



Prime Minister

To note, pending the
Chancellor's reply.

FCS/82/101

A.J.C. 15/7

CHANCELLOR OF THE EXCHEQUER

MS

Falkland Islands Financing

attached

1. I have now seen the minutes of the OD(FAF) Meeting held on 6 July and decisions reached on the financing of rehabilitation work this year on the Falkland Islands.
2. It may be helpful if I set out the position on aid programme funds this year. There is absolutely no doubt that they have all already been fully allocated. This has been a particularly tight year. As the table attached to this minute shows, taking the contingency reserve with which we started the year and adding all the savings arising from the failure of the Orissa Steel Mill Project to make progress, (plus two or three other smaller savings) around £65 million was available for allocation. We have already been obliged to make allocations and earmarkings amounting to over £66 m. I should perhaps emphasise that, other than the £30 million or so required to finance the concessions made to Mrs Gandhi during her visit earlier this year, few of the remaining allocations involved new policy decisions; for the most part they are required in order to fulfil existing commitments which now need payments to be made this financial year.
3. Of course considerable uncertainties attach to many aid allocations in that for one reason or another they are not spent in full in the year expected. However, as you know, the aid programme is in accordance with our normal practice 'over allocated' in anticipation of such slippage. The over allocation is about £100 million and, if we are to keep our actual spending within the aid programme cash limits, covering this slippage must be the first call on savings arising between now and the end of the financial year. I know that with your own concern to ensure that spending is held within cash limits you will expect nothing less and you will understand why in these circumstances I have been unable to agree to finding any contribution to the costs of rehabilitation in the Falklands.



4. While I was therefore pleased that OD(FAF) agreed to make £10 million available for rehabilitation work, I was concerned by the suggestion that some part of this had to be found from within the existing aid programme. I fear that, in the circumstances I have described above, I cannot guarantee being able to find any contribution to the rehabilitation work. Of course if 'slippage' is greater than we have allowed for I will make what contribution I can.
5. As far as administering the £10m in a special account, I see significant political advantage in such an approach. Separate provision for the Falklands in this way would make clear our commitment to rehabilitation work and, subsequently, to development work in the Islands. I have asked my officials to discuss the detailed arrangements with Treasury officials.
6. I am copying this to other members of OD(FAF) and to Sir Robert Armstrong.

FP

(FRANCIS PYM)

Foreign and Commonwealth Office
15 July, 1982

ODA CONTINGENCY RESERVE: SOURCES AND USES OF FUNDS

I RESOURCES AVAILABLE (Contingency Reserve plus other firm savings)

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1.	Planned Contingency Reserve	33.282
2.	UN Development Programme (UNDP)	2.000
3.	Asian Development Fund	2.600
4.	Caribbean Development Fund	1.125
5.	Indian steel mill: firm savings	13.300
	probable savings	[12.500]
	Total: Firm	52.307
	Probable	[64.807]

II CLAIMS

Allocations

6.	India: addition to bilateral programme	20.000
7.	EDF: rephasing of amounts originally scheduled for 1981/82	16.000
8.	EC/IDA Special Action	2.600
9.	African Development Bank: Capital subscription	3.200
10.	Sudan: balance of payments support	2.250
11.	Guyana: loss of receipts from capital repayments	1.523
12.	Windward Islands: Banana industry rehabilitation programme	1.476
13.	Tonga: hurricane rehabilitation	0.400
14.	Botswana: drought relief	0.200
	Slippage from 1981/82: spending against existing commitments (15-18)	
15.	Malawi	1.500
16.	Lesotho	0.400
17.	Indonesia	0.250
18.	World Food Programme	1.000

/Additional

	£m
Additional budgetary aid (19 and 20)	
19. Turks and Caicos	0.460
20. St Helena	0.300
21. Minor items: Save the Children Fund; Brandt Commission	0.060
Sub-total	51.619

Earmarkings

Refugee and humanitarian relief (global sum: includes some sub-allocations already agreed)	4.000
Disaster Relief	1.000
Zimbabwe land resettlement: speedier drawdown of aid	1.500
NHS charges for overseas students	0.500
Guyana: consultancy on debt position	0.090
Ilois compensation for move from Diego Garcia: PES transfer	4.000
Bahamas patrol boats: PES transfer as military aid	3.500
Sub-total	14.590

Totals

Allocations plus earmarkings	66.209 =====
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