

Prime Minister <sup>(2)</sup>

FCS/83/166

MUS 2/9

THE CHANCELLOR OF THE EXCHEQUERSeventh Replenishment of IDA

1. I have been considering what position we should take on the 7th replenishment of IDA. Negotiations on this have already begun but have made very little progress. It will certainly be discussed at the Commonwealth Finance Ministers Meeting in Trinidad, the annual meetings of the Bank and Fund in Washington, and CHOGM in Delhi.
2. As you know, the pressure on the aid programme is very great and although it has been our aim to increase bilateral aid within the total, exactly the reverse has been happening. Multilateral aid now accounts for about 40% of the aid programme and this is likely to rise to something nearer 50% over the next three years. Our own 'country' programmes have been reduced by no less than one-third in real terms over the past three years to 1982/3 and are likely, on present plans, to fall by a further 18% real by 1986/87.
3. The most serious aspect of this problem is the rate at which our spending through the European Community is rising. This is not the best form of aid expenditure - we do not believe that the European institutions spend the money very well (and far too much of it is food aid) nor does the UK get a good share of procurement from it. What more we can do to restrain the growth of European aid expenditure and to protect our own bilateral programmes from being squeezed out by it are questions which we are considering further.
4. On the other hand, IDA is probably the best form of multilateral aid. The money is well spent. Two-thirds of it goes to the Commonwealth and we shall be under a good deal of pressure from Commonwealth countries - you at the

/meetings

meetings in Trinidad and the Prime Minister and I at the Heads of Government meetings in Delhi - to be positive about the next IDA replenishment. In terms of procurement, the UK gained £90 million in direct exports financed by IDA in the Bank's fiscal year 1982 and when estimated indirect benefits are added, the estimated total of exports generated amounts to some £150 million. This compares with payments in that year of £130 million.

5. As you know, the US Administration has been taking a very negative line on IDA 7 and has recently proposed a contribution of only \$750 million a year and a US share of not more than 25%. This would imply a total replenishment of only \$9 billion, compared with the \$12 billion of IDA 6. No other influential country seems likely to take the lead in favour of more, though it would not be difficult, I suspect, to get a movement going for a replenishment of, say, \$12 billion, although even this would obviously mean a reduction in real terms compared with IDA 6; a Community initiative, ahead of the annual Bank/Fund meetings, could, for example, emerge at the EC Finance Ministers Meeting on 10th and 11th September.

6. But we have been trying to reduce our share in IDA in recent years. It was 10.1% in IDA 6 (very substantially more than our share of the GNP of the donor countries); in the special arrangements negotiated last September to keep IDA 6 going for a fourth year, we got it reduced to 7.6%. We have said we think it should come down further towards our GNP share of 5.6%. In negotiating terms, it would not be realistic for us to take the lead in a movement for a larger replenishment while at the same time trying to get our share reduced further. To adopt a forward position would mean in practice that we would have to be ready to accept a share of 7.6%.



7. As things stand, we do not have the money for this. As one of my bids in the Public Expenditure Survey, I proposed an addition to the aid programme to enable us to support a replenishment of \$14 billion with a 7.6% share. The sums involved in the PES period and the two following years work out as follows:-

	1985/86	1986/87	1987/88	1988/89	£ million
\$12 bn	1	4	10	15	
\$14 bn	3	9	23	31	

I also proposed a larger addition to protect the bilateral country programmes from further real reduction. Of course we have still to discuss these but Peter Rees's initial reaction has understandably been unenthusiastic. Unless extra money is made available even a \$12 billion replenishment at 7.6% would mean a further squeeze on the bilateral country programmes, which we should find it impossible to contemplate.

8. I am driven, somewhat regretfully, to the conclusion that we cannot get out in front on the IDA 7 replenishment. We must recognise that the outcome is likely to be a replenishment less than \$12 billion and perhaps as low as \$9 billion. This is bound to lead to criticism and pressure, including some directed specifically at us; at Delhi as well as in Trinidad and Washington. We can argue that, so far as the UK is concerned, this in itself will mean no loss to the developing countries because we shall spend any money we save in this way through our own country programmes and spend it well, but this will not cut much ice, particularly if those programmes are themselves reduced.

9. This does not give you much of a hand to play at the Trinidad and Washington meetings. The best I can suggest is that you allow the Americans, Germans and others to make the running on this subject but indicate as necessary that we are ready to contribute to a reasonable replenishment of IDA, that



is up to \$12 billion, but that our share must be reduced from 7.6% to something nearer our share in the total GNP of the donor countries (of course, if the final IDA total looks like being only \$9 billion, the arguments for our share staying at 7.6% or something like it will be stronger: 5.6% of \$9 billion would look very negative).

10. I am copying this letter to the Prime Minister and to Cecil Parkinson.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

2 September, 1983

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FCS/83/177

CHANCELLOR OF THE EXCHEQUER

Prime Minister (4)

HUS 19/9

IDA and the World Bank Selective Capital Increase

1. Thank you for your minute of 9 September.
2. I do see that there would be advantages in supporting a selective capital increase for the IBRD of \$8 billion if that can be agreed as part of an acceptable package. It is important, as you recognise, that the decision on the SCI should be linked to satisfactory decisions about the French and Japanese shares in IDA 7. There is a public expenditure implication: the cost would be about £3.75 million (although this could probably be paid over a period of 5 years). This is not a large sum, but we have no provision for it and with all the pressures on the aid programme, it can only add to our difficulties. However, I can see that you would find it helpful in Trinidad and Washington to support a SCI of \$8 billion as part of an acceptable package, and so should not wish to stand in your way.
3. I am copying this minute to the Prime Minister and to Cecil Parkinson.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
19 September, 1983

Overseas Aid - Policy Review: P/S

19 SEP 1985

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Secretary of State for Trade and Industry

19 September 1983

The Rt Hon Sir Geoffrey Howe QC MP  
Foreign and Commonwealth Secretary  
Foreign and Commonwealth Office  
Downing Street  
London SW1

MSM

ms 19/9

Dear Geoffrey,

SEVENTH REPLACEMENT OF IDA

Thank you for copying to me your minute of 2 September to Nigel Lawson. I have noted what you say about the negotiating position now facing us on the seventh IDA replenishment and I strongly support the line that you propose we take.

My concern is principally that the bilateral programmes and the Aid and Trade Provision (ATP) should not be crowded out or reduced as a result of our multilateral commitments. I share entirely your criticism of the European Community aid expenditure; we will need to ensure that in the forthcoming Lome negotiations we seek to restrict our commitments as far as possible and I would welcome an early consideration of the financial implications of the negotiating tactics open to us.

I recognise that of the multilateral institutions IDA is probably among the most effective. And I note too your estimate of likely indirect and direct exports generated by our IDA contribution. These are interesting statistics that my officials will want to look at in more detail. But the fact remains that in terms of additionality - that is business gained which would not have been won if the UK funds had not been there - it is still better to spend on our bilateral programme, and particularly on the ATP, than on multilateral programmes. A marginal increase in our multilateral contribution does not necessarily produce an extra return to industry in this country; such an increase if applied to the ATP certainly would benefit our firms, and on around a four to one basis.

I agree that further cuts to your bilateral country programmes (and, I would add, to the ATP) cannot be considered. And in the circumstances, I think that it is entirely right that we should lower our horizons on the contribution that we will make to the IDA replenishment, and, if necessary, on the role that we might





play in the replenishment negotiations.

I am copying this letter to the Prime Minister and to Nigel Lawson.

Yours Ever,  
Leal.

OVERSEAS Aid Pt 3

Policy Review . 82/83 Aid Programme

19 SEP 1983

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→ ASC to see  
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 Mrs 9/9

Treasury Chambers, Parliament Street, SW1P 3AG  
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FOREIGN SECRETARY

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IDA

Thank you for your minute of 2 September about the IDA seventh replenishment.

2. I agree that at the CFM and IBRD meetings (and if the issue comes up at the EC Finance Ministers' Meeting this weekend) I should say that we are ready to contribute to an IDA 7 of up to \$12 billion, but that our share must be reduced from 7.6 per cent to something closer to our GNP share.

3. However, I think it would make our position seem a little more positive if I were also to say that we hope that a Selective Capital Increase for the IBRD of about \$8 billion can be agreed as part of an acceptable package. You will recall that in your speech to the Development Committee in April you spoke of a Selective Capital Increase based on the relative increases agreed in the IMF quota review, and pointed out that this could provide a basis for a modest expansion in lending. As you know, such an Increase would mean that we move down from second place in the IBRD either to third place (after Japan and equal with Germany and France) or to fourth (after Japan and Germany and equal with France). Like you, I see no difficulty in this, and we would of course continue to make it conditional on a suitably large contribution to IDA 7 by those who move up.

4. Our suggestion of an \$8 billion selective capital increase would be on the basis that the cost to the UK would be negligible because all, or nearly all, our shares would be reallocated to secure the changes in ranking. I should be grateful if you would confirm you have no objection to my putting it forward.

5. I am copying this minute to the Prime Minister and to Cecil Parkinson.

*J. Kew*

PP.

(N.L.)

(Approved by the Chancellor)

9 September 1983