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10 DOWNING STREET

From the Private Secretary

5 January 1984

IDA 7

The Prime Minister has seen the minute of 4 January by the Foreign and Commonwealth Secretary to the Chancellor of the Exchequer.

The Prime Minister takes the view that it would be a mistake to contribute to a supplementary fund. She believes that it would be useful to have more money for expenditure on bilateral aid objectives, and does not think that we should depart again from the IDA formula. She does not consider that a refusal to contribute to such a fund would be inconsistent with the position we have taken publicly.

I am sending copies of this letter to John Kerr (HM Treasury) and Callum McCarthy (Department of Trade and Industry).

A. J. COLES

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

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FCS/84/4

CHANCELLOR OF THE EXCHEQUER

You may wish to await the
Chancellor's reply.

A.T.C. 4

IDA 7

1. I minuted to you about this on 13 December. In your reply you agreed that we should have to consider the position further if the United States stuck to their present offer of a contribution of only US \$750 million a year. *disagree. We want more bilateral money and I do not think we should depart from IDA for much.*
2. That now seems very likely to happen. The consequence would be an IDA 7 limited to \$9 billion. Even if the US move upwards, it is most unlikely to be the whole way. If this is the position on the eve of the next Deputies Meeting (in Washington, 11-12 January), the Management will at once work to put in place a supplementary fund of up to \$2 billion in order to keep IDA going at a satisfactory minimum level. This would produce a total effective IDA of up to \$11 billion, still below the \$12 billion figure that we have agreed. No firm proposals for a supplementary fund have yet emerged, but they are likely to be that this additional money would be contributed by the non-US donors on the basis of equitable burden-sharing between them, as was the case with the Fiscal Year 1984 Account. Procurement would be limited to those countries which contributed to the fund, ie the USA would be excluded. Given that this whole question may well have to be settled at the meeting on 11-12 January, we should clear our minds quickly about whether or not we would wish to contribute to such a supplementary fund. If we did so it would of course be on the understanding that the total cost of our contribution would be kept in money terms within the negotiating limit of £536 million. This is the figure to which you have already agreed and is based on a 6.7% share of \$12 billion at the exchange rate agreed with the Treasury of \$1.50 = £1.
3. There are several good arguments in favour of our contributing:

- (1) In the New Delhi Statement on Economic Action, we put our name to a call for additional resources to be made available to the International Financial Institutions and to IDA in particular. The Prime Minister made it clear at the Commonwealth Heads of Government meeting



that while we thought \$16 billion unrealistic, we also thought \$9 billion too low. She referred to this in her statement to the House about the CHOGM on 1 December. Contributing to a supplementary fund, therefore, would be consistent with the position we have taken publicly and in private with, in particular, our Commonwealth partners. IDA is the most effective multilateral channel for getting aid to the poorest countries, of which many are in the Commonwealth. A replenishment of only \$9 billion would mean substantial reductions in IDA's aid to India and sub-Saharan Africa, which are priority target areas in our aid strategy.

- (2) *But not contributing would not be inconsistent.*
- (3) If we stood out alone against the proposal, we would appear to be supporting the US in approval of a \$9 billion IDA while we have declared ourselves previously in favour of \$12 billion. Our image in IDA has inevitably been slightly tarnished recently by our insistence during the current negotiations on getting our share of the replenishment down. We are the only country apart from the US which is proposing that its contribution to the IDA 7 should be lower in cash than that to IDA 6. If the UK were alone in refusing to contribute to a supplementary fund (which could mean that there would be no fund), the political damage would be considerable.

4. The arguments against may be summarised as follows:

- (1) If we did not contribute to a supplementary fund, we would receive a windfall saving (about £20 million in the peak year) which could, of course, be used to make a modest increase in our bilateral aid programme instead. While this would contribute towards our general objective of concentrating our aid bilaterally rather than multilaterally it would not be strictly compatible with our public position of declaring that a \$9 billion IDA replenishment was not enough.



- (2) Another supplementary fund, following on the heels of the FY 84 Account, would mean that for the whole of the seven years of IDA 6 and IDA 7 the USA would be contributing only about 20% of the resources while claiming to contribute 27% and 25% respectively. This would mean the end of burden-sharing as we have known it in the international financial institutions for a further period. It would also mean, incidentally, that our percentage share of an overall \$11 billion IDA 7 replenishment (including a \$2 billion supplementary fund) would actually be greater than the 6.5 or 6.7% which has been our objective: but our cash share would still be below our agreed limit
- (3) It would arguably remove the pressure on the United States Administration to contribute more to the replenishment. A \$9 billion IDA 7, with the blame laid entirely at their door, would create additional political pressure on the US over the following months.

5. The problem is made slightly more difficult by the knowledge that the present position of Japan and Germany is not to contribute to a supplementary fund, but they may be influenced by our decision. If even one of the three countries declined to contribute, the whole proposal would almost certainly collapse. I believe, however, that it is important to keep IDA going at a satisfactory level. That is why we agreed at New Delhi to 'pledge our commitment to play a positive role to this end'. I therefore believe that we should be ready in principle to contribute to a supplementary fund of up to \$2 billion if all the other main non-US donors do like-wise (ie at least France, the FRG and Japan), and on the basis of equitable burden-sharing. Because we would be keeping our total contribution to IDA 7 itself and to the supplementary fund within the overall figures we had previously accepted our decision would not involve any fresh or unforeseen reduction in the amounts we expect to have available for our bilateral programmes.



6. The question would then arise of how far we should go in seeking to maximise the political benefit from such a decision by declaring ourselves in favour of a supplementary fund from the start. I recall that when IDA 6 ran into similar difficulties we gained considerable credit from playing a leading role in this way. It served effectively to offset the impact of a reduction in our percentage share and could, I believe, do the same again even if the fund proposal later came to nothing. I should welcome your advice on this point.

7. 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
4 January, 1984

Overseas Aid Policy P13

4 JUN 1984

