed credit offers can be justified in support of strategically important project opportunities, the prime function of the ATP should be confined to matching competitors' offers of mixed or other tied aid credits which threaten competitive UK bids. Such a policy complements the UK interest in securing greater international control, and preferably elimination, of subsidies which distort trade, and within this aim, HMG's support for OECD and EC arrangements governing terms and notification arrangements for tied aid credits. In practice the majority of ATP offers have been notified within these Arrangements as initiations, apparently contradicting our general policy and weakening UK efforts to persuade other countries to curtail their own activities in this area. In many instances however, this apparent contradiction reflects the inadequacies of the notification Arrangements rather than policy derogations.

23 Our use of mixed credits, and the transparency of our activities in this area, is based upon strict adherence to the self-denying ordinances agreed within the OECD and EC Arrangements, described in Annex E. Our punctiliousness in this regard appears not always to be shared by others notionally bound by the same obligations, who have in particular proved adept at avoiding or evading prior notification requirements. In consequence, our use of the ATP (and of ECGD's rapid matching facility) for specific matching has been inhibited by the difficulty of obtaining specific and official confirmation that others have offered soft credit terms. In the absence of such formal confirmation, any offer of ATP is deemed an initiation, even when made in response to terms believed to be on offer from the competition.

24 This is clearly an artificial and anomalous situation, which the Group proposed should be remedied by pressure on other OECD and EC members to tighten up the notification Arrangements, and also by a more aggressive approach within the current rules. On the former front, ECGD would raise with their counterparts the apparent failure of the Arrangements to catch all the activities of national financing agencies in formulating mixed credit offers. In addition, ODA were pursuing the possibility of establishing a system of contact points in other aid agencies, as a basis for checking and eventually notifying tied aid credits and allied transactions.

25 On notification procedures, HM Treasury will continue to demand exceptional justification for ATP offers which ECGD feels constrained to report as initiations; they would however be content, when satisfactory prima facie evidence of competitors' offers is available for a responsive offer to be made provided ECGD can report it as a matching offer. When such evidence is available, it is proposed that ECGD make an enquiry of the appropriate counterpart agency, requesting confirmation or denial of the evidence within a short timescale; such enquiries would be copied to other Arrangement members. If no denial is forthcoming, an

offer of ATP can be made and notified as specific matching, referring to the earlier enquiry.

26 Notification on this basis should significantly reduce the number of responsive ATP offers which become deemed initiations; it will not however eliminate them completely. For example, some countries require financial terms to be entered "blind", with no subsequent negotiation, at the time commercial bids are opened. There is no scope for specific matching in these circumstances, although the proposed network among aid agencies may elicit prior information about others' intentions.

CONCLUSIONS AND PROPOSALS

27 Major projects can have a crucial impact on the future growth and viability of national industrial capabilities. Official financial support in various forms in present circumstances is an intrinsic feature of international competition for project contracts. Without access to comparable support facilities UK companies will be disadvantaged. However consistency with domestic macroeconomic aims requires that support should be confined to projects offering long-term benefits for national competitiveness and productivity. The widely varying natures and circumstances of different projects require that the decision whether to provide support remains essentially a matter for judgement of the particular requirements in each case, albeit based firmly on the criteria identified here. Accordingly, the Group recommended:

a cases for support should be prepared in a uniform manner on the basis of the quantitative and qualitative criteria specified in para 14. Case papers should make clear the grounds on which support is considered justified, linking the project to the strategic aims of the applicants and the general prospects of the market concerned. As background to the latter assessment, DOT should produce country summary sheets, as described in para 15.

b cases seeking support within the threshold conditions identified in para 19 should be dealt with on a delegated basis. Cases seeking support which would breach one or more of the threshold conditions must establish exceptional grounds, through the procedure outlined in paras 20-21. To assist consideration of such cases, the Departments of Trade and Industry should seek to identify those areas of project activity and those overseas markets offering exceptional potential.

c ECGD and ODA should press for improvements in the international Arrangements for notifying offers of mixed or tied aid credits. At the same time, ECGD should adopt a more positive policy on notifying matching offers, following prior inquiries based in apparently sound information.

ARGUMENTS FOR PROJECT SUPPORT

1 A wide range of arguments is used to justify industrial support in particular circumstances. Nearly all of these arguments may apply in some cases to firms benefitting from ATP. The arguments for support derive from some of the general characteristics of capital goods projects and firms involved. This area of activity frequently involves:

i risky business with heavy dependence on overseas sales in developing countries;

ii some element of technological innovation which may involve "learning curves" in production and sales;

iii an intermittent flow of large individual orders;

iv reputation and familiarity to purchasers are major factors determining success in obtaining orders. To some extent reputation rubs off on the main subcontractor firms in the industries involved and even on the country as a whole;

v major orders generate significant additional business in spares, complementary products, servicing etc.

Not all these characteristics apply to every project. But there is a clear tendency for many of them to be present in assisted projects. Because a larger scale of operation allows R&D and other overheads to be spread more widely and because a more even flow of orders enables production to be organised more efficiently there is a presumption of significant economies of scale in most of the industries involved.

2 These features do not in themselves constitute a case for support. But their presence gives reason for thinking that a number of commonly accepted arguments for support would be especially relevant. It is likely, for example, that there may be benefits accruing to the economy in general but not just to the profits of the contractors directly concerned through the generation of related orders following the enhanced reputation of industry in overseas markets. It is also quite possible that technological and other expertise acquired by related R&D and practical experience may "spin-off" to other companies. A further argument is tha these wider benefits could be lost because the lead companies are unduly risk averse, while financial markets may be too anxious to get quick returns in a situation where it may be necessary to accept a short-term loss in acquiring expertise or establishing new markets in order to build up a profitable long run position.

3 For a number of industries, project success is a crucial element in determining their ability to win continuing business in world markets. Manufacturers of process plant or transport systems, for example, cannot base their whole sales strategy on the supply of small quantities of equipment as sub contractors to foreign lead contractors nor rely solely on replacement orders. Projects are decisive for these industries in establishing a world position, in reputation, in capability and ultimately in competitiveness. In order to achieve project success, a main contractor has to create and maintain a project capability including management and design teams with the required blend

of skills. The ability of UK lead contractors to support such teams in the long run determines whether the UK remains in particular sectors or withdraws to the detriment, not only of the large enterprises but also of the host of sub-contractors and suppliers which are dependent upon the main contractors.

4 These imperatives are of course not unique to UK industry, and we know that project business plays a key part in the industrial strategies of many of our competitors. This is stated clearly in French and Japanese economic plans, for example. These plans stress the strong secondary effects of project orders on domestic capabilities and future earning prospects for a broad section of manufacturing service industry. Moreover, they identify project business as a bouyant market area, growing at 10% pa in value through the current international trading recession, as developing countries have chosen to "projectise" their procurement from aid funding.

5 Competition for an improved or sustained market share represented by major project success is fierce, and virtually every foreign competitor for such projects benefits to some extent from concessional Governmental financial support, given with varying degress of transparency, often incorporating aid funds tied to the specific project. Success in the world market cannot therefore necessarily be secured solely on the basis of price and performance. These are critical factors but over the last ten years a new factor has emerged: competition on the terms of finance. This is particularly important in the project field because the main opportunities lie in the developing markets whose Governments have become increasingly accustomed to receiving credit on soft terms as part of a project finance package. Frequently, the availability of such funding is a factor which determines the timing of investment as well as the choice of partner.

6 It has to be emphasised too that it is not just some countries which regard soft-terms as the norm. This expectation exists in most developing markets in SE Asia, South and Central America, the Middle East and Africa. For UK firms to compete in this environment, even when they are fully competitive on their basic price and technical performance, it is essential that the financial terms offered are at least equal to the concessional finance available from competitors' Governments. But, however necessary Government support may be to offset the practices employed by others, that is not a sufficient reason for providing support to every UK firm which find itself in such a situation.

PROJECTS IN THE POWER GENERATION AND OTHER SECTORS SECURED WITH THE ASSISTANCE OF ATP.

1 The ATP is HMG's response to companies which have themselves secured a position from which they can win a contract. Their bid is competitive, they have convinced the customer of their competence to perform. The ATP is required to match others offers and to finally tip the scales in favour of the UK bidder.

2 The domestic market for power generation equipment is depressed. UK suppliers therefore need to look overseas for sales and projects in this sector arise largely in the third world. The UK's generating requirements differ significantly from those in the third world where it is vitally important to use natural or renewable resources to a far greater extent then necessary, in the UK. The industry has met this challenge by developing the following:-

i Gas turbines combined cycle - the combination of gas and steam technology allows high fuel efficiency. By capturing and utilising waste heat from the gas turbines a significant additional power output can be obtained. In order that GEC and John Brown Engineering could establish reference plants in Bangladesh and Burma respectively ATP was provided. In the case of Bagladesh ATP of £4.68m was offered in support of a contract valued at £17.3m. At the then long term interest rate of 15% a subsidy of 48.9% was implied. For Burma an aid grant of £2.2m was provided towards the cost of a project valued at £11m. The implied subsidy was 32.6% on a long term interest rate of 13%.

ii Hydro Electric - Until Balfour Beatty were awarded a large part of the project for the construction of the Victoria Dam in Sri Lanka (financed through the UK's bilateral aid programme) the UK had no track record of significance in the field of large hydro electric schemes. Since then Balfour Beatty have begun to work with a Swedish consortium in Indonesia for the construction of a large hydro scheme at Mrica. ATP was required in order to match a French offer and the aid was extended to cover the Swedish participation. In return the Swedish companies have provided a written undertaking to reimburse the UK by making available to Balfour Beatty genuinely additional business equivalent to the value of the remaining Swedish content. The ATP input was £12m against a UK value of £50m. The implied subsidy was 49% against a long term interest rate of 14.4%.

iii Mini Hydros - There is a requirement throughout the developed world for power generation on a small scale using available water resources as the fuel source. Balfour Beatty working closely with a number of UK contractors in the power generation sector (a consortium DoT/DoI encouraged) have developed small hydro plants with associated or back up diesel units which can provide power in the required small amounts over a large network area. In order to take advantage of a requirement in the Philippines for this type of equipment and establish a reference point for further opportunities in that market and elsewhere ATP of £4.5m was provided to secure an initial order worth £14.5m. On the basis of a 12% discount rate the subsidy involved represents approx 34%.

iv Wood Burning - This is a direct response to the needs of the third world. As a substitute for expensive imported oil the use of wood, a renewable and natural resource, to provide the fuel for power generation has been developed. Such a project not only provides cheaper electricity but also direct employment to those engaged in the plantation. In order to establish the reference plant for such a unit ATP of £1.9m was provided to the Phillipines in support of the project valued at £8.6m. The subsidy was 37.4% in a 15% long term interest rate.

3 In the Telecommunication sector the use of aid the simple threat of using, ATP to match mixed credit offers from others was instrumental in helping secure orders for STC Ltd for underwater cable thus helping them develop their market share.

4 In the case of the India/Malaysia Submarine telecommunications contract it was a medium haul system at a time when all other new systems were short haul; it represented a major opportunity to establish STC in one of the first inter-country projects sponsored by ASEAN organisations. It also represented the first system in the new Indian Ocean market for submarine systems and was considered to be of major long term importance to maintain STC in their export sales to third markets at a time of increasing, French, Japanese and Asean competition.

5 Since award of the contract STC have won a number of similar contracts against fierce international competition on normal commercial terms case of Greece/Cyprus cable the threat of matching French concessional terms neutralised that competition and STC won the business without, in the event, the need for aid funding.

Annex C

INSTRUMENTS USED IN SUPPORT OF OVERSEAS PROJECTS:-

a Overseas Projects Funds (OPF)

The OPF provides financial assistance towards the precontractual costs of large turnkey or package projects: also towards the costs of certain types of consultancy and feasibility contracts. The assistance is repayable if an implementation contract is won. Administered by the Department of Trade the OPF has a budget of £5.6M for 1982/83. In 1981/82 a total of 112 offers were made amounting to £7.6m. The value of assistance actually paid was £3.4m. As the guidelines for OPF have recently been revised it is likely that the number of cases, but not the total amount of assistance provided, will decrease.

b Product Process Research and Development Scheme (PPRDS)

Under the Science and Technology Act 1965 financial assistance is available to encourage and enable companies to undertake development work which will improve the quality of their product and thus their competitiveness. The Project and Export Policy Division of DOT monitors that part of the PPRDS budget allocated for development work arising from project business overseas. This amounts to £5.747m in 1982/83. In 1981/82 the sum spent was £130,000. The assistance is provided in one of three ways: most usually a grant of up to one-third of qualifying costs, or a shared cost contract in which HMG will provide up to 50% of qualifying costs (in return for a levy on commercial sales), and thirdly the possibility of placing a Pre. Production Order (PPO) for items and equipment to be loaned to users for trials in their particular environments.

c Industry Act.

Selective financial assistance is available under sections 7 and 8 of the Industry Act 1972 "to create, expand or sustain selective capacity in an industry, or in undertakings in an industry." Under section 7 assistance is provided where it is likely to provide, maintain or safeguard employment in an Assisted Area. Section 8 assistance is available for projects which are in the national interest. As in b above PEP monitors that part of the respective budgets allocated towards costs arising from expenditure in connection with the pursuit of overseas projects. Section 7 budget for 1982/83 is £3.24m and for section 8 £1.402m. The spend in 1981/82 under the Section 7 allocation was £1.95m. There was no spend under Section 8. From the main DOI Industry Act budget £4.7 spent in 1981/82 can be attributed to expenditure incurred on project related investment. Assistance can be provided in a number of ways: in the form of a direct grant to the company or as a guarantee of some kind to a bank that a loan granted will be repaid or to provide protection against changes in the exchange rate.

d The Aid and Trade Provision (ATP)

The ATP is part of the bilateral aid budget. It was established in 1977 as a response to the aggressive use of aid funds by other countries in support of their firms seeking business in developing countries. It is essentially a matching instrument designed to offer aid in association with officially supported export credit to match offers of mixed credit from competitors for business being pursued by UK companies. In some circumstances an ATP-supported mixed credit may be offered in the absence of competing offers, in line with guidelines approved by Ministers. The ATP allocation for 1982/83 is £55.25m. Expenditure incurred in 1981/82 amounted to £53.7m. The number of projects with a UK content in excess of £20m considered for ATP funds currently amounts to 28%.

e Export Credit Guarantee Department (ECGD)

ECGD can provide buyer or supplier credits for UK companies pursuing overseas projects business. Under such arrangements credit finance at fixed interest rates (in accordance with the matrix agreed within OECD) is made available, involving in recent years a substantial subsidy cost falling on public expenditure. In addition insurance provision can be provided against a premium not only for the basic credit risk but also for bonding, joint and several and tender to contract liabilities. In 1981/82 the cost of ECGD support for fixed interest rate finance for exports on credit terms of two years or more was £586m. This is a wider area than "projects".

OVERSEAS PROJECT SUPPORT: MAIN COMPETITORS

1 FRANCE

The distinctive feature of the French technique in pursuit of overseas projects stems from the absence of a fully effective capital market and the consequently essential role played by Government in the creation of French industry. Credit at subsidised rates is pervasive in the French economy. In 1979/80 44% of all loans and credit were subsidised, with the Government or semi-public institutions (regional banks etc) providing over half this amount. There has been a steady increase in the proportion of subsidised loans since 1974 following the introduction of new subsidies to encourage exports or investments. In 1979/80, 78% of loans to exporting companies were subsidised, involving a total of about £5 billion.

In France there is no single entity which performs the functions of our ECGD, but a similar range of facilities is provided through credit insurers (COFACE) and Government sources (DREE, Caisse Centrale, Banque de France, Trésor). A recent OECD study of Consensus participants estimated that French interest rate subsidies for 1980 were about £1 billion - much the highest figure recorded and more than double that estimated by OECD for the UK. For the two years 1977-8, French officially supported export credits on terms over 5 years totalled more than twice those of the UK, suggesting a heavy concentration on projects.

France's aid total is high: £1.6 billion in 1979 (W Germany £1.6 billion, UK £1 billion), 40% of which went to her overseas territories and departments. Fully tied bilateral aid accounted for £730m of total aid (UK £420m), 90% of which went to Francophone countries, largely on grant terms.

The French mixed credit programme is far more extensive than that of the UK: in 1980, notified French mixed credits totalled £2,120m of which the aid portion was £350m (UK £70m). The French are aggressive users of mixed credits and have little hesitation in initiating. It is also difficult to know whether there is a firm French offer to match, since the precise terms of mixed packages are rarely notified until after the contract has been won. The covert use of tied aid by the French is made more difficult to combat by their use of established lines of credit to part or wholly finance capital projects. In 1980 for instance the French notified us of 12 lines of mixed credit (worth £413m, aid portion £160m). By contrast, UK recently opened its first line of mixed credit with Malaysia for £77m.

Furthermore, the French have several means of assisting firms with pre-contractual expenses and unlike our own Overseas Projects Fund repayment is not required if the contract is won. They also have a military aid programme which is much more substantial than HMG's and is used very effectively.

2 JAPAN

The Japanese industrial structure is characterised by:

(a) large industrial groupings comparable in size with multinational companies; (b) a complex, highly efficient and Government-regulated banking system closely geared to the needs of industry; and (c) intense competition between companies and between banks. Most of these industrial

groupings are involved in overseas projects. They benefit from economies of scale; extremely efficient and flexible production; large R&D programmes often with major government involvement; and the resources to diversify rapidly into new and growing markets. The Government role in implementation, usually through MITI, is opaque to outsiders but highly effective, particularly in compaigns to penetrate new markets when a wide range of methods is used including manufacturing investment in the markets to be attacked.

The Export Import Bank (EXIM) and MITI offer the usual range of credit facilities within the Consensus and insurance but these are less extensive than ECGD. EXIM also offers import development loans at 6-9% interest repayable over 7 to 20 years to countries for the purpose of gaining access to resources which Japan needs. Aid development loans have a similar purpose and in theory are unrelated to export credit lines so that the Consensus does not apply. Japanese producers generally receive a higher than usual proportion of contracts financed in these ways.

The Japanese bilateral aid programme ($2.6 billion in 1978), formerly concentrated in the Far East and SE Asia, has been extended to include some Middle East and African countries. Japanese aid is strongly motivated by commercial, and hence political, objectives, since the expansion of trade is a pre-eminant objective. An indication of this slant is reflected in the distribution of aid. In 1978 17% of Japanese aid went to recipients, including Iraq, Brazil and Algeria, with per capita incomes exceeding $1000. The comparable UK figure was 5%.

Japan claims to have reintroduced mixed credits only fairly recently. The grant element has generally been above 25% and therefore has not required notification under the Consensus before contract award. Japanese firms can also receive assistance with their pre-contractual expenses for projects. There are indications that these are more widely available and more generous than those which UK firms receive.

3 GERMANY

In the Federal Republic of Germany, export credit and insurance are made available through two Government backed private companies (Hermes and AKA). AKA and the German Bank for Reconstruction and Development (KFW) are both able to provide a limited amount of domestic finance for projects at slightly below market rates. German exporters and their banks carry a higher risk factor than their French, Japanese or UK competitors. German officially supported export credits run at about the same level as in the UK. In 1980 the German figure was $2.5 billion compared with UK £1.2 billion. However German support was more concentrated covering 14% of total exports compared with 35% in the UK.

The German aid budget, while lower as a percentage of GNP, is substantially larger in money terms than the UK's: 1979 disbursements wer £1.6 billion compared to £1 billion for the UK. Government policy is to increase the aid budget at a rate of at least double that of Federal expenditure as a whole in the period to 1983. Germany formally ties a smaller proportion of its aid than its major competitors, but DIN specifications give German firms an inside track. Exploitations and safeguarding of raw material supplies in an important factor in

determining the direction of the German aid programme. There is also evidence that the Germans systematically subsidise particular industries from their aid programme. In 1976 part of the aid budget was earmarked for purchases from the German Shipbuilding industry. This allocation was widened subsequently to cover other areas and in 1978 carried a ceiling of about £120 million.

While German aid disbursements in 1979 were less than twice the UK's, their offers of mixed credits (£260m) amounted to more than three times the UK's (approximately £80m), although this position was reversed in 1980. German use of mixed credit seems to be mainly directed towards capital goods' sales to developing countries and securing supplies of raw materials. A feature is the application of a grant element marginally over 25% to avoid prior notification. An unusual source of mixed credit can be made available through KFW. Normally the latter provides export credits by borrowing on the capital market and on-lending at fixed commercial rates without any official subsidy. However, they can blend such borrowing with funds advanced from the European Recovery Plan.

Germany has been increasingly channelling money through DEG, a government owned investment corporation, to give German industry a larger share of overseas mining projects. Allied to this, substantial tax incentives have been deployed to encourage investment in developing countries. Germany has also been dispensing considerable military aid for more than ten years, particularly to Greece and Turkey.

4 USA

The US Export Import Bank (EXIM) provides direct financing, normally up to 55% of the contracts but occasionally for 100% and insurance to the project indsutry. Extended duration of loans is used as a mechanism for winning business

Despite decrying the use of mixed credits the USA is prepared to match French offers of mixed credits through EXIM long term soft finance. For instance this helped them win a £30m locomotive contract in Mexico against French, UK and Japanese competition.

US domestic manufacturing can establish wholly owned subsidiaries for the exclusive purpose of exporting. Such subsidiaries enjoy deferral of corporation income tax effectively reducing tax on profits by some 25%. GATT regards this practice as an illegal export subsidy under GATT laws.

Financial assistance towards pre-contractual expenses of US firms is available on lines similar to that provided by DOT. Indirect assistance to UK firms involved in overseas projects comes from Government domestic cash and military spending exemplified by massive federal programmes such as that on space.

ANNEX E

MATCHING AND INITIATION: THE NOTIFICATION PARADOX

1 The Aid and Trade Working Party and the Aid Review both emphasised the links between the deployment of ATP and our commitment to international moves to limit the use of similar instruments by others. Thus, the Aid Review recommended inter alia that ATP should be available to match competitors' offers of mixed credits or hard aid loans, while the ATWP proposed more specifically that we should stand ready to use ATP to match notified offers from competitors which has a grant element in the range 15%-25%, but that we should not ourselves initiate ATP offers in this range. In principle, this policy complements the agreements to which we subscribe within the OECD and the EC, on notification of tied aid credits. In certain cases it has proved hard in practice to reconcile the policy of protecting UK exporters from predatory aid-supported financing with out wider aim of containing the spread of such activities by ourselves adhering to the notification Agreements.

2 These notification Agreements are complex. Within the EC, members are required to give at least seven days' prior notice of all officially-supported credits with repayment terms longer than five years. Within the OECD, members are required to give ten days' notice of tied aid credits (any mix of aid with officially-backed finance) with a grant element less that 25%, and to notify "promptly" any such offers above 25% grant element. No

prior notice is necessary if a member country is "matching" an aid-supported offer which another country has already notified, though it remains necessary to advise other participants of the intention to match. While these Arrangements work well enough for "normal" export credit financing, they frequently prove inadequate when other sources of finance become involved.

3 The problems appear to arise from the institutional differences between companies, in the ways which they have devised to inject aid into financial offers to overseas customers, in the domestic relationships between the various agencies concerned. In thses circumstances, national export credit agencies do not necessarily know what financial terms, if any, are being offered by other national agencies for a piece of business, although there is supposedly an onus on those agencies to give general notice of their intentions through their respective export credit agencies. In fact, they - like us - naturally prefer to keep their intentions secret until the last minute. It is thus often impossible to obtain timely confirmation of soft terms believed by UK firms and Posts to be on offer from competitors, even when strong prima facie evidence exists to support this belief, and hence impossible formally to match them. At present, any UK response in these circumstances involves ECGD cover, and is regarded by ECGD as caught by the Arrangements, and therefore notifiable as an initiation. This opens ECGD to (often disingenuous) criticism from other export credit agencies. Moreover, since we adhere to agreements not to initiate mixed credits with a grant element below 25%, it entails our making

every ATP offer with a grant element of 25% or more, even when we are confident that harder terms would still match the competition.

4 The problem with matching is thus not necessarily that other countries are abusing their reporting obligations - although they sometimes do - but rather that those obligations do not invariably require prior notification; neither do they always catch the full range of credit softening devises available to other countries. Even when they do, the national export credit agency often seems to be among the last to learn of what is proposed. French mixed credits, for example, are usually assembled through two or even three different agencies, with Coface as a minority (and usually last minute) participant. German financing is similarly routed through agencies like the KFW, which the current Agreements do not always catch. The Exim bank is seldom involved in Japanese soft loan offers. Other countries, notably the US, are able to provide export funds on advantageous terms from commercial sources, also outside the Arrangements. It is therefore not possible to match, in the sense of responding to terms notified through the Arrangements, the activities of these countries; and UK "matching" using ATP is automatically deemed an initiation.

INDUSTRY VIEW

The Overseas Projects Board held a special meeting on 2 December to discuss the CSOP report at Appendix I of EX(O)(82)23. After detailed consideration, the Board reached the following main conclusions:

(i) while there was no clear evidence that current criteria were unsatisfactory, the general aim of refining them further was reasonable provided that they continued to be applied flexibly and dynamically as under present arrangements;

(ii) while employment effects were implicitly taken into account, the criteria ought to accord added emphasis to this factor;

(iii) more factual evidence should be provided to illustrate the extensive and growing support activities of competitor governments;

(iv) launching new technology should not be regarded as a key criterion for overseas projects, both because it was commercially sounder to try out pilot programmes in domestic markets, and because there was a danger of discrediting valuable opportunities involving conventional technology;

(v) identification of priority product sectors or geographical markets was not a practicable means of discrimination, and could only be arbitrary. They themselves could not suggest any basis for such discrimination;

(vi) it was extremely serious that UK should be identified as initiating when others had taken the first step, and this procedure should be corrected;

(vii) to put ATP to best effect the UK should be prepared generally to initiate more aggressively - this was consistent with matching the procedures of others.

(viii) contrary to the argument put forward in the report support for overseas projects in sterling does not have an early ~~depressive~~ upward effect on the exchange rate since no impact is possible until repayments begin several years after the start of the project. Even then it is highly dubious whether any identifiable adverse impact would result considering the complex compound of factors

Prime Minister

Agree that officials should follow up the report's recommendations, subject to Lord Cockfield's two reservations overleaf?

RESTRICTED

PRIME MINISTER

Yes mt

A.J.C. 7/2.

CRITERIA FOR SUPPORT OF OVERSEAS PROJECTS

Following E Committee on 25 February last year, officials have been undertaking a review of the criteria for supporting large overseas projects.

.... I enclose the report by EX(O) Committee, the recommendations of which are summarised in paragraph 7. These are essentially:-

(a) Procedures for better and more uniform assessment of proposals for support, looking towards the longer term benefits under market, product exploitation and productivity;

(b) Procedures for some delegation enabling projects below a specified threshold to be dealt with by the Departments without Treasury involvement, with a view to speeding up the process;

(c) Arrangements whereby above these thresholds could be viewed against identified priority markets and project fields;

(d) Steps to be taken to improve arrangements whereby we are constantly identified as "initiating" proposals for mixed credit, when in practice we are "matching" on the basis of prima facie evidence.

These recommendations are potentially useful, and could help to sharpen our consideration of cases, particularly for the larger projects which come before Ministers.

RESTRICTED

As the problem at (d) illustrates, however, the international disciplines on mixed credits are very weak. There is a risk that our ability to act flexibly - which was an inherent policy for the future Aid Programme that we accepted after the comprehensive review in February 1980 - might become lost in bureaucracy.

In addition, whilst it may be worth an examination of priority project areas and markets being pursued, I have grave doubts on its feasibility. The setting of these priorities would not be an easy task given the multi-faceted nature of projects which cut across sectoral boundaries, and given the volatility of export markets. In particular, we should need to weigh carefully whether we could publicly defend such choices.

Subject to these reservations, I propose that we invite officials to follow up the Report's recommendations, so that we can test in practice whether the new procedures will lead to the desired increased speed and direction of support. At a time of world recession, it is even more important that our exporters receive adroit, flexible and speedy support, where appropriate, from Government. When we came to office, we decided that our aid policy should be more commercially orientated, and should be more flexible for this purpose. I am sure that these two aims should remain our main objectives.

I am copying this to other members of E and to Sir Robert Armstrong.

A.C.

LORD COCKFIELD

Department of Trade
1 Victoria Street
London, SW1H OET

4 February 1983

CRITERIA FOR SUPPORTING OVERSEAS PROJECTS

Report by the Official Committee on Exports (EX(O))

1 At its meeting on 25 February, when it discussed export support in the light of foreign competitors' practices, the Ministerial Committee on Economic Strategy invited the Secretary of State for Trade to arrange for EX(O) to review the criteria for support of large projects (E(82)6th Meeting, item 4).

2 This report sets out EX(O)'s conclusions on this subject. They are based on a report by an inter-departmental working group whose report is at Annex I. Most of the analysis relates primarily to a relatively few very large projects, for which support may go beyond normal ECGD facilities and involve the use of aid funds from the Aid and Trade Provision (ATP) in a "mixed credit" operation as well as funds from other sources (such as the Industry Act and the Science and Technology Act).

Criteria and Procedure for Evaluating Projects

3 The Committee assumed that Ministers would wish in appropriate cases to make available support for the United Kingdom industry comparable in effect to that deployed by competitor Governments; but to confine that support to projects offering long-term benefits for national competitiveness and productivity. Two changes we recommend to facilitate the pursuit of those objectives are:-

(a) Departments should assess possible cases for support in a better and more uniform manner than in the past, on the lines described in paragraphs 14 to 18 of the Annex.

(b) At the moment all proposals for mixed credit operations with an ATP component are considered by the Official Sub-Committee on Aid and Trade (SCAT) and proposals for other special support are cleared with the Treasury. It is proposed that in future the Departments which have the formal responsibility for the expenditure schemes should have delegated authority to provide support for projects which fall within certain threshold conditions. (See paragraph 19 of Annex I.) For example, at current interest rates, the threshold for the total subsidy level in mixed credit cases would be 34%. This would mean that cases with an ATP grant element of 25% and normal ECGD-backed finance on Consensus terms would fall within the delegation provided they were merely matching competitors' offers and fulfilled the other threshold conditions.

Priority Project Areas and Markets

4 The Ministerial Committee on Economic Strategy on 25 February rejected reviewing priorities for product sectors (rather than project areas or markets)and endorsed the view that the Government should continue the policy of backing strong and active firms which were alerady competitive in export projects or close to being so. To assist assessment of cases outside the proposed new threshold conditions, however, the interdepartmental group had recommended that the Departments of Trade and Industry should draw up lists of project areas and of overseas markets offering exceptional potential. EX(O) accepted the Group's recommendations that indicative lists of priority markets and project areas would serve as a useful aid to appraisal of cases outside the threshold conditions, particularly packages with an ATP component, and considered that such lists should be submitted for endorsement to Ministers who would then consider the need for some degree of public disclosure.

"Matching" and "Initiation" of Mixed Credits

5 Under the reporting procedures in the OECD Consensus, we are obliged, like our competitors, to report offers of mixed credit as either "initiating" an offer of mixed credit for a project or "matching" similar assistance offered by other countries. We appear, however, to adhere much more strictly to our OECD and European Community obligations in these matters than do many of our competitors; for example, ECGD will always notify as an initiation a mixed credit offer unless they have been formally notified of a previous offer for the same project from a competitor, even when there is evidence from other sources that such an offer has been made. As a result an unjustified proportion of the United Kingdom's mixed credit offers have been notified as initiations, which appears inconsistent with (and makes it more difficult for us to obtain support for) our general policy that all countries should reduce this sort of assistance to exports.

6 The Committee therefore recommends:-

(a) that ECGD and ODA should press for the introduction of more satisfactory international procedures for reporting mixed credit;

(b) that ECGD should in future report as "matching" any offer of mixed credit by the United Kingdom where there is reasonable evidence that another country has offered such assistance and there is no specific denial from the country concerned.

Issues for Decisions

7 Ministers are invited:

to endorse the Committee's recommendations that

(a) Departments should assess proposals for support in a better and more uniform manner than in the past.

(b) Departments should deal with proposals for support which fall below the thresholds listed in paragraph 19 of Annex I without specific Treasury approval, and should draw up indicative lists of priority markets and project areas to be introduced, after endorsement by Ministers, as an aid to assessment of cases outside the thresholds.

(c) We should attempt to improve the international arrangements for reporting offers of mixed credit.

(d) Offers of mixed credit should in future be reported as "matching" whenever possible.

Overseas Aid
Policy Review PA3

SUBJECT

cc master ops

T 6A/83

République du Zaïre

Le Président

Kinshasa, le 26 janvier 1983.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 6A/83

A Son Excellence
Madame Margaret THATCHER
Premier Ministre du Royaume-Uni

L O N D R E S

Madame le Premier Ministre,

A la veille de la rencontre qui va réunir prochainement à Paris tous les pays industrialisés de l'O.C.D.E., les pays de l'O.P.E.P. ainsi que d'autres pays tels que l'Inde et la Chine, dans le cadre de l'I.D.A. VII, j'ai cru opportun, en raison de l'importance de la matière qui y sera débattue, de vous exprimer quelques considérations et les souhaits de mon gouvernement que partagent du reste bon nombre de pays d'Afrique au Sud du Sahara.

L'avènement de la crise internationale, perçue dès 1973 par bien des pays, tant industrialisés qu'en développement, a entraîné dans la plupart des pays du Tiers Monde :

- de graves déséquilibres économiques et financiers;
- la dégradation de la capacité de production et de l'infrastructure;
- l'affaiblissement des institutions;
- l'érosion de la confiance à l'intérieur comme à l'extérieur de nos pays.

../..

Depuis 1975, alors qu'une lueur d'espoir semblait poindre à l'horizon pour sortir de la crise qui devenait mondiale, celle-ci a vu son ampleur s'aggraver.

Il est établi de nos jours que le modèle bipolaire Nord-Sud, ou pays développés/pays en développement, qui a dominé l'organisation de l'économie mondiale, est dépassé au point d'engendrer une approche de stratégies économiques pragmatiques qui devraient être avantageuses pour tous les pays du monde devenu multipolaire.

L'Afrique au Sud du Sahara reste le plus pauvre des huit pôles répertoriés par la Banque Mondiale. Dix-huit pays de cette région ont même enregistré une baisse très sensible de leur revenu par tête au cours de la dernière décennie. Et c'est à juste titre que la Banque Mondiale, qui doit continuer à agir avec prudence comme un "catalyseur" pour mobiliser des ressources au bénéfice des pays en développement, s'est penchée sur l'importante question de l'accélération du développement de l'Afrique Sub-saharienne.

L'aide publique annuelle à cette région devrait, selon le programme recommandé par la Banque Mondiale, passer en termes réels de 4,9 milliards de dollars en 1980 (dont 2 milliards pour la seule Banque Mondiale) à 9,1 milliards en 1990, soit près de 18 milliards compte tenu de l'inflation.

Car la partie de l'Afrique concernée, et qui compte vingt des trente pays les moins développés du Monde, est celle qui a le plus subi la crise économique et pétrolière à laquelle s'est ajoutée une réduction de 20% des recettes d'exportation, accentuant ainsi les déséquilibres fondamentaux de nos économies caractérisés par :

- la détérioration des termes de l'échange;
- l'aggravation des déficits de la balance des paiements et du montant de la dette extérieure;
- le déclin du produit national brut per capita dont le taux d'accroissement est devenu négatif depuis 1980, contre des taux de ± 5% dans les pays d'Asie du Sud-Est;
- les taux encore élevés de mortalité infantile et d'analphabètes et l'espérance de vie à la naissance la plus basse au monde, contrairement à la situation en forte amélioration en Asie du Sud-Est et en Amérique Latine.

../..

C'est dans ce cadre particulier que nous nous permettons de solliciter votre particulier engagement au soutien des propositions de la Banque Mondiale qui ont été unanimement acceptées par tous les gouvernements africains, représentés par leurs gouverneurs à la Banque Mondiale, réunis à Dakar en mars 1982.

La contribution de votre pays à l'augmentation de la part de l'Afrique au Sud du Sahara dans l'IDA à 34%, tel que présenté au Conseil d'Administration dans le programme quinquennal de la Banque Mondiale 1982-1987, est capitale. Et le pourcentage de 34% visé ne revêt sa pleine signification pour les pays d'Afrique que dans la mesure où les ressources de l'Association Internationale de Développement continuent de croître en termes réels d'une reconstitution à l'autre. C'est à cette cause à laquelle la survie d'un monde équilibré est liée que nous invitons la participation de votre pays.

Notre présent appel est en outre lancé à votre gouvernement afin qu'il puisse respecter ses engagements pour l'exécution de l'I.D.A. VI et adopter des dispositions précises pour que les pays africains Sub-sahariens en particulier se sécurisent sur le volume et la mise en place des allocations de l'I.D.A. VII et des autres aides concessionnelles.

Enfin, je m'en voudrais de terminer sans rappeler à votre particulière et bienveillante attention la série de tous ces facteurs extérieurs qui ont un effet négatif sur la croissance des économies africaines en particulier et qui ne peuvent être renversés sans le concours attendu de la communauté internationale. Il s'agit de :

- la dégradation de l'économie mondiale;
- la détérioration des termes de l'échange;
- la stagnation des exportations;
- les fluctuations des prix des produits de base;
- l'inflation généralisée.

Tout en vous remerciant pour l'attention que vous aurez à accorder à nos préoccupations exprimées dans la présente, je vous prie de croire, Madame le Premier Ministre, à l'expression de ma très haute considération.

LE PRESIDENT-FONDATEUR DU MOUVEMENT POPULAIRE
DE LA REVOLUTION, PRESIDENT DE LA REPUBLIQUE,

MOBUTU SESE SEKO KUKU NGBENDU WA ZA BANGA

M a r é c h a l.

STS 57/83

Republic of Zaire

Kinshasa, 26 January 1983

The President

Her Excellency
Mrs Margaret Thatcher
Prime Minister of the United Kingdom
London

Madam

On the eve of the forthcoming Paris meeting between all the industrialized OECD countries and the OPEC countries as well as others such as India and China, in the context of IDA VII, I felt it desirable, given the importance of the subject-matter to be discussed there, to convey to you a number of reflections together with the wishes of my Government, which are shared, moreover, by many African countries situated south of the Sahara.

The advent of the international crisis, the effects of which were felt from 1973 onwards by many countries, both industrialized and developing, resulted in the majority of Third World countries in:

- serious economic and financial imbalances;
- a deterioration of production capacity and infrastructures;
- a weakening of institutions;
- erosion of confidence at home and abroad.

Since 1975, when there seemed to be a glimmer of hope on the horizon to indicate that a way out of the crisis, which was by then becoming world-wide, was in sight, it has increased in scope.

It has nowadays become accepted that the bipolar North/South or developed/developing countries' formula which has prevailed in the organization of the world economy has become outmoded to the point of engendering an approach based on pragmatic economic strategies which should be of benefit to all countries in what has become a multi-polar world.

Africa south of the Sahara remains the poorest of the eight poles listed by the World Bank. Eighteen countries in the region have in fact recorded an appreciable fall in their per capita income over the past ten years. The World Bank, which must continue to move cautiously, like a "catalyst", to mobilize resources for the benefit of the developing countries, has properly turned its attention to the important matter of accelerating the development of Africa south of the Sahara.

Annual official aid to that region should, according to the programme recommended by the World Bank, increase in real terms, from 4.9 thousand million dollars in 1980 (two thousand million from the World Bank alone) to 9.1 thousand million in 1990, that is nearly 18 thousand million taking account of inflation.

The part of Africa in question, which includes twenty of the thirty least developed countries in the world, has suffered most from the economic crisis and the oil crisis, added to which there has been a 20% reduction in export revenue, thus accentuating the fundamental imbalances in our economies characterized by:

- a deterioration in the terms of trade;
- a worsening of balance of payments deficits and the external debt level;
- a fall in per capita GNP which has experienced a negative growth rate since 1980, as compared to rates of ± 5% in the countries of South-East Asia;

- the continuing high levels of infant mortality and illiteracy and the world's lowest life expectancy at birth, in contrast to the much improving situation in South-East Asia and Latin America.

It is therefore against this particular background that we would seek your specific commitment in support of the World Bank proposals which were unanimously accepted by all the African governments represented by their World Bank Governors, meeting in Dakar in March 1982.

Your country's contribution to increasing to 34% the share of Africa south of the Sahara in the IDA, as submitted to the Administrative Council /Conseil d'Administration/ in the World Bank five year programme 1982-87, is vital. And the target figure of 34% assumes its full significance for the countries of Africa only provided the resources of the International Development Association continue to grow in real terms from one replenishment to the

next. We invite your country to participate in that cause upon which hinges the survival of a well-balanced world.

This appeal is further directed to your government so that it may respect its commitments in relation to the implementation of IDA VI and adopt specific provisions so that the countries south of the Sahara in particular can feel confident where the scale and setting-up of the IDA VII grants and other concessionary aid is concerned.

Finally, I would be failing in my duty were I to end without drawing to your particular and kind attention all the external factors which have a negative effect on the growth of the African economies in particular and which cannot be reversed without the help we expect from the International community. These are:

- the deterioration of the world economy;
- the worsening of terms of trade;
- the stagnation of exports;
- commodity price fluctuations;
- generalized inflation.

/Expression of gratitude and complimentary close/

The President-Founder of the Popular Revolutionary Movement,
President of the Republic,

Mobutu Sese Seko Kuku Ngbendu Wa Za Banga

Marshal.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Overseas Aid

(2)

Prime Minister

MCS 9/9

From the Secretary of State

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

9 September 1982

Dear Geoffrey,

AID AND TRADE PROVISION

You wrote to me on 9 August and suggested that, since no room can be found to increase the ATP within the existing Aid Framework, the appropriate course is to consider the scope for finding the additional funds which Patrick Jenkin and I seek within the PESC exercise. I suggest therefore that we take it up in the context of possible measures to improve the outlook for industry, about which you and Patrick have written.

Having said this, some of the points in your letter are dubious. Just to take a few, you rightly draw attention to the relatively small number of companies of the strength and drive to pursue larger projects in less familiar markets: this is every reason for encouraging them, and so stimulate others to join them. But in any project, the resulting work is spread through many hundreds of suppliers,and to the extent that they themselves do not have the resources nor expertise to pursue business in these markets, this is the only way in which they can take advantage of them. So, in practice, the bulk of the benefit is not taken by the lead company, but a competitive lead company is essential to gaining the business for many other companies.

Second, I am surprised at your suggestion that the costs per job of export subsidies do not compare with other direct employment assistance. Whilst employment effects are not the only or prime benefit from ATP, in practice, under ATP, the

positive impact on employment through orders is almost immediate, whereas immediate expenditure is considerably less, and the full cost to public funds is spread out over many years. In addition:-

(i) the foreign buyer is paying a substantial proportion of the cost; and

(ii) the jobs arising from orders placed with our more competitive companies will have greater permanence.

We would not therefore accept your assertion. The attached annex and tables illustrate this from actual ATP projects.

Again, no-one suggests that we should match each and every case where we know foreign governments are mixing aid into the finance, but industry has a perfectly just complaint that, having made themselves more competitive at considerable cost, they are being denied the proper rewards because ofthe practices of other countries. An adequate ATP, carefully and flexibly deployed, is therefore essential unless we are to cede virtually all this major business - and significant industrial/employment benefits - to aid-supported competitors.

The ATP is now the only significant manifestation of our declared policy of giving greater weight to industrial and commercial considerations in aid spending. As recently as last February, colleagues in E Committee affirmed this commitment, and welcomed my predecessor's proposal that the ATP be increased. I naturally welcome the small increase already agreed, but the allocation still barely covers existing commitments and outstanding applications. We should also note that the annual allocation of £66m includes over £8m earmarked for country lines of credit, which should properly be regarded as part of the main bilateral programme.

From the Secretary of State

CONFIDENTIAL

Moreover, there are already at least two very large projects (in India and China) which colleagues may well consider it politically important for us to support. Neither of these could be accommodated within the current ATP, and we would have to lay claims on either the unallocated reserve of the Aid Framework or the Contingency Reserve to meet such a demand.

Finally, our export performance is one of the very few bright spots in the present economic scenario. We really ought to do everything we conceivably can to help our exporters. As it is we face very considerable criticism that we are not as aggressive or as effective as many of our competitors. We are going to find it more difficult to withstand pressures for protectionism if we cannot point to a major and concrete effort to support our competitive companies in the harsh, and far from idealistic, world in which they have to try to win business. A sufficient ATP is a major element in this approach.

I am copying this to the recipients of your letter.

Yours,

Arthur

LORD COCKFIELD

CONFIDENTIAL

ANNEX A

EXPENDITURE PROFILES

The expenditure profiles of two typical projects have been drawn up after detailed analysis with the prime contractor. In each case the phasing of subcontracts placed is shown compared with the phasing of export assistance. For illustrative purposes, in calculating ECGD expenditure a market interest rate of 15% averaged over the loan was assumed for both projects: the costs would be reduced as actual rates are lower than 15%.

Project: Extension to Transmission System, Paraguay

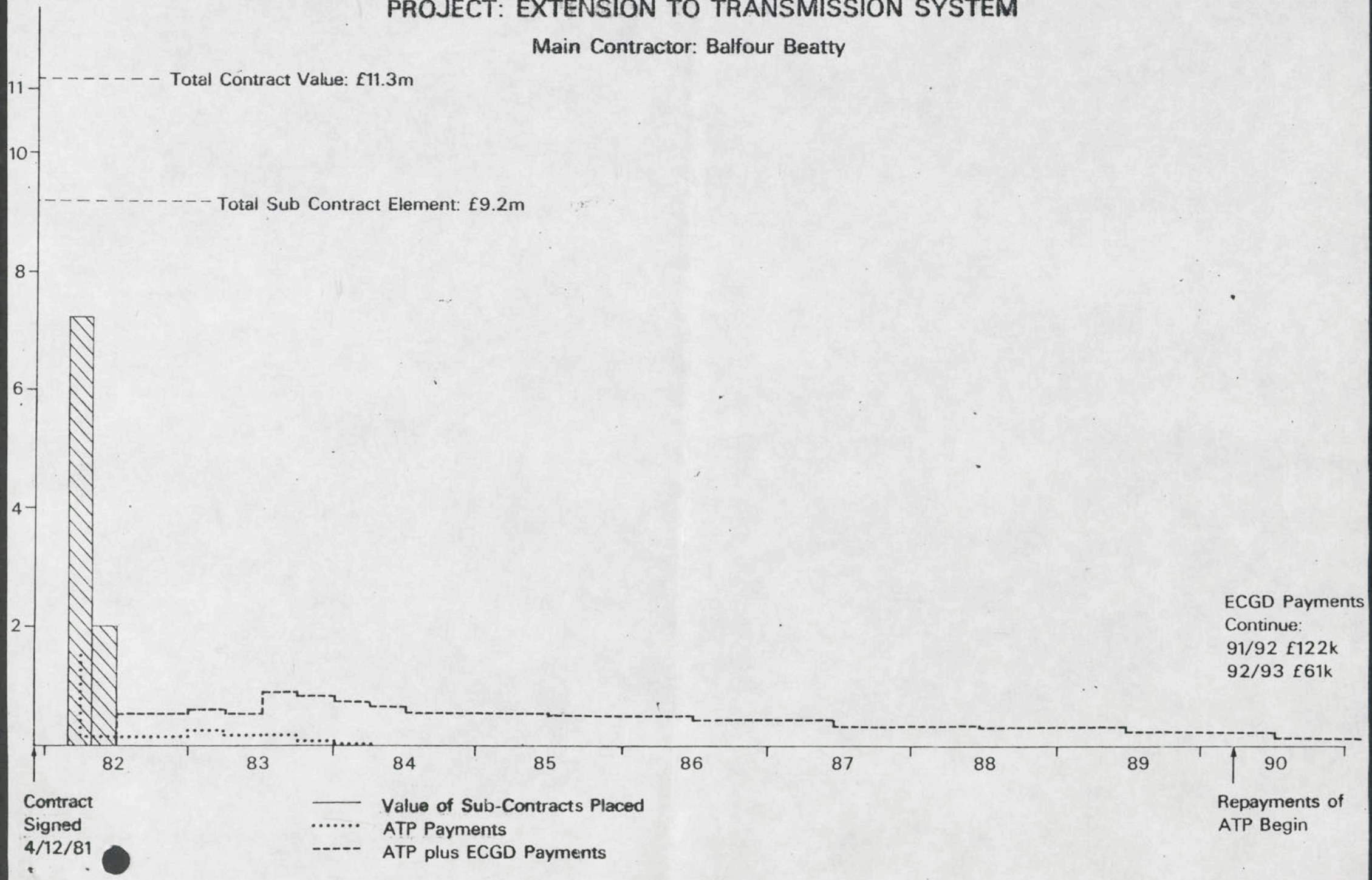
Main Contractor:	Balfour Beatty
Main Sub-contractors:	NEI Reyrolle Ltd GEC High Voltage Equipment Brush Power Equipment Ltd Bowthorpe Emp Ltd Painter Bros Ltd Balfour Beatty Power Construction Ltd Pirelli Cable Ltd Hawker Siddeley Power Transformers Ltd South Wales Transformers Ltd
Total contract value:	£11.3m
Total subcontract element:	£9.2m
ATP:	£2.87m variant 1 loan over 25 years (including 7 years' grace and interest free)
ECGD:	Interest 7¾% - repayment over 10 years

Project: Wood-burning Power Station, Philippines

Main Contractor:	Balfour Beatty
Main Sub-contractors:	Powers Clacton P Brotherhood Brush Power Equipment Ltd
Total contract value:	£8.6m
Total subcontract element:	£7.8m
ATP:	£1.963m variant 1 loan over 25 years
ECGD:	Fixed interest rate 7½% - repayment over 10 years

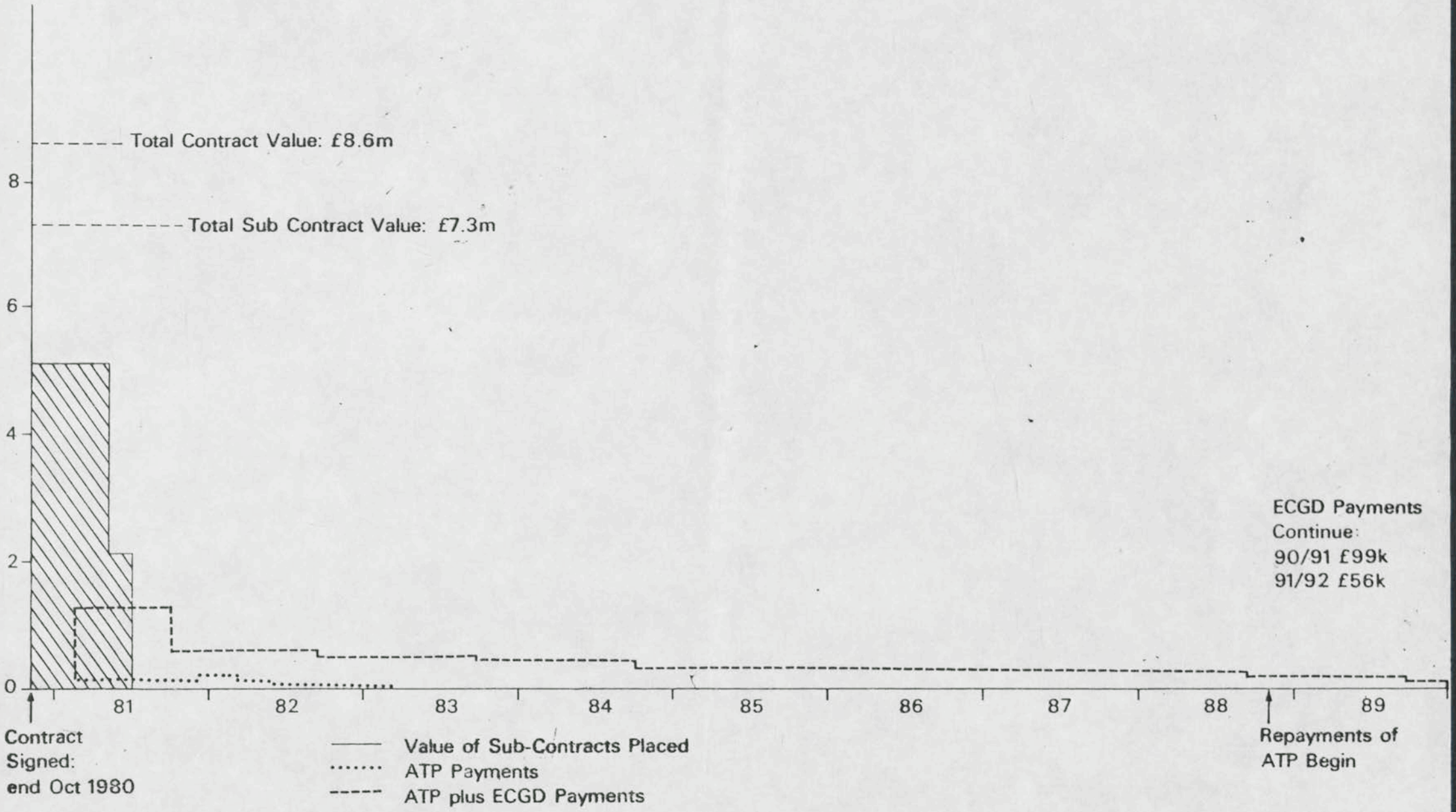
PROJECT: EXTENSION TO TRANSMISSION SYSTEM

Main Contractor: Balfour Beatty



PROJECT: WOOD BURNING POWER STATION, PHILIPPINES

Main Contractor: Balfour Beatty



CONFIDENTIAL

Overseas Aid

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

Prime Minister:
The Chancellor argues that any further increase in the A&T provision should be considered in the normal way in the forthcoming Public Expenditure Survey discussions, rather than in E(X).
CR 9/8

9 August 1982

The Rt. Hon. The Lord Cockfield
Secretary of State for Trade

Dear Arthur

AID AND TRADE PROVISION

Thank you for your further letter of 29 July. Patrick Jenkin wrote, as you know, on the same date and in similar vein.

I can well understand that you are under pressure from industry to increase the ATP further. Since we are concerned here with a high rate of subsidy which tends to be concentrated on relatively few capital exporting firms, it is understandable that they press hard for more. However, as Francis Pym has pointed out in his own minute of 29 July, his proposals already go well beyond our announced policy of maintaining the 1979-80 level in real terms.

You and Patrick suggest that perhaps a discussion in E(X) would be an appropriate next step. However I find it hard to read your letters as other than a proposal for a significant increase in public expenditure. Francis Pym has said that it would not be possible for him to agree to a larger ATP provision being found from within the existing Aid Programme and you and Patrick have not suggested savings from your own programmes. So I think that if you really cannot see your way to accept the increase to £66m which the Foreign Secretary and I are able to accept, the proper course would be to consider the idea of additional expenditure in the forthcoming Survey discussions on giving effect to the Cabinet's objective of keeping to present public expenditure totals.

While we all want to increase UK exports, I do not think it follows that it is in our national interest to pay very high levels of subsidy in a succession of major cases in order to get more of this type of capital export. If our competitors sometimes offer massive subsidies, that does not mean that there is a presumption that it is sensible for us to match them. It is not clear that this is the best way of helping UK industry as a whole. Moreover a good part of the subsidy goes to benefit the foreign customer. In terms of cost per job export subsidies tend to be much more expensive than other forms of direct employment assistance. I certainly agree that we should seek to improve the ratio of exports to ATP money spent and there seems a good case, whatever the total level

/of ATP,

of ATP, for putting a ceiling, well below 50 per cent, on the subsidy level in any one case.

I am copying this letter to the Prime Minister, Francis Pym and Patrick Jenkin.

GEOFFREY HOWE

OCU577

Prime Minister (2)

MCS 30/7

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

29 July 1982

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Whitehall SW1

MT

Dear Geoffrey,

Thank you for your letter of 23 July, replying to mine about the need for an increased Aid & Trade Provision.

2 I fully appreciate the constraints upon public expenditure, and the impossibility of accommodating all the competing claims within those constraints. Your letter nevertheless leaves me wondering whether you have taken fully into account the exceptional value of the ATP in securing genuinely additional business for British companies which they would not otherwise have won, despite their demonstrable competitiveness on price and technical performance. It may be difficult to explain to such companies why, after they have taken pains to improve their competitiveness, we for our part are unable to compete with the government-backed soft funding available to their competitors.

3 It is clear from the applications reaching this department that we could make effective and worthwhile use of an ATP allocation double that currently proposed. While I do not propose an increase on that scale, I am certain that £66 million p.a will prove grossly inadequate.

4 I believe there would be value in our meeting to discuss this matter, perhaps in E(X), and am accordingly copying this letter to the Prime Minister, as well as to Francis Pym and Arthur Cockfield.

Yours ever

Patrick

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

WR 9/8

From the Secretary of State

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

29 July 1982

Dear Geoffrey,

AID FRAMEWORK 1983/84-1985/86

I note from your letter of 23 July to Patrick Jenkin your views on accommodating his and my requests for some extension of the resources allocated to the Aid and Trade Provision.

Even with the modest increase already proposed, the ATP is already heavily committed for the period of the Aid Framework, and will quickly become fully committed - even the cases currently under consideration would be sufficient to ensure this. In current circumstances, this is tantamount to denying United Kingdom firms any prospect of winning scarce orders, which will go instead to overseas competitors bidding with support from their governments.

Apart from the strong criticism from our leading companies and their many sub-contractors that such losses would precipitate, I am already under considerable pressure from individual companies and from the Overseas Projects Board, comprised of leading project managers. The thrust of their criticism is that the actual pattern of our aid spending has diverged and is diverging further

From the Secretary of State

from the declared strategy which the Foreign Secretary announced in February 1980, of laying increased emphasis on commercial and industrial considerations within this programme. ATP remains an extremely effective means of supporting our viable companies and of securing long-term employment: the employment impact in fact arises immediately orders are placed, whereas the aid expenditure mostly falls much later.

In your comments about the direct benefits from the use of ATP, you are making partial arguments. Leaving aside the often very significant direct benefits from major capital projects, you will know that the 2:1 gearing represents the most conservative estimate of the return from ATP, taking full account of ECGD inputs, and one which is frequently bettered. I take it from your remarks that you would therefore encourage us to improve even further on the ratio of exports for each £1 of ATP, and we are very ready to do so whenever practicable.

Even such steps will not, however, offset the severe weakening implied in our ability to match our competitors' practices at a time when the survival of many otherwise viable companies and products is at risk to those practices. I strongly hope, therefore, that on reconsideration you will agree that the available ATP funds may be increased, even if not to the full extent that I have suggested as needed.

I would favour a meeting with colleagues on this, and I suggest that E(X) may be the best forum; I am accordingly copying this to the Prime Minister as well as to Francis Pym and Patrick Jenkin.

Yours, Arthur

LORD COCKFIELD

CONFIDENTIAL

cc Chief Secretary
Minister of State (C)
Sir K Couzens
Sir A Rawlinson
Mr Littler
Mr Mountfield
Mr Hart
Mr Hawtin
Mr Ridley
Mr Gilhooly

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

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

23 July 1982

Dear Patrick

AID FRAMEWORK 1983/84 - 1985/86

You, and Arthur Cockfield, wrote to me on 20 July about the Aid and Trade Provision.

Cabinet last week endorsed the Chief Secretary's objective of holding to present public expenditure totals; and you will not be surprised that I would see great difficulty about any proposal to switch new resources into the Aid Programme. Moreover, I think we should be careful not to claim too much for the ATP. I can see that ATP, when associated with export subsidy, may generate a larger volume of exports than normal aid and thus offers some advantages in terms of both exports and employment. But these advantages apply only where ATP really is in substitution for normal aid expenditure.

There is no case for adding to total public expenditure (which of course includes drawing on the general contingency reserve, or reclassifying expenditure out of the aid programme in order to ease the pressures on it) in order to subsidise certain individual exports at the astonishingly high rate of 50% - for that is, I fear, the reality lying behind your statement that ATP generates twice its value in new orders. To do so would not only be inconsistent with the Cabinet decision. It would also mean adding, via higher interest rates or taxes, to the burdens on industry as a whole while giving benefits to a few firms, and also to their customers abroad. If we did this, we could well produce a net effect on UK employment which was adverse, especially in view of the transfer of benefit to the foreigner.

If therefore Francis Pym is prepared to make room for a bigger ATP provision within the existing Aid Framework totals I would not want to object: though I can imagine that that would not be easy for him. But I could not agree to increase the Aid Programme, directly or indirectly, in the interests of a larger ATP.

Copies of this letter go to Francis Pym and Arthur Cockfield.

GEOFFREY HOWE

RESTRICTED

10 DOWNING STREET

From the Private Secretary

28 May 1982

CDC: INCREASE IN BORROWING LIMITS

The Prime Minister has seen OD(82)44.

Subject to any further comments from colleagues, she would be content for your Secretary of State to proceed as proposed in that paper.

I am sending copies of this letter to John Kerr (HM Treasury) and David Wright (Cabinet Office).

M. A. PATTISON

J.E. Holmes, Esq.,
Foreign and Commonwealth Office.

Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES.

Reference: OD(82)44

Date: 26 May 1982

Signed CAWayland Date 18 April 2013

PREM Records Team

With the Compliments
of the
Chancellor of the Exchequer's
Private Secretary

Treasury Chambers,
Parliament Street,
S.W.1.

26/5

Prime Minister (4)

MCS 26/5

Overseas Aid

1. PM. copy with my comps to Mr Schofield: No10
Mr Richards: FCO
Miss Unsworth: ODA.

2. resubmit.

A. W. CLAUSEN
President

THE WORLD BANK
Washington, D. C. 20433
U.S.A.

EXCHEQUER
REC. 25 MAY 1982
ACTION Mr Blaskall
COPIES TO CST, FST, EST, Sir D Wass, Sir K Couzens, Mr Littler, Mr Carey, Mr Lavelle, Mr Bottrill, Mr Ridley, Mr Woodmansey

✓ M 25/5

May 19, 1982

Dear Sir Geoffrey:

I wish to express my gratitude for the agreement by your Government to give up half the shares allocated to the United Kingdom under the World Bank's General Capital Increase. This action has greatly assisted the Bank in meeting the requirements of several important countries that had a strong case for an increase in their shareholdings.

This action also follows in the wake of the extremely valuable contribution which your Government has recently made towards alleviating the immediate resource difficulties of the International Development Association. I very much appreciate the strong support that you have extended to this institution.

Warm regards,

Sincerely,

Tom Clausen

The Right Honourable
Sir Geoffrey Howe, Q.C., M.P.
H.M. Treasury
Parliament Street
London S.W.1P 3 AC
England

MFJ

file cc: FCO.

10 DOWNING STREET

THE PRIME MINISTER

19 May 1982

Your Excellency,

Thank you for your letter of 20 April about the reduction in the funds available to the International Development Association.

We are concerned about the shortfall in the Association's resources, in particular because of the serious consequences that this has for countries such as Bangladesh. This is why Her Majesty's Government acted as it did in authorising IDA to commit the whole of the UK's second instalment of £185 million. The President of the World Bank has advised me that ten or so other countries are likely to follow our lead. This would substantially augment IDA's commitment authority for this year.

We are working closely with other donor countries and Bank Management and will do what we can during the remainder of the IDA Sixth Replenishment to ease the Association's difficulties.

Yours sincerely

Margaret Thatcher

Lieutenant General Hussain Muhammad Ershad

Foreign and Commonwealth Office

London SW1A 2AH

17 May, 1982

Type letter pl.
MR 17/5.

Dear John,

I enclose a copy of a letter to the Prime Minister from Lt General Hussain Muhammad Ershad, Chief Martial Law Administrator, Bangladesh, together with a draft reply.

Both are along the lines of correspondence between the Prime Minister and the Presidents of Zambia, Zimbabwe, Pakistan and Tanzania.

We will forward the signed copy of the Prime Minister's letter by bag, if you agree.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
No 10 Downing Street

بسم الله الرحمن الرحيم

Lieutenant General
Hussain Muhammad Ershad ndc,psc
CHIEF MARTIAL LAW ADMINISTRATOR
PEOPLE'S REPUBLIC OF BANGLADESH
DACCA, BANGLADESH

20 April 1982.

NO.ERD-7(1)/IDA-8/80

Excellency,

As you are aware, Bangladesh has to depend extensively on the flow of external resources to support her development programme. In our effort to improve the condition of life of millions of suffering people, we gratefully recognise the generous assistance provided by friendly countries like yours and the multilateral development institutions. A substantial part of external assistance to Bangladesh comes from the World Bank through its constituent agency, the International Development Association (IDA), which provides interest free concessional loans to the poorest countries. IDA credits are highly important to Bangladesh since in our present condition we can not afford to have recourse to commercial borrowing or even IBRD loans. As one of the least developed countries of the World, our reliance on IDA for financing our development projects is critical to achieve the ultimate objective of self-reliance.

We are worried because of the recent developments with respect to replenishment of funds for IDA. As you may know, the whole situation has arisen due to delays in US legislation in committing its contribution to IDA-VI. The total contribution to IDA-VI that was negotiated and agreed to by all donors was $ 12 billion. The US share was for a total of $ 3.24 billion. According to the original agreement, the US Government was supposed to pay $ 850 million in the first year (FY 81), $ 1080 million in the second year (FY 82) and $ 1310 million in the third year (FY 83). But, they made a contribution of only $ 500 million in the first year and $ 700 million during the current year.

Contd.....P/2

بسم الله الرحمن الرحيم

CHIEF MARTIAL LAW ADMINISTRATOR
PEOPLE'S REPUBLIC OF BANGLADESH
DACCA, BANGLADESH

We appreciate the flexibility shown by your Government last year in advancing the first part of IDA contribution which enabled the World Bank to maintain its programme in that year despite the shortfall in the US Contribution. However, I have been informed that the World Bank has been forced to plan a cut in its IDA credits in the current year by about 37% from $ 4.1 billion to $ 2.6 billion. This is because several IDA donors other than the United States indicated sometime ago that they would contribute on pro rata basis matching US contributions. The cut in IDA credits has affected the financing of our development programmes. The prospects for the future are likely to be even more disturbing if the US Legislation further delays the US contribution and if such actions were to be followed by other donor countries including your own.

There is a growing apprehension in the developing countries that US $ 12 billion planned to be made available to the poorest countries through IDA-VI over the three year period from FY 1981 to FY 1983 may not now become fully available. I sincerely hope that this apprehension is proved unfounded as all of us can appreciate the adverse consequences of this for the very poor countries. It is in this light that we have received with deep satisfaction and gratitude the news that your Government has notified the IDA that it would release the balance of its full second instalment thus increasing IDA's FY 82 commitment authority by about US $ 120 million.

As you well know, the poorest countries in Asia and Africa are passing through severe economic and financial crisis. In addition to Bangladesh, the poorest countries which rely significantly on IDA credits for financing their development programmes include countries

Contd.....P/3

بسم الله الرحمن الرحيم

CHIEF MARTIAL LAW ADMINISTRATOR
PEOPLE'S REPUBLIC OF BANGLADESH
DACCA, BANGLADESH

with high population density in South Asia like Nepal, India, Pakistan and Srilanka and also the poorest Sub-Saharan countries in Africa. Any cut in IDA at this time will be highly disruptive to the economy of these countries. I hope, it will be possible for your country to continue to contribute to IDA-VI in accordance with your Government's original commitment without establishing a linkage to the level of contribution by the United States. I may also request you to use your influence to try to pursuade other donors to maintain their original level of commitment for IDA-VI so that this can be preserved as a three year programme.

Please accept, Excellency, my renewed assurances of highest considerations.

Respectful regards.

(H M ERSHAD)

The Right Honourable
Mrs. Margaret Thatcher
Prime Minister of the
United Kingdom of Great
Britain and Northern Ireland.

Bangladesh

Foreign and Commonwealth Office

London SW1A 2AH

BF

Foreign Aid

12 May 1982

Await draft reply.

Dear John,

Bangladesh

The Bangladesh High Commission have just delivered the enclosed letter dated 20/4/82 to Mrs Thatcher from General Ershad, the Chief Martial Law Administrator of Bangladesh, about IDA 6.

A.J.C. 12/5.

I am copying this to Mike Power (ODA) for the preparation of a draft reply in due course.

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

SUBJECT
Mr Morris
ops

Overseas Aid
RM
FILE

Copied to: FCO

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T101/82

10 DOWNING STREET

THE PRIME MINISTER

7 May, 1982

Dear Mr. President,

Thank you for your letter of 8 April about the financial predicament of the International Development Association.

I am pleased to be able to tell you that the President of the World Bank has written to me saying that as many as ten or so other countries may follow our lead in allowing IDA to commit in full the second instalment of our £555 million grant to the Sixth Replenishment. This would substantially augment IDA's resources for this year.

We shall, of course, continue to do what we can to urge donors to meet their negotiated obligations under IDA 6 and to persuade others to give IDA full commitment authority for their current contributions. The IMF/World Bank Development Committee meeting in Helsinki on 13 and 14 May will provide us with a useful opportunity to raise these matters again.

In deciding to waive the pro rata provision of the IDA 6 Agreement we took into account the particular contribution which the World Bank and IDA can make, through the provision of structural adjustment lending, in support of developing countries' own efforts to deal with their critical economic difficulties. I know from our discussions at Cancun and elsewhere that Tanzania faces very serious economic problems and I hope therefore that it may not be long before your Government are able to take advantage of this form of World Bank assistance, should they so wish.

/Finally,

SW.

Finally, thank you for your good wishes, which are particularly welcome at this difficult time.

Yours sincerely

Margaret Thatcher

His Excellency Mwalimu Dr.Julius K. Nyerere

Foreign and Commonwealth Office

London SW1A 2AH

5 May 1982

Type letter pl.

AR 6/5

Dear John,

International Development Association

Thank you for your letter of 28 April enclosing a copy of a letter to the Prime Minister from President Nyerere about the financial plight of the IDA and urging HMG to persuade other donors to follow the UK's lead.

I enclose a draft reply for the Prime Minister's signature. This refers to the news in the letter of 13 April from the President of the World Bank that ten or so other countries are likely to follow our example (a copy of Mr Clausen's letter is also enclosed).

President Nyerere alludes to the Falklands crisis and this has been covered in the draft reply.

We will forward the signed copy of the Prime Minister's letter by bag, if you agree.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

DRAFT LETTER FOR THE PRIME MINISTER'S SIGNATURE

The Hon Mr Julius Nyerere
President of the Republic of Tanzania

Thank you for your letter of 8 April about the financial predicament of the International Development Association.

I am pleased to be able to tell you that the President of the World Bank has written to me saying that as many as ten or so other countries may follow our lead in allowing IDA to commit in full the second instalment of our £555 million grant to the Sixth Replenishment. This would substantially augment IDA's resources for this year.

We shall, of course, continue to do what we can to urge donors to meet their negotiated obligations under IDA 6 and to persuade others to give IDA full commitment authority for their current oontributions. The IMF/World Bank Development Committee meeting in Helsinki on 13 and 14 May will provide us with a useful opportunity to raise these matters again.

In deciding to waive the pro rata provision of the IDA 6 Agreement we took into account the particular contribution which the World Bank and IDA can make, through the provision of structural adjustment lending, in support of developing countries' own efforts to deal with their critical economic difficulties. I know from our discussions at Cancun and elsewhere that Tanzania faces very serious economic problems and I hope therefore that it may not be long before your Government are able to take advantage of this form of World Bank assistance, should they so wish.

Finally, thank you for your good wishes, which are particularly welcome at this difficult time.

THE WORLD BANK
Washington, D. C. 20433
U.S.A.

W. CLAUSEN
President

April 13, 1982

Dear Prime Minister:

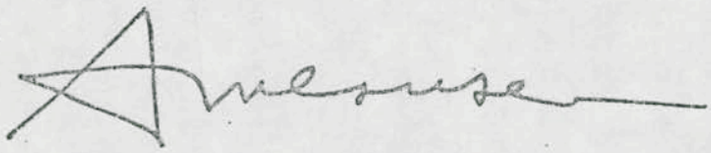
I should like to express my deep appreciation for the significant contribution which your Government has made towards alleviating the resource constraints facing the International Development Association this year.

There is no doubt that the United Kingdom's decision to release in full its second installment to IDA6 was critical to the positive outcome of the recent meeting of IDA Deputies. It seems that as many as ten or so other countries may follow the United Kingdom's lead, which would augment substantially the Association's commitment authority for this year.

I am extremely grateful for your personal support in this matter, and look forward to continued close cooperation.

Warm regards,

Sincerely,



The Right Honourable
Mrs. Margaret Thatcher, M.P.
10 Downing Street
London, SW1
United Kingdom

Ref. 7/5

ds

Overseas Aid.

10 DOWNING STREET

From the Private Secretary

28 April 1982

IDA

I enclose a copy of a letter which the Prime Minister has received from the President of Tanzania.

I should be grateful if you could let me have in due course a draft reply for signature by the Prime Minister.

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

file

T 85/82 MFJ

cc: FCO

SUBJECT

cc Master
ops

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T85/82

10 DOWNING STREET

THE PRIME MINISTER

26 April 1982

Dear Kenneth,

Thank you for your letter of 2 April about the reduction in the credits of the International Development Association (IDA) this fiscal year.

We are well aware of IDA's predicament and the serious difficulties that this is causing countries such as yours. In the circumstances we agreed last month to waive the pro rata provision in respect of our second (current) instalment to IDA 6. This means that £370 million of Britain's grant contribution of £555 million to IDA 6 is now available for commitment.

We had hoped very much that other donors would follow suit, despite the importance that they, like us, attach to the principle of burden-sharing and the desirability of IDA having a broad financial base. I am pleased to be able to say that the President of the World Bank has told me that it seems likely that as many as ten or so other countries may follow our lead. This would substantially augment IDA's commitment authority for this year.

Yours sincerely

Margaret

His Excellency Dr. Kenneth D. Kaunda

DSG

Foreign and Commonwealth Office

London SW1A 2AH

23 April, 1982

Please type letter

Dear John,

International Development Association

I enclose a letter to the Prime Minister from President Kaunda which has just been received from our High Commission in Lusaka, together with a draft reply.

Both are along the lines of correspondence between the Prime Minister and the Presidents of Zimbabwe and Pakistan. In her reply to Dr Kaunda, the Prime Minister can refer to the news in the letter of 13 April from the President of the World Bank that about ten or so other countries are following our lead in releasing in full our second instalment to IDA 6. (A copy of Mr Clausen's letter is attached).

We will forward the signed copy of the Prime Minister's letter by bag, if you agree.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
Private Secretary
No 10 Downing Street

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

.....In Confidence

CAVEAT.....

TO: The Hon Dr Kenneth Kaunda
President of the Republic of
Zambia

Your Reference

Copies to:

Thank you for your letter of 2 April about the reduction in the credits of the International Development Association (IDA) this fiscal year.

We are well aware of IDA's predicament and the serious difficulties that this is causing countries such as yours. In the circumstances we agreed last month to waive the pro rata provision in respect of our second (current) instalment to IDA 6. This means that £370 million of Britain's grant contribution of £555 million to IDA 6 is now available for commitment.

We had hoped very much that other donors would follow suit, despite the importance that they, like us, attach to the principle of burden-sharing and the desirability of IDA having a broad financial base. I am pleased to be able to say that the President of the World Bank has told me that it seems likely that as many as ten or so other countries may follow our lead. This would substantially augment IDA's commitment authority for this year.

Enclosures—flag(s).....

SUBJECT

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 78/82

cc Master
Ops

Overseas Aid
JD

FCO

10 DOWNING STREET

THE PRIME MINISTER

21 April 1982

Dear President Zia

Thank you for your letter of 27 March about contributions to the Sixth Replenishment of the International Development Association (IDA).

The current difficulty arises because the United States has yet to appropriate in full the contribution it has pledged to IDA 6 and because the IDA Replenishment Agreement provides that IDA may commit the contributions of other members only in proportion to the commitment of the United States for which appropriations have been made. There has been no suggestion that donor countries might reduce their contributions as such.

However, following representations made to us about the consequences for the poorest countries of the application of the pro rata provision in the IDA 6 Agreement, and the serious difficulties it is causing countries such as yours, we agreed last month to waive the pro rata provision in respect of our second (current) instalment to IDA 6. This means that £370 million of Britain's grant contribution of £555 million to IDA 6 is now available for commitment. This is part of our policy of helping the poorest countries to the best of our ability.

I hope very much that other major donors will follow suit. They attach importance to the principle of burden-sharing and to IDA having a broad financial base but they have been told of our decision and the reason for it.

Every good wish,

(SGD) MARGARET THATCHER

His Excellency General Mohammed Zia-ul-Haq

بسم الله الرحمن الرحيم

Lieutenant General
Hussain Muhammad Ershad ndc,psc
CHIEF MARTIAL LAW ADMINISTRATOR
PEOPLE'S REPUBLIC OF BANGLADESH
DACCA, BANGLADESH

20 April 1982.

NO.ERD-7(1)/IDA-8/80

Excellency,

As you are aware, Bangladesh has to depend extensively on the flow of external resources to support her development programme. In our effort to improve the condition of life of millions of suffering people, we gratefully recognise the generous assistance provided by friendly countries like yours and the multilateral development institutions. A substantial part of external assistance to Bangladesh comes from the World Bank through its constituent agency, the International Development Association (IDA), which provides interest free concessional loans to the poorest countries. IDA credits are highly important to Bangladesh since in our present condition we can not afford to have recourse to commercial borrowing or even IBRD loans. As one of the least developed countries of the World, our reliance on IDA for financing our development projects is critical to achieve the ultimate objective of self-reliance.

We are worried because of the recent developments with respect to replenishment of funds for IDA. As you may know, the whole situation has arisen due to delays in US legislation in committing its contribution to IDA-VI. The total contribution to IDA-VI that was negotiated and agreed to by all donors was $ 12 billion. The US share was for a total of $ 3.24 billion. According to the original agreement, the US Government was supposed to pay $ 850 million in the first year (FY 81), $ 1080 million in the second year (FY 82) and $ 1310 million in the third year (FY 83). But, they made a contribution of only $ 500 million in the first year and $ 700 million during the current year.

Contd.....P/2

بسم الله الرحمن الرحيم

CHIEF MARTIAL LAW ADMINISTRATOR
PEOPLE'S REPUBLIC OF BANGLADESH
DACCA, BANGLADESH

We appreciate the flexibility shown by your Government last year in advancing the first part of IDA contribution which enabled the World Bank to maintain its programme in that year despite the shortfall in the US Contribution. However, I have been informed that the World Bank has been forced to plan a cut in its IDA credits in the current year by about 37% from $ 4.1 billion to $ 2.6 billion. This is because several IDA donors other than the United States indicated sometime ago that they would contribute on pro rata basis matching US contributions. The cut in IDA credits has affected the financing of our development programmes. The prospects for the future are likely to be even more disturbing if the US Legislation further delays the US contribution and if such actions were to be followed by other donor countries including your own.

There is a growing apprehension in the developing countries that US $ 12 billion planned to be made available to the poorest countries through IDA-VI over the three year period from FY 1981 to FY 1983 may not now become fully available. I sincerely hope that this apprehension is proved unfounded as all of us can appreciate the adverse consequences of this for the very poor countries. It is in this light that we have received with deep satisfaction and gratitude the news that your Government has notified the IDA that it would release the balance of its full second instalment thus increasing IDA's FY 82 commitment authority by about US $ 120 million.

As you well know, the poorest countries in Asia and Africa are passing through severe economic and financial crisis. In addition to Bangladesh, the poorest countries which rely significantly on IDA credits for financing their development programmes include countries

Contd.....P/3

بسم الله الرحمن الرحيم

CHIEF MARTIAL LAW ADMINISTRATOR
PEOPLE'S REPUBLIC OF BANGLADESH
DACCA, BANGLADESH

with high population density in South Asia like Nepal, India, Pakistan and Srilanka and also the poorest Sub-Saharan countries in Africa. Any cut in IDA at this time will be highly disruptive to the economy of these countries. I hope, it will be possible for your country to continue to contribute to IDA-VI in accordance with your Government's original commitment without establishing a linkage to the level of contribution by the United States. I may also request you to use your influence to try to pursuade other donors to maintain their original level of commitment for IDA-VI so that this can be preserved as a three year programme.

Please accept, Excellency, my renewed assurances of highest considerations.

Respectful regards.

(H M ERSHAD)

The Right Honourable
Mrs. Margaret Thatcher
Prime Minister of the
United Kingdom of Great
Britain and Northern Ireland.

10 DOWNING STREET

PRIME MINISTER

I apologise for asking you to sign the General Zia letter again - it was found to contain an error.

A.J.C. 19/4

20 April, 1982

HL

Keep CF
I think this is outside Overseas Aid
please return to me
AD 20/4

19 April 1982

IDA

I enclose a copy of a letter which the Prime Minister has received from the President of the World Bank. I have sent a brief acknowledgement and doubt, unless you wish to advise to the contrary, that any more substantive reply is necessary.

JOHN COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

HL

19 April 1982

The Prime Minister was most grateful for your letter of 13 April and was glad to know that you found helpful the UK's decision to release in full its second instalment to IDA6.

JOHN COLES

Mr. A.W. Clausen

Overseas Aid

Foreign and Commonwealth Office

London SW1A 2AH

15 April 1982

Type letter pl.

A.J.C. 15/4.

Pt 2

International Development Association (IDA)

Pt 3

Thank you for your letter of 5 April enclosing a copy of a letter to the Prime Minister from the President of Pakistan.

I enclose a draft reply for the Prime Minister's signature: we will forward the signed copy by bag if you agree.

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

DS[illegible]1 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Prime Minister

DEPARTMENT: TEL. NO:

Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:

General M Zia-ul-Haq
President of Pakistan

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Thank you for your letter of 27 March about contributions to the Sixth Replenishment of the International Development Association (IDA).

The current difficulty arises because the United States has yet to appropriate in full the contribution it has pledged ~~to make~~ to IDA 6 and because the IDA Replenishment Agreement provides that IDA may ~~only~~ commit the contributions of other members only in proportion to the commitment of the United States for which appropriations have been made. There has ~~not~~ been ~~any~~ no suggestion that ~~any~~ donor countries might reduce their contributions as such.

However, following representations made to us about the consequences for the poorest countries of the application of the pro rata provision in the IDA6 Agreement, and the serious difficulties it is causing countries such as yours, we agreed last month to waive the pro rata provision in respect of our second (current) instalment to IDA 6. This

Enclosures—flag(s).....

/means

means that £370 million of Britain's grant contribution of £555 million to IDA 6 is now available for commitment. This is part of our policy of helping the poorest countries to the best of our ability.

I hope very much that other major donors will follow suit. They attach importance to the principle of burden-sharing and to IDA having a broad financial base but they have been told of our decision and the reason for it.

AOL 15/4

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

R9

April 13, 1982

Dear Prime Minister:

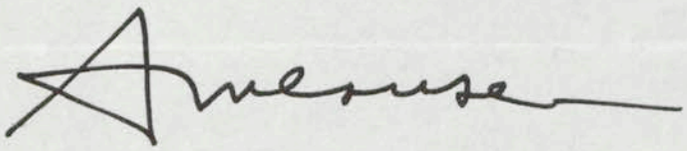
I should like to express my deep appreciation for the significant contribution which your Government has made towards alleviating the resource constraints facing the International Development Association this year.

There is no doubt that the United Kingdom's decision to release in full its second installment to IDA6 was critical to the positive outcome of the recent meeting of IDA Deputies. It seems that as many as ten or so other countries may follow the United Kingdom's lead, which would augment substantially the Association's commitment authority for this year.

I am extremely grateful for your personal support in this matter, and look forward to continued close cooperation.

Warm regards,

Sincerely,



The Right Honourable
Mrs. Margaret Thatcher, M.P.
10 Downing Street
London, SW1
United Kingdom

Overseas Aid. DSG

SUBJECT.

cc FCO

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 68/82

10 DOWNING STREET

THE PRIME MINISTER

10 April 1982

cc. Master alk
ops.

My dear Prime Minister,

Thank you for your letter of 11 March about Britain's contribution to the Sixth Replenishment of the International Development Association (IDA).

Your letter set out most cogently the importance of IDA to the poorest countries in Africa and elsewhere, and the consequences for them of the application of the pro-rata provision in the IDA 6 Agreement. I also discussed these difficulties with Mrs. Gandhi during her recent visit to London.

In view of the situation in the poorest countries Her Majesty's Government have agreed to waive the pro-rata provision in respect of their second (current) instalment to IDA 6. This means that £370 million of Britain's grant contribution of £555 million to IDA 6 is now available for commitment.

I hope very much that other major donors will follow suit. They attach importance to the principle of burden-sharing and to the desirability of IDA having a broad financial base but they have been told of our decision and the reason for it.

All good wishes.

Yours sincerely

Margaret Thatcher

The Honourable R. G. Mugabe, M.P.

SUBJECT.

THE STATE HOUSE,
DAR ES SALAAM,
TANZANIA.

8th April, 1982.

Mrs. Margaret Thatcher,
The Prime Minister,
10 Downing Street,
Whitehall,
London, S.W.1.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 66A/82

cc. master sec
DCS

Dear Mrs. Thatcher,

The International Development Agency of the World Bank is of major importance to the poorest Developing countries, which cannot even undertake the interest commitments involved in normal World Bank Loans. I.D.A. Credits enable countries like mine to make at least some minimal advance in establishing the kind of infrastructures which are a necessary preliminary to any productive investment. The U.S.A. decision, to cut from $3.24 billion to $2.145 billion the amount of money it will make available over the three year period of I.D.A.6, is thus a very serious blow to the struggle against world poverty.

It is for this reason that I wish to express my appreciation of your Government's decision to waiver the pro-rata aspects of the I.D.A.6 agreement, and to adhere to the money contribution agreed to by Britain at the end of the original negotiations.

At the same time I ask that the British Government should use its influence within E.E.C., and with other allies and friends, so that all other countries adhere to the original agreement regarding the amount of money made available to I.D.A. A number of states have already agreed to do that, but some have not yet made a decision. Britain's example and encouragement could be helpful in persuading them to do so in a manner which does not mock the concern about world poverty expressed at Cancun and elsewhere.

I use this opportunity to send my personal greetings to you - and also to convey my sympathy for you on having to grapple with the political and personal ramifications of the Argentinian military occupation of the Falkland Islands.

Yours sincerely,

Julius K. Nyerere

Foreign and Commonwealth Office

London SW1A 2AH

6 April 1982

Dear John.

International Development Association:

Letter from Mr Mugabe

We agreed that a reply to Mr Mugabe's letter of 11 March to the Prime Minister should await a decision as to whether Britain would waive the pro-rata provision in the Agreement of the Sixth Replenishment of the International Development Association, a question raised by Mrs Gandhi during a recent visit.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

A J Coles Esq
10 Downing St

DRAFT LETTER FOR SIGNATURE BY THE PRIME MINISTER

The Hon R G Mugabe MP
Prime Minister of Zimbabwe

Thank you for your letter of 11 March about Britain's contribution to the Sixth Replenishment of the International Development Association (IDA).

Your letter set out most cogently the importance of IDA to the poorest countries in Africa and elsewhere, and the consequences for them of the application of the pro-rata provision in the IDA 6 Agreement. I also discussed these difficulties with Mrs Gandhi during her recent visit to London.

In view of the situation in the poorest countries Her Majesty's Government have agreed to waive the pro-rata provision in respect of their second (current) instalment to IDA 6. This means that £370 million of Britain's grant contribution of £555 million to IDA 6 is now available for commitment.

I hope very much that other major donors will follow suit. They attach importance to the principle of burden-sharing and ~~that IDA should have a~~ to the desirability of IDA having a broad financial base but they have been told of our decision and the reason for it.

MT 8/4

File NO

10 DOWNING STREET

From the Private Secretary

5 April 1982

INTERNATIONAL DEVELOPMENT ASSOCIATION

on Part 2 of file

I enclose a copy of a letter which the Prime Minister has received from the President of Pakistan urging that we should maintain our IDA commitment at the level agreed to in the Sixth Replenishment, irrespective of any action on the part of the United States.

B/F

I should be grateful if you could let me have a draft reply for the Prime Minister's signature.

I am copying this letter to Michael Power (Overseas Development Administration).

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

Ro

SUBJECT

cc Master
Ops.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T58A/82

State House

Lusaka, Republic of Zambia

2nd April, 1982.

My Dear Prime Minister,

I have been informed that the World Bank has been forced to cut its IDA credits by about 37% for this fiscal year, from $4.1 billion to $2.6 billion. These cuts reflect a drop in IDA resources available to the Bank due to delays in US legislation, and the decision by other major donor countries to link the further release of their contributions to that of the United States. The prospects for the next year are likely to be even more disturbing due to possible further delays in the US legislation, which, if such action were to be followed by other IDA donor countries, would force the Bank to cut IDA credits even further.

I recognize that your Government showed flexibility in this matter last year by advancing the first part of your IDA contribution, but the need for support from you and other major donors is much greater now and it will be so next year. I know that your Government is not preparing to use the delays in the US as a basis for reducing the burden of its own commitments which were entered into as part of the IDA agreement to make a total of $12 billion available to the poorest countries over the three years 1981-83. It would be disastrous if the difficulties resulting from US actions were to be compounded by the action of countries that have so strongly supported multilateral development assistance in the past.

/...

Rt. Hon. Mrs. Margaret Thatcher,
Prime Minister of Great Britain,
10 Downing Street,
LONDON.

Secondly, as you are aware, we have been pressing the World Bank for a long time to increase its assistance to Africa and, in particular, to increase the share of IDA going to Africa. Following the issue of the recent World Bank report on an Action Programme for Subsaharan Africa, which I was pleased to note your Government had fully supported, a decision has been taken to increase the share of IDA going to the poorest African countries. It would be tragic if at this stage IDA was to be denied resources to move in this direction by the action of countries such as yours which have so strongly supported the need to increase assistance to Africa.

As you well know, this is a time of very severe economic and financial crisis for the poorest countries in Africa and Asia. IDA is very important to them, and cuts at this time will be severely disruptive. I hope it will be possible for your Government to review its position and also to see whether you can prevail upon other leaders of major IDA donor Government to find a way of maintaining the level of assistance that your Government and theirs had agreed upon in IDA6.

Yours sincerely,

KD.

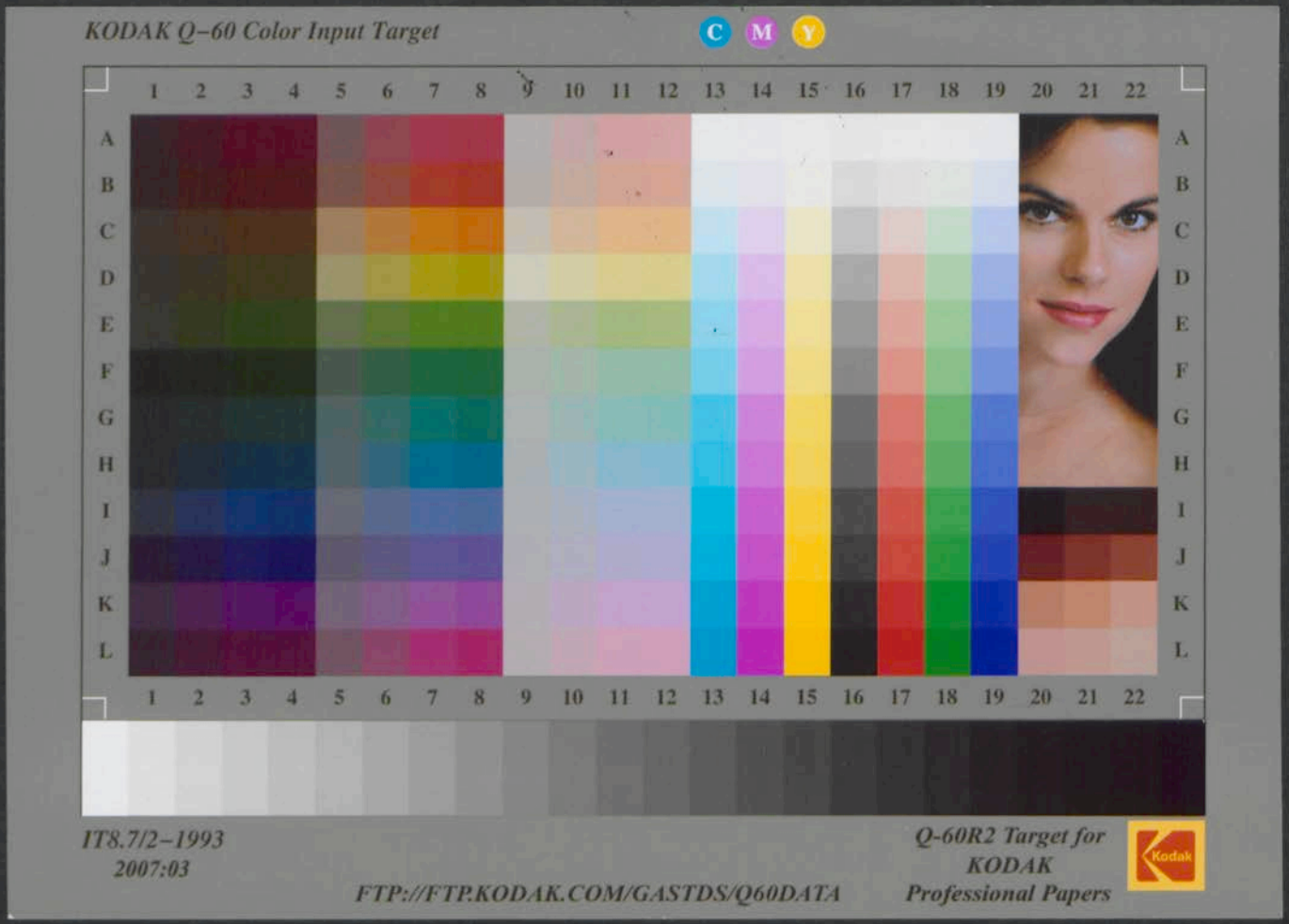
Kenneth D. Kaunda
PRESIDENT OF THE REPUBLIC OF ZAMBIA

PART 2 ends:-

Delhi to FCO tel 363 31.3.82

PART 3 begins:-

President of Zambia to PM 2.4.82 T 58A/82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