

## INCREASED AID FOR INDIA: FINANCIAL IMPLICATIONS FOR AID PROGRAMME

Note by the Foreign and Commonwealth Office/  
Overseas Development Administration

1. This note sets out the financial implications of providing a bilateral aid programme to India of £115 million per annum, and of increasing the Aid/Trade offer for the Thermal Power Station from the £51 million sanctioned by Ministers to £75 million as suggested by Sir John Thomson. It also considers the possible implications of meeting the Indian request to proceed with committing IDA 6 without US participation.
2. The present framework allocations for India are as follows, including local cost aid in lieu of aid debt relief but excluding our tied aid contribution to the Steel plant:

£ million cash	
<u>1982-83</u>	<u>1983-84</u>
85	82.5

The allocations for 1984-85 and 1985-86 are due to be settled in the aid framework discussions over the next two or three months which would also reassess the £82.5 million for 1983-84.

3. On the basis of preliminary planning, in which ODA officials have scrutinised the levels of multilateral aid with particular care, the probable overall levels of aid in cash terms available for country programmes in the years in question are as follows:

£ million cash			
<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
476	443	428	448

These figures are dependent on three crucial assumptions:

- i. that the ATP will be maintained at £55 million in cash each year (see below);
- ii. that the funds required for the multilateral programmes will not increase by more than £5-10 million in each year over the framework period as a result of the initiative to propose waiving the pro rata requirement on IDA 6 (and that we are not faced by major new EC initiatives in the aid field);

- iii. that Ministers will wish to insist on an unallocated reserve of £70 million, £110 million and £150 million in the years 1983-84 to 1985-86 respectively (these figures are 6%, 9% and 11% of total Framework resources in the three years).

It should also be noted that the figures from 1983-84 onwards are in cash and allow for a measure of inflation on the basis of assumptions agreed by Ministers.

4. If India were to receive £115 million a year over this period (plus the coastal steel plant) the effect on other bilateral programmes given presently planned aid levels would be extremely serious:-

	£ million, cash			
	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
Total as above	476	443	428	448
Less:				
India regular programme	115	115	115	115
India steel plant	12	38	35	23
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Available for all other countries	349	290	278	310

The resulting amounts which would be available for all other countries compare with a framework figure for the same group in 1981-82 of £410 million. It is the view of FCO/ODA that such reductions in bilateral aid would do the UK serious political damage and would be likely also to have adverse effects on our commercial and industrial interests in several of the countries affected. The squeeze on bilateral aid will of course be increased:-

- (a) by £25 million in 1984-85 and by £30 million in 1985-86 if the initiative on IDA 6 leads to IDA 7 (with or without US participation) being implemented one year earlier than currently assumed;
- (b) by further significant amounts to the extent that, following the recent meeting of 'E' Committee, the ATP were to be increased beyond the £55 million a year assumed above.

5. Against the background of the overall figures for country aid programmes given above it is probable that, to minimise political damage elsewhere, the regular aid programme to India would have to be reduced to at best £80 million in 1984-85 and 1985-86 assuming no increase in ATP. To maintain a programme of the size now envisaged would thus require an addition to the overall aid programme of at least £35 million in each year, again assuming no increase above £55 million in ATP and that IDA 7 does not start earlier than assumed. It will be noted that the figures for prospective future aid to India are considerably lower than those assumed by Sir John Thomson.

6. It seems doubtful whether in practice India could now use as much as £115 million in 1982-83 unless we were prepared to go back to offering maintenance aid (which has very little trade advantage). A more realistic figure for actual spending in that year might be £100 million, which would involve an extra £20 million above anticipated spending. Because of the expected shortfall on disbursements on the steel plant in 1982-83, ODA believe that they could provide £10 million of this sum but an addition of £10 million would be required from Central Contingencies.

7. As far as the proposal to increase the ATP offer for this project from the £51 million so far approved by Ministers to £75 million is concerned, it is the view of ODA officials that the higher amount could be met within even the £55 million annual provision for ATP mentioned above, provided that expenditure was phased according to the progress of the project. It is primarily for the Department of Trade to say whether they would be willing to accept that this project should have the degree of priority which this would imply.

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