

*Overseas  
A-D*

29 March 1982

Sir Kenneth Couzens KCB  
 HM Treasury  
 Parliament Street  
 LONDON SW1

IDA 6

You are no doubt aware that the Prime Minister was convinced last week by Mrs Gandhi's arguments in favour of not insisting on the carrying through of the pro rata rule for IDA 6 and has directed that we should be prepared to waive it in respect of our contribution. (John Coles' letter of 25 March copied to Terry Matthews refers). With some difficulty we managed to persuade Malhotra on Friday that the agreement we both signed concerning IDA 6, the power station contract and increased British aid to India should say only that Britain would waive the pro rata rule in respect of the second tranche but there was a clear understanding between us that this was said because the IDA Deputies meeting next week will consider only the second tranche and that in due course we should be prepared to release the third tranche also.

You will probably also have seen the replies to our telegram MODEV 5 to Paris which we copied also to Bonn, Ottawa, Tokyo and Rome. It looks as if the French and Germans intend to stick firm to the pro rata rule, at least for the moment. The Canadians and Japanese would clearly be prepared to give up the rule if everyone else did, but I imagine that if the French and Germans stand firm they will also do so. Finally the Italians indicated that they had already released the whole of their second tranche for commitment. I think that we are bound to inform our partners that we propose to make available our second tranche in spite of their views and I am sending a telegram to that effect.

The brief which we are preparing for Rex Browning, who will be our representative at the IDA Deputies Meeting next week, will therefore say unequivocally that we are releasing the second tranche of our contribution for commitment. We hope that he will be able

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to avoid saying anything definite about the third tranche in order to keep some (not very convincing) pressure on the Americans. If pressed hard, he would probably have to indicate that we would not rule out a further waiver when the time comes.

Peter Preston

cc Mr A J Coles  
No 10 Downing Street

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MR A J COLES



A. J. C. <sup>20</sup>/<sub>3</sub>  
h.a.

**with compliments**

SIR PETER PRESTON KCB  
Permanent Secretary

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GRS 400  
UNCLASSIFIED  
FM DELHI 310955Z MAR 82  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 363 OF 31 VARCH.  
AND TO IMMEDIATE DOT (FOR PEP), ODA.

MIPT: MRS GANDHI: VISIT TO LONDON

Prime Minister B A T D

The Indian announcement  
about the power station (para. 4)

MS A. J. C.  $\frac{21}{3}$

1. FOLLOWING IS TEXT OF MUKHERJEE'S STATEMENT:-

THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) IS A SOFT-LOAN AFFILIATE OF THE WORLD BANK. ITS PROGRAMME IS OF GREAT SIGNIFICANCE TO LOW-INCOME DEVELOPING COUNTRIES, ESPECIALLY IN ASIA AND AFRICA. ITS 6TH REPLENISHMENT HAS BEEN IN SERIOUS TROUBLE. THE UNITED STATES HAS DECLINED TO CONTRIBUTE ACCORDING TO THE AGREED SCHEDULE AND CONSEQUENTLY OTHER IMPORTANT DONORS HAVE REDUCED THEIR CONTRIBUTIONS IN PROPORTION TO THOSE OF THE UNITED STATES.

2. REPRESENTATIVES OF DEVELOPING COUNTRIES WHICH PARTICIPATED IN THE RECENT NEW DELHI CONSULTATIONS HAD EXPRESSED GRAVE CONCERN AT THESE DEVELOPMENTS AND HAD EMPHASISED THE NEED FOR HIGH-LEVEL POLITICAL INITIATIVES TO RESOLVE THIS PROBLEM. IN PURSUANCE OF THIS, THE PRIME MINISTER, DURING HER RECENT VISIT TO LONDON, SPOKE OF THIS MATTER TO THE BRITISH PRIME MINISTER AND URGED THAT NON-US DONORS TO IDA VI SHOULD WAIVE THE CONDITION REGARDING PRO-RATA CONTRIBUTIONS SO AS TO AVERT A DISRUPTION OF THE IDA PROGRAMME. IT IS A MATTER OF SATISFACTION THAT CONSIDERING THE IMPORTANCE OF IDA TO LOW-INCOME DEVELOPING COUNTRIES, MANY OF WHICH ARE MEMBERS OF THE COMMONWEALTH, THE GOVERNMENT OF THE UNITED KINGDOM HAS AGREED TO CONTRIBUTE ITS FULL SHARE TO IDA VI AND ALSO TO COOPERATE WITH INDIA IN PERSUADING OTHER DONORS TO DO LIKEWISE. THIS IS AN IMPORTANT DEVELOPMENT AFTER CANCUN AND SHOWS HOW CONTINUING DIALOGUE BETWEEN LEADERS OF THE NORTH AND SOUTH CAN PROMOTE THE CAUSE OF INTERNATIONAL COOPERATION EVEN IN THESE DIFFICULT TIMES.

3. INDIA AND THE UNITED KINGDOM HAVE FOR LONG BEEN COOPERATING IN THE AREAS OF TRADE, INDUSTRY, COMMERCE, SCIENCE AND CULTURE. BRITAIN HAS ALSO BEEN PROVIDING VALUABLE ASSISTANCE TO INDIA FOR DEVELOPMENT PROGRAMMES. PRIME MINISTER'S DISCUSSIONS IN LONDON SHOULD RESULT IN EXPANDING THESE RELATIONS STILL FURTHER.

4. CONSIDERING THE IMPORTANCE WHICH WE ATTACH TO INCREASING POWER GENERATION CAPACITY, SOME TIME AGO SEVERAL FOREIGN PARTIES HAD MADE PROPOSALS FOR THE ESTABLISHMENT OF A THERMAL POWER STATION AND FOR THE DEVELOPMENT OF AN ASSOCIATED COAL MINE. OF THESE PROPOSALS, THE ONE MADE BY A BRITISH CONSORTIUM WITH THE SUPPORT

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OF THE GOVERNMENT OF THE U.K. FOR A 1000 MW POWER STATION WAS CONSIDERED TO BE THE MOST ATTRACTIVE, ESPECIALLY IN VIEW OF THE FINANCING PACKAGE ATTACHED TO IT. AS A RESULT OF DISCUSSIONS IN LONDON, THIS FINANCING PACKAGE HAS BEEN IMPROVED FURTHER. ACCORDINGLY, WE NOW PROPOSE TO ENTER INTO SERIOUS NEGOTIATIONS WITH A BRITISH CONSORTIUM FOR THE EARLY SETTING UP OF A POWER STATION AT SINGRAULI AND DEVELOPMENT OF THE ASSOCIATED COAL MINE, WITH A VIEW TO MEETING THE ACUTE POWER SHORTAGE IN THE NORTHERN REGION.

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PS/MRHUR)  
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LORD BRIDGES  
MR DONALD  
MR GIFFARD

COPIES TO:  
MS M. NEVILLE-ROLFE, PEP, DOT  
MR. C.R.O. JONES, SAD, ODA.

COPIES SENT TO  
No. 10 DOWNING STREET

Subject

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



THE ISLAMIC REPUBLIC OF PAKISTAN

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T 52 C / 82

General M. Zia-ul-Haq

ISLAMABAD

30 Jamadi-ul-Awwal, 1402 AH

27 March 1982

Her Excellency  
Rt. Hon. Margaret Thatcher, MP  
Prime Minister of the United Kingdom,  
London.

Dear Madam Prime Minister,

I write to bring to your attention an alarming trend in the current year's contributions to the International Development Association (IDA) which is a matter of serious concern to the developing countries. Following the reduction by the United States of its IDA contribution by \$300 million, other donor countries have also decreased their contributions proportionately. As a result, the total funds at the disposal of IDA have

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- 2 -

diminished from the originally pledged amount of \$4.1 billion to only \$2.5 billion.

These actions are not only contrary to the letter and spirit of the original agreement on IDA VI replenishment but also create additional and far reaching pressures for the very poor nations already struggling for their economic and political survival. While the developing countries have been hit very hard by the recent deterioration in the international economic environment, the burden of adjustment has been particularly severe on the poorest nations least able to bear it.

Over the past decade, these nations which constitute two-thirds of the population of the developing world have neither benefitted from the expansion of world trade in which their share is less than two per cent, nor from the major increase in commercial flows, in which their share is less than three per cent. They are poorly integrated into world markets of trade and capital and are least equipped

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to survive the severe buffetings which must be endured in the market place.

The largest concessional window for the poor nations has been the International Development Association. The steep reduction in contributions would severely curtail the supply of irreplaceable funds on terms which they can afford. Any further diminution in IDA funds would severely affect the World Bank's ability to address itself to the needs of the poorest countries, seriously undermine their development efforts, and increase their economic and political vulnerability. This trend towards disaster needs to be reversed by a timely and decisive act of statesmanship and vision.

In urging Your Excellency to give your personal attention to this matter, I would request that as a first step, your Government may indicate its willingness to maintain its IDA commitment at the

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original level agreed to in the Sixth Replenishment, irrespective of any action on the part of the United States.

We are, of course, all greatly disappointed by the reduction in the contribution of the United States and shall make every endeavour to have it restored. But we would be even more disappointed if the other major contributors were to follow the action taken by United States.

The International Development Association is an investment in the future of a very large segment of humanity and, indeed, an investment in international peace itself. Your timely intervention can preserve this investment and earn for you the respect and undying gratitude of the developing world.

With profound regards,

Yours sincerely,

M. Zia-ul-Haq

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General  
( M. Zia-ul-Haq )

SUBJECT.



PRIME MINISTER

SALISBURY

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T 43A/82

11th March, 1982

✓ cc. Minister's set  
MKT

Dear Prime Minister,

I have been informed that the World Bank has been forced to cut its International Development Association (IDA) Credits - the non-interest bearing loans - which benefit the poorest countries - by as much as 37% for this Fiscal Year from US\$4.1 billion to US\$2.6 billion. I had the occasion also to be briefed by Mr. Wapenhans, World Bank Vice President for East and Southern Africa, on the situation, on his recent visit to Zimbabwe.

The cuts in resources for the IDA Credits are the result of delays in United States legislation to authorise the US contribution. They are also the result of the decision by the major contributors to IDA resources, including the United Kingdom, to link their own contribution to that of the United States. Whilst this decision may be understandable and may have been intended to influence the US in a positive way, the opposite has in fact been the case with very serious consequences especially to the poorest of the developing countries, the majority of which are in Africa.

I recognise that the British Government showed flexibility in this matter last year by advancing the first part of your IDA contribution, but the need for support from the United Kingdom, Germany, France, Canada, Japan, and other major donors is much greater now and will be even more so next year.

I should as well bring to your attention, Esteemed Prime Minister, the growing feeling in the developing countries - which I am sure is a mistaken impression - that your Government may be prepared 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 such as Britain, that have so strongly supported multilateral development assistance in the past.

As you are aware, there has been pressure on the World Bank for a long time to increase its assistance to Africa, especially the share of IDA Credits going to Africa. Following the issue of the recent World Bank report on an Action Programme for Sub-Saharan Africa, which I was pleased to note your Government had fully supported, a decision has been taken to increase the share of IDA resources 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 actions of countries such as yours which, as I have already noted above, have so strongly supported the need to increase assistance to Africa in the past and are themselves actively involved in assisting African countries. Indeed, as you will no doubt recall, the Commonwealth as a whole has taken a very strong position on issues related to this.

As you well know, this is a time of very severe economic and financial crisis for the poorest countries in Africa and elsewhere. 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 Governments to find a way of maintaining the level

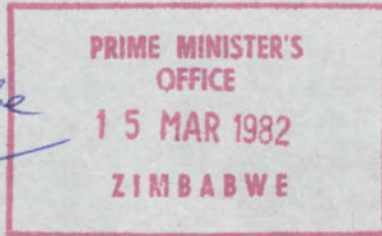
of assistance that your Government and theirs had agreed upon in IDA6, and not follow the American lead in this matter.

Yours sincerely,

*R. G. Mugabe*

R.G. Mugabe.

Prime Minister.



The Right Hon. Mrs Margaret Thatcher, M.P.  
Prime Minister  
10 Downing Street  
London.

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RGM/gm.