



FCS/83/266

CHANCELLOR OF THE EXCHEQUER

Prime Minister
To be aware of this issue

AT 13/12

ms

IDA 7

1. Negotiations for IDA 7 continued on 9-10 December in Paris. The UK, France, the FRG and Japan (the G4) got down to serious negotiations on the linked issues of burden-sharing in IDA 7 and ranking in the World Bank. To take advantage of the presence of the Japanese negotiator in Europe, the next round would be held in Paris on the afternoon of 15 December. I think we need to decide now on what the UK position should be in the next stages.
2. I enclose a note by officials describing the latest position in the IDA negotiations. I agree with the conclusion that the UK's objective should now be to achieve a share of \$12 billion of an IDA 7 at 6.5%, on the assumption that the United States put in 25%, but that if necessary we should go to 6.7% although not during the next round.
3. The financial implications described in paragraph 7 of the officials' note are manageable.
4. If, as seems likely, the United States does not come up with a contribution that provides 25% of \$12 billion, the extremes faced by other donors will be broadly between a reasonably sized IDA 7 (around \$11 billion), in which donors pay the amounts that they would have contributed to a \$12 billion total, or full adherence to the principle of burden-sharing, at \$9 billion.
5. As soon as it becomes clear that there is no further hope of moving the United States, the Management will canvass proposals to cope with this new situation, which we shall have to examine carefully.



6. I am copying this minute to the Prime Minister and to the Secretary of State for Trade and Industry.

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

GEOFFREY HOWE

Foreign and Commonwealth Office

13 December, 1983

SEVENTH REPLENISHMENT OF IDA

Note on Discussion held on 9-10 December 1983, Paris, between Deputies from UK, France, Japan and Federal Republic of Germany

1. A detailed description of the Deputies' meeting in Paris is contained in MODEV telegram No 253 to Washington. Briefly, the United States confirmed that they would not go above \$750m per annum for IDA 7 which would give a total of \$9 billion and a US share of 25%. The rest confirmed their attachment to \$12 billion (in a few cases 12 billion SDR - ie around \$12.5 billion). The burden-sharing negotiations between the four major donor countries were based on \$12 billion on the assumption of a US share of 25%. The thought underlying this was that, although all knew that it was unlikely the US would permit an IDA 7 of \$12 billion, they felt pressure on the US had to be maintained.

2. The Japanese strongly reaffirmed their interest in getting to second place in the World Bank ranking from their present fifth position. The UK, France and Germany made it equally clear that Japan would have to pay for it by taking a considerably larger share in IDA 7 than they had in IDA 6 - 14.65%. The UK's position was that its share had to be reduced from its 10.1% in IDA 6 (and 7.6% in FY 84) to a figure more in line with its economic circumstances. Our delegation said that we had in mind a figure of 6%. The French started at their IDA 6 share of 5.38% but moved quickly to 6%. Germany argued for a reduction from the IDA 6 share of 12.5% to something between 8.5% and 10.8%. The Japanese offered 16% as their maximum.

3. Management explained the position as they saw it: an earmarking of 25% for the USA (which constituted a 2% reduction from IDA 6), the balance from the rest of the G 5 constitution, around 45% with other donors plus Part II countries (ie the recipients) to make up the 30% balance. There would almost certainly have to be a small 'unallocated' gap. Agreement between the G 4 would be needed to encourage the smaller donors.

4. The total to be met by the four major countries is a maximum of around 44.8% based on an appropriate share of \$12 billion. (Management's suggested allocation between the main groupings was:

| | |
|------------------------------|-------------|
| United States | 25% |
| UK, Japan, France and FRG | 44.7% |
| Other donors | 29.8% |
| Unallocated | <u>1.3%</u> |
| | 100.0% |

5. The G 4 argued that they should not have to bear the full US shortfall of 2%: the Japanese made it a condition they should not, but that they would be ready to join with others in the G 4 to share a pro-rata proportion of the 2% with the rest - ie 1.25:75% respectively. This then brought the G 4 share to 44%. After the group had totally rejected a scenario which included the UK at 7.4%, Management put forward various illustrative formula to achieve this. These involved a 19.5% or 19.6% share from Japan, a share from the UK and France of 6.5% or 6.7% and a German share of 11.7% or 11.5%.

6. The most we could have hoped for was to get the Japanese to 20% in exchange for second place in the World Bank. We may be extremely lucky to get them to 19%. If we and the French put in 6.5% each, this would leave the FRG with 12%. But this would require a bigger shift from the Germans than we believe they are ready to make, and if necessary to obtain agreement, it might be necessary for the UK to go to 6.7%, although our negotiations should not use this authority at the next round in Paris unless, in the unlikely event, other negotiators had authority which enabled a solution to be reached with a UK share of 6.7%. (The subsequent round is likely to be on 10 January, the day before the Deputies meet in Washington.) The compensation for going up to this level could be that it would bring the French up to us if they attach enough importance to sharing fourth place with us in the World

/Bank.

Bank. This would mean a 1.4% improvement on their IDA 6 share but ^{far} a greater (more than double) their outlay in French francs because of the variation in exchange rates.

Financial implications of a 6.7% UK share of IDA 7

7. Using a US dollar/sterling exchange rate of 1.50 (the Treasury's instruction for 1984/85 framework entries), a 6.7% contribution compares at £536 million against £520 million 6.5% spread over 10 years. Changes in estimated disbursement in the Aid Framework period patterns would be as follows:

| | <u>1984/85</u> | <u>1985/86</u> | <u>1986/87</u> | <u>1987/88</u> | <u>£ms</u> |
|--------------------------|----------------|----------------|----------------|----------------|------------|
| Current (6.5%) | 3.0 | 35.0 | 62.0 | 77.0 | |
| Revised (6.7%) | 8.25 | 36.0 | 63.9 | 79.3 | |
| Additional Commitment | +0.25 | +1.0 | +1.9 | +2.3 | |

Financial Implications to UK of Certain Changes in IBRD Rankings

8. One of the Japanese stipulations connected with a high IDA 7 contribution by them (made after consultations with Tokyo by the Japanese Deputy) was firm agreement by January 15 to a World Bank Selective Capital Increase of around \$8 billion, with changes involving Japan to second place, and adjustment of the FRG, French and UK rankings as agreed between them. The European countries could not, of course, guarantee agreement of all other IBRD member countries; there is, however, already a good consensus on a \$8 billion SCI and our soundings of the United States delegation lead us to believe that their present opposition will be removed once agreement is reached on the technical matter of the World Bank's 'sustainable lending level'. This should not prove an impediment to a settlement by 15 January. The practical difficulties of documentation preparation and receiving of formal period of notification to all members for subscription changes are being examined by Bank Management.

9. The French apparently attach such political importance to sharing equal third position with Germany and the UK that they are intent, if necessary, to take it up at a high political level.

/If

If they succeed (and this would mean Germany agreeing as well as ourselves), it is likely that the UK would be allocated 2214 shares (compared with 529 if we shared equal fourth position with France). The cost would be about £15 million of which £1.5 million would be payable in cash and the remaining £13.5 million in Promissory Notes (compared with £3.75 and £0.375 million respectively for the 529 shares. It would, however, be entirely at our discretion as to whether, and when, we subscribed to these additional shares or redeemed the Promissory Note. We would be deemed to have purchased them (and therefore assumed joint third place) when the cash payment was made and the Promissory Note deposited, but not redeemed. But this does not need to be decided now.

International Division
Overseas Development Administration
12 December, 1983

INTERNATIONAL/CURRENCY SITUATION: ADVANCE COPIES

PS
PS/PUS
MR BULLARD
SIR C TICKELL
MR HAYES

GEOG DUS.....

GEOG AUS.....

HD/ERD (2)

~~HD/GEOG~~

HD/ESD (2)

ESID

.....

.....

NEWS DEPT
RESIDENT CLERK

MR FRIOST } UN, B
MR BARNES }

PS NO 10 DOWNING ST
CABINET OFFICE

SIR R ARMSTRONG
MR P MOUNTFIELD
MR R L WADE GERY

Fite

TREASURY

PS TO CHANCELLOR OF THE EXCHEQUER
SECOND PERM.-SEC. O.F.

MR J G LITTLER
MR P E MIDDLETON
MR J B UNWIN
MR R G LAVELLE
MR G E FITCHEW
MR M A HALL

MR BEASTALL
MR D L C PERETZ

(7) OVERSEAS SECTION

BANK OF ENGLAND

MR EWBANK
MR LOEHNIS
MR COOPER

DEPT OF TRADE 1 VICTORIA ST

PS/S OF S TRADE
MR W M KNIGHTON
MR S ABRAMSON

RESTRICTED

DESKBY 140900Z

FM UKDEL IMF/IBRD WASHINGTON 132300Z DEC 83

TO IMMEDIATE ODA

TELEGRAM NUMBER MODEV 128 OF 13 DECEMBER

AND TO IMMEDIATE ABIDJAN (FOR ARBUTHNOTT LEADING UK DEL TO
ADB MEETING)

ADVANCE COPY
IMMEDIATE

IBRD SELECTIVE CAPITAL INCREASE AND IDA7

AT THE PARIS MEETING, THE JAPANESE INDICATED THAT, IF THEY WERE TO
TAKE A SUBSTANTIAL SHARE IN IDA 7 WHICH SOLVED THE PROBLEM OF
BURDEN SHARING, THEY WOULD WISH THERE TO BE A SIMULTANEOUS SETTLEMENT
OF THE SCI, YIELDING SECOND POSITION IN THE IBRD TO THEM.

IN AN ATTEMPT TO MEET THE JAPANESE WISHES, WHILE PRESERVING THE
POSITION OF THE OTHER MAJOR SHAREHOLDERS, THE BANK PROPOSES TO
ADOPT A TWO-STAGE PROCEDURAL APPROACH. THEY ACCORDINGLY PROPOSE
TO ISSUE A PAPER WITHIN THE NEXT FEW DAYS FOR BOARD DISCUSSION IN
THE WEEK ENDING 14 JANUARY (THUS GIVING THE BOARD THE MINIMUM
TIME REQUIRED TO CONSIDER THE PROPOSALS). THIS PAPER WILL PROPOSE
AN SCI OF 70,000 SHARES WITH A TOTAL VALUE OF DOLLARS 8.444B.

AN SCI OF 70,000 SHARES WITH A TOTAL VALUE OF DOLLARS 8.444B, AS PREVIOUSLY ENVISAGED. THE PAPER WILL NOT, HOWEVER, ATTEMPT TO SETTLE THE RANKING QUESTION.

2. TO DEAL WITH THE LATTER POINT, THE MANAGEMENT PROPOSE TO INSERT WORDING AS FOLLOWS. QUOTE

11. ADJUSTMENTS TO COUNTRY RANKING:

THE COMPROMISE SELECTIVE CAPITAL INCREASE SET OUT IN THE PRECEDING PARAGRAPH WOULD NOT ACHIEVE ALL OF THE RANKING ADJUSTMENTS THAT WOULD HAVE BEEN ACHIEVED IN THE LARGER (DOLLARS 17 BILLION) SELECTIVE CAPITAL INCREASE. GIVEN THE IMPORTANCE ATTACHED TO THE FULL RANKING ADJUSTMENTS AS THEY AFFECT THE MAJOR SHAREHOLDERS, THE UNITED KINGDOM HAS AGREED TO CONSIDER ACCEPTING A LOWER ALLOCATION OF SHARES THAN THE 2,984 SHARES THAT WOULD BE ALLOCATED TO IT UNDER THE STANDARD METHODOLOGY FOR CALCULATING SELECTIVE INCREASES. THE EFFECT OF THIS REDUCTION — IF IT WERE FINALLY AGREED — WOULD BE THAT JAPAN WOULD BECOME THE SECOND LARGEST SHAREHOLDER IN THE BANK: IN OTHER WORDS, IT WOULD ACHIEVE THE RANKING THAT WOULD HAVE RESULTED FROM A SELECTIVE CAPITAL INCREASE OF DOLLARS 17 BILLION. IN ADDITION, IT IS PROPOSED THAT THE SHARES ALLOCATED TO CHINA BE INCREASED TO 1,660 SHARES FROM THE 1,022 CALCULATED IN THE STANDARD WAY. CHINA WAS ALLOCATED THE SIXTH LARGEST SUBSCRIPTION TO THE CAPITAL STOCK OF THE BANK IN 1980. THE ADDITIONAL SHARES PROPOSED FOR IT WOULD MAINTAIN THAT POSITION.

12. THE PRECISE NUMBER OF SHARES THAT THE UNITED KINGDOM MIGHT FOREGO IS STILL UNDER CONSIDERATION, AS IS THE RANKING AMONG THE THIRD, FOURTH AND FIFTH LARGEST SHAREHOLDERS. THE PROPOSED INCREASES IN THE SUBSCRIPTIONS OF INDIVIDUAL MEMBERS, EXCEPT THE INCREASES FOR THE UNITED KINGDOM, GERMANY AND FRANCE, ARE SET FORTH IN ATTACHMENT 1. A REVISED VERSION OF ATTACHMENT 1 WILL BE DISTRIBUTED SEPARATELY, WHEN THE QUESTION OF THE SPECIFIC NUMBER OF SHARES TO BE ALLOCATED TO THESE THREE SHAREHOLDERS IS RESOLVED. UNQUOTE.

WOOD HAS ASKED SMITH IF THIS WORDING WOULD BE ACCEPTABLE TO THE UK. SMITH SAID THAT HE WOULD NEED TO CLEAR THE WORDING WITH YOU. HE SUGGESTED AD REFERENDUM THAT THE FOLLOWING AMENDMENTS, WHICH WOOD ACCEPTED, SHOULD BE MADE. AFTER QUOTE SELECTIVE INCREASES UNQUOTE AT THE END OF THE SECOND SENTENCE, ADD QUOTE IF THAT WOULD HAVE SIGNIFICANT ADVANTAGES FOR THE WORLD BANK GROUP AS A WHOLE UNQUOTE. IN THE FOLLOWING SENTENCE OMIT QUOTE FINALLY UNQUOTE

HAVE SIGNIFICANT ADVANTAGES FOR THE WORLD BANK GROUP AS A WHOLE UNQUOTE. IN THE FOLLOWING SENTENCE OMIT QUOTE FINALLY UNQUOTE BETWEEN QUOTE WERE UNQUOTE AND QUOTE AGREED UNQUOTE.

3. SMITH MADE CLEAR TO WOOD THAT THE UNITED KINGDOM, TOGETHER WITH FRANCE AND GERMANY, WOULD NOT BE ABLE TO REACH FINAL AGREEMENT ON THE SCI UNTIL THE QUESTIONS OF BURDEN SHARING UNDER IDA 7 WERE SATISFACTORILY RESOLVED. HE CONSIDERS, HOWEVER, THAT THE PROPOSED WORDING, AS AMENDED ABOVE, WOULD ADEQUATELY PROTECT THE UK POSITION.

4. YOU SHOULD KNOW THAT, WITH AN ARRANGEMENT FOR FRANCE, GERMANY AND THE UK TO SHARE EQUAL THIRD POSITION IF THAT IS WHAT IS AGREED BETWEEN FRANCE AND GERMANY, THERE ARE ALTERNATIVE SCENARIOS TO THAT UNDER WHICH THE UK WOULD FOREGO SUFFICIENT SHARES, ONLY TO BRING THEM DOWN TO GERMANY'S CURRENTLY PROPOSED ALLOCATION, I.E. UNDER WHICH THE UK WOULD RETAIN 2214 SHARES AT A COST OF POUNDS STERLING 15.5 MILLION. THE MANAGEMENT WOULD PREFER NOT TO GIVE A SPECIAL INCREASE TO FRANCE AND, TO AVOID THAT, GERMANY WOULD NEED TO AGREE NOT TO TAKE UP SOME OF ITS ALLOCATED SHARES. THIS HAS BEEN PUT TO THE GERMANS. THIS COULD LEAD TO THE UK BEING ALLOCATED ONLY 1,929, AT A COST OF APPROXIMATELY POUNDS STERLING 13.5 MILLION, WHICH IS CLOSER TO THE SCENARIO IN PARA. 5 OF SMITH'S TELELETTER TO BARNES OF 5 AUGUST. IN ANY EVENT, THE UK WOULD NOT BE OBLIGED TO SUBSCRIBE TO ITS ALLOCATED SHARES AND, IF IT DECIDED TO DO SO, COULD DETERMINE THE TIMING BOTH OF PAYING THE 12 PERCENT CASH ELEMENT AND OF THE SUBSEQUENT REDEMPTION OF THE PROMISSORY NOTES DEPOSITED FOR THE REMAINING 90 PERCENT.

5. GRATEFUL TO LEARN IMMEDIATELY THAT WE CAN CONFIRM TO MANAGEMENT THAT WE HAVE NO OBJECTION TO THE ISSUE OF A PAPER CONTAINING THE ABOVE WORDING.

6. ODA PLEASE ADVANCE TO FRIOST AND BARNES (UN,B), APPLEYARD (FCO), BEASTALL (TREASURY) AND COOPER (BANK OF ENGLAND).

WICKS

NNNN



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

FOREIGN SECRETARY

N. S. P. R.

A. J. C. - ^{15.}/₁₂

IDA7

Thank you for your minute of 13 December, and the note by ODA officials which you enclosed.

2. I am content with the negotiating position you recommend, providing that you agree to absorb all the associated costs within the currently agreed provision for the Aid Programme. In addition to the financial implications noted in paragraph 7 of the ODA paper, these would include:

a. the cost of any IBRD shares we might need to buy under the proposed selective capital increase to maintain equal ranking with the French; and

b. the consequential effects on our IDA and IBRD contributions of any decline in the value of sterling against the US dollar below the \$1.50=£1 rate currently assumed for the 1984-85 Estimates.

If the value of sterling were to decline to, say, \$1.40 by the time of the IDA7 agreement, my officials calculate that the additional cost (above the present Aid Framework provision) of a 6.7 per cent IDA contribution could amount to:

RESTRICTED



Em

1984-851985-861986-871987-88

+ 0.9

+ 3.6

+ 6.5

+8.0

You will no doubt wish to bear this in mind should you decide to agree to a UK share above 6.5 per cent.

3. I also agree that our officials should consider the wider question of what our position should be if - as seems likely - the United States refuse to change theirs.

4. Copies of this minute go to the Prime Minister and Norman Tebbit.

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish.

(N.L.)

14 December 1983

Overseas
Policy Review