



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

25 July 1979

Dear Secretary of State,

*Overseas
Aid*

Mr. Langford to me.

Noted 25/7.

25/7

THE 1979-80 AID PROGRAMME

Thank you for your minute of 17th July, with which you sent revised planning figures for this year's aid programme.

I am sure that you were right to identify reductions substantially in excess of the £50 million Budget cut, in order to create a reasonable degree of flexibility within the programme. But I am doubtful whether a contingency margin of £32 million goes far enough in this direction. There are two, quite separate, considerations here.

First, your list of contingency claims (Annex B to your minute) represents in large degree not so much contingencies as additional commitments already known, and provides no room for new contingencies so far unseen; and includes estimates which in one or two cases (I have particularly in mind the aid/trade contingency provision and the programme loan to Turkey) may prove to be on the low side.

But more important, as paragraph 2 of your minute makes clear, these plans continue to be based on the assumption that there will be a 20 per cent underspend on the aggregate of individual allocations. This is, it seems to me, a highly doubtful assumption, in the light of the acceleration of ODA disbursements and the likely overspend in the 1978-79 programme. I can see that at this stage in the present financial year it would be disruptive to reduce the 20 per cent estimating adjustment to which the ODA has been accustomed to operate in recent years. But I am sure we must look at this again for 1980-81, with a view to substantially reducing, or even abolishing, this adjustment.

As to this year's programme, I am inclined to think we should deal with both these problems by increasing the contingency margin by not less than £10 million, to at least

/£42 million,

The Rt. Hon. The Lord Carrington, KCMG, MC



£42 million, e.g. at the expense of the proposed allocation of £160 million to India. Even if this were done, I should remain very concerned about the risk, entailed in your present figuring, of aid disbursements this year exceeding the cash limit for the aid programme; and I must emphasise the need for the ODA to ensure that no such overspending takes place.

I note that about two-thirds of the £97 million reductions you have identified are to be achieved by postponement rather than by cancellation of expenditure. That is, I suppose, an inevitable consequence of the high level of commitment of this year's programme and will limit our ability to preserve flexibility in the later years. But I am sure you will agree that we must do all we can to reach a high degree of flexibility, so that we can respond both to the results of a review of aid policy (such as I proposed in my letter to you of 9th July) and to new requirements for aid, as well as giving ourselves time to reconsider the arrangement concerning the estimating adjustment. To this end, I suggest that, pending in the first instance Ministerial consideration of the framework of allocations for 1980-81 on which I understand your people are now engaged, firm commitments for that year should not be allowed to exceed 70 per cent of the gross amount available for allocation. I hope that you can agree to this.

I should add that I have seen Neil Marten's letter of 4th July to Nigel Lawson about aid projects on which he would like to make formal commitments now. Following Nigel's reply (of 17th July), I can now confirm that I am content for these commitments to go ahead once we are all agreed on the revised plans for 1979-80.

Copies of this letter go to the Prime Minister, the Secretaries of State for Industry and Trade, and to Neil Marten and Sir John Hunt.

MA Hall

[Approved by the Chancellor
of the Exchequer and signed
in his absence]

(GEOFFREY HOWE)

25 JUL 1979

