10 DOWNING STREET

Prime Minister

Mr Clausen ("Claw-son")

You saw, earlier, notes by Alan Walters and others.

At flag D is the 'official' brief for Mr Clausen's visit.

You will recall that you have a meeting with Ministers later on tomorrow to settle the line for Williamsburg on IDA etc.

MCS 12/4

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

From the Minister

11 April 1983

Dear Willie,

VISIT BY MR CLAUSEN, PRESIDENT OF THE WORLD BANK: 12-15 APRIL 1983

... I attach an outline programme and a set of briefs for Mr Clausen's visit this week.

The briefing covers the issues that we understand Mr Clausen will wish to raise:

a. Developments in the world economic situation;

b. Restraints in commercial bank lending and intermediation of the World Bank;

c. IBRD lending levels and capital requirements;

d. Structural Adjustment Lending;

e. International Development Association (IDA); and

f. Future of the IMF/IBRD Development Committee.

Detailed discussion on the second item will be covered during Mr Clausen's call on the Governor of the Bank of England.

You will doubtless have seen the article in today's 'Times' by Professors Bauer and Yamey, linked to Mr Clausen's forthcoming visit, criticising the principle of overseas aid. You may be interested to see the enclosed paper, written very much from a World Bank viewpoint, which attempts to answer the sort of objections raised by Professor Bauer.

Flag C
July 1982 filed on Part I

There has been some discussion here about the correct pronunciation of Mr Clausen's surname. The Prime Minister has, of course, already met him, but may like to be reminded that his surname is pronounced "Claw-son".

I am copying this letter and enclosures to John Kerr (Chancellor's Office) and to John Holmes (FCO).

Yours sincerely,
Mike Power

(M A Power)
Private Secretary

W Rickett Esq
10 Downing Street

PROGRAMME FOR THE VISIT OF MR TOM CLAUSEN, PRESIDENT OF THE WORLD BANK, TO THE UK BETWEEN TUESDAY, 12 APRIL AND FRIDAY, 15 APRIL

<u>Tuesday, 12 April</u>

	Arrive, Evening

<u>Wednesday, 13 April</u>

1030	Prime Minister
Lunch	Lunch with Commonwealth Secretariat
1500	Chancellor of the Exchequer
1730	Meeting with Conservative Back Bench Parliamentary Committees on Foreign Affairs, Finance, Trade and Industry, organised by Mr Bowen Wells, MP
1930 for 2000	Governor of the Bank of England's dinner for bankers

<u>Thursday, 14 April</u>

1000	Governor of Bank of England
1215	Minister for Overseas Development
Lunch	Minister for Overseas Development
1515	Press Conference (ODA)
1630	Secretary of State
1945 for 2000	Chancellor of the Exchequer: Small informal dinner (with wives) at 11 Downing Street

<u>Friday, 15 April</u>

	Depart, morning

LIST OF BRIEFS

BRIEF NO. 1

PERSONALITY NOTE
MR A W (TOM) CLAUSEN

Mr Clausen has been President of the World Bank since July 1981. He is a US national of Norwegian ancestry (of which he is very proud). He was born in Illinois in 1923, and educated at Carthage College and the University of Minnesota, where he studied law. He joined the Bank of America immediately on leaving university in 1949, and served as its President and Chief Executive Officer from 1969 to 1981. During his time there he was active in a large number of business, civic, and educational organisations. These included the Federal Advisory Council, which is associated with the US Federal Reserve System; and the Government Borrowing Committee of the American Bankers Association, which involved working very closely with the US Treasury. He was also a member of the Advisory Council on Japan/US economic relations, and the Pacific Basin Economic Council; and a Director of organisations concerned with US trade with the USSR and with China.

In his time as Head of the Bank of America, he was largely responsible for the Bank's flair for picking out the businesses with the most potential, and getting behind them with large amounts of cash. He was also known as a phenomenal worker and a master of organisational detail, but at the same time he did a good deal to delegate decision-making. He thus came to the World Bank with a vast experience of banking matters, particularly in the Pacific area, and of managing one of the two largest banks in the United States. He has, however, been feeling his way in a type of organisation, and intergovernmental political environment, which was largely new to his experience. There were also some important gaps in his knowledge of developing countries, although his public utterances had shown sympathy for their problems; he had, for example, never visited Africa.

On joining the World Bank, he identified as priority tasks the need to improve its internal working, and its public image, particularly in donor countries. Internally, he has sought to improve management and coordination, especially in the fields of finance and personnel management. He has also sought to introduce a more collegiate approach within the senior management. In personnel management, he has introduced more flexible arrangements designed to relate grading and reward more closely to performance. He has also initiated a substantial reorganisation of the Bank's research effort, intended to link this more closely to operational needs. In the financial field, he has pushed through important changes designed to strengthen the Bank and reduce its exposure to the risk of mismatch between the rates at which it can borrow and those at which it has committed itself to

 /lend

lend. These changes have included the introduction of a variable lending rate and the imposition of a front-end fee.

Externally, his immediate aim was to make the Bank a less controversial institution, especially in the United States, and to defuse some of the previous hostility. He has placed particular stress on the policy of IBRD and IDA of investing only in projects which are rigorously appraised from the economic and technical viewpoints, and of seeking to open developing country economies to market influences. While the Bank's traditional opponents still oppose it, they do so in a less dogmatic fashion. In the most recent vote on IDA in the US Senate, only one vote would have sufficed to produce a more favourable result. He has sought to maintain close relations with the Treasury Secretary and the Secretary of State, and with influential people on Capitol Hill.

He has spent considerable time in contacts with the private sector, seeking to make the Bank more acceptable to conservative public opinion, particularly through the stronger emphasis of co-financing. He has also now become much more aware, from first-hand experience, of the needs of developing countries. He quickly grasped the need for strengthening IDA. He had not realised that the United States would take such a restrictive position on IDA, and this has been quite a revelation to him.

During the coming months, he will be continuing to pursue these general aims, but his priority will be to get adequate support for the 7th replenishment of IDA. IDA 7 will be all the more important in view of the chequered history of IDA 6, which has been spread out over 4 years due to the failure of the United States to appropriate its contributions over the planned 3-year period.

He is also examining whether the IBRD can also do more in the face of the present serious world economic situation. He is concerned that, by comparison with the IMF, the IBRD may appear at present to be too passive. He has therefore brought forward proposals to accelerate its programme, for example, by increasing the commitment rate beyond the $60 billion envisaged for the 5-year period FY82-86, possibly supported by a selective capital increase for countries whose IMF share will increase as a result of the present review of IMF quotas. More immediately, he has suggested that, within the present commitment programme, funds might be disbursed more quickly on high priority investment projects; and that there should be a larger proportion of quick-disbursing types of loans, such as

/structural

structural adjustment loans and sector or programme loans.

Another concern of Clausen's has been the poor performance of the joint IMF/IBRD Development Committee - a concern which is shared by its present Chairman, the Pakistan Finance Minister. Clausen feels that the present round of set speeches achieves little, and he would like to see more time devoted to informal discussion - perhaps closer in style to a Commonwealth Meeting. He would like to see the Committee take a special topic and discuss it in greater depth. One such topic which he has been particularly anxious to promote is the significance of trade for developing countries; it is significant that the Vice-President whom he has recruited to head the Bank's research effort has previously done much of her work on trade issues.

Those who knew him in his days with Bank of America have described him as a very private man who shuns publicity, and is not easy to get to know - a quiet thinker and an introvert pragmatist. His performance at the World Bank has rather belied this personality assessment. While not easy to get to know well, he has sought, much more than his predecessor, to operate through discussion rather than on paper. He is a somewhat compulsive talker and he is not a good listener. Under his leadership, however, the Bank has already taken some important steps to maintain its financial soundness and to improve the efficiency of its operations.

VISIT OF IBRD PRESIDENT: 12 - 15 APRIL 1983

BRIEF NO 2: WORLD ECONOMIC PROSPECTS

POINTS TO MAKE

ECONOMIC OUTLOOK

i. World activity has yet to recover fully. Encouraging signs that modest recovery in 1983 is getting underway. Lower inflation and interest rates lays basis for resumption of sustainable growth.

ii. Lower oil prices should, on balance, improve world growth and reduce inflation. Some oil exporting debtors may suffer, more so if prices fall further but benefits to OECD countries should outweigh these difficulties.

iii. International financial scene still requires close monitoring. Considerable adjustment achieved and should continue. Most major debtors now have stabilisation programmes in place with IMF help. Helpful that IMF giving positive lead to commercial banks.

POLICIES

iv. Monetary policy should be flexible but firm enough to prevent any renewed upsurge in inflation. Fiscal policy should aim to put structural deficits on a convincing declining medium term path.

v. Expect Williamsburg to endorse continuation of prudent counter-inflationary financial policies and to resist calls for excessive reflation. Policies need to sustain recovery.

iv. Major countries especially SDR block should pursue convergent policies to achieve non-inflationary growth. Only way to exchange rate stability. Welcome recent French recognition.

vii. All countries, particularly Summit partners, need to resist protectionism. Developing countries need access to industrial markets. Trade restrictions inhibit growth and impoverish us all.

ESSENTIAL FACTS

Economic Outlook

Early signs of the modest recovery (1-2 per cent growth in output) forecast for the major industrial economies in 1983 are accumulating. In the US industrial production and housing starts have continued rising while in Europe and particularly in Germany business confidence may have turned round. Lower inflation and lower interest rates should help promote the recovery in activity. The fall in oil prices should also increase output.

2. Output growth in the non-oil developing countries (NODCs) after falling last year is also forecast to pick up slightly in 1983 to around 3 per cent though this remains below the 5 per cent growth achieved in 1973-79. World trade (UK weighted) is expected to recover only slowly growing by 1 per cent after falling by over 3 per cent last year.

3. Unemployment is likely to reach around 9 per cent for the major OECD economies this year. With the pick-up in activity the rise in unemployment may however start to level off towards the end of the year.

4. Inflation has fallen faster than expected. For the major countries it has come down from 12 per cent on average in 1980 to 5 per cent in February. Some further fall is likely in the early part of the year but thereafter higher activity may push inflation up somewhat. Nominal interest rates fell markedly late in 1982. In the US three-month market rates fell from around 16½ per cent last summer to 8½ per cent by the end of 1982. They have remained broadly flat until recently, edging up towards 9 per cent. Although real interest rates have eased slightly they remain high compared to past experience.

5. Weak demand for oil and overcapacity led OPEC to agree a 15 per cent cut in the marker price to $29 pb in March. OPEC's current account may move into deficit as a result. Lower oil prices will help many sovereign debtors but hurt those who are also oil exporters (Mexico) and may create some new problems (eg Venezuela, Nigeria, Indonesia, Egypt). A further fall would aggravate these difficulties. On balance the agreed oil price reduction should however improve economic prospects.

6. The large prospective US current account deficit (over $20 bn) dominates the rise in deficits expected for the major countries in 1983. The Japanese and German surpluses are expected to increase this year. Non-oil developing countries' (NODCs) considerable adjustment last year cut imports sharply thereby reducing their current account deficits from $100 bn to $90 bn. Net new bank lending to NODCs contracted sharply last year - growing by only 9 per cent compared to over 20 per cent in previous years.

7. Financing constraints on NODCs are likely to persist. IMF expects net new bank lending to grow by only 8 per cent or so in 1983. Import growth will remain depressed but the up-turn in the OECD area should allow some recovery in export growth and some pick-up in commodity prices. Together with the benefits of lower interest rates this should help NODCs to reduce their current account deficits further to around $70 bn. The recent fall in oil prices should also help.

8. Exchange rates have remained volatile. After rising sharply throughout 1982 the effective dollar rate depreciated by around 8 per cent between November and February this year. Uncertainty over oil prices and concern over monetary and fiscal policy have resulted in the dollar strengthening again. As a result of the EMS realignment the DM appreciated by 8 per cent against the French franc (5½ per cent from the DM revaluation and 2½ from the franc devaluation). Despite the strong appreciation since last November which has reversed the losses in 1982 the yen remains undervalued.

9. Most major debtors including Mexico, Brazil and Argentina are now implementing stabilisation programmes with IMF assistance. Although the imminent threat of major international default has receded financing difficulties still persit. The quota increase (from SDR 61 bn to SDR 90 bn - an increase of 47½ per cent) agreed at the IMF's February Interim Committee together with the increase in the General Arrangements To Borrow and its greater availability should enable the Fund to play an effective role in helping countries to adjust their economies. The World Bank also needs its resources adequately replenished.

Policies

10. Experience with monetary policy last year is difficult to assess, particularly in the US, at a time of institutional change and changing liquidity demands. Last

year US monetary growth overshot the targets partly due to distortions. The Fed has announced higher targets for 1983 as the distortions may persist but stressed the counter-inflationary goal. The M2 target was increased from 6-9 per cent to 7-10 per cent for 1983 and the base changed to the average February/March 1983 level. The Fed has expressed concern over the rapid growth in the monetary aggregates so far this year. Some have argued policy is now too lax.

11. Monetary growth in Germany in 1982 was within the 4-7 per cent target. Policy may be easier this year as the same targets are to be maintained despite lower inflation. France's single figure target has been reduced from 10 to 9 per cent for this year and is tighter than in 1982. Italian monetary control last year was wrecked by the high public sector deficit. No new targets have been set for 1983.

12. As regards fiscal policy, since 1979 despite most government's attempts to achieve firm public expenditure control general government deficits have risen, mostly due to the recession, from 2 per cent of GDP in 1979 to over 4 per cent in 1982. Only Japan and the UK have secured a reduction in their deficits while Germany has contained the increase. Mildly expansionary policies in France and the US have, along with the recession, increased budget deficits.

13. Last December OECD estimated that deficits for the major economies this year would remain at 4 per cent of GDP despite the expected recovery. The new French measures to accompany the devaluation are designed to keep the budget deficit in 1983 and 1984 to 3 per cent of GDP. The restrictive 1983 budget introduced by the Japanese Government has been tempered only slightly by the concession of income tax cuts later this year and the acceleration of public works programmes.

14. The US budget measures for FY1984 should reduce the Federal deficit from 6½ per cent of GDP in FY1983 to 3½ per cent by FY1986. But deficits still remain high compared with past experience in spite of good growth forecasts. The budget measures are still being debated and have yet to be passed by Congress. So far at least the budget has not entirely satisfied concern over the Administration's future fiscal stance.

15. We share the hopes already expressed for a relatively informal discussion at Williamsburg concentrating on a few key economic issues. Discussion might explore

the broad monetary and fiscal policy stance of all the major countries, both individually and collectively, which is necessary to ensure the recovery becomes firmly established while at the same time preventing any renewed upsurge in inflation. Other focal points might include exchange rate stability (the Jurgenson report on intervention is to be published soon), the need to minimise the threat to recovery from increased protectionism, international debt issues, help for the poorer developing countries including IDA and the outlook for oil prices.

16. There is already considerable pressure, notably from the French and the Scandanavians, for some co-ordinated reflation by the major low inflation countries. Such expectations need to be defused in advance of the Summit. Lower inflation should, within the bounds of prudent counter-inflation policies, allow greater real growth. But there is scope for a better policy mix to ensure a more balanced and sustainable recovery. In particular the US should be encouraged in its efforts to reduce its budget deficit while there is a need for high inflation countries such as Italy and France to bring their performance into line with that of their Summit partners.

HM Treasury/Bank of England
April 1983

VISIT OF IBRD PRESIDENT: 12-15 APRIL 1983

BRIEF NO 3a: WORLD BANK GROUP

POINTS TO MAKE

WORLD BANK

1. Welcome steps taken to improve Bank's financial soundness and efficiency.

2. UK has supported Bank's appropriate and timely measures to help borrowers. Structural Adjustment Lending especially helpful. If necessary, prepared to see this extended. Initiative on co-financing welcomed. (IBRD in touch with Bank of England on details.)

3. (If raised) UK's instrument of subscription under 1979 General Capital Increase will be deposited next month.

4. Would not stand in the way of a selective Capital Increase for those members whose positions under the IMF 8th Quota Review have improved. This unlikely to allow significant increase in lending.

5. Proposals for new general capital increase will need careful consideration in light of Bank's justification for increased lending.

INTERNATIONAL DEVELOPMENT ASSOCIATION

IDA 6

6. US badly at fault. Mr Clausen is an American and was nominated by the US President. What action is he taking to persuade the US to provide their contribution on time? UK has done its best (the Prime Minister herself having played a part). We initiated recent Community Démarche to the American Administration.

7. (If raised) Prepared to support pressure on US on this at Williamsburg. We cannot at this stage say what we would do if Congress fails to approve the supplementary appropriation now before it.

8. (if raised) Special contribution for FY 84. Statutory Order to go before Parliament next month to allow deposit of UK instrument of subscription before start of FY 84 (July 1983).

/IDA 7

IDA 7

9. [It is suggested that Ministers should avoid being drawn into discussion about specific figures at this stage.] IDA good form of aid. However British aid funds scarce and over-stretched. Future UK support must be on reduced scale more closely reflecting our relative economic strength.

10. Volume of IDA 7 depends upon degree of US support. Bank's ambitious target of $16-$18 billion unlikely to be realised and to give further publicity to such figures will arouse expectations in developing countries which may be disappointed.

11. Support for IDA must be broad-based. Fair burden-sharing and full US participation from outset essential. Prospect of IDA 7 no greater or even less than IDA 6 in nominal terms has to be faced.

12. Recycling of IDA funds important. What is Bank's current thinking about reducing maturities or introduction of interest charges?

INTERNATIONAL FINANCE CORPORATION

13. Attach importance to promoting private investment in developing countries. But our aid resources limited and already heavily deployed on multilateral assistance. Nevertheless ready to consider case for capital increase.

WORLD BANK

ESSENTIAL FACTS

1. The World Bank is owned by the governments of 144 countries and finances its operations by borrowing on world capital markets. Total lending commitment in FY 82 was $10,330 million, most active borrowers being India, Indonesia and Brazil. The Bank itself borrowed $8,521 million.

2. As one of the largest shareholders, we have a general interest in the success of the Bank as one of the Bretton Woods institutions and the most effective international development agency. There are procurement benefits for British companies and we more than recoup the cost of our contribution.

3. In response to recent world conditions the Bank has adopted a system of Structural Adjustment Lending which provides what is essentially programme rather than project aid. Under present rules it cannot exceed 10% of the Bank's lending.

<u>Recent Measures by the Bank</u>

4. An assessment of Mr Clausen's influence on the Bank is given in the Personality Note. Recent important policy changes are adoption of a variable interest rate for Bank borrowers; a Programme of Special Assistance to assist those borrowers making a determined effort to carry out difficult measures to sustain development; and a trial period to test new financial instruments designed to promote additional co-financing with commercial banks. (IBRD are in touch with Bank of England on technical details on supervisory aspects of co-financing.)

5. We support all of these measures which are appropriate and timely responses to the needs of the Bank's borrowers. Under Structural Adjustment Lending, we are ready to consider changing the 10% limit on Bank's non-project lending, if this becomes an undue constraint.

<u>Lending Levels and Capital Requirements</u>

6. Management has recently reviewed its five-year lending plans in light of potential increases in demand for Bank loans and quicker

/disbursements

disbursements under the Programme of Special Assistance. The original programme was $60 billion over FY 82-FY 86; but having agreed to higher annual figures for the first two years of this period, member governments are now being asked to sanction higher lending totals in the later years, including a roll-over into FY 87, and with the corollary of further expansion of the Bank's capital. A figure of $21 billion was referred to prematurely in drafts of Development Committee papers, but the issues of longer-term lending limits and capital requirements are now to be considered separately.

7. We believe Management will probably seek to obtain agreement (before the Annual Meeting in September) to a two-stage capital expansion programme involving a Selective Capital Increase following the IMF 8th Quota Review for those whose share in the IMF has been increased (in which UK will not be involved), to be implemented from 1984, and a General Capital Increase for all members to be mounted towards the end of this decade. Sums raised could be around $2.9 billion and $19.7 billion respectively. (GCI figure would be open to negotiation.)

8. The principle of parallelism between positions in the IMF and World Bank has always been followed and there are no grounds for opposing an SCI on that basis. However, Ministers would have to consider whether the UK could accept a lower position in the Bank than in the Fund (where we remain in second place) if large SCIs were offered to Germany and Japan.

<u>1979 (Current) General Capital Increase</u>

9. The 1979 general capital increase of $40 billion, when fully subscribed, should double the Bank's capital. Shares have been allocated <u>pro rata</u> according to member countries' existing holdings. UK's allotment was 24,336 shares, but we released one half (12,168) to enable the Bank to meet the legitimate claims of other countries to increase their shareholdings. Saudi Arabia was the main beneficiary. The paid-in element is 7½% of the cost of shares; ¾% in dollars and 6¾% in sterling. Total will be around £70 million and will be spread over several years; our instrument of subscription will be deposited with the Bank at the end of May.

/Energy

Energy Affiliate

10. This proposal is moribund. There has been no support from the United States and little enthusiasm shown by OPEC countries, even in the past. It is presumed that Bank support for energy projects will continue up to a maximum 25% of its lending programme and that the volume of lending to this sector will be extended as capital increases for both the IFC and the Bank take place.

INTERNATIONAL DEVELOPMENT ASSOCIATION

ESSENTIAL FACTS

11. IDA was established in 1960 as an affiliate of the World Bank to provide low cost investment funds to those countries who were not sufficiently creditworthy to borrow on capital markets or from the Bank itself. IDA's credits are provided on near grant terms and its resources are made up of grant contributions from 33 countries (the great bulk from developed countries) supplemented by repayments of earlier IDA credits, transfers from IBRD profits and a special contribution from non-member Switzerland.

12. IDA is the largest as well as the most efficient multilateral aid agency. As an apolitical multilateral organisation, it is better placed than individual bilateral aid donors to bring about policy reform necessary in recipient countries to ensure aid is effective.

13. The geographical allocation of its assistance resembles our own bilateral aid programme more than any other aid donor's - 80% of IDA credits have gone to countries with less than $410 GNP per head (1980); 60% to the large poor countries in South Asia and (as with the UK aid programme) India has traditionally been the major recipient. IDA offers important opportunities for British industry and direct procurement returns to UK are about 70% of contributions.

IDA 6

14. The Sixth Replenishment (IDA 6) was originally intended to provide $12 billion for commitments in three fiscal years beginning 1 July 1980 (FY 81), but the Carter Administration was unable to obtain Congressional authorisation for the US contribution ($3.24 billion - 27%) and the present US Government decided to accept the commitment

/but

but to phase payment over 4 years instead of three (ie to FY 84). Only $1.9 billion has so far been authorised by Congress. Other IDA donors have agreed to provide IDA with additional commitment authority over the extended 4 year period - first by advancing their first year's IDA 6 instalments, then by delinking their second and third year's instalments from the level of the US contribution (this was agreed by the Prime Minister during Mrs Gandhi's visit last year) and finally by agreeing special funding for FY 84 of which the UK share will be about £105 million.

15. So far in this financial year the US Congress have appropriated only $700m out of the $945m agreed US contribution. The US Administration have submitted a supplementary appropriation for the balance (and have included the rest of the US contribution to IDA 6 - $1095m - in their budget for next year). If the $245m supplementary is approved IDA 6 will be more or less completed on time even if the US contribution for FY 84 is only the same as this year's as the result of a continuing resolution; this will be a hopeful augury for IDA 7. If the supplementary is not approved the US contribution to IDA 6 will drag out over five years and the prospects for IDA will be seriously weakened. This is a big risk to take for a comparatively small sum (for the Americans). Mr Clausen is likely to ask the Prime Minister to raise this question with President Reagan at the Williamsburg Summit or at least to lend support if others raise it. We suggest that it would be sufficient to agree to do the latter.

16. Resulting from a UK initiative, the European Community decided to make a démarche on this issue to the US Administration. The German Ambassador in Washington delivered this on 1 March.

<u>IDA 7</u>

17. Negotiations on the seventh replenishment began in Washington last year with the intention of reaching agreement by the time of the September 1983 Annual Meeting of the IMF and World Bank. Meetings have also been held in Paris and Copenhagen. Meaningful negotiations cannot begin until the US position under IDA 6 is clarified, and the size of the US contribution to IDA 7 is known. It is hoped (but by no

/means

means certain) that the US position will be clearer by the time of the next meeting of IDA 7 Deputies in July (Tokyo).

UK Interest

18. The UK has been a strong supporter of IDA under successive Governments and our interest is probably to work for a continuing high level of resources for IDA, but towards an IDA 7 replenishment target that is realistic and includes full US participation. It would be futile to fix an overall volume implying a US share which the US Administration could not meet or to start IDA 7 without the US. At the present time the US Administration is thought to be considering contributions of around $750 million a year which would produce an IDA 7 total of $9 billion over 3 years or $12 billion over 4 years - substantially less in nominal terms than the agreed total for IDA 6. Despite this, the World Bank is continuing to give wide currency to a $16-$18 billion figure.

19. On burden sharing, we have already made clear our intention of reducing our share from the very high level of 10.1% for IDA 6, and from the 7.6% for the special funding for FY 84 to one more in line with UK's relative economic strength (the UK's share of donors' GNP is 5.4%).

INTERNATIONAL FINANCE CORPORATION

ESSENTIAL FACTS

20. Established in 1956 as an affiliate to the World Bank, with capital of $78 million to promote growth of productive private investment. Authorised capital increased in 1978, and now stands at $650 million, with 123 member countries. The previous Government decided to take up our shares and a payment of £12.2 million was made in 1978. That Capital Increase came to a close in July last year, with 90 per cent of the shares allotted. UK is the second largest shareholder (7.6%) - the US being the largest at 29.49%.

21. IFC Management now looking for a new capital increase to enable increase in volume of its lending, particularly in Africa; increased

/equity

equity investment; increased support for the development of capital markets; and increased investments in private sector energy development. In FY 82, some $280 million was provided by commercial banks in association with IFC projects.

22. Major donors, including the United States, support concept of further general capital increase. Probable size $750 million. Mr Clausen will defer making formal proposition until after IMF/IBRD Annual Meeting. We are generally satisfied with IFC's programme for promoting private investment in developing countries. Subscriptions are fully paid as grants and for UK this could mean around £38 million - but phased over several years.

Overseas Development Administration
8 April 1983

VISIT OF MR A W CLAUSEN, PRESIDENT OF THE WORLD BANK, 12-15 APRIL

BRIEF 3(b): UNCTAD VI/BRANDT: IMPLICATIONS FOR THE WORLD BANK

Points to Make

1. In preparation for UNCTAD VI, the UNCTAD Secretariat, Brandt Commission and others are calling for massive extra flows of funds from the World Bank and other sources to the developing countries (LDCs). This is not the right solution to the LDCs' present economic difficulties. [It is beyond the capacity of donors to provide or LDCs to absorb.]

2. UK appreciates World Bank's own response based on modest increases in certain types of lending and closer policy dialogue with borrowers. Endorse World Bank Programme of Special Assistance for 1983 and 1984.

3. Prepared to discuss at UNCTAD VI ideas on lines of World Bank's own thinking, eg for a modest increase in structural adjustment lending. But important to discourage unrealistic expectations.

4. UNCTAD must respect the independence of the International Financial Institutions.

Essential Facts

1. Financial matters are outside UNCTAD's main field of competence. But there will be a discussion of financial and monetary issues at UNCTAD VI. Group B (the OECD countries) has stressed that UNCTAD must respect the independence of the international financial institutions, and has warned the Group of 77 (G77) in informal contacts, not to build up unrealistic expectations.

2. The final G77 negotiating position for UNCTAD VI is under discussion at the G77 Ministerial meeting in Buenos Aires (28 March-9 April). G77 is likely to take up ideas put forward by the UNCTAD Secretariat for a package of 'immediate measures' to help LDCs. These proposed measures include a major injection of liquidity from the IMF, World Bank and other sources. Much of the package is on too grandiose a scale, and would prove beyond the capacity of donors to provide or recipients to absorb.

3. The UNCTAD Secretariat's specific proposals for action by the World Bank and IDA are: to increase lending by committing the present 5 year programme over 4 years, to increase structural adjustment lending (SAL) as a proportion of total lending, to increase IBRD's resources by a new capital increase and/or doubling the bank's gearing ratio, and to increase IDA7 in real terms. (See brief 3(a)).

4. The World Bank Executive Directors have recently approved a sensible and realistic Programme of Special Assistance for 1983 and 1984. This will result in an increase in World Bank disbursements over the next two years of approximately US $2bn. As part of the programme the World Bank will make greater efforts to discuss economic policy matters with LDC borrowers (the 'policy dialogue').

5. Group B will be prepared to discuss at UNCTAD VI realistic ideas for using World Bank lending to give LDCs rather more help with their balance of payments problems, for example through a modest expansion of structural adjustment lending.

6. Leeds Castle Conference on UNCTAD VI, 30 April-2 May

Mr Rees invited Mr Clausen to attend the Conference but he is unable to come and will be represented by a senior IBRD official.

7. Brandt

The Second Brandt Report makes proposals for action by the World Bank very similar to those put forward by the UNCTAD Secretariat.

Economic Relations Department
6 April 1983

JCRACC

VISIT OF IBRD PRESIDENT: 12-15 APRIL

BRIEF NO 4: IMF/IBRD DEVELOPMENT COMMITTEE

POINTS TO MAKE (if raised)

FORTHCOMING MEETING ON 28-29 APRIL

1. Look forward to useful meeting of Committee. Chancellor will attend. No major problems with draft agenda.

2. Reluctant to set up new Task Forces or Sub Committees on debt or trade and development issues. Risks duplicating work best left to other institutions eg IMF and GATT.

FORMAT OF MEETINGS

3. Can support moves for sensible changes in format: eg less speech-making and more genuine discussion (cf Commonwealth Finance Ministers meetings). Needs strong chairmanship.

FUTURE ROLE OF COMMITTEE

4. Understand disappointment of some members about lack of tangible results. But Committee has commissioned useful work (eg report of its Task Force on non-concessional flows).

5. See advantage in keeping Committee as deliberative (<u>not</u> decision-taking) body. Should resist more formalised arrangements (eg permanent Secretariat) which might impinge on independence of parent institutions (IMF, IBRD.)

BRIEF NO 4: IMF/IBRD DEVELOPMENT COMMITTEE

ESSENTIAL FACTS

The Development Committee was established in 1974 as the "Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries". Its remit is to maintain a general overview of the development process. It meets twice a year (normally in conjunction with the Interim Cttee). The 22 members (one from each IBRD/IMF constituency) are mainly Finance Ministers (the Chancellor normally attends for the UK). The present Chairman (elected last September) is the Finance Minister for Pakistan, Ghulam Ishaq Khan. There is an official Secretary to the Committee (at present Mr H E Kastoft from Denmark) but documentation for meetings is largely in the hands of IMF and IBRD management.

FORTHCOMING MEETING ON 28-29 APRIL

The next meeting will take place in Washington on 28-29 April. Unusually there will not be an Interim Committee meeting at the same time, as this was brought forward to February. The Chancellor will still attend.

The draft agenda includes one substantive item covering the resources of the international financial institutions (including IDA), external debt problems of developing countries and linkages between trade and the promotion of development. This structure is broadly acceptable, although there may be some problems with the draft communiqué.

There were reports following the Non-Aligned summit meeting in Delhi that the ldc's might press in the Development Committee for a new debt restructuring facility. It is not yet clear whether the Chairman will seek to push this. Mr Benjenk (IBRD Vice President) has also floated the idea that the Development Committee might set up a small sub-committee of Ministers (perhaps chaired by the Chancellor) to consider this proposal and report back to the September meeting. However, the IMF management do not favour this (nor would many G5 countries) and the idea is probably dead for the present.

The Americans are thought to want to set up a Task Force on trade and development issues. Their motives are unclear (perhaps to pre-empt discussion in UNCTAD VI or to pursue ideas floated in GATT). There is no objection to a discussion of trade linkage in the Development Committee. (Mr Clausen is also known to be interested in this subject). Follow up work might be better left to the GATT.

FORMAT OF MEETINGS

Mr Clausen is known to be concerned about the poor performance of the Development Committee. He feels that the present round of set speeches achieves little and would like to see more time devoted to informal discussion - perhaps closer in style to a Commonwealth meeting. We should support any practical moves in this direction, although it will take effective chairmanship to implement them.

FUTURE ROLE OF COMMITTEE

The Development Committee is often accused of making little impact. This is partly because of its working methods and partly because it tends to be overshadowed by the Interim Committee. The fact that it rarely produces positive recommendations for action is probably to be welcomed.

Unlike the Interim Committee, where there is a good deal of common interest, debate in the Development Committee tend to be polarised between the interests of developing and developed countries, with some of the smaller industrials (eg Nordics) often siding with the developing countries. There is no weighted voting in the Development Committee as there is in the World Bank Board. Thus, while the Development Committee has value as a forum in which developmental issues can be discussed in a less contentious way than in UN fora, it would not be in our interests for it to be given a more positive and decision-taking role in relation to the World Bank or other IFI's. We need therefore to avoid hasty decisions being taken on beefing up the role of the Committee. If there is a move in this direction at the next meeting, the better course would be to remit the subject for further study.

BRIEF NO 5

BRITISH AID POLICY AND PROGRAMME

POINTS TO MAKE

1. POLICY - British Government continue to take seriously the difficulties being experienced by countries of the developing world, and recognise that aid has an essential part to play in assisting the less developed.

Moral and humanitarian case for aid remains overwhelming and developmental objectives are basic to our programme. We are however giving greater weight to political, commercial and industrial objectives which we regard as complementing the developmental ones.

Although official aid flows are important, they are only one of the means. In addition to need for sensible domestic policies to be followed by developing countries, the flow of private resources and trade are essential. Britain's record in both these areas is good.

2. AID VOLUME - British aid programme is a considerable one - well over £1,000 million in current financial year. 10% higher in cash, and thus likely to represent an increase in real terms over 1982-83.

3. ALLOCATION OF AID - Multilateral share of aid programme in 1983-84 is expected to be about 40% of total; bilateral aid allocation to individual countries expected to be about 43%; remainder on other bilateral spending, eg Pensions, Aid and Trade Provision, Sectoral Programmes. Expect a large proportion (currently about 2/3rds) of total bilateral country programme to go to "poorest" countries. We shall continue to concentrate a high level of aid on Commonwealth countries.

4. MULTILATERAL AID - Government have stressed that while accepting that past commitments meant multilateral aid would take greater part of the programme over next few years, this expenditure would be examined critically to minimise squeeze on bilateral aid and to bring our contributions more in line with our economic strength relative to other traditional Western donors. Nevertheless we remain convinced of the value of our contributions to those agencies with whom we have enjoyed long and close relationships.

BRITISH AID POLICY AND PROGRAMME

ESSENTIAL FACTS

1. POLICY - Combined official and private flows from Britain to developing countries in 1981 (last year for which figures available) totalled £4,980 million, equivalent to 2.01% of GNP. This is well above the UN target for combined official and private flows of 1% of GNP - a target consistently surpassed by Britain for many years.

2. AID VOLUME - Net aid programme in 1982-83 totalled £959 million. Gross programme (net plus repayments of capital on past aid loans) totalled £1,028 million.

Provision for 1983-84 is £1,057 million (net) and - depending on repayments of capital on former aid loans - gross programme should total about £1,126 million. This represents increase of almost 10% over 1982-83.

Provisional planning figures for net aid programme in 1984-85 and 1985-86 are £1,100 million and £1,130 million respectively.

3. ALLOCATION OF AID - "Poorer" countries are defined as those with per capita income of US $370 and less in 1980 (Source: World Bank Atlas 1981) and all Least Developed Countries.

We expect Commonwealth share of bilateral country programmes to increase from unusually low level of 60.5% in 1982-83 to 74.1% in 1985-86. A very high proportion of bilateral aid outside country programmes (Commonwealth Development Corporation, Research) also devoted to Commonwealth.

In 1983-84 we expect top 10 recipients of bilateral country programme aid to be:

1. India
2. Bangladesh
3. Sudan
4. Kenya
5. Sri Lanka
6. Zimbabwe
7. Tanzania

/8.

8. Gibraltar
9. Pakistan
10. Zambia

4. MULTILATERAL AID - Rise of EC spending in particular has led to severe pressure on bilateral country programmes. Their share of total has been reduced from 53% to 43% between 1979-80 and 1983-84. If, as we expect, EC programmes continue to achieve annual growth rates in excess of 10%, we fear further reduction in overall share of country programmes.

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

PRIME MINISTER

VISIT OF IBRD PRESIDENT: 12-14 APRIL

Since we shall both be seeing Tom Clausen shortly after the Easter break, it occurs to me that you might like
... to see, over the break, the attached background briefing which has been prepared for me.

2. It consists of an extended personality note on Clausen prepared by John Anson, the UK Executive Director at the World Bank, and a short position paper by Treasury officials on the International Development Association (IDA), which figures high among Clausen's priorities. I understand that the latter has not yet been cleared with ODA, because the relevant experts there are now in Copenhagen at an IDA meeting. But I don't detect anything controversial in it: Francis Pym and I have already agreed on the broad lines of our approach to the negotiations on IDA's seventh replenishment.

3. A copy of this minute goes to Francis. His people will no doubt be circulating formal briefing nearer the time of your meeting with Clausen.

G.H.
30 March 1983

CONFIDENTIAL

MR. A.W. (TOM) CLAUSEN

Mr. Clausen has been President of the World Bank since July 1981. He is a US national of Norwegian ancestry (of which he is very proud). He was born in Illinois in 1923, and educated at Carthage College and the University of Minnesota, where he studied law. He joined the Bank of America immediately on leaving university in 1949, and served as its President and Chief Executive Officer from 1969 to 1981. During his time there he was active in a large number of business, civic, and educational organisations. These included the Federal Advisory Council, which is associated with the US Federal Reserve System; and the Government Borrowing Committee of the American Bankers Association, which involved working very closely with the US Treasury. He was also a member of the Advisory Council on Japan/US economic relations, and the Pacific Basin Economic Council; and a Director of organisations concerned with US trade with the USSR and with China.

In his time as Head of the Bank of America, he was largely responsible for the Bank's flair for picking out the businesses with the most potential, and getting behind them with large amounts of cash. He was also known as a phenomenal worker and a master of organisational detail, but at the same time he did a good deal to delegate decision-making. He thus came to the World Bank with a vast experience of banking matters, particularly in the Pacific area, and of managing one of the two largest banks in the United States. He has, however, been feeling his way in a type of organisation, and intergovernmental political environment, which was largely new to his experience. There were also some important gaps in his knowledge of developing countries, although his public utterances had shown sympathy for their problems; he had, for example, never visited Africa.

On joining the World Bank, he identified as priority tasks the need to improve its internal working, and its public image, particularly in donor countries. Internally, he has sought to improve management and coordination, especially in the fields of finance and personnel management. He has also sought to introduce a more collegiate approach within the senior management. In personnel management, he has introduced more flexible arrangements designed to relate grading and reward more closely to performance. He has also initiated a substantial reorganisation of the Bank's research effort, intended to link this more closely to operational needs. In the financial field, he has pushed through important changes designed to strengthen the Bank and reduce its exposure to the risk of mismatch between the rates at which it can borrow and those at which it has committed itself to lend. These changes have included the introduction of a variable lending rate and the imposition of a front-end fee.

/Externally,

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Externally, his immediate aim was to make the Bank a less controversial institution, especially in the United States, and to defuse some of the previous hostility. He has placed particular stress on the policy of IBRD and IDA of investing only in projects which are rigorously appraised from the economic and technical viewpoints, and of seeking to open developing country economies to market influences. While the Bank's traditional opponents still oppose it, they do so in a less dogmatic fashion. In the most recent vote on IDA in the US Senate, only one vote would have sufficed to produce a more favourable result. He has sought to maintain close relations with the Treasury Secretary and the Secretary of State, and with influential people on Capitol Hill.

He has spent considerable time in contacts with the private sector, seeking to make the Bank more acceptable to conservative public opinion, particularly through the stronger emphasis of co-financing. He has also now become much more aware, from first-hand experience, of the needs of developing countries. He quickly grasped the need for strengthening IDA. He had not realised that the United States would take such a restrictive position on IDA, and this has been quite a revelation to him.

During the coming months, he will be continuing to pursue these general aims, but his priority will be to get adequate support for the 7th replenishment of IDA. IDA 7 will be all the more important in view of the chequered history of IDA 6, which has been spread out over 4 years due to the failure of the United States to appropriate its contributions over the planned 3-year period.

He is also examining whether the IBRD can also do more in the face of the present serious world economic situation. He is concerned that, by comparison with the IMF, the IBRD may appear at present to be too passive. He may therefore be bringing forward proposals to accelerate its programme, for example, by increasing the commitment rate beyond the $60 billion envisaged for the 5-year period FY82-86, possibly supported by a selective capital increase for countries whose IMF share will increase as a result of the present review of IMF quotas. More immediately, he has been suggesting that, within the present commitment programme, funds might be disbursed more quickly on high priority investment projects; and that there should be a larger proportion of quick-disbursing types of loans, such as structural adjustment loans and sector or programme loans.

Another concern of Clausen's has been the poor performance of the joint IMF/IBRD Development Committee--a concern which is shared by its present Chairman, the Pakistan Finance Minister. Clausen feels that the present round of set speeches achieves little, and he would like to see more time devoted to informal discussion--perhaps closer in style to a Commonwealth Meeting. He would like to see the Committee take a special topic and

/discuss it in

discuss it in greater depth. One such topic which he has been particularly anxious to promote is the significance of trade for developing countries; it is significant that the Vice-President whom he has recruited to head the Bank's research effort has previously done much of her work on trade issues.

Those who knew him in his days with Bank of America have described him as a very private man who shuns publicity and is not easy to get to know--a quiet thinker and an introvert pragmatist. His performance at the World Bank has rather belied this personality assessment. While not easy to get to know well, he has sought, much more than his predecessor, to operate through discussion rather than on paper. He is a somewhat compulsive talker and he is not a good listener. Under his leadership, however, the Bank has already taken some important steps to maintain its financial soundness and to improve the efficiency of its operations.

February 16, 1983

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

Background

IDA was established in 1960 as an affiliate of the World Bank (IBRD) in order to provide low cost investment funds to very poor countries which were not sufficiently creditworthy to borrow on capital markets or from the IBRD. It shares the same staff and facilities as the IBRD and applies the same criteria for assessing projects. However, its "credits" are offered on near grant terms (50-year maturities, 10-year grace period, 0.75% service charge) and it relies for funds primarily on three-yearly "replenishments" of its resources made up of contributions from the major aid donor countries supplemented by small amounts from (a) repayments of earlier IDA credits which are recycled (now about $50m a year) and (b) contributions from IBRD profits (usually about $100m a year).

IDA is the largest multilateral aid agency and is traditionally regarded as the most efficient. A recent study of completed projects shows an average rate of return of 21% at appraisal and 18% at audit. More widely, IDA management also claim success in persuading recipients to follow sensible macro-economic policies in aided sectors (an often quoted example is the "green revolution" in India). IDA as well as IBRD funds are used for structural adjustment lending. It is clear that an apolitical multilateral agency such as IDA is better placed than individual bilateral aid donors to ensure that unpalatable advice is acted upon. IDA is also a significant source of foreign exchange for the poorest countries: in aggregate 1980 disbursements represented 10% of the total current account deficit of IDA recipients (12% of total aid flows). It also acts as a focus for donor cooperation in particularly difficult cases such as Sudan and Bangladesh.

UK interest

The UK has been a strong supporter of IDA under successive Governments. Our original share of IDA contributions was set at 17%. This has gradually declined to 10.1% in the current replenishment (IDA6). Even this is well above our share of IDA donors' GNP (about 5.4%) and was only agreed by the present Government because IDA6 negotiations were nearly complete when they took office. Other countries accept that the UK share will fall again in IDA7: our special contribution for fiscal year 1984 was based on a 7.6% share and we have clearly stated our intention to reduce it further. Nevertheless the UK's positive attitude during the IDA6 negotiations (eg the decision following Mrs Gandhi's visit last year to waive the pro rata conditions tying our contributions to the US) have been generally welcomed internationally.

Leaving aside the question of the UK share, our interest is probably to work for a continuing high level of resources for IDA. This is because the geographical allocation of IDA credits resembles our own bilateral aid programme more than any other aid donors - 80% of IDA credits have gone to countries with less than $410 GNP per head (1980); 60% to the large poor countries in South Asia and (as with the UK aid programme) India has traditionally been the major recipient.

X Moreover, IDA offers important procurement opportunities for British industry: our cumulative share of offshore procurement up to June 1981 was 14.4% - just below Japan (15.5%) and the US (14.7%). Taking IDA alone, procurement returns are now running at about 70% of contributions (much the same as for bilateral aid)

Y but, if the World Bank Group is taken together, we more than recoup the cost of our contributions. Of course British firms which win business funded by multilateral agencies such as IDA have to prove themselves fully competitive as international tendering is mandatory. This is not always the case with the bilateral aid programme, where bidding is confined to UK firms - even less so for ATP where substantial subsidies can be involved.

IDA 6

IDA 6 was originally intended to provide $12 billion for commitments in the three years beginning 1 July 1980. The Carter Administration was unable to obtain Congressional authorisation for the US contribution ($3.24 billion or 27% of the whole). The present US Government decided to accept the total contribution as an existing commitment but to rephase the payments to IDA over 4 years instead of 3 and to backload payments into the third and fourth years. In the event only $1.9 billion has so far been appropriated by Congress (although the full $3.24 billion has been authorised), and there is a serious risk that the US contribution will not be complete until the fifth year (1985). The other IDA donors apart from the US have agreed to various mechanisms to keep IDA in funds over this period - first by advancing their first year's IDA 6 instalments, then by delinking their second and third year's instalments from the US contribution and finally by agreeing special funding for 1984. Any further delay in appropriating the US contribution could set back the seventh replenishment period (already put back from 1984 to 1985) by another year and build up pressure for more special contributions from the non-US donors. It is common ground that every opportunity should be used to persuade the US Administration to make a major effort to secure approval of their original four-year appropriations. This topic might be raised with President Reagan at Williamsburg.

IDA 7

Negotiations on IDA 7 began in November last year, with the aim of reaching agreement by the Annual Meetings of the IMF and World Bank in September, so that the necessary ratification procedures can be put in hand in good time. In practice discussions may well drag on until the end of 1983. The main issues for decision will be:-

(i) the volume of the replenishment;
(ii) the burden-sharing arrangements between donors;
(iii) the broad allocation of IDA lending between recipients; and
(iv) possible hardening of the terms of IDA credits.

The volume of the replenishment will effectively be determined by the size of the US contribution, as given their relative economic strength the other donors are unlikely to accept an American share much less than 25%. The US Administration is thought to be considering contributions of about $750m a year which would produce and IDA 7 total of $9 billion over 3-years or $12 billion over 4 years - ie substantially less in nominal terms than the agreed total for IDA 6. On burden sharing, the UK has already stated its intention of reducing its share from the 7.6% agreed for the 1984 contributions to a figure more in line with its share of donors' GNP (5.4%). (A 5.4% share of a $9 billion IDA 7 at £1 = $1.45 would cost £335 million - compared with our £555 million contribution to IDA 6). The question of allocation between IDA recipients centres on the rival claims of India (traditionally the largest IDA borrower) and China which will be fully eligible for IDA credits for the first time in the IDA 7 period. Our interests are clearly to support the Indian case for maintaining a reasonable share of IDA funds, while accepting China's right to borrow. We should also support a hardening of the terms of IDA credits (including the introduction of a low-interest charge for some countries), if this seems likely to make a difference in the size of other countries' contributions. In the longer term this will make IDA less dependent on donors' contributions.

HM Treasury
30 March 1983

30 MAR 1983

Prime Minister 2

CONFIDENTIAL

24 March 1983

ALAN WALTERS

You will see from this that Alan doesn't like the IDA. But not everyone agrees - see Tony Parsons at flag A and the Treasury at flag B X+Y. MES 31/3

PRIME MINISTER

VISIT OF TOM CLAUSEN, PRESIDENT OF THE WORLD BANK 13 APRIL

REPLENISHMENT OF IDA 7

Mr. Clausen may be hoping to get your support for the 7th IDA replenishment and in particular favourable comments at Williamsburg. IDA is the soft loan facility - lending money at virtually zero interest rates for 50 years with 10 years grace. It's really a give-away. The funds are provided partly from profits on the World Bank Operations, which really come from the contributors to World Bank capital (the West), and from periodic donations from developed countries of the West. The United Kingdom has always contributed more than its proper share. Britain contributed 10% to IDA 6, whereas France with a national income 50% greater than Britain's, contributed only 5%; and Germany with a national income 70% greater than that of Britain, contributed only 12%; while Japan with a national income almost three times that of Britain, contributed only 15%. Clerarly, we are over-contributing relative to our resources.

The Americans are proposing that for IDA 7 the levels of replenishment will be cut substantially. They plan "a big reduction" in funding.

This will be a good opportunity for us to reduce, or at least contain, our funding of the replenishment.

Disputed at flag A, X+Y

Even if there were no replenishment, IDA would still go on, partly because it is funded from the fact that we do not get any return from the capital we invested in the World Bank; any real return which does accrue to the Bank is syphoned off to IDA. That would continue. Similarly, the funds would be returned over the 50-year period. They could be recycled, but clearly the result would be a cut in the annual dispersements of additional multilateral concessionary aid.

Yet it cannot be claimed that IDA is essential to development. The biggest IDA recipient, India, for instance finances only 1.6% of its investment through IDA. It is quite trivial. Indeed in 1980 only two countries financed more than 10% of their investment programme with IDA funds, the Central African Republic and Bangladesh.

/India has

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India has received 40% of IDA funds. But one also finds considerable IDA flows to the dedicated enemies of the West, including the Lao People's Democratic Republic, Somalia, Vietnam, the Yemen People's Democratic Republic, as well as, one of the favourite countries of Robert MacNamara, Tanzania. Furthermore, funds have been made available for such murderous regimes as the Central African Republic, Equatorial Guinea, Uganda. More recently IDA funds have been lavished on Nicaragua - even as late as 1981.

GLOBAL NEGOTIATIONS

One of the fears of the recent push for a new international economic order was that the debtors (developing countries) would get control of the Bank and the IMF. In effect some considerable control has been secured, mainly by the deliberate discrimination of the World Bank when appointing and promoting staff. Preference for Third World countries and in particular Africa is institutionalised. There is an absolute quota on British and American; virtually no British subject (and this includes oddly enough Hong Kong citizens) can now be employed by the World Bank. The preference is all for Third World staff. I believe that much of the same is true in the IMF, but I will gather information on this during the next week or so.

MULTILATERAL/BILATERAL BALANCE

Tony Parsons believes that the multilateral/bilateral balance is now about right. I do not agree. But even if you agreed that the present balance is right, this would require us either to contain the ever growing percentage that is multilateral or to expand considerably the total aid budget. I think containment is the best policy - and the IDA replenishment presents an opportunity to put this policy into effect.

AW

ALAN WALTERS
24 March 1983