Overseas Aid

(2)

CONFIDENTIAL

Prime Minister

FCS/80/124

CHANCELLOR OF THE EXCHEQUER

Aid Framework 1981-82 to 1983-84

1. I now circulate details of the main features of the planned allocation of aid resources I propose for the next three years, to which I should be glad to have early agreement. The details are set out in Tables 1-3 attached. These plans have already been examined very closely by our officials and discussed by them in a meeting on 11 July.

2. The allocation of aid resources must take account of

a) policy considerations and objectives;

b) the level of funds we have decided to make available for the aid programme;

c) existing commitments which cannot be breached without serious consequences.

My starting point, therefore, for this framework exercise has been the recently concluded aid policy review, and it does not seem necessary, on this occasion at least, to circulate an aid strategy paper which would do no more than repeat the points made in my statement on 20 February.

3. That statement made it clear that our aid programme would continue to be a substantial one; that we would give particular attention in it to the relief of poverty and the growth of world trade; that we would give greater weight to political, industrial and commercial considerations alongside our basic developmental objectives; that the Aid/Trade Provision and the unallocated margin in the aid programme were being increased; and that we would be looking critically at our expenditure on multilateral aid programmes.

4. Those aims continue to stand as our strategic objectives. But we must accept that they cannot be fully achieved over the next three years within the resources which we, as a Government, have decided we can afford to allocate to the aid programme.

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While the constraints on rapid implementation of the recommendations of the review were fully recognised in the final report of the aid policy review group at that time the size of the cuts in the aid programme had not been finally determined and turned out larger than anticipated.

5. Our detailed examination of the forward position has shown the constraints to be very severe. The extent of forward commitments, most particularly in 1981-82 and 1982-83, means that our room for flexibility in the Framework period is very limited. The major objective which it has not been possible to achieve, or even move towards, is a switch from multilateral to bilateral aid. Multilateral commitments take a number of years to spend and the increasing weight of our multilateral spending obligations, notably those arising from our membership of the EC and our agreed support for IDA VI, will substantially reduce most of our bilateral programmes. Some but by no means all of these spending requirements arise from commitments made by the previous administration which had been planning rapid growth in the aid programme. We too have made substantial multilateral commitments over the last year including our £550m contribution to EDF V on part of our aid channelled through the EC and our £555m contribution to IDA VI. These will, of course, be spent over a number of years running well beyond the present aid framework period. My officials are looking further at the possible requirements of multilateral aid programmes beyond 1983-84 which is the final year of the present framework period to assess how long it may be - given an assumed continuation of aid at the levels projected for 1982-83 and 1983-84 - before we shall be able to achieve a shift from our multilateral to our bilateral programmes. The information will be circulated at official level as soon as it is available but it cannot affect the position up to 1983-84. We must also bear in mind that through our agreement to the Declaration of the Venice Summit last month we gave our strong support to a number of multilateral aid programmes including IDA VI.

/6.

6. Against this background, by far the greater part of the allocations proposed for multilateral programmes are those which are necessary to ensure that we continue to meet existing obligations. The Aid Policy Review decision to provide a larger unallocated reserve and to continue the Aid/Trade Provision at its present level in real terms, combined with rising multilateral disbursements inevitably results in very severe cuts in bilateral aid, especially our country programmes. Many of our important aid recipients will be very disappointed indeed - some, such as President Ziaur in Bangladesh, appalled - when they fully appreciate that UK aid is falling substantially, in both real and cash terms from 1980-81 levels. But I see no means of achieving significant savings against other parts of our programme to enable desirable reallocations of aid to take place.

7. When officials examined FCO proposals interdepartmentally attention was drawn to a number of additions to programmes which would be desirable for commercial or political reasons. Instances of countries mentioned are Bangladesh, Burma, India, Indonesia, Jamaica, Mozambique, Nigeria, Pakistan, Seychelles, Sierra Leone and Zaire. Other possibilities were mentioned also, notably China, English Language Teaching in Francophone Africa and the likely fall of about 50% in the numbers of people trained in the UK under the aid programme. The only proposal I have felt able to accept at present, however, having regard to the constraints outlined above is the addition of an allocation (about £3 m per year) to allow us to become members, with other developed countries, of the African Development Bank; by joining it is argued we can hope to obtain contracts we would otherwise be excluded from. This can be financed for the most part from savings identified in our contributions to the Inter-American Development Bank. Any other additional allocations could be found only at the expense of the unallocated reserve; but this would reduce our room for responding flexibly to situations

/as they

as they develop in future. As noted by our officials, any additional provision required for Turkey and for the Indian coastal steel plant would have to be found from this unallocated reserve.

CONCLUSION

8. I recognise that the allocations proposed are not what I and you would have wished in the light of our agreements on our aid policy. But I can see no way of making the changes desired, given existing commitments, within the level of funds available for aid. The framework will be reviewed annually and in this process we may be able to make some shift in the right direction but the scope for doing so cannot be very great. Meanwhile, I seek your agreement to the proposed allocations for the period 1981-82 to 1983-84.

9. I am sending copies of this minute to the Prime Minister, the Secretary of State for Trade and the Secretary of State for Industry.

C

(CARRINGTON)

Foreign and Commonwealth Office

23 July 1980

TABLE 1

SUMMARY AID FRAMEWORK

	£m Cash				Volume Change (1980-81=100)		
A. RESOURCES AVAILABLE	1980-81	1981-82	1982-83	1983-84	1981-82	1982-83	1983-84
1. Net Aid Programme	877	872	879	924	94.5	88.1	88.0
2. Amortisation	76	65	68	69	81.5	78.3	75.3
3. Gross Aid Programme	953	938	947	993	93.4	87.3	87.0
4. Estimating Adjustment	114	94	95	100			
5. Total available for allocation	1067	1032	1042	1093	88.3	82.4	82.2
B. ALLOCATIONS							
6. Multilateral	293	382	411	449	118.3	117.7	122.2
7. Bilateral							
a. Country programmes	548*	426	392	396	70.7	60.2	57.7
b. ATP	41	43	46	49	100.0	100.0	100.0
c. Functional TC	76	78	78	77	95.8	89.0	83.1
d. CDC	25	24	26	27	86.2	86.2	86.2
e. Pensions	26	26	26	20	91.7	83.3	62.5
Total bilateral	716	597	568	569	80.6	70.9	67.5
8. Total allocated	1009	979	979	1018			
9. Unallocated Reserve	58*	53	63	75	86.7	95.4	107.9
Unallocated Reserve as a percentage of the Gross Aid Programme	6.1%	5.7%	6.7%	7.6%			

*Note: The 1980-81 aid framework allocations in Tables 2 and 3 have firm claims against the unallocated reserve, totalling some £36m, added to the appropriate programmes.

ANNEX 2

AID FRAMEWORK ALLOCATIONS

	£m				Volume Change (1980-81 = 100		
	1980-81	1981-82	1982-83	1983-84	1981-82	82-83	83-84
MULTILATERAL AID							
EC Group	142.215	185.864	189.641	209.727	120.1	113.4	119.1
World Bank Group	75.600	116.000	136.000	155.000	138.0	149.6	162.0
Regional Development Banks	16.205	16.735	18.835	18.025	92.9	96.7	87.9
UN Group	44.750	48.727	50.342	51.431	97.9	93.0	90.9
Other multilateral aid	14.544	14.790	15.833	14.577	91.4	90.6	79.2
Total multilateral aid	293.314	382.116	410.651	448.760	118.3	117.7	122.2
BILATERAL AID							
Africa: Central and Southern	79.590	64.696	67.295	67.236	74.9	72.1	68.4
East and General	94.320	78.761	70.740	70.884	75.9	63.1	60.0
West and North	31.750	26.955	23.235	23.580	77.2	61.6	59.2
(Total Africa)	(205.660)	(170.412)	(161.270)	(161.700)	75.7	66.3	63.2
Asia	117.867	80.910	76.295	81.780	62.1	54.2	55.2
India	142.690	86,900	85,100	82.500	54.8	49.7	45.8
Middle East & Mediterranean	42.110	23.032	9.536	9.108	49.4	18.9	17.2
Caribbean and Pacific	36.368	27.583	25.840	26.432	69.5	60.2	58.6
Latin America	14.195	11.992	11.016	11.142	77.9	66.2	63.6
Dependencies	24.600	25.425	23.372	23.234	94.0	80.0	75.8
Total country programmes	583.490	426.254	392.429	395.896	66.3	56.9	54.2
Aid-Trade Provision	41,000	43.000	46.000	49.000	100.0	100.0	100.0
Education	39.785	41.128	40.962	39.830	97.8	90.2	83.3
Research & Development	24.720	24.702	24.958	24.471	93.5	87.4	81.4
Other Functional TC	11.340	11.818	12.112	12.328	93.7	88.9	86.0
Commonwealth Development Corporation	25.000	24.000	26.000	27.300	86.2	86.2	86.2
Pensions	25.900	26.400	26.000	20.500	91.7	83.3	62.5
Total bilateral aid	751.235	597.302	568.461	569.325	72.1	63.5	60.4
TOTAL ALLOCATED	1044.549	979.418	979.112	1018.085			

TABLE 3

LARGE COUNTRY PROGRAMMES

	£m Cash				VOLUME CHANGE (1980/81 = 100)		
	1980-81	1981-82	1982-83	1983-84	1981-82	1982-83	1983-84
Asia and Middle East							
India: Tied capital aid and TC	110.690	46,900	35.100	32.500	38.3	26.5	23.2
RTA	32.000	40.000	50.000	50.000	111.0	123.4	122.0
Total	142.690	86.900	85.100	82.500	54.8	49.7	45.8
Bangladesh	42.700	23.500	25.000	28.000	49.6	48.3	52.0
Sri Lanka	28.585	24.900	24.300	24.200	78.6	70.9	67.1
Pakistan	19.960	13.000	10.700	13.000	58.7	44.7	51.6
Nepal	9.475	7.900	7.500	7.000	75.6	66.4	58.9
Indonesia	8.870	6.000	5.500	6.000	61.7	52.3	54.2
Turkey	31.450	15.250	3.800	3.500	43.6	10.1	8.8
Jordan	4.540	4.050	2.700	2.650	80.3	49.5	46.2
Burma	3.050	1.900	0.500	0.500	56.6	13.8	10.1
Thailand	2.200	1.850	1.050	0.780	77.0	40.4	28.6
Africa							
Zimbabwe: Training	11.930	4.023	1.298	0.068	32.0	9.6	0.5
Capital aid and TC	7.000(1)	10.000(1)	19.000	24.000			
Kenya	29.120	21.800	21.205	36.629	68.3	61.5	100.9
Tanzania	27.810	20.379	16.431	10.980	66.5	49.6	31.5
Zambia	23.190	17.070	18.160	14.200	67.7	66.6	49.5
Sudan	22.100	28.259	27.679	18.594	115.6	104.8	66.9
Malawi	13.980	12.630	10.850	11.320	82.8	65.8	65.2
Ghana	11.500	9.645	8.620	6.990	76.1	62.9	48.5
Egypt	8.830	9.010	7.270	8.925	81.9	68.7	80.2
Botswana	6.640	7.699	6.451	6.038	107.8	83.5	74.3
Uganda	5.420	0.360	-	-	6.0	-	-
Lesotho	5.340	5.130	5.570	5.650	87.2	87.6	84.4
Mozambique	6.240	3.980	1.960	1.950	57.4	26.2	24.7
Swaziland	4.120	3.300	3.200	3.200	74.2	66.6	63.2
Seychelles	4.060	3.659	1.934	1.482	82.3	40.2	29.3
Nigeria	3.250	1.600	0.130	0.100	44.3	3.3	2.4

(1) Zimbabwe 1980-81 and 1981-82 allocations exclude £8m and £7m respectively from Central Contingency Reserve.

TABLE 3 (continued)

	£m Cash				VOLUME CHANGE (1980-81 = 100)		
	1980-81	1981-82	1982-83	1983-84	1981-82	1982-83	1983-84
Mauritius	2.180	2.016	1.465	1.422	83.9	56.4	52.0
Sierra Leone	2.150	1.535	1.955	1.950	65.7	77.5	73.4
Gambia	2.038	3.010	3.940	4.400	132.0	159.9	169.7
Somalia	2.090	1.388	1.446	1.370	60.9	58.7	52.8
Caribbean and Pacific							
Solomons	10.840	7.036	7.689	7.650	59.1	59.8	56.5
Kiribati	5.822	8.678	7.424	6.419	135.2	107.0	87.9
Jamaica	3.420	0.396	0.467	0.492	10.4	11.4	11.4
Guyana	3.290	2.633	1.763	0.849	71.7	44.4	20.3
Latin America							
Bolivia	4.575	5.826	5.695	5.203	116.0	105.2	91.1
Chile	2.164	1.121	0.657	0.314	46.7	25.3	11.5
Dependencies							
New Hebrides	6.615	7.480	7.480	7.480	103.5	95.7	91.0
Belize	4.644	3.718	3.065	3.257	72.7	55.4	56.0
Gibraltar	4.215	3.364	2.767	2.940	72.0	54.8	55.3
St Helena	3.618	3.891	4.076	4.153	97.3	94.3	91.3
Other country programmes (less than £2m each in 1980-81)							
Asia	9.147	5.592	4.781	5.258	57.8	44.3	47.4
Africa	6.672	4.919	2.706	2.432	69.0	35.1	30.0
Caribbean and Pacific	12.996	8.340	8.497	11.022	63.4	56.4	69.5
Latin America	7.456	5.045	4.664	5.625	63.4	54.2	62.1
Dependencies	5.508	6.972	5.934	5.404	115.7	91.9	80.2
TOTAL COUNTRY PROGRAMMES	583.490	426.254	392.429	395.896	66.3	56.5	54.2
Large programmes (over £2m in 1980-81) as a percentage of the total	92.8%	92.6%	93.2%	92.5%			

2.

Prime Minister

Seems a satisfactory outcome for the immediate future

MAP 23/IX

Prime Minister

You have seen the Ministerial exchanges about the draft aid framework for 1981-82 to 1983-84, and agreed that those Ministers most closely concerned should meet to finalise the details.

2. Geoffrey Howe, John Nott, Tom Trenchard, Neil Marten and I accordingly met to discuss the aid framework on 10 September. I think it is fair to say that the differences between us were ones of emphasis rather than substance. We recognised that the constraints of inherited commitments, inflexible multilateral obligations and a reducing aid programme imposed a straitjacket which meant that we could not move as far and as quickly towards shifting the direction of the aid programme as we would have liked. We recognised, too, that sometimes political and commercial or industrial considerations do not necessarily coincide. Tanzania proved to be a case in point.

3. Both John Nott and Tom Trenchard wished to be fully satisfied that we had gone as far as possible in meeting the industrial and commercial objectives agreed in the Aid Policy Review. I instructed officials to meet one last time in an attempt to reconcile remaining differences on the aid framework allocations. This they did, and were able to agree modest increases for several countries with attractive commercial prospects at the expense mainly of one large project in Bolivia which we have dropped following the coup. John Nott has said that he is now satisfied that the aid framework is moving in the right direction, and he has joined the other Ministers concerned in agreeing the aid framework as amended; I propose to circulate this shortly.

4. I am copying this minute to the Chancellor of the Exchequer and the Secretaries of State for Trade and Industry.

I.H.G.

19 September 1980

Overseas Aid.

1. ~~MOD~~ Mrs
1. ~~MODA~~
2. TL

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

PRIME MINISTER

Ian Gilmour copied to me his minute of 19 September recording the outcome of the recent discussions about the Aid Framework for 1981-82 to 1983-84. I agree that, as revised, the Framework shifts the aid programme as far in the direction of our aid policy objectives as inherited commitments permit, and therefore accept the proposals.

(G.H.)

2 October 1980

✓ MAP 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

The Rt Hon Sir Ian Gilmour Bt MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

23 September 1980

Dear Ian,

AID FRAMEWORK 1981/2 TO 1983/4

I have been following the correspondence on this subject with close interest, and of course Tom Trenchard attended the meeting you held on 9 September. I have now also seen the changes which were agreed at Sir Peter Preston's meeting the following day, and John Nott's letter dated 16 September accepting them. You will wish to know that I too can now accept the aid framework as amended in the latest round of discussions. I am particularly pleased to see that you are willing to commit up to £10 million more to India in 1981/2 if this would help to secure the Costal Steel Plant.

I note that most of the changes which have been made are at the expense of the COMIBOL project about which your Private Secretary wrote on 15 August. I was pleased to note from that letter that the reinstatement of this project, which we saw as bringing important benefits to our mining equipment companies as well as being essential to the reconstruction of the Bolivian economy around its principle export industry, will be considered at the appropriate time, and that it should be regarded as a preferential claim on the unallocated reserve.

In deciding what is the appropriate time, we should also take into account the need to support Capper Pass if they approach the Bolivians with their own offer of a loan in return for supplies of tin concentrate; at present their proposal too is in abeyance because of the critical situation in Bolivia. If we and Capper Pass do decide to go forward in parallel it will be important for us to act in such a way as to provide the right atmosphere for a successful deal between the Bolivians and Capper Pass.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Trade and Sir Robert Armstrong.

Yours ever
Keith

✓MAP

Foreign and Commonwealth Office
London SW1

19 September 1980

Dear John,

AID FRAMEWORK 1981/82 TO 1983/84

Thank you for your letter of 16 September. I am glad that we have now been able to agree on the amended Aid Framework proposals. I am informing the Prime Minister that this is now adopted.

I note your comments on the £10 million for India. The officials in the Overseas Development Administration concerned with the negotiations with the Indians will write to your officials setting out how they propose to give effect to your suggestions.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Industry.

Yours ever

Ian

The Rt Hon John Nott MP
Secretary of State for Trade
1 Victoria Street
London SW1H OET

Overseas Aid

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

(2)

Prime Minister

From the Secretary of State

CONFIDENTIAL

The Rt Hon Sir Ian Gilmour Bt MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

16 September 1980

Dear Ian.

AID FRAMEWORK 1981/2 to 1983/4

I have now seen the further note on this subject which Sir Peter Preston has put to you on 12 September following the meeting we had last week. I must say that I am very pleased by the adjustments which our officials have agreed. They seem to me to combine political soundness with the promise of considerable commercial benefit. We are able to enlarge our aid to Nigeria, India, Cameroon and English language training in Francophone countries virtually for the savings on the Bolivian Comibol project.

I am therefore happy to agree the aid framework as amended. But having made these changes we must make the most of them. I know that you will be anxious to optimise the political mileage out of the increases which we have agreed for each country, but I think we must also use them to advance our position on projects where British companies are facing stiff international competition.

I am thinking principally of India. I saw the Indian Energy Minister yesterday, who was most positive about collaboration with the United Kingdom in the coal sector. This is one of the areas (the other might be fertiliser plant) where expenditure which risks being deferred under present plans could be brought forward again to great advantage, commercially and politically, if another £10 million were made available in 1981/2. In other words the extra aid which we think may be needed to improve prospects for the coastal steel plant would also be worthwhile in its own right.

If we are to ensure that it does have this effect we should not simply tell the Indians or Nigerians that their aid programme is being reduced by less than might otherwise have been the case. Rather we should let it be drawn out of us in the context of our discussions on United Kingdom involvement in the coal and fertilisers programme. I hope you will agree that an approach on these lines will be just as effective

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From the Secretary of State

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in correcting the disappointment which the Indians feel about the size of our aid programme and it will potentially be much more beneficial to British industry.

As I have said, I believe that the meeting which you chaired and the subsequent discussions between officials have been a practical demonstration of how we can shift the balance of our bilateral aid programme towards more commercially attractive projects in better markets, and so make the most of our limited Government resources by mixing aid with private finance and export credits whenever appropriate. This we must continue to do in coming years. If we also take every opportunity to reduce our commitments to multilateral aid - even if this costs us something in terms of prestige in the international organisations concerned - I believe we shall have taken a significant step towards bringing the distribution of resources which the aid framework reflects more closely into line with our agreed aid policy. There is still a long way to go and the constraints remain formidable, but the important thing is to move as far and as fast as we can in the right direction whenever we have the chance to do so, and I am now satisfied that this aid framework does just that.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Industry.

Yours ever

John.

JOHN NOTT

CONFIDENTIAL

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CO
Overseas Aid

BK

10 DOWNING STREET

From the Private Secretary

11 August 1980

Dear Paul

The Prime Minister has seen the Ministerial exchanges about the aid framework 1981-2 to 1983-4, resting with the Chancellor's letter to the Foreign and Commonwealth Secretary of 7 August.

She assumes that Lord Carrington will be calling a meeting of the Ministers involved, and she would be grateful to be informed of the conclusions reached at that meeting.

I am sending copies of this letter to Martin Hall (HM Treasury), Nicholas McInnes (Department of Trade), Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

Yours ever

Mike

Paul Lever, Esq.,
Foreign and Commonwealth Office

HC

Prime Minister 1.

You have seen several comments on the aid framework. Content that further ministerial discussion should be in an ad hoc meeting chaired by Lord Carrington?

MT.

MAP 8/8

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

7 August 1980

The Rt. Hon. Lord Carrington, KCMG., MC.,
Secretary of State for Foreign & Commonwealth Affairs

Dear Peter

AID FRAMEWORK 1981-2 TO 1983-84

You wrote to me on 23 July asking for agreement to the proposed allocations of overseas aid over the next three years. You have set out very clearly the constraints which prevent the aid programme moving more quickly to meet the policy priorities which we laid down following the Aid Policy Review earlier this year. Like you, I can see no scope for substantial changes to the framework which would allow a greater share for bilateral aid, and although this is unfortunate, I am in general agreement with what you propose, against the background of the level of inherited aid commitments and our determination to control the overall level of public expenditure.

Keith Joseph copied to me his letter of 31 July. I support what he says in paragraph 3 of his letter about aid to India, and the scope for further cuts in the UNDP and in the functional technical co-operation programmes (which I understand your officials are reviewing at present). I welcome your decision to allocate money for the African Development Bank. I would also ask you to consider whether the allocations to the Asian Development Bank could be increased for the same reason: I believe that there would be real commercial advantages to the UK doing so.

I see no prospect of changes being made which would substantially alter the structure of the framework in the way we would wish, but I would be happy to attend the meeting that Keith Joseph has proposed.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Trade and Industry, and to Sir Robert Armstrong.

Yours ever

Geoffrey

GEOFFREY HOWE

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

2

Overseas Aid

Prime Minister
Mr Nott spoke on these lines in OD.
MAP 6/8

From the Secretary of State

CONFIDENTIAL

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

6 August 1980

Dear Peter.

AID FRAMEWORK 1981/82 TO 1983/84

I read your minute of 23 July to the Chancellor of the Exchequer with great concern.

In February we agreed and announced an aid policy intended to give greater emphasis to commercial and industrial considerations. But now, only 5 months later, when it comes to be translated into more detailed plans, it turns out that in essential respects we are moving in the opposite direction and with no prospect of giving substance to our declared intention within the lifetime of the present Parliament, or even possibly for some years beyond that.

If the gap between policy and practice were small, we might explain it away under the general terms of our announcement. But I do not see how we can explain to our supporters in Parliament and in industry that a share of multilateral aid, rising from 29% now to 39% next year and 44% by 1983-84, is consistent with our public commitment to 'look critically at our expenditure on multilateral aid programmes', much less with our agreement in OD that you would consider how to increase as soon as possible the proportion of the aid programme devoted to bilateral rather than multilateral aid.

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From the Secretary of State

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It does seem to me that our contribution to multilateral aid, for instance the IDA replenishment, is hopelessly out of line with our capacity to pay (this results from historical reason). For instance the French share of the IDA replenishment is 5% against our 10%. Yet the French GNP per head is 64% above our own. In my view we cannot any longer afford our prestige position as the ... attached table shows.

Moreover, the distribution of bilateral aid between countries has moved markedly against those which offer the better markets, and in certain cases, notably India, could sour relations to our commercial disadvantage. We are also looking for some re-arrangement of priorities within the African aid programme and are in touch with your officials about this.

I confess considerable sympathy for your predicament. It seems increasingly impossible to meet our policy objectives with the sums available. I am concerned about the impact of this on our trade. As the Overseas Projects Board has pointed out to me in a recent letter aid is one of the few instruments available which is capable of being used to the mutual advantage of our own industry and the economies of developing countries. The squeeze on the non-multilateral part of the aid programme is greatest in the short-term. Yet this is precisely when our exporters will be hardest hit in trying to get orders overseas. Their main foreign competitors are backed by Governments with apparently greater facility for deriving maximum commercial benefit from their aid policies. We need to consider not only the magnitude of the non-multilateral part of the programme but also how best to apply it to obtain maximum gearing and so give the best support for our exporters. I am conscious that the ATP formula and what we are

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From the Secretary of State

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doing in India with the steel plant can give us £5 worth of orders for every £1 of aid. I would suggest that we might have a further meeting of Ministers to discuss these matters.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, Keith Joseph and Sir Robert Armstrong.

Yours ever

John.

PS. In terms of GNP per head - ~~our contribution~~ our contribution to these multilateral bodies is even more flagrantly out of line -

JOHN NOTT

CONFIDENTIAL

IDA SIXTH REPLENISHMENT

Contributor	Contribution $m	% Share of Replenishment	GNP $m	Contribution as a % GNP
United States of America	3240	27.0	1,874,270	0.17
Japan	1757.54	12.0	642,200	0.27
Federal Republic of Germany	1500	12.0	500,930	0.30
France	645.6	5.38	387,060	0.16
Canada	516	4.30	196,990	0.26
Italy	462	3.85	194,520	0.23
Saudi Arabia	390	3.25	46,110	0.84
United Kingdom	1212	10.10	247,170	0.49

JU

Overseas Aid 2

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

MT

31 July 1980

The Rt Hon Lord Carrington PC KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
London SW1

Prime Minister

MAP 4/8.

Dear Peter.

AID FRAMEWORK 1981-82 to 1983-84

I have read with concern your minute of 23 July to the Chancellor of the Exchequer. I appreciate the constraints to which you have drawn attention, but I am not ready to accept the conclusion that we cannot make any significant progress towards implementing the policy objectives we have announced before 1983/84 and perhaps not even then.

As matters stand we seem to be planning for a significant increase in the proportion of our aid going to multilateral agencies, partly as a result of substantial new commitments over the last year which I do not recall being invited to comment on, and within a reduced programme our bilateral aid is being cut by 30% next year and another 10% the year after to make room for it. Moreover, the distribution of what bilateral aid remains has if anything moved away from those markets where we would expect to see the best return for our investment.

I am particularly concerned that we should find a little more aid for India during 1981/82. Over the next few months they will be taking decisions about the coastal steel plant, which, at more than £500 million, represents the biggest contract we have ever sought to obtain through the aid programme. Under your present proposals, and leaving aside provisions for the coastal steel plant, India has suffered particularly severely from cuts in the bilateral aid programme, and I believe that an additional £5-10 million in 1981/82 would not only be intrinsically worthwhile since India is now a rather promising market, but also psychologically important in ensuring that this vital large contract does indeed come to us. I feel sure that this sum could still be found from such sources as the UN Development Programme or a more rigorous scrutiny of the numerous small technical co-operation programmes, of which the majority are planned to continue at current levels in real terms, or even in the case of UNDP, to increase slightly over the framework period.

/While ...

While these adjustments are important, and I hope they can be achieved, they are small in relation to the main problem. I had hoped, and I still hope, that by giving more of an industrial emphasis to our aid programme we can demonstrate to our supporters in industry, who are having to carry the weight of our economic policies, that we are willing to help them in an area where there are still large opportunities for maximising our mutual advantage. I think we must meet to consider how to make much more rapid progress towards the policy objectives we have identified and announced.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer and to the Secretary of State for Trade.

Yours,

Keith