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

PRIME MINISTER

MULTILATERAL FINANCIAL ORGANISATIONS

We are due to discuss OD(80)61 on the British share in multilateral financial organisations. This was prepared by Peter Carrington and myself and explored the question whether our multilateral aid bill could be reduced if our World Bank and IMF shares accorded more closely with the relative size of our economy.

2. In letters of 7 November and 26 November John Nott and Keith Joseph asked for further information on how the British shares in the two Bretton Woods institutions compare with those of our main European partners. A table giving the main comparisons is attached.

3. I share of course the general wish to cut back our contributions to multilateral organisations wherever this is appropriate in order to release funds for other purposes. However, as Peter Carrington and I tried to show in the paper, I do not think there would be a clear advantage in simply trying to minimise our share in these institutions as soon as possible. The opportunities to make changes do not arise immediately, but even if we succeeded in cutting back, there would be no great saving in public expenditure to be found except in the case of IDA (on which more below). The costs and benefits to us of having a relatively high share vary greatly case by case and there is no simple link between our share in one organisation or affiliate and our share in others. For example, our high quota in the IMF has been of great value to this country in the past when we have needed to go to the IMF for finance, when gold has been returned to members, and

/in other

in other ways. It has no public expenditure implications. But our IMF quota is likely to come under review anyway and to be substantially reduced in the next 3 years or so. Our high shareholding in the World Bank has not been of anything like the same benefit to us, but it has fallen considerably over the years and the UK has made no payment at all (except for some maintenance of value payments in the 1960s) since 1946. We will have to subscribe to the new general capital increase over the next few years, but as we say in the paper, even a rather drastic reduction would save only some £30m over a 5 year period beginning in 1982.

4. The area where our share is too great in relation to the size of our economy and where large amounts of public expenditure are at stake is IDA. We are committed by international agreement to IDA 6, but it is possible that the agreement may collapse. If so we should consider carefully whether savings can be made. Proposals are already beginning to be formulated within the World Bank for a proposed 7th Replenishment of IDA, and it is in this area above all others where our aid policy priority of shifting from multilateral to bilateral needs to be applied. In the paper (paragraph 11) we suggest ways in which this might be done, and the Treasury has put detailed proposals to Departments.

5. I am sending copies of this minute to the other members of OD and to Sir Robert Armstrong.

(G.H.)

9 December 1980

Comparative Shares Among Major EC Countries (%)

	Share of OECD GNP	Share of OECD exports	Share of IMF quotas	Share of IMF Quotas among OECD	IBRD share	IDA 6 share
Germany	11.1	16.2	5.5	8.5	5.8	12.5
France	8.4	9.3	4.9	7.5	5.8	5.4
Italy	4.7	6.8	3.2	4.9	2.8	3.8
UK	5.9	8.6	7.5	11.5	7.8*	10.1

*After all current special and selective capital increases are complete. Current share 8.62.

Econ Pol

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

16 December 1980

M O'D B Alexander Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

done

See correct on letter under
sig when available

Dear Michael,

MULTILATERAL FINANCIAL ORGANISATIONS

I am sorry that, owing to a mistake in the Treasury, an error occurred in the Chancellor's minute of 9 December. The figure of £10m mentioned at the end of paragraph 3 should read £30m. This is a cross reference to the paper OD(80)61 where the correct figure is quoted.

I should be grateful if you and the other recipients of this letter could correct the Chancellor's minute and thus clear up any apparent discrepancy.

I am sending copies to the Private Secretaries to the members of OD, to Ian Ellison (Department of Industry) and to David Wright (Cabinet Office).

Yours ever

John Wiggins

A J WIGGINS
Principal Private Secretary

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10 DOWNING STREET

From the Private Secretary

15 December, 1980

Multilateral Financial Organisations

The Prime Minister has seen the Chancellor's minute of 9 December. She understands that the points raised in it may come up in a discussion of development policy which the Foreign and Commonwealth Secretary will be having next week with the Chancellor and the Secretaries of State for Industry and Trade. The Prime Minister would welcome a report on the outcome of that meeting, so that she can then consider whether OD need meet to consider the paper referred to in the Chancellor's minute.

I am copying this letter to the Private Secretaries of Ministers who are members of OD, to Ian Ellison (Department of Industry) and to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

A J Wiggins, Esq
HM Treasury

(1)

Prime Minister
To be aware that this debate continues.
If you agree, I will write in the terms suggested by the Cabinet Office.
MT

Ref. A03797

MR. ALEXANDER

Multilateral Financial Organisations

The Chancellor of the Exchequer minuted the Prime Minister on this subject on 9 December. It is in fact not yet clear when the paper to which the Chancellor refers (OD(80) 61) will need to be discussed in OD. The Secretary of State for Trade wrote to the Chancellor on 7 November (copied to the Prime Minister) to say that he did have a point of substance to raise on the paper; the Secretary of State for Industry made a similar comment in his letter of 26 November to the Chancellor. Mr. Nott suggested that this paper might lie on the table in OD until a more general paper on development policy was ready for discussion.

2. The Foreign and Commonwealth Secretary is to hold a meeting on development policy with colleagues most closely concerned on 17 December. The outcome of that meeting will be reported to the Prime Minister, and it is likely that only in the event of disagreement at Lord Carrington's meeting will there be a requirement for discussion in OD. The points raised in Sir Geoffrey Howe's minute of 9 December will probably come up at Lord Carrington's meeting.

3. The Cabinet Office recommend therefore that the Prime Minister should not intervene substantively at this stage; I attach a draft letter which you might send to the Chancellor's Private Secretary.

D. J. Wright

D. J. WRIGHT

12th December, 1980

DRAFT LETTER FROM MR. ALEXANDER TO A. J. WIGGINS, PRIVATE SECRETARY TO THE CHANCELLOR OF THE EXCHEQUER

Typed for my signature.

Multilateral Financial Organisations

The Prime Minister has seen the Chancellor's minute of 9 December. She understands that the points raised in it may come up in a discussion of development policy which the Foreign and Commonwealth Secretary will be having next week with the Chancellor and the Secretaries of State for Industry and Trade. The Prime Minister would welcome a report on the outcome of that meeting, so that she can then consider whether OD need meet to consider the paper referred to in the Chancellor's minute.

2. I am copying this letter to the private secretaries of Ministers who are members of OD, to Ian Ellison (Industry) ~~in Sir Keith Joseph's office~~ and to David Wright, Cabinet Office.

Agreed MT

Econ Pol.

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

26 November 1980

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

NBPI yet

Dear Geoffrey,

MULTILATERAL FINANCIAL ORGANISATIONS

It has been suggested that your joint paper with Peter Carrington OD(80)61 might not need to be discussed.

2 I accept that the immediate room for manoeuvre is not great but I do think we ought to form a view now on what our eventual shares should be, so that we have a clear objective for the negotiations which will occur over the next few years. In my view, Britain's shares are still much too high and we ought to be planning to reduce them quite significantly. However, this is unlikely to happen if we rely on the natural course of events and the ambitions of the Japanese to bring about reductions, as paragraph 1 of the note by officials appears to suggest. It is much easier to be pushed in the opposite direction, as the rate of growth of our contribution to IDA (multiplied by a factor of 3 within four years!) demonstrates only too clearly. I, therefore, agree with John Nott that it would be useful to have some comparative figures for some of our European neighbours as a background against which to decide what our position should be.

3 I am copying this letter to the Prime Minister, to other members of OD and to Sir Robert Armstong.

Yours,

Keith

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

From the Secretary of State

NBPM yet

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The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London, SW1P 3AG

7 November 1980

Dear Geoffrey,

MULTILATERAL FINANCIAL ORGANISATIONS

I am writing to say that I think there are points of substance to raise on the paper, OD(80)61, that you and the Secretary of State for Foreign and Commonwealth Affairs circulated.

Michael Alexander's letter of 27 October about development policy reported the Prime Minister as commenting that we must aim to concentrate on redistributing our aid from the multilateral sector to the bilateral sector. It is not at all clear to me how the proposals in OD(80)61 will contribute to the achievement of that objective within a reasonable period of time.

What I miss in the paper is any clear statement of what our IMF quota, our shareholding in the World Bank, and our share in IDA replenishment might be if those quotas and shares were a reasonable reflection of our position in the world in 1980 rather than 1946. In this respect the positions of our chief partners in the European Communities - France, Germany and Italy - might be a reasonable guide to where we should stand today. What are their quotas and shareholdings in relation to their GNP and their share in world trade? I appreciate that we might not be able to move overnight to a new position, and that there might indeed be some arguments for not doing so, but I think we need to have some measure of what contributions might be commensurate with our present position in the world as a benchmark for future decisions on more particular issues. Only if we know where we are going can we decide how far and how fast we should travel in that direction on each occasion when an opportunity arises. As I have pointed out before, the French contribution to IDA VI was about 5%, as against our 10%, despite the fact that France's GNP is 64% greater than our own, and her share of world trade is much the same as ours.

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From the Secretary of State

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As the paper points out our contribution to the general capital increase of the World Bank would probably involve payments outside the current PESC period, but if this coincided with substantial payments to IDA replenishments and/or European Community Aid Funds, it would seem likely to swell still further the volume of commitments to multilateral aid in the mid 1980s. Any plan to redistribute our aid spending in favour of bilateral aid would therefore have to be deferred yet again, unless we were prepared to contemplate an increase in public expenditure for this purpose. Any adjustment to the IMF quotas would not, I think, affect the Aid Programme at all, except indirectly, in the sense that our high IMF quota probably tends to raise expectations about our shareholding in the Bank and our contributions to the Aid Programmes, including the IDA. If we are to talk down expectations about the United Kingdom share in the latter, as I believe we must, we may need to prepare the ground with a policy which is consistent in relation to all the World Bank institutions. This process of education needs to start soon if we are to have any hope of negotiating a lower share of the IDA VII replenishment when discussions about that begin in a year's time.

Finally, since there is a close link between these papers and the rather more wide-ranging discussion of development policy initiated by your paper of 2 September, I would like to suggest that this paper might lie on the table in OD until a more general paper on development policy is ready for consideration there. I would hope however that in the meantime you might provide us with the comparative figures for France, West Germany and Italy mentioned above.

Copies of this letter go to the Prime Minister, other members of OD and Sir Robert Armstrong.

Yours ever

John.

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JOHN NOTT