PREM 19/319

Part I

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~~PROTECTED INSTRUCTIONS~~

Confidential future

Policy Review. Re 1979-80 Aid Programme.

OVERSEAS AID

JUNE 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~8.7.79~~							
~~25.7.79~~							
~~9.8.79~~							
~~14.8.79~~							
~~7.9.79~~							
~~17.9.79~~							
~~24.9.79~~							
~~4.10.79~~							
~~20.12.79~~							
~~29.1.80~~							
~~12.2.80~~							
~~15.2.80~~							
~~19.3.80~~							
~~19.3.80~~							
~~21.3.80~~							
20.2.80							
ends							

PREM 19/319

Misc 17 Rept is attached to
OD(80)8 of 7 February 1980

PART 1 ends:-

Hansard Extract 20.2.80

PART 2 begins:-

FCO to CDL Office 19.3.80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (EA) (79) 4th Meeting, Minutes	19.6.79
CC (79) 16th Conclusions, Minute 1 (extract)	4.10.79
OD (80) 7	6.2.80
OD (80) 8	7.2.80
OD (80) 10	8.2.80
OD (80) 4th Meeting, Minute 2	12.2.80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed A Wayland Date 1 July 2010

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard, 20 February 1980, columns 464-472
"Overseas Aid"

Signed AWayland Date 1 July 2010

PREM Records Team

Mr. Prime Minister

(8)

FCS/80/40

SECRETARY OF STATE FOR TRADE

Aid Policy Review

1. Thank you for your letter of 15 February.

2. In the light of your discussion with Neil Marten on 14 February, I am now able to agree that the allocation in the 1980/81 Aid Programme for the Aid and Trade Provision (ATP) should be increased to £41.0 million in 1980 prices.

3. You will have since received a copy of the revised draft of the Parliamentary statement, in which I have suggested a reference to the size of the ATP as follows:-

> In order to maintain the value of this provision in real terms its share of the bilateral aid programme will now be increased.

4. The precise size of the ATP allocation for 1981/82 and subsequent years will have to be considered as part of the exercise of establishing the aid framework for those years on which we are now embarking. I note your view that we should aim to at least maintain the allocation at the 1979 level in real terms.

5. I am copying this minute to the Prime Minister, the Secretary of State for Industry, and to all those who were present at OD on 12 February.

(CARRINGTON)

Foreign and Commonwealth Office

20 February 1980

Overseas and

FCS/80/39

SECRETARY OF STATE FOR INDUSTRY

Aid Policy Review

1. Thank you for your comments on the draft Parliamentary Statement which were conveyed in your Private Secretary's letter of 19 February. I have also received oral comments from Geoffrey Howe and John Nott.

2. I have done my best to take all these comments into account, and I now attach a revised text of the Parliamentary Statement on Aid Policy which I shall be making today.

3. I am copying this minute to the Prime Minister; the Leader of the House; the Chancellor of the Exchequer; the Secretary of State for Trade; the Government Chief Whips in the Commons and Lords; the Chief Secretary to the Treasury; the Paymaster General; Lord Ferrers; the Secretary to the Cabinet; and to the Chief Press Secretary at No 10.

(CARRINGTON)

Foreign and Commonwealth Office
20 February 1980

PARLIAMENTARY STATEMENT

MY LORDS, WITH YOUR LORDSHIPS' PERMISSION, I SHOULD LIKE TO MAKE A STATEMENT ON OVERSEAS AID.

2. SOON AFTER ASSUMING OFFICE THE GOVERNMENT INSTITUTED A REVIEW OF THE POLICIES GOVERNING THE OVERSEAS AID PROGRAMME. THIS REVIEW IS NOW COMPLETE.

3. OUR ABILITY TO SUPPORT DEVELOPMENT OVERSEAS IS DEPENDENT ON THE STATE OF OUR OWN ECONOMY, AND THE NEED TO STRENGTHEN IT. NEVERTHELESS THE GOVERNMENT WILL CONTINUE TO PROVIDE AID TO THE DEVELOPING COUNTRIES ON A SUBSTANTIAL SCALE. OFFICIAL AID CONTINUES TO BE AN ESSENTIAL ELEMENT IN DEVELOPMENT ESPECIALLY FOR THE POOREST COUNTRIES. WITHIN THE LIMITS OF OUR RESOURCES WE MUST SEEK TO RELIEVE POVERTY IN THE DEVELOPING WORLD SO AS TO CREATE CONDITIONS FOR GREATER PEACE AND STABILITY; AND TO CONTRIBUTE TO THE GROWTH OF WORLD TRADE ON WHICH BRITAIN SO CRITICALLY DEPENDS.

4. TRADE IS OF THE GREATEST IMPORTANCE FOR THE DEVELOPING COUNTRIES. IF THE FREE WORLD WERE TO SLIDE TOWARDS PROTECTIONISM WE WOULD ALL SUFFER, BUT THE CONSEQUENCES FOR THE DEVELOPING COUNTRIES WOULD BE PARTICULARLY SERIOUS. WE OURSELVES PROVIDE A SUBSTANTIAL MARKET FOR THEIR PRODUCTS AND WILL ENCOURAGE OTHERS TO DO THE SAME.

5. PRIVATE INVESTMENT CAN AND SHOULD PLAY A GREATER PART IN DEVELOPMENT, AND WE HOPE THAT THE RELAXATION OF EXCHANGE CONTROLS WILL FURTHER ENCOURAGE BRITISH FIRMS TO INVEST OVERSEAS.

/6.

6. WE BELIEVE THAT IT IS RIGHT AT THE PRESENT TIME TO GIVE GREATER WEIGHT IN THE ALLOCATION OF OUR AID TO POLITICAL, INDUSTRIAL AND COMMERCIAL CONSIDERATIONS ALONGSIDE OUR BASIC DEVELOPMENTAL OBJECTIVES.

7. WE NEED TO MAINTAIN THE STRENGTH OF OUR TIES WITH THE COMMONWEALTH TO WHICH THE GREATER PART OF OUR BILATERAL AID NOW GOES, AND TO FULFIL OUR OBLIGATIONS TO OUR REMAINING DEPENDENCIES. WE MUST ALSO BE ABLE, WHEN NECESSARY, TO OFFER HELP AND ENCOURAGEMENT TO OTHER FRIENDLY COUNTRIES

8. THE GREATER PART OF OUR BILATERAL AID IS TIED TO PROCUREMENT IN THE UNITED KINGDOM AND SO PROVIDES VALUABLE ORDERS FOR BRITISH FIRMS. I MIGHT ADD THAT OUR CONTRIBUTIONS TO MULTILATERAL INSTITUTIONS ALSO ENABLE BRITISH FIRMS TO COMPETE FOR VERY SUBSTANTIAL BUSINESS FINANCED BY THEM ALL OVER THE WORLD. WE ARE EXAMINING MEANS BY WHICH THEY MIGHT GET A GREATER SHARE OF THIS BUSINESS.

9. SINCE 1978 ABOUT 5% OF THE BILATERAL AID PROGRAMME HAS BEEN MADE AVAILABLE FROM THE AID/TRADE PROVISION FOR SOUND DEVELOPMENT PROJECTS (WHICH ARE ALSO OF COMMERCIAL AND INDUSTRIAL IMPORTANCE FOR BRITISH FIRMS), IN DEVELOPING COUNTRIES TO WHICH WE DO NOT NORMALLY PROVIDE AID OR WHERE THE PLANNED ALLOCATION IS ALREADY COMMITTED. IN ORDER TO MAINTAIN THE VALUE OF THIS PROVISION IN REAL TERMS ITS SHARE OF THE BILATERAL AID PROGRAMME WILL NOW BE INCREASED.

/10.

10. THE UNALLOCATED MARGIN IN THE AID PROGRAMME WILL BE INCREASED SO THAT WE CAN RESPOND MORE EFFECTIVELY TO NEW DEVELOPMENTS WHERE OUR POLITICAL OR COMMERCIAL INTERESTS ARE INVOLVED.

11. OUR COMMITMENTS TO INTERNATIONAL AGENCIES AND BODIES WILL ABSORB A LARGER PROPORTION OF THE AID PROGRAMME OVER THE NEXT FEW YEARS. AS WE NEED MORE ROOM FOR MANOEUVRE IN BILATERAL AID WE SHALL NEED TO LOOK CRITICALLY AT OUR EXPENDITURE ON MULTILATERAL AID PROGRAMMES.

12. IMPROVED INTER-DEPARTMENTAL ARRANGEMENTS WILL ENSURE THAT ALL THESE CONSIDERATIONS ARE BROUGHT TOGETHER.

13. THE ADMINISTRATION OF THE AID PROGRAMME IS BEING EXAMINED IN A THOROUGH-GOING MANAGEMENT REVIEW OF THE OVERSEAS DEVELOPMENT ADMINISTRATION TO ENSURE THAT THE PROGRAMME CONTINUES TO BE MANAGED EFFECTIVELY AND ECONOMICALLY.

14. MUCH CAN BE DONE WITH OUR AID PROGRAMME WHICH IS TO THE MUTUAL ADVANTAGE OF THE DEVELOPING COUNTRIES AND OURSELVES AND WE SHALL THEREFORE CONCENTRATE ON USING IT IN THAT WAY.

(FCO)
c. HO Bernard Ingham
LCO (Press Office)
HMT
MOD
LPO
LPSO
DTde
DI
CW/HL
GCW
HMT-CS
PGO
CO
MAFF MofS

DS

10 DOWNING STREET

From the Private Secretary 19 February 1980

Overseas Aid Policy

As I have already told your office on the telephone, the Prime Minister has approved the text of the statement on aid policy enclosed with your letter to me of 18 February. The Prime Minister made one change in the text: the final two sentences of paragraph 4 should run together to read as follows:-

> "We ourselves provide a substantial market for their products and will encourage others to do the same."

I am sending copies of this letter to the recipients of yours.

M. O'D. B. ALEXANDER

George Walden, Esq.,
Foreign and Commonwealth Office.

TMP

CONFIDENTIAL

Overseas Aid

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

19th February 1980

Dear George,

OVERSEAS AID POLICY

You copied to us your letter of 18th February to Michael Alexander, covering a draft oral statement on overseas aid policy. In order to meet your deadline of 12 noon, I passed the Chancellor's suggested amendments to your office on the telephone. You may find it helpful to have these in writing.

Paragraph 2: redraft as follows:-

"Soon after assuming office the Government instituted a review of the purposes of our overseas aid. This review is now almost complete."

Paragraph 3: insert at beginning:-

"Our ability to support development overseas is dependent on the state of our own economy, and the need to strengthen it. Nevertheless the Government ..... Official aid continues to be an essential element in development, especially for the poorest countries."

Paragraph 6: second line:-

Insert "in the allocation of our aid" after "weight".

Paragraph 7:- Delete final line.

Paragraph 9: 3rd line

Delete "where there is no bilateral aid programme"
Substitute "to which we do not normally provide aid"
Insert "planned" before "allocation" and
Delete "for this programme".

/Paragraph 10

G.G.H. Walden, Esq.,

Paragraph 10:

Delete "political requirements and attractive commercial opportunities";
Insert "developments where our political or commercial interests are involved".

Reverse order of paragraphs 11 and 12.

New paragraph 11:

Delete "contractual" and "particularly" together with the commas after "commitments" and "bodies".

In the penultimate line, substitute "critically" for "further".

The changes to paragraphs 2 and 3 are intended to remove the impression that the review in question is of the size of the aid programme as well as of the use to be made of it, and to strengthen the fundamental point that our ability to support overseas development depends crucially on our own economic circumstances. In paragraph 7, "especially when they run into serious difficulties" is a hostage to fortune which the Chancellor would very much prefer not to offer.

I am copying this letter to the recipients of yours.

Yours ever,

MA Hall

(M.A. HALL)

JU

Overseas Aid

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

19 February 1980

G G H Walden Esq
Private Secretary to the
Secretary of State for Foreign
and Commonwealth Affairs
Downing Street
London SW1

Pg. 19/2

Thank you for sending me a copy of the revised draft Parliamentary Statement on overseas aid policy. Our comments, which have been approved by the Secretary of State, are as follows:

Paragraph 3: The Secretary of State would like the second sentence deleted, since the views of Professor Bauer and others indicate that statements of this kind are open to doubt.

Paragraph 5: This requires a more positive emphasis on the need for action by British firms and should therefore be changed to read:

> "Private investment can and should play a greater part in development, and we hope that the relaxation of exchange controls will further encourage British firms to invest overseas."

Paragraph 6: In line with the terms of reference of the official group, and with the recommendations of the Aid Policy Review, the word "industrial" should be inserted between "political, and commercial".

Paragraph 8: The first sentence should be streamlined to read:

> "The greater part of our bilateral aid is valuable in furthering opportunities for British firms."

I am sending copies of this letter to the recipients of yours.

PETER STREDDER
Private Secretary

Foreign and Commonwealth Office

London SW1A 2AH

(1)

18 February 1980

Yes MT

Prime Minister

Agree new list? I attach the earlier list at A. ✓

18/2

Dear Michael,

OVERSEAS AID POLICY

At its meeting on 12 February, OD considered the report of the inter-departmental group which was set up last year to review aid policy, together with the report of the Aid and Trade Working Party. The Foreign and Commonwealth Secretary also circulated to OD the draft of a Parliamentary statement, with the recommendation that an announcement on the Government's aid policy should be made as an oral statement in the week beginning 18 February. That draft has been revised in the light of the OD discussion and of comments made by other departments; and the Foreign and Commonwealth Secretary would be grateful for the Prime Minister's agreement that an oral statement, as in the revised draft attached, should be made in the Lords on 20 February and repeated in the Commons on the same day by the Minister for Overseas Development.

There has been considerable Parliamentary interest in the Government's review of aid policy and Mr Marten has indicated on several occasions that a statement would be made once the review was complete. Furthermore, the Select Committee on Foreign Affairs and the Sub-Committee on Overseas Development have enquired about the timing of an announcement on aid policy in connection with its work.

I am sending copies of this letter to the Private Secretaries to all members of OD and to the Secretary of State for Industry; the Government Chief Whips in the Commons and the Lords; the Chief Secretary to the Treasury; the Paymaster General; Lord Ferrers; the Secretary to the Cabinet; and to the Chief Press Secretary at No 10. Comments (if any) should reach me by mid-day on Tuesday, 19 February.

Yours ever

(G G H Walden)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

Michael

It does not reflect the conclusions of the Committee last year – but there are, as we know, reasons for that.

DRAFT PARLIAMENTARY STATEMENT

1. My Lords, with your Lordships' permission, I should like to make a statement on overseas aid.

2. Soon after assuming office the Government instituted a review of the overseas aid programme. This review is now complete.

3. The Government will continue to provide aid to the developing countries on a substantial scale. Official aid continues to be essential especially for the poorest countries. Within the limits of our resources we must seek to relieve poverty in the world; to create conditions for greater peace and stability in the developing world; and to contribute to the growth of world trade on which Britain so critically depends.

4. Trade is of the greatest importance for the developing countries. If the free world were to slide towards protectionism we would all suffer, but the consequences for the developing countries would be particularly serious. We ourselves provide a substantial market for their products [We intend to continue to do so] and will encourage others to do the same.

This is sensitive for the textile areas.

5. Private investment can and should play a greater part in development, and our relaxation of exchange controls should encourage the flow of investment overseas by British firms.

6. We believe that it is right at the present time to give greater weight to political and commercial considerations alongside our basic developmental objectives.

7. We need to strengthen our ties with the Commonwealth to which some three-quarters of our bilateral aid now goes, and to fulfil our obligations to our remaining dependencies. We must also be able, when necessary, to offer help and encouragement to other friendly countries especially when they run into serious difficulties.

/8.

8. The greater part of our bilateral aid is tied to procurement in the United Kingdom and so provides valuable orders for British firms. I might add that our contributions to multilateral institutions also enable British firms to compete for very substantial business financed by them all over the world. We are examining means by which they might get a greater share of this business.

9. Since 1978 about 5% of the bilateral aid programme has been made available for sound development projects which are also of commercial and industrial importance for British firms, in countries where there is no bilateral aid programme or where the allocation for this programme is already committed. In order to maintain the value of this provision in real terms its share of the bilateral aid programme will now be increased.

10. The unallocated margin in the aid programme will be increased so that we can respond more effectively to new political requirements and attractive commercial opportunities.

11. Inter-departmental arrangements will ensure that all these considerations are brought together.

12. Our contractual commitments, particularly to international agencies and bodies, will absorb a larger proportion of the aid programme over the next few years. As we need more room for manoeuvre in bilateral aid we shall need to look further at our expenditure on multilateral aid programmes.

13. The administration of the aid programme is being examined in a thorough-going Management Review of the Overseas Development Administration to ensure that the programme continues to be managed effectively and economically.

14. Much can be done with our aid programme which is to the mutual advantage of the developing countries and ourselves and we shall therefore concentrate on using it in that way.

Overseas Aid

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

NBPM

15/2

CONFIDENTIAL

From the Secretary of State

The Rt Hon The Lord Carrington KCMG, MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

15 February 1980

Dear Foreign Secretary.

AID POLICY REVIEW

Neil Marten and I met yesterday to discuss an increase in the aid and trade provision (ATP) and also what to do about the Parliamentary Statement on the aid policy review to bring out more clearly the new emphasis on a more hard-headed commercial approach to the aid programme.

On the ATP I maintained my view that for 1980/81 anything which does not at least maintain the 1979/80 level in real terms - I understand this would mean some £40-41 million at 1980 prices - would be seen to make a mockery of the new policy. When the aid policy review is announced we must be in a position to tell businessmen and our supporters in Parliament that funds are once again available to support a significant volume of new business in 1980/81; and since nearly £30 million is more or less firmly committed already, anything less than £40 million would be seen to be hopelessly inadequate.

We need to know at the outset that this money will be available because once the new aid policy is announced we must, with a sensible control over new commitments, be in a position to keep the scheme open on a steady basis, especially for matching cases. I consider therefore that ATP should be at least maintained at the 1979 level in real terms for the next two or three years, ie for

From the Secretary of State

1980/81 £35.8 million, which would become about £40.8 million on revaluation to 1980 prices, and Neil will be considering what would be entailed to achieve this.

He explained that this would not be easy. The bilateral aid programme has already been squeezed so that most of the funding for further ATP projects would probably either have to be offset by reduced contributions to some of the multilateral aid programmes or to come from the unallocated margin of £50 million. I know that a large number of claims against this margin can already be foreseen: for the latest wave of refugees, for Rhodesia, and especially for Turkey which might alone I understand absorb up to £30 million of the margin if payments from last year's pledges and the new round now expected were both allowed to fall due in 1980/81. As you know, I am a supporter of the increased margin as a means of giving us more room for manoeuvre and I understand the strategic and political importance of all these potential commitments. But the aid policy review conclusion is that the margin should be available both to meet foreign policy demands and to secure industrially or commercially attractive projects. These new commitments will do little to help on the commercial front (and the aid of up to £30 million for Turkey is likely to help German industry much more than our firms). In my view therefore a small contribution to ATP from the margin would be appropriate if Neil concludes that the gap cannot be closed by other means.

On the statement my suggestions are:

1 that the new emphasis on political, commercial and industrial interests should be more prominent and less diffident, less hidden behind the virtues of pure development;

From the Secretary of State

CONFIDENTIAL

2 that we should make much more of what we have already done to help developing countries by relaxing exchange control to favour private investment and by resisting pressures for more protection of our industries against their products;

3 that the reference to multilateral aid should say that we are looking for ways to help British firms get a better share of the business;

4 that the understanding I propose about at least maintaining the value of ATP in real terms should be expressed in the statement in terms of an increased share of the bilateral aid programme (about 7% I think instead of the 5% announced by our predecessors).

I think it best to leave the drafting to you as it always comes out so much better if it is done by one hand, but I imagine we will all want to see the next text in draft in case there are any points of detail to clear up.

There is one final but important point of procedure which has been made to me by ECGD. Our competitors, particularly the French, are able to act speedily through their commercial credit mechanism to provide mixed credit. Our firms arrange their ECGD facilities and then have to apply to ODA for the aid element in mixed credit. I do think we need to have a much speedier system of "matching" for mixed credit, which really helps our businessmen and is acceptable to both ECGD and ODA. We shall shortly be putting forward proposals for this in line with the recent Aid and Trade Report.

CONFIDENTIAL

From the Secretary of State

CONFIDENTIAL

I am copying this letter to the Prime Minister, the Secretary of State for Industry, and to all who were present at OD on Tuesday.

Yours sincerely,

Stuart Hampson

JOHN NOTT

(Approved by the Secretary of State and signed in his absence.)

CONFIDENTIAL

JH

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
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PS/ *Secretary of State for Industry*

15. February 1980

G G H Walden Esq
Private Secretary to the
Secretary of State for Foreign
and Commonwealth Affairs
Downing Street
London SW1A 2AL

NBPM

15/2

Dear George,

AID POLICY REVIEW: DRAFT PARLIAMENTARY STATEMENT

At last Tuesday's OD Meeting, my Secretary of State undertook to let Lord Carrington have comments on the draft Parliamentary Statement. I understand that Mr Nott will also be commenting on the draft statement, and so rather than make detailed suggestions, I am setting down the main points which we consider the statement should contain. These points are based on discussions which Sir Keith has had with officials here but have not been finally cleared by him since he is out of the country. We may therefore come back to you with further points on Monday.

On this basis, a revised structure would be as follows:

1 Paragraph 3 should be deleted, and paragraph 4 should be amended to say that Britain recognizes that she should continue to play her part with other countries in the collective international effort of giving aid to the developing world, although it is unlikely that it will be possible to exempt the aid programme from the reduction in public expenditure.

2 Paragraphs 5-7 should be deleted.

The statement should then indicate that in the context of the wider economic and political considerations we will be seeking to maximize the mutual benefits which can arise from the aid programme, and we will therefore be giving substantially greater weight to industrial and commercial considerations. This will affect the pattern and nature of our aid programme.

We can then go on to make the points in paragraphs 9 and 10 on the Aid Trade Provision and the unallocated margin, except that

/we ...

we should indicate that the proportion which the ATP will form a part of the bilateral programme will increase.

Paragraph 11 comes in next although we would like to see the last sentence deleted.

Paragraph 12 seems unncecessary and can be deleted.

We would then like to see a section on private investment, and its importance in the transfer of resources and the process of development, and the steps the Government have taken-through the abolition of exchange controls-to encourage it. We should also indicate that we will encourage private investment and official flows to be harnessed together effectively.

Paragraph 13 can follow next.

Paragraph 14 should be deleted.

I am sending copies of this to the Private Secretaries of the Members of OD and to PS/Sir Robert Armstrong.

Yours sincerely,
Peter Stredder

PETER STREDDER
Private Secretary

Ref. A01383

MR. ALEXANDER

OD: Overseas Aid

Following the circulation of a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (OD(80) 10), containing a draft Parliamentary Statement on the Aid Policy Review, there are now three and not two papers for the Aid items on the agenda for OD tomorrow.

2. In his memorandum, the Foreign and Commonwealth Secretary seeks agreement to his proposal that:

(a) There should be a Parliamentary Statement; and

(b) That it should be along the lines he proposes.

These points were covered in paragraphs 14(iii) and 15(iii) and (iv) of Sir Robert Armstrong's minute to the Prime Minister, A01380 of 8th February.

D. J. Wright

(D.J. Wright)

11th February, 1980

Ref: A01380

CONFIDENTIAL

PRIME MINISTER

Overseas Aid
(OD(80) 7 and 8)

BACKGROUND

There are two papers for discussion -

(i) OD(80) 8, covering the report of the Aid Policy Review which the Foreign and Commonwealth Secretary initiated last July.

(ii) OD(80) 7, covering a report by the official Aid and Trade Working Party about the working of the Aid and Trade Provision (AT(80) P).

2. The Aid Policy Review was instructed not to make recommendations on the size of the aid programme. It makes a number of detailed recommendations about the operation of the programme, of which the main ones are:-

(i) Political, commercial and industrial objectives should receive an enhanced emphasis alongside developmental objectives.

(ii) The constraints on the programme, both financial and contractual, mean that any significant policy changes will need to be implemented gradually.

(iii) There should be changes in the interdepartmental machinery for formulating the aid programme and deciding on important cases, so as to give the Departments of Industry and of Trade a greater part in the decision making.

3. The Aid and Trade Provision was set up in 1977 (as the Aid and Trade Contingency Provision - ATCP) as a separate allocation within the aid programme, where industrial and commercial objectives would have priority, subject to a minimum test of developmental soundness. The Aid Policy Review says that the need for such a separate allocation should diminish in time, provided that arrangements for giving the aid programme a more

industrial and commercial orientation are effective. But it recommends that, for the time being, a separate ATP should be maintained at the maximum level consistent with the constraints on the aid programme as a whole. In the light of this the Aid and Trade Working Party make 12 detailed recommendations set out on pages 2 and 3 of the note by the Department of Trade.

4. The Foreign and Commonwealth Secretary endorses the main recommendations of the Aid Policy Review. The Secretary of State for Trade has been seeking an early discussion of the issues in order to resolve differences about the way the ATP should be used. He would like to see a more commercial orientation for the aid programme. The Chancellor of the Exchequer takes the same view, only more strongly, though he has in mind the difficulty of expanding the ATP while reducing the aid programme as a whole. He has some reservations on the Aid and Trade paper. The Secretary of State for Industry considers that concentration of aid expenditure on sectors where help is most needed by British industry could reduce the amount of money otherwise required to help industry without reducing the effectiveness of aid as a means of helping developing countries. He has been invited to attend the Committee for this item, as has the Minister for Overseas Development.

5. The major questions likely to arise in discussion are:-

(a) The scope for shifting the emphasis of the aid programme in the light of constraints on public expenditure.

(b) The extent to which aid achieves its stated objectives.

(c) The extent to which the existing shape and size of the aid programme is in step with the general aims of United Kingdom foreign policy.

(d) The international political implications of any major change in aid policy.

(d) The interaction of aid and trade, and in particular the scope for adapting aid policy to give greater help to our industrial policies; and

(f) The terms and manner in which the outcome of the aid policy review should be presented to Parliament.

HANDLING

6. You will want the Foreign and Commonwealth Secretary and the Minister for Overseas Development to speak about the Review and the Secretary of State for Trade to comment on the Aid and Trade aspects. You would then suggest that the Committee considers the subject under four main headings as follows:-

~~(i) Size of the Aid Programme~~

(ii) Policy emphasis within the Aid Programme

(iii) Aid and Trade Provisions

(iv) Form of any Announcement

Size of the Aid Programme

7. You might ask the Secretary of State for Industry to speak on this. He may argue that the aid programme should be abolished or drastically reduced - perhaps quoting Professor Bauer's article in The Times of 5th February (attached). I suggest that you aim to keep this part of the discussion fairly short. The Review makes clear that major cuts would involve breaking commitments. The Committee may want to consider this, but if so it would be best to commission a detailed analysis by officials of the options and their implications, before taking any firm decisions. The Aid Policy Review, having been precluded from considering the size of the programme, is not a firm basis for such decisions.

Emphasis within the Aid Programme

8. The Aid Policy Review reflects general agreement among Departments that the aid programme should give greater emphasis to political, commercial and industrial objectives alongside developmental objectives. This is the easy part - by better co-ordination, we should be able to get better value for some objectives without harming others. But there is an underlying tension. Should we press our political/industrial/commercial objectives even at the expense of developmental objectives?

9. The mechanism which the official Group have proposed is designed to bring the Departments of Industry and of Trade, and their Ministers, into the decision-making process at points where they can have a real impact on policy formulation and on decisions in important cases. Thus it creates a mechanism

whereby policy can evolve over a period - if Ministers collectively want to put more weight on political/commercial/industrial objectives, and less on developmental objectives, this can be reflected in the programme year by year, without necessarily involving sudden changes in any one year.

10. Subject to the discussion, I suggest that you guide the Committee to:-

(i) Approve the somewhat anodyne policy formulation put forward by the official Group ("greater emphasis on political/industrial/commercial objectives alongside developmental objectives").

(ii) Give the new mechanism some time (one or two annual cycles) to establish itself, and see whether it is working to the satisfaction of all the Ministers concerned.

11. The alternative would be to try for a more radical reformulation of policy now, and I do not think you could get unanimous agreement to that.

Aid and Trade

12. You might ask the Secretary of State for Trade to take the Committee through the detailed recommendations of the Aid and Trade Working Party report, and invite the Chancellor of the Exchequer to comment. Where they agree you might give the Committee's endorsement, provided that no one else objects. Where there is disagreement the discussion seems likely to get pretty technical, and you might invite the Ministers concerned to put forward a reasoned paper or papers on the disagreed points, possibly to E(EA) as being geared up to deal with case work.

13. The question of the size of the ATP may come up in discussion, but it will need to be settled separately. All the Committee need do is note the problems of expanding (or even maintaining) it within a declining total programme.

Form of Announcement

14. The Foreign and Commonwealth Secretary recommends that:-

(i) The Aid Policy Review report should not be published: I imagine the Committee will want to agree.

(ii) That he should not publish a new policy White Paper: again I imagine the Committee will agree; but that

(iii) There should be a Parliamentary statement. This seems appropriate. If the Foreign and Commonwealth Secretary circulates the draft in time, the Committee may be able to agree it, but otherwise this would seem a suitable subject for clearance in correspondence.

CONCLUSIONS

15. Subject to the discussion, you might guide the Committee to:-

(i) Endorse the conclusions of the Aid Policy Review, particularly on giving political/industrial/commercial objectives greater emphasis alongside developmental objectives, the new arrangements for interdepartmental consultation, and the need for policy changes to be implemented gradually.

(ii) To endorse the conclusions of the Aid and Trade Working Party on the aid and trade provision, so far as the Committee have in fact agreed them, and to invite the Ministers concerned to refer any disagreed points to E(EA) Sub-Committee.

(iii) Agree that neither of the two reviews should be published but that a policy statement should be made to Parliament.

(iv) Agree the text of the proposed statement if it has been circulated in time.

RA

Robert Armstrong

8th February 1980

Why government aid to the developing countries can be worse than useless

The Times 5 Feb. 1980

Who could possibly be against aid to the less fortunate? Official British overseas aid is the annual transfer of some £790m of taxpayers' money to distant governments and to the official international agencies. To call these transfers aid, simultaneously disarms criticism, prejudges the results, and also obscures the realities and results of the policy. The case for it is taken for granted, largely because it is called aid. Even Professor Mazrui, who used so much of his recent Reith Lectures to denounce the West, nevertheless assumed off-handedly that this same rapacious West should continue its subventions.

The policy cannot contribute appreciably to its declared objectives; and is much more likely to obstruct them. The damage in the Third World is even more important than the cash cost. various rationalizations for official aid are often heard, addressed to people who are thought not yet to be firm supporters. The most durable of these has been that aid is indispensable for Third World progress. This patronizes Third World people by saying that they crave for material progress, but, unlike the West, cannot achieve it without foreign alms. Yet large parts of the Third World progressed rapidly long before official aid.

Indeed, external donations cannot accelerate significantly the growth of the national income. Countries where government or business can use capital productively can borrow abroad. The maximum contribution to growth is the avoided cost of borrowing, as percentage of the national income. This is very small, even insignificant, in the case of large countries to which goes most aid.

Thus external aid to India is officially put at about 3 per cent of national income. This percentage is a large overstatement because the national income statistics of these countries much underestimate the true national income, often by a factor of three or more. But even if aid is as much as 3 per cent of the national income, and the cost of capital put as high as 15 per cent, the avoided cost of borrowing, the upper limit of aid's contribution to development, is less than one half a per cent of the national income.

This is so even if aid is a free and untied gift, and if the recipient government uses the capital productively. Aid is unlikely to be so used, obviously so when the declared purpose is an objective other than development, but even when it is given for that purpose, because its expenditure is not geared to market conditions.

Unlike manna from heaven, aid sets up many extremely damaging repercussions. And because it is concentrated on governments, these repercussions are set up by sums which, while small relative to the national income, are nevertheless large in relation to government revenues, or export earnings. By increasing the money and patronage of the recipient governments, aid promotes the disastrous politicization of life in the Third World and intensifies the struggle for power. This increases conflict, especially in the multi-racial societies of most Third World countries. It diverts energy and attention from productive activity to the political arena, because people's livelihood, and often even their economic or physical survival, come to depend on political and administrative decisions.

Further, aid in various other ways also promotes state controlled economies, which again leads to politicization, restricts external contacts and domestic mobility, retards the spread of new ideas and methods, and inhibits development in all sorts of other ways also.

Aid encourages the belief that betterment depends not on self help, but on helping oneself to the trough. This reinforces widely prevalent Third World attitudes that a person's fortunes depend on outside sources, rather than on himself.

> Aid encourages the belief that betterment depends not on self help, but on helping oneself to the trough

External aid also biases development strategy and methods of production towards unsuitable outside models, such as universites whose graduates remain unemployed or "national" airlines operated by foreigners in countries, most of whose citizens never travel. Such adverse repercussions on the basic determinants of progress are likely far to outweigh the marginal benefit of the lower cost of investible funds.

Relief of poverty is now a much canvassed purpose of aid, and one which most influences the genuinely compassionate. But *Official* aid has nothing to do with this. Official aid does not go to poor people, to the children with distended bellies, or to the skeletal figures so prominent in aid propaganda, but to their governments. It goes to rulers whose position it strengthens and whose policies so often aggravate the lot of the poorest. These policies, notably the official spending programmes, are governed by the political interests of the rulers. The position of the poorest is low among their priorities, much lower than prestige projects, such as grossly wasteful industries or extremely expensive brand new capitals, witness Brazilia and Islamabad. Further, aid recipients spend heavily on weapons directed against their own subjects or against other aid recipients (India, Pakistan, Algeria, Morocco, Ghana, Nigeria, Tanzania, Uganda). There are also other major anomalies here. Thus on the criterion of poverty a government qualifies for more aid if it restricts the opportunities of its most productive subjects or even forces them to leave as has happened in Burma, Indonesia, Vietnam, Ghana, Kenya, Uganda, Zaire and elsewhere. To subsidize *governments* on the grounds of the poverty of their *subjects* imposes no constraint on policies of impoverishment—one of the many untoward results of confusing the government with the population.

Such anomalies cannot be circumvented by giving official aid directly to the poorest. Except for disaster relief, this would be opposed and sabotaged by the recipient government. It also encounters other formidable problems, including the pauperization of the recipients, which could be avoided only by direct interference with local mores and conduct, unacceptable both to the people and to the government.

The effective way to relieve poverty and distress in the Third World is through voluntary, non-politicized charities. As has been shown for instance by the Swiss, these agencies can raise vast sums, especially if it is understood that relief of need belongs to voluntary organizations, not to the state.

Another rationalization is that aid helps us, the countries which give aid, because it promotes exports and thus provides employment for our citizens. This is like saying that it helps a shopkeeper to have his cash register burgled, if the burglar spends part of the proceeds in his shop. Aid is paid for by taxes, so that the taxpayer has less to spend on other goods. Direct employment subsidies would clarify the process, and also provide more employment for a given expenditure. The related suggestion that aid provides employment in the West by promoting long term development, ignores alternative uses of the funds, and also prejudges both the effects of aid, and the spending patterns of the recipients.

It is also said that aid serves the political purpose of preventing the Third World from drifting into the Soviet orbit. In fact, the large the growing volume of aid channeled through international organizations (in which the Soviet block often participates) is specifically barred from staving such a political purpose. But it is ignored also in bilateral aid, as this is given regardless both of the conduct of the recipients, and of their political significance. Western, including British, aid has gone to Amin, and to the rulers of Vietnam, Kampuchea, Angola, and Mozambique. Many aid recipients freely abuse and embarrass western donors.

Overseas aid needs to be drastically rethought: Help to the poor and the distressed should be left to charities. Development can be helped best by a reduction of western trade barriers. Some aid funds might be used to compensate some of those who would be harmed by their reduction. This also is open to various objections, but if practicable, it might be the lesser of the evils compared to ever increasing trade barriers coupled with continuing or even increasing aid. Ideally, official aid should be terminated. But this is not now practical. This operation could, however, be much improved. Bilateral aid should replace multilateral aid to retain parliamentary control of tax-payers' money. Aid should be united cash grants to distinguish between subsidies to foreign governments and to British exporters, and also between aid and investment. Further, the criteria of allocation should be revised. It should go to governments genuinely interested in the welfare of their subjects and who promote it by effective administration, the performance of the essential tasks of government and the pursuit of liberal economic policies. This would reduce the effect of aid in politicizing life and would promote prosperity and reduce conflict. Liberal economic policies would help also to reduce tension between the Third World and the West, besides exposing the fictitious concept of a uniform Third World opposed to the West.

The Third World was invented by the advocates of foreign aid. It is primarily a collection of countries whose governments demand and receive official donations from the West. What else is there in common between the people, say, of Bangladesh and Ecuador or of Nepal and Botswana?

Reconsideration and reform of aid would thus help with a better understanding of the rich variety of two-thirds of mankind.

Unless overseas aid, its methods of operation and criteria of allocation are reconsidered, aid will continue to promote totalitarian policies and to disappoint or frustrate the aims of many generous aid supporters.

Peter Bauer

The author is Professor of Economics at the London School of Economics and a Fellow of the British Academy.

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ACTION.

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CD(80)7 COPY NO 2

6 February 1980

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

AID AND TRADE

Note by the Secretaries

1. The Secretary of State for Trade circulated under cover of his letter of 14 January 1980 to the Secretary of State for Foreign and Commonwealth Affairs a note on aid and trade (MISC 17(79)31). Copies of these documents are attached, for discussion in conjunction with the report of the Official Group on Overseas Aid (OD(80) 8).

Signed ROBERT ARMSTRONG
R L WADE-GERY
R M HASTIE-SMITH

Cabinet Office

6 February 1980

CONFIDENTIAL

Overseas Aid

NBPM

Rmt 29/1

FCS/80/18

SECRETARY OF STATE FOR TRADE

1. Thank you for your letter of 15 January about the report of the inter-departmental group on the review of aid policy, and the report on the Aid and Trade Working Party. I have since seen Geoffrey Howe's letter of 21 January and note that you both consider it would be useful to discuss these reports in Committee. I understand that this is also Keith Joseph's view.

2. I shall therefore invite the Cabinet Office to arrange for these papers to be included in the agenda of an OD meeting, to which Keith Joseph should be invited. I shall also circulate before the meeting a draft of the proposed Parliamentary statement.

3. I am sending copies of this minute to those who received my minute of 9 January.

C

(CARRINGTON)

Foreign and Commonwealth Office

29 January 1980

CONFIDENTIAL

cc. PS/CST
PS/FST
PS/MST (C)
PS/MST (L)
SIR D. WASS
SIR K. COUZENS
SIR A. RAWLINSON
MR. BARRATT
MR. WIDDUP
MR. F.E.R. BUTLER
MR. SLATER
MR. JORDAN-MOSS
MR. RIDLEY
MR. CARDONA
MR. ST. CLAIR.

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

21 January 1980

Dear Peter

AID POLICY REVIEW

Thank you for your minute of 9th January about the Aid Policy Review Report and the procedure for handling it.

I agree generally with the recommendations in that report, and particularly with the view that greater importance should be attached to commercial and industrial objectives in the distribution of the aid programme. But I still think it would be useful to have a discussion in OD, and that Keith Joseph should be present. I see from his letters to you of 14th and 15th January that John Nott also thinks that a collective discussion would be desirable, and that this should also cover the parallel report on Aid and Trade which he had circulated. I agree with this too: I have reservations on certain of the proposals in this latter report, although I agree with John Nott that officials should be guided straight away by the recommendations in it concerning our attitude to mixed credit in the context of the review of the OECD Consensus on export credit.

Although, in accordance with the terms of reference, the report is not concerned with the size of the aid programme, I should like to take the opportunity of the meeting to discuss how far aid really is effective in serving some of the objectives claimed for it. I also think we need to consider whether our aid programme does not result in disproportionate costs of administration: ~~recent~~ several studies currently in progress are relevant to this.

I am sending copies of this letter to the other recipients of your minute.

Yours ever
Geoffrey

(GEOFFREY HOWE)

The Rt. Hon. The Lord Carrington, KCMG, MC

Overseas Aid

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Minister of State

18 January 1980

The Rt Hon The Lord Carrington, KCMG, MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
King Charles Street
LONDON SW1A 2AH

NBOR yet

Dear Peter

AID POLICY REVIEW

Thank you for copying to me your minute of 9 January to the Chancellor of the Exchequer about the report by officials on the review of aid policy.

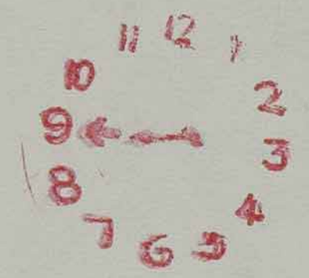
I am quite content with the arrangements you propose for handling this report.

I am copying this letter to the recipients of your minute.

Yours,

Paul

PAUL CHANNON



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

Overseas Aid

From the Secretary of State

NBPol yet

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

15 January 1980

Dear Peter.

AID POLICY REVIEW

In circulating yesterday the report of the Aid and Trade Working Party, I suggested that it might be discussed with the main Aid Policy Review, from which you will have gathered that it is my view that we should have a discussion.

I note from your minute of 9 January that you are content with the recommendations, and so am I, but this is a substantial policy document which is likely to act as the background to Aid Policy decisions for several years to come. The Review recommends that an enhanced emphasis should be given to political, commercial and industrial objectives, and the recommendations are consistent with that intention, but much will depend in practice on the weight which we are prepared to give to these different factors, and I believe that a discussion would be useful in that respect.

Since it would clearly be helpful to have before us at the same time the Parliamentary statement which you were in any case preparing to circulate for our consideration it may be a few days before such a meeting can take place. For the most part a further short delay will not matter but there are in the ATWP Report a couple of recommendations about our attitude to mixed credit (paragraphs 3(i) and (ii) of the covering note) on which I understand officials need early guidance because of the approaching annual

From the Secretary of State

review of the OECD Consensus of export credits. I suggest that unless any of our colleagues have expressed reservations about these particular recommendations by 18 January, officials should be guided by them in helping to prepare the Community position.

I am copying this letter to all Ministers who received the Aid Policy Review, to Sir Robert Armstrong and Peter le Cheminant.

Yours ever

John

JOHN NOTT

Overseas Aid

FCS/80/10

CHANCELLOR OF THE EXCHEQUER

Mr Ryrie

BF 21.1.80

to await comment from Chancellor of the Exchequer

Aid Policy Review

1. I have considered the report of the inter-departmental group of officials on the review of aid policy, which was submitted to Ministers concerned under cover of Mr Le Cheminant's minute of 20 December.

2. I am generally content with the recommendations contained in the report; and if you and those to whom I am copying this minute agree, I suggest it might be adopted without discussion in Committee. But I should be happy to have a discussion if you or others would wish it. I suggest that this might be in OD, to which Keith Joseph should be invited.

3. I also concur with the Group's view that the changes in emphasis in aid policy which would follow from adoption of the recommendations in the report do not merit a new White Paper, and that a statement in due course to both Houses of Parliament will suffice. The report itself should not be published. If others agree, my own Department will prepare the draft of a Parliamentary statement for you and others to consider.

4. I am copying this minute to the Prime Minister, the Secretaries of State for Trade and Industry, the Minister for Agriculture, Fisheries and Food, the Minister of State, CSD, and to the Secretary to the Cabinet.

C

(CARRINGTON)

Foreign and Commonwealth Office
9 January 1980

Overseas Aid

(1) NBPM yet
(2) Mr Patterson may like to see.
(3) B.F. 31.1.80.

CONFIDENTIAL

P.0180

SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS

AID POLICY REVIEW

In your minute of 30 July to the Chancellor of the Exchequer you proposed that officials should be asked to review aid policy. After further correspondence, including contributions from the Secretary of State for Industry and the Secretary of State for Trade, an inter-Departmental group of officials was established under my chairmanship to conduct the review.

at front flap

2. I now submit our report. Copies of this submission and the report are being sent in parallel to the Chancellor of the Exchequer, the Secretary of State for Industry, the Secretary of State for Trade and to the Prime Minister's Private Secretary. I am also sending a copy to the Minister for Overseas Development and to the Minister of State, Civil Service Department.

3. My group was established at a time when certain specific aspects of aid policy were being reviewed by the Aid and Trade Working Party under Department of Trade chairmanship. We have taken account of, but not sought to duplicate, their work. The Report of the ATWP is now ready and is being submitted to Ministers separately.

4. In putting the report forward I should offer two comments:-

a. We were expressly required not to make recommendations about the size of the aid programme. We have therefore concentrated on the general thrust of the policy; on the scope for change (necessarily at the margin); and on the machinery for inter-Departmental consultation. The changes in direction that we envisage can be put into effect whatever is decided about the

future size of the programme as a whole. But given the large commitments to aid that we already have, especially in the multilateral field, the smaller the aid programme, the longer it will take to implement the changes.

b. We faced from the outset the problem that one cannot demonstrate by analysis or arithmetic an optimum balance of developmental, political, industrial and commercial factors in aid policy. Nevertheless we all felt that it ought to be possible to obtain better value for money in terms of the totality of our objectives and that in present circumstances this meant three things. First, to set out consciously to give political, industrial and commercial factors an enhanced role alongside developmental objectives; second, to modify the machinery for inter-Departmental consultation so that all of the objectives were kept in the forefront of consideration during the process of arriving at aid policy decisions; and third, to try and create additional room for manoeuvre within the programme so that Ministers, in directing it, have as much flexibility as the constraints allow to pursue the course which seems most advantageous to them in the circumstances of the day. It is perhaps worth noting that our recommendations, fabian as they may seem, would allow for significant changes to be made in the balance of the programme over time if Ministers so wished; and that although the interests of the various Departments on the group differ widely they were all, at official level at least, content with the recommendations in the form in which they have emerged.

5. There remain three operational points:-

a. Ministerial consideration: A lot will depend on whether you and your colleagues to whom this report has been copied are content with it. If so it should be possible, if you wish, to avoid a collective discussion - though you might in any case feel it worth while circulating the report to the appropriate Ministerial Committee for information. On the other hand, if you or your colleagues are not content then discussion in a suitable Ministerial Committee will be necessary. The choice would be between E and OD, with perhaps

a preference for OD. If you wish Cabinet Office to prepare a draft covering note we are of course at your disposal.

b. Public announcement: We are committed to some form of announcement on the outcome of the review by statements already made in the House. The view of officials was that the changes we propose do not merit a White Paper (which might in any case be compared emotionally with the last Government's "More help for the poorest"). A written answer or an oral statement would serve. Your own Department would no doubt prefer to prepare a draft for clearance with colleagues.

c. Publication: There may also be pressure for the report itself to be published. Given that the analysis rests heavily on the Government's unpublished forward public expenditure plans - which are themselves subject to further review - early publication is, I suggest, not practicable. And there are other sensitive points. My recommendation would therefore be against publication though this need not preclude the issue of some of the backing material, which might however require editing for the purpose, if this were felt to be helpful. Additionally the substance of much of Part I of the report could no doubt be incorporated in, or circulated with, a Parliamentary answer or statement.

6. I would be grateful for your instructions.

P Le CHEMINANT

Cabinet Office

20 December 1979

REVIEW OF THE OVERSEAS AID PROGRAMME

REPORT BY THE OFFICIAL GROUP ON OVERSEAS AID (MISC 17)

CONTENTS

PART III: ANNEXES

REVIEW OF THE OVERSEAS AID PROGRAMME

REPORT BY THE OFFICIAL GROUP ON OVERSEAS AID (MISC 17)

INTRODUCTION

1. The Group was established "to examine the policies governing the aid programme in relation to developmental, political, industrial and commercial objectives and to make recommendations". It comprised representatives of the Treasury, Civil Service Department, the Foreign and Commonwealth Office, the Department of Industry, the Department of Trade, the Ministry of Agriculture, Fisheries and Food and the Central Policy Review Staff under Cabinet Office chairmanship.

2. The Ministerial correspondence which preceded our establishment indicated that we should avoid recommendations about the appropriate size of the future aid programme (letter from the Chancellor of the Exchequer to the Foreign and Commonwealth Secretary of 1 August 1979) and that we should take into account recent academic work challenging conventional wisdom on overseas aid (letter from the Secretary of State for Industry to the Foreign and Commonwealth Secretary of 7 August 1979).

3. Our Report is, for convenience, divided into three main sections. Part I summarises our findings and conclusions, and gives our recommendations. Part II represents our main Report and supports the conclusions in Part I. Part III consists of backing material.

PART I: SUMMARY AND RECOMMENDATIONS

4. As our terms of reference recognise, the aid programme serves a multiplicity of objectives. We recommend that, in present circumstances, political, commercial and industrial objectives should receive an enhanced emphasis alongside the developmental objectives which have for long been the prime purpose of aid.

In other words - everything!

5. We have conducted our examination at a significant turning-point in the United Kingdom's aid programme. Ministers have already decided that the real value of that programme should decrease over the years ahead, after a long period of relative stability in real terms. Inbuilt rigidities in the programme - with multilateral aid tending to grow as a proportion of the total - mean that the burden of adjustment to a declining programme will fall particularly on bilateral aid programmes.

6. But in addition to financial constraints on the total programme account also needs to be taken of existing commitments and the impact of change in programmes on our relations with the recipients. Contractual, or near-contractual, commitments account for over three-quarters of the total aid programme in 1980-81 and over half of the programme as far ahead as 1983-84. And although our aid programme is small in relation to the total flow of funds to recipient countries, there is nevertheless a strong political and developmental case to be made for continuity in our individual bilateral programmes.

7. It follows that the implementation of any significant policy changes needs to take place gradually. Indeed, without reneging on existing commitments, we have little choice in the matter. All our detailed recommendations depend on this.

8. Against this background we make the following recommendations -

a. As opportunity occurs we should do what we realistically can to reduce the United Kingdom share in multilateral aid programmes and to restrain the growth of certain of them. Without action here our bilateral programmes will have to be further curtailed. In coming to this conclusion

we recognise that some forms of multilateral aid can, at least in theory, offer greater opportunities for United Kingdom business than does bilateral aid. The latter however has the merit of providing greater scope for the pursuit of political objectives as well as offering greater flexibility and orientation towards specific projects.

b. About one third of our bilateral aid programme is devoted to technical co-operation. There are doubts whether we manage to get as much national benefit from such aid as we might. We endorse the Foreign and Commonwealth Office's decision to review the whole field of technical co-operation and its place in the aid programme.

c. Similarly we endorse the FCO's decision to review policy towards the Commonwealth Development Corporation.

d. If the aid programme is to give more weight than in the past to political industrial and commercial objectives, it will need more flexibility than at present both to meet foreign policy demands and to secure industrially or commercially attractive projects. As part of this we consider that the unallocated margin in the aid programme should be bigger in the future than it has been up to now. The Foreign and Commonwealth Office and the Treasury have agreed that there should be an increase in the margin for 1980-81 and we recommend that greater room for manoeuvre should also be sought for later years as a matter of general policy.

e. The present geographical distribution of United Kingdom bilateral aid has evolved over a number of years and gives particular weight to aid to developing countries who are members of the Commonwealth. Although the pattern of distribution has changed over time, increased emphasis on industrial and commercial objectives is likely to result in further change. The emerging pattern will flow naturally from changes in the emphasis of the programme, and the possibilities for mutually advantageous developments which occur. We see no point in seeking to predetermine this pattern.

f. We see some scope for further exploiting the way aid programmes are negotiated with individual recipient countries in order to improve industrial and commercial benefits. For this to be fully effective the Departments of Trade and of Industry will need to keep the Foreign and Commonwealth Office supplied with a steady flow of up to date information on industrial and commercial priorities.

g. Small bilateral programmes of financial assistance are disproportionately costly to administer, and we suggest that all such programmes of less than £2 million a year should be subject to scrutiny with a view to possible termination.

h. In view of its industrial and commercial value we consider it important that a separate Aid and Trade provision be maintained at the maximum level consistent with the constraints on the aid programme as a whole. The precise level should be determined in the context of the Aid Strategy and Aid Framework discussions.

i. In the two years since its introduction, the Aid and Trade Contingency Provision has been used in part for projects involving mixed credit. These give rise to difficult technical considerations which are the subject of a report by the Aid and Trade Working Party. This report is being submitted to Ministers separately.

j. In addition to the principles of aid policy we have considered its practical operation. Interdepartmental consultation already takes place on the formulation of each year's programme. Nevertheless, the Departments of Trade and of Industry have doubts about the ability of the present system to reflect adequately, or quickly enough, industrial and commercial considerations. We have accordingly sought ways of improving the consultative arrangements between Departments to overcome these doubts. Our detailed recommendations, agreed by all the Departments concerned, are at paragraphs 63-68 of our report.

9. We have not formally assessed the manpower implications of our recommendations but believe them to be consistent with the plans for staff savings which have already been announced.

10. If the foregoing recommendations are agreed there will be a change of emphasis in aid policy. Ministers have already indicated publicly that there will be a Parliamentary statement when the review is complete. We suggest that there might be an oral statement, but do not think that the changes we envisage would justify publication of a White Paper.

PART II : MAIN REPORT

BACKGROUND

11. Basic Facts: In 1978, the United Kingdom's net public expenditure on aid was £743 million at 1979 survey prices - approximately 1 per cent of central government expenditure, about the average for the last 10 years. Ministers have now agreed on a planning framework for the aid programe which will mean a reduction of over 9 per cent in real terms over the next 3 years. The present figures, which may be subject to further review, are as follows -

	1979/80	1980/81	1981/82	1982/83	1983/84
£ million 1979 survey prices	790	781	751	716	716
Index 1979/80 = 100	100	98.9	95.1	90.6	90.6

12. In 1978, we provided bilateral assistance to 128 countries, though 87 per cent of the total went to only 30 of these. The division between bilateral and multilateral aid in the period 1975 to 1978 was as follows -

	Percentages			
	1975	1976	1977	1978
Bilateral Aid	70	73	66	75
Of which -				
Project	28	25	23	26
Non-project	20	23	21	28
Technical co-operation	22	25	22	21
Multilateral Aid	30	27	34	25

The proportion of multilateral aid can be expected to increase in the next few years. As far as can be forecast at present it will probably reach 34 per cent in 1979/80 and 36 per cent in 1980/81.

13. The United Kingdom has accepted on a best endeavours basis, as have most developed countries, the United Nations' target of devoting 0.7 per cent of GNP to official aid. However, the proportion of GNP which the 17 major developed OECD countries provided as official aid was much the same in 1978 (0.32 per cent) as it had been in 1970 (0.34 per cent). The United Kingdom was slightly above the average in both years.

14. The views of Professor Bauer: This report discusses priorities within an aid programme of a size already determined by Ministers. It does not therefore deal with the fundamental question of whether there needs to be an aid programme at all. Nevertheless we were asked to take account of the views of Professor Bauer, a radical critic of existing aid programmes. His main arguments, and our comments on them, are set out at Annex D. Professor Bauer believes that aid is generally ineffective and in some instances positively harmful. His hypotheses derive from a priori reasoning and are largely untestable by empirical evidence. There is room for honest differences of opinion over some of the propositions. However, we are impressed with the evidence of academic and official work about the productivity of aid-financed investment and the case studies of individual countries which are consistent with the proposition that aid has promoted development. All the same, Professor Bauer has drawn attention to some risks of aid giving - whether theoretical or real - to which those involved in United Kingdom aid administration are, and should continue to be, alive.

OBJECTIVES OF THE AID PROGRAMME

15. This section of our report examines the objectives of aid policy.

16. Developmental; The central purpose of aid giving is to promote development - to help poor countries to become richer. There are several motives behind this purpose. One is humanitarian, which is most clearly visible in the grant of official aid for disaster relief and in the work of voluntary organisations. Most donors have come to accept that the low income countries merit particular attention in their aid programmes. There is a consensus that these countries face bleak economic prospects in the 1980s, not least because of high and rising real energy prices, while their limited access to private capital makes them especially dependent on aid finance.

17. A further motive for aid giving is enlightened self interest. This has a political and an economic aspect. These aspects are discussed in more detail below.

18. Political: (See also Annex A). There are a number of political factors. Firstly, the United Kingdom has an important general interest in the achievement and preservation of a more stable world. We believe that, taken as a whole, the western aid giving effort is of some significance in helping the poorer countries of the world to develop, and that this development is likely in the long term to lead to greater international stability than if their standards of living were declining or stagnant (though the process of development can sometimes have short-term disruptive effects in specific countries).

19. Aid giving also has important operational or demonstrative purposes in British foreign policy -

a. Subject always to the circumstances of the particular case, aid can be effective in establishing a closer political relationship between the United Kingdom and another country, or in reinforcing an existing relationship. It can thus help us to obtain the support of countries in a particular political situation, or to neutralise their potential hostility.

b. United Kingdom aid is also used to demonstrate to the developing countries that we care about their predicament; to underline the importance which we attach to the Commonwealth; to reflect our responsibility for the administration and economic health of our remaining Dependent Territories; and to demonstrate to the other developed countries that we are willing, despite our economic problems, to share the burden of helping the developing countries to make economic progress.

20. Economic: (See also Annex B). A sound manufacturing base is crucial to our future. The Government attaches high priority to trying to improve industry's performance and market share. Many companies especially in the heavy engineering and capital goods sectors face depressed demand at home and intense competition abroad. The developing countries provide a major part of the external demand for their products. Some of our competitors, notably France and Japan, use their aid programmes in part to support these sectors of their domestic industries.

21. If we were looking for ways of using public money primarily to help British industry and commerce, an aid programme based on strict developmental criteria would not be the first choice. However, given the existence of our aid programme, and given the trading environment described in the preceding paragraph, the aid programme can be valuable in helping to attain specific industrial and commercial objectives. Benefits from this are additional to any generalised long term benefits which British industry and commerce may gain from operating in a more stable and prosperous international environment. Tying aid at least ensures that it is spent on United Kingdom goods and services. But this is an illusory benefit unless the output is additional to what would have occurred without aid. Hence an important aspect of gaining increased industrial and commercial benefits is for negotiation to optimise the prospects of "additionality". Inherent in any greater industrial and commercial emphasis in the aid programme would be its greater use than at present to enhance the prospect of follow-on business by stimulating sales of selected products in markets with commercial potential; to secure orders for basically viable undertakings in periods of depressed demand; to play a part in the marketing launch of new products; and to improve the security of raw material supply to British industry.

CONSTRAINTS ON CHANGE IN THE AID PROGRAMME

22. The primary constraints on changes in the direction of our aid policies are examined in this section.

23. Legal: The aid programme is administered under the terms of the Overseas Aid Act 1966, which requires that aid should be provided for "the purpose of promoting the development of, or maintaining the economy of, the country or territory outside the United Kingdom or the welfare of its people..." Within this broad requirement it has been accepted by successive governments that aid should mainly be so directed as to produce the maximum developmental benefit; though political commercial and industrial considerations have always been taken into account in varying degrees.

24. Commitments; Most aid commitments spread over a number of years ahead. Some multilateral commitments have a ten-year span. A bilateral commitment in year one may produce little expenditure before year three, and may not be fully spent until year five or later. But a large proportion of the programme in the nearer years is bound to be taken up by expenditure resulting

from existing commitments. The proportion naturally becomes less the further ahead one looks, but will still be substantial. In particular, multilateral commitments, especially to the EEC's European Development Fund (EDF) and the International Development Association (IDA), will go on rising for some years to come as a result of decisions already made. We estimate that spending on existing commitments of a contractual or near-contractual nature accounts for 72 per cent of the total resources planned for allocation* in 1980/81, and for 52 per cent of those planned for 1983/84, leaving margins of some £275 million and £425 million respectively at 1979 survey prices. This is on the strictest definition of commitments. The figures rise to 95 per cent and 71 per cent if account is taken of quasi-commitments which are being re-examined case by case.

25. Need for continuity: The objectives of economic and social progress in poor countries are long term ones. The need for development aid continues until "take-off" is reached. The political factors which make aid desirable are also likely to change only over a long time span. Significant cut-backs will often be seen as a major initiative with wider political implications. This is particularly true for the Commonwealth, where the United Kingdom is regarded as having special responsibilities. Cut-backs in our participation in various multilateral aid institutions may also have implications for our standing in the international community. Beyond our present commitments to these institutions there will be pressres on us for new pledges to support further expansion in real terms, to which we may in some cases think it right to accede (though see paragraphs 32-34 below).

THE BALANCE BETWEEN OBJECTIVES

26. We recommend that, in present circumstances, there should be enhanced emphasis in United Kingdom aid giving on political, industrial and commercial objectives while preserving the developmental criteria which underly our aid programme. In arriving at this conclusion we have taken account of the policies followed by other aid donor countries (see Annex C). We have also concluded that the constraints on changing the direction of United Kingdom aid policy are such that change must inevitably take place gradually. The following paragraphs examine the elements which make up our total programme and make recommendations where appropriate.

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*'Total resources planned for allocation' means the Gross Aid Programme enhanced by an estimating adjustment of 15 per cent, which experience has indicated as necessary to offset slippage.

MULTILATERAL AID

27. The common feature of all multilateral aid is that the United Kingdom contribution entitles British firms to compete for all business financed by the agency. On the other hand, we cannot control the choice of projects to be aid-financed, as we can with bilateral aid. The actual amount of business secured depends on the outcome of the competition, and the United Kingdom's share of procurement in most multilateral programmes has been declining in recent years.

28. In the development Banks, the contributions of donors provide a capital base which is geared up by commercial borrowing to finance expenditure greatly exceeding the total of donors' contributions. For example, the International Bank for Reconstruction and Development (IBRD - better known as the World Bank) may borrow up to ten times the amount of paid-in capital plus reserves. Thus we get about $100 million of business a year from the IBRD although no British contribution has been made since the original subscription in 1945, except for maintenance of value payments of $3.5 million a year in some recent years; and this figure is achieved despite a fall in our share of IBRD-financed procurement from 12 per cent in 1972 to 5.6 per cent in 1977. British procurement resulting from our membership of the regional Banks has also consistently been at a higher level than our contributions, although the amounts involved are smaller. On the other hand, it is not clear how far the business generated by the Banks is genuinely additional to what would have existed in their absence.

29. In the case of the "soft-window" funds associated with the development banks and with other multilateral aid institutions, the total amount of business generated cannot exceed the contributions of their members. These funds are particularly valuable to the poorer countries which cannot benefit from the loans on commercial terms provided by the banks. As for the United Kingdom's interests, if we are to get more out than we put in, the proportion of contracts secured by our firms in competition with those of other member countries needs to be higher than the proportion of our contribution. In the case of the IDA, our share of procurement has fallen to the point where the cumulative amount of business brought to the United Kingdom by participation in the Association is considerably below the value of our contribution. (Over the period 1972-78 business $498 million against a contribution of $742 million.) With the Asian Development Fund, however, our share of procurement has tended to be above our contribution (in 1976 and 1977 taken together, $26 million procurement against $7 million contribution).

30. In the United Nations Development Programme, the British share of total procurement has tended to be about twice our contribution (in 1976 $48 million as against $29 million) though this includes a considerable amount for experts recruited and other technical co-operation as well as procurement of equipment. Other United Nations organisations financed by voluntary contributions such as the World Food Programme are in the main less beneficial to us commercially, though contributions to the United Nations refugee programmes, UNICEF and WFP are dictated mainly by humanitarian considerations.

31. We are committed by our Community membership to the EEC's aid programmes - the European Development Fund (EDF), food aid, aid to the Mediterranean countries and to "non-associates", and certain minor programmes. These arrangements in general provide a poor rate of return for us, and, with the exception of aid to non-associates and a large food aid project for Operation Dairy Flood in India, they also rank low on developmental criteria. The United Kingdom is contributing some £383 million (18.7 per cent) to the fourth EDF (1975-80), from which United Kingdom companies have so far secured only 9.2 per cent of the available business. We shall be providing some £535 million (18 per cent) to the fifth EDF (1980-85), from which we hope to obtain a larger share of business through a better flow of information from the Commission and by encouraging United Kingdom companies to tender. Our food aid obligations involve us in buying food from other member states of the Community, except for some dairy products, but do increase purchasing power in several developing countries with whom we have close trading links. The Community's aid to the Mediterranean countries will cost the United Kingdom £9.4 million in 1979-80 and £12.6 million in 1980-81. Our contribution to the non-associates programme, which embraces the Asian Commonwealth countries excluded from the EDF, will cost us £6.5 million in 1979-80 and £4.1 million in 1980-81; and our contributions to the minor programmes will cost us £2.3 million in 1979-80 and £2.9 million in 1980-81. (All figures are at 1979 prices)

32. As already noted in paragraph 12 above, multilateral aid is set to increase as a proportion of the reducing total programme. Departments are agreed that our general aim should be to cut back on our multilateral commitments as far as possible in future negotiations, though they have different grounds for doing so. The Foreign and Commonwealth Office is concerned to preserve the political and developmental benefits of the bilateral aid programme from the encroachments of the multilateral programme.

The Departments of Trade and of Industry consider that the bilateral programme gives better value in terms of additional and identifiable business generated for the United Kingdom. Departments are agreed that in relevant international negotiations, each case will need to be considered on its merits - some international agencies give us much better value than others. So far as contributions to banks are concerned, we should consider, as choices arise, whether the amounts represented by our subscriptions might not better serve our interests if they were applied to bilateral aid. And we should give full weight in considering pledges to Funds and other concessional programmes to their relative lack of attraction, compared with banks, from the point of view of our commercial interests. We should also seek to limit further expansion of EEC aid programmes, while attempting to increase the United Kingdom share of EDF procurement and to improve the quality of EEC aid.

33. This said, the scope for making changes between multilateral and bilateral aid over the next few years is limited by decisions already taken or in train. The size of our contributions to EEC aid activities cannot be affected significantly in the medium term, save in any wider renegotiation of our Community contributions. A reduction in the growth of EEC aid programmes themselves will depend on our ability to persuade our partners to do this and the priority which we give to this effort among our other objectives in the Community.

34. Decisions have already been taken about the British contribution to the sixth replenishment of IDA. The United Kingdom has agreed in principle to a general capital increase for the IBRD of $40 billion. It will be for consideration what share the United Kingdom wants to take up. In reaching our decision, we shall need to take into account the possible effect on our voting rights in the bank. If these were to fall below a level sufficient to enable us to continue to appoint a United Kingdom executive director, there could be repercussions on our position in the International Monetary Fund (IMF). From the point of view of our industrial and commercial interests, however, we should aim to keep our subscription to whatever minimum level is compatible with our other interests. That judgement might have to be modified on industrial/commercial grounds if there turned out to be a risk that a very low United Kingdom contribution would lead other countries to reduce their contributions to such an extent that the probable loss of business for British firms was very large in relation to the United Kingdom contribution required.

BILATERAL AID

35. The main advantage of bilateral over multilateral aid is that it can be deployed flexibly in support of the donor's particular objectives. This applies as much to developmental and political objectives as to industrial and commercial ones. As previously administered, bilateral aid, including technical assistance, has created additional demand for British goods and services of about 60 per cent of expenditure. This takes account of the fact that a substantial proportion of financial aid is 'switched', ie spent by the recipient on goods which would otherwise have been purchased with commercial finance.

36. The bilateral programme is divided broadly into financial aid (slightly more than two-thirds of the programme) and technical co-operation (slightly less than one-third). Within the bilateral programme there are a number of possible ways os seeking to increase the industrial/commercial returns from aid. These can involve changes in the relative proportions of financial and technical aid; in the types of technical aid; in the proportion of financial aid allocated to project and non-project business and in the types of project selected; in the geographical distribution of aid; and in the way aid is negotiated. Exploitation of the possibilities here calls for greater flexibility in the deployment of the aid programme.

37. Financial Aid is divided about equally between aid tied to discrete investment projects and aid provided for more general purposes. The latter can range from aid in support of the investment programme of a particular sector, to maintenance aid which enables a country to import intermediate goods and raw materials.

38. Project aid creates a durable addition to the economic capacity of the recipient country, and often provides a framework within which financial and human resources can be supplied to reinforce each other. Moreover, it offers donors a greater measure of control over the use of resources than non-project aid, including more rigorous appraisal. Project aid also lends itself more readily to the pursuit of commercial and industrial advantage in that it can be focussed on the particular competitive requirements of British industry, and is less likely than non-project aid to be used on goods which might otherwise be bought from free foreign exchange. The Foreign and Commonwealth Office estimate that in the period 1976-78, some

65 per cent of project aid led to purchases of British exports which would nor otherwise have taken place. The corresponding estimate for non-project aid in that period is some 25 per cent.

39. There are limitations on the use of financial aid exclusively for projects. The economic situation of some recipients is such that their prime requirement is for foreign exchange to buy components and inputs that will improve the utilisation of their existing productive capacity. In these circumstances such "maintenance" aid is a more appropriate form of support, but in all cases every effort should be made to negotiate aid in ways likely to achieve the maximum direct industrial and commercial return to the United Kingdom consistent with the basic purpose of the aid.

40. In recent years maintenance aid has also been given on an increasing scale to help countries overcome short term foreign exchange difficulties. We can expect to see more balance of payments crises in the difficult economic conditions of the next few years, and in some cases it may be in out political interests to make a contribution in this form, acting in concert with the IMF. Nevertheless it remains true that financial aid is generally most efficient, and most likely to bring benefits to the British economy, when used for capital projects, and our policy towards maintenance aid should reflect this.

41. Another channel for financial aid is the Commonwealth Development Corporation (CDC) which has received allocations of £20-30 million a year in recent years. CDC has a statutory duty to pay its way, taking one year with another, but it borrows from the Government at $5\frac{3}{4}$ per cent a year (3 per cent in the case of investments in renwable natural resources) and it is subject to general directions from the Minister of Overseas Development. Since 1975 it has agreed to concentrate an increasing proportion of its new commitments into the poorer countries and into renewable natural resources projects. The Foreign and Commonwealth Office will shortly be reviewing policy towards the CDC, taking account of the views of other Departments.

Technical Co-operation

42. The purpose of technical co-operation is to draw upon techniques and skills available in Britain to promote development overseas. It includes the provision and support of skilled people, training, and research and development focused on the circumstances of the aided countries. The provision of technical co-operation is often an important means of ensuring that capital aid is applied effectively.

43. In recent years technical co-operation has accounted for slightly less than one-third of bilateral aid; about 70 per cent of expenditure on technical co-operation is part of individual country programmes. The other 30 per cent - comprising "functional" technical co-operation - mainly covers the cost of a number of institutions such as the British Council and ODA's specialised units.

44. British technical co-operation is highly valued by recipients, promotes our political interests, and is generally assumed to provide larger developmental benefits, pound for pound, than other forms of bilateral aid. It can also promote British commercial interests, though there is some doubt whether we do as well from such aid as our competitors from their similar operations.

45. During recent years, when the aid programme has not been under financial constraints, it has not been necessary to fix the share of the overall bilateral aid programme which should go to technical co-operation, or the overall amounts to be spent of each form of it. Decisions have been made, as a matter of deliberate policy, at the level of individual country programmes in the light of the needs of, and opportunities in, each country.

46. The FCO have now embarked on a review of the whole field of technical co-operation and its place in the aid programme. We endorse their decision to do so. Ministers' conclusions on the broad thrust of aid policy will form an essential input to the exercise. Subject to those conclusions, we believe the various forms of technical co-operation should be examined with a view to establishing which offer the best prospects of securing both commercial and industrial benefits for the United Kingdom and developmental benefits for recipients. The results of the review will be considered interdepartmentally.

Geographical Distribution

47. The present geographical distribution of United Kingdom bilateral aid has evolved over a number of years. Under current policies the principal criterion has been the level of poverty, but other considerations include the level of aid from other donors, the capacity to use domestic and foreign resources effectively, and the recipients' balance of payments situation. In addition there are political, historical and wider considerations such as traditional obligations to Commonwealth countries and to United Kingdom dependencies, and the need to respond as part of the international community to political and economic crises. The Commonwealth (including our remaining dependencies) accounted for some 80 per cent of total disbursements in 1978, and the poorest countries (those with a per capita GNP of $280 or less in 1976) received 64 per cent. In recent years the largest single recipients of United Kingdom aid have been India, Bangladesh, Pakistan, Malawi, Kenya and Zambia.

48. The pattern of distribution has by no means remained static in recent years. The United Kingdom's steadily increasing multilateral commitments have progressively squeezed the bilateral programmes. Specific reasons for reducing or abolishing such programmes for particular countries have been successful economic achievement (Malaysia, Singapore, Nigeria, Fiji, Mauritius etc); political differences (South Yemen, Indo-China, Burma, Ethiopia, Uganda); and deliberate holding back in some countries where we were the main donor, sometimes accompanied by increased involvement of other donors such as EDF and OPEC, eg in Commonwealth Africa. On the other hand, some countries which had been dropped from the aid programme have been reinstated because of their economic difficulties, eg Turkey, Ghana, Jamaica.

49. However, as discussed in paragraphs 22-25 above, there are constraints on the rate and extent of change, which suggest that changes in aid policy need to be implemented as opportunity occurs. Some could have immediate effect, others would take time to show through. The full effects of a shift in emphasis will therefore be achieved over time and it will be necessary to inject any desired changes regularly and as early as possible.

50. Under normal circumstances there should be little inconsistency between developmental and political purposes in choosing the recipients of bilateral aid. There will, however, be occasions when there is a strong case for giving aid to a particular country to establish a closer political relationship, or to obtain its support in a particular political situation, but when developmental considerations would suggest that the money should be spent elsewhere. Such cases are only likely to arise at the margin of the total aid programme and a solution of the Rhodesion problem should help to reduce their number. There have been a few cases in the past where aid had been allocated to countries even though their political attitudes were hostile to the United Kingdom, but it is planned to avoid such cases in the future.

51. United Kingdom industrial and commercial considerations are not at present given a high priority in determining the distribution of United Kingdom aid. Consequently, some redistribution could well be required in order to achieve the maximum industrial and commercial return consistent with other aid policy objectives.

52. The best potential for British exports is likely to be found in developing countries with large markets and good growth prospects, including a number of middle income countries which do not at present receive much British aid, eg some countries in Latin America and South East Asia. It should be possible to improve our trade share in these countries by a judicious use of aid. However, within the constraints on the bilateral aid programme, a greater emphasis on particular areas means compensatory reductions in others. The comparative gains, including additional direct exports and follow up business on commercial terms, from reallocating aid will need to be assessed in the light of changing circumstances.

53. The optimum distribution of aid is likely to change continuously as develpments occur in the recipient countries and as the United Kingdom's developmental, political and industrial/commercial objectives and priorities evolve. A flexible approach to the geographical distribution of aid is therefore, we believe, essential.

Negotiation of Aid:

54. We have considered whether changes should be made in the way aid is negotiated with recipient countries in order to further the United Kingdom's industrial and commercial objectives. Undertakings as to the size of country programmes are at present negotiated with recipient countries for periods on average up to two years ahead. The Foreign and Commonwealth Office attach considerable importance to the assurance which this gives to the recipient country. At this stage specific projects are not generally decided on. Project aid has to be spent on UK goods and services and specific projects are negotiated in the light of this fact and in the light of needs which the recipient has identified and which we are prepared to meet. The Treasury and the Departments of Trade and Industry believe that industrial and commercial benefits to the United Kingdom would be increased by making some part of the allocation dependent on its use for specific projects and products, and by linking aid to the obtaining of exports on commercial terms in excess of the amount of aid involved. The Foreign and Commonwealth Office consider that "double-tying" of aid in this way on any substantial scale would be impracticable. However it is agreed that the Department of Industry will provide the Foreign and Commonwealth Office with more information about the product and project priorities for British industry and the Foreign and Commonwealth Office will seek to take this information into account at the negotiating stage, and where practicable, to use negotiating leverage to maximise additionality and secure particular projects in accordance with these priorities.

Small Bilateral Programmes:

55. Small bilateral programmes of financial assistance are disproportionately costly to administer, although this does not necessarily apply to programmes of technical co-operation. In view of the decline in the aid programme, and potential staff constraints, we consider that the number of small bilateral financial aid programmes should be reduced. The extent of this reduction and the speed with which it is put into effect will require detailed study by the Foreign and Commonwealth Office, in consultation with other Departments; but we suggest that all such programmes of less than £2 million a year should be subjected to scrutiny. The ending of such a programme should not, however, preclude the use of aid for a specific capital project should an attractive export opportunity arise.

THE UNALLOCATED MARGIN IN THE AID PROGRAMME

56. Greater emphasis on political, commercial and industrial considerations in aid policy argues for greater flexibility in the aid programme -

a. to enable the Government to use aid in support of foreign policy objectives which arise at short notice;

b. to make it easier to use aid to help secure projects which are industrially or commercially attractive.

57. There is already flexibility in the later years of the country allocations but in addition an unallocated margin for contingencies has always been kept within the aid programme. Its purpose has been to provide a reserve against emergencies, whether natural or other disasters or special needs arising without warning; and to allow for changes of policy during the four-year period covered by the aid framework. Until this year, there was interdepartmental agreement that at the beginning of year 1, 3 per cent of that year's total programme should remain unallocated, together with 5 per cent for year 2, 8 per cent for year 3 and 10 per cent for year 4.

58. We believe that this pattern, under which the reserve is increasingly allocated as the year in question approaches, should continue. But we consider that the size of the unallocated margin should be increased from the figures quoted above, though to hold back too much for too long would frustrate the expenditure to which Ministers eventually allocated these resources. This is because of the inherent time lag between commitment and disbursement. The exact increases could be settled between Departments in the context of the 4-year Aid Framework. Ministers are already considering a doubling of the unallocated margin for 1980/81.

59. These unallocated amounts would, as in the past, be available to meet unforeseen calls on the programme, such as contributions to disaster relief and to international rescue operations for countries facing economic collapse. They would be available for new initiatives of any kind which Ministers accepted as desirable, whether on developmental, political or commercial/industrial grounds. To make it clear that they were not intended solely for emergencies, we think it would be better to term these amounts the "unallocated reserve" rather than the "contingencies margin".

THE AID AND TRADE PROVISION

60. In addition to the general contingency margin, there has for the last two years been the Aid and Trade Contingency Provision (ATCP). This is an arrangement under which 5 per cent of the bilateral aid programme is not allocated in advance to countries, but reserved for projects of industrial and/or commercial significance which are also acceptable on developmental grounds. The ATCP (or ATP as we suggest it be known in future) has proved [illegible] as a cost-effective means of responding to commercial opportunities [illegible] notice in countries which either [illegible]rd [illegible]rs

Page 21, paragraph 60, line 6

After "grounds" insert new sentence as follows

"The arrangement is thus not a contingency provision in the normal sense and we suggest that the word 'contingency' be dropped from its title."

61. The Aid and Trade Working Party (ATWP) have prepared a report summarising the operation of the scheme in its first two years and making proposals for its future operation. Their report is being submitted separately to Ministers. It will be convenient simply to summarise here its main conclusions with which we agree:-

a. the ATP should continue to be available in support of the aims summarised in paragraph 60;

b. its use should be consistent with our policy of strengthening the International Consensus on Export Credits;

c. the administration of ATP, including the selection of projects, products and markets for ATP support, should be improved so as to maximize the commercial and industrial benefits and guard against any recurrence of over-commitment.

62. The ATWP have made no recommendations as to the volume of the provision for the future. We recognise that the need for ATP should diminish in time provided that arrangements for giving the aid programme a more industrial and commercial orientation are effective. Because of existing commitments this effect is not likely to be felt significantly before 1982/83. In these circumstances an increase in ATP for 1980/81

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and 1981/82 would help meet the situation, but we recognise the constraints which arise both from the pressure of existing commitments and cuts in public expenditure generally and the size of the aid programme in particular. Nevertheless we believe it to be important for a separate Aid and Trade provision to be maintained for the time being at the maximum level consistent with the constraints on the aid programme as a whole. The level for 1980/81 is being considered within the context of the Aid Framework, and the level for 1981/82 will be similarly considered. The subsequent levels would need to be determined in the light of progress towards greater industrial and commercial orientation of the aid programme as a whole, which might most conveniently be examined as part of the aid strategy exercise in the autumn of 1981.

PLANNING AND MANAGEMENT

63. The task of planning and managing the aid programme involves four main areas of decision-making; annual review of the aid strategy; the aid framework; preparation of country policy papers; and day-to-day programme management, including project selection. These procedures, which already entail varying degrees of interdepartmental consultation, have all been carefully reviewed with a view to ensuring that political and industrial/commercial considerations are brought to bear at every relevant stage. The paragraphs which follow set out the arrangements which will apply in future.

64. The aid strategy. Each autumn, in the light of Ministerial decisions on the level of the aid programme, and taking account of the views of other Departments as expressed in the Joint Aid Policy Committee (JAPC) the Minister for Overseas Development will prepare a strategy paper for the Foreign and Commonwealth Secretary to circulate to Ministerial colleagues, focussing on policies and priorities of the aid programme during the last 3 years of the PES period (policy for the first year having been determined by the previous year's decisions). An annex to the strategy paper will show, in summary form, proposed allocations for the major spending programmes.

65. The aid framework. On the basis of Ministerial decisions on the strategy paper and summary proposals, a detailed aid framework will be prepared in the first quarter of the following year. It will be built up from bids made by ODA Departments in consultation as appropriate with

the political wing of the FCO, the Treasury, the Departments of Trade and of Industry and the Bank of England. The complete framework as agreed by the JAPC will be submitted for Ministerial approval before the end of April. At the same time there will be a paper from the ODA giving details of firm forward commitments and near-commitments over the PES period, the remaining room for manoeuvre and potential allocations under consideration at the planning stage.

66. Feedback into the aid strategy. As a basis for a more selective use of aid in support of the United Kingdom's industrial/commercial policy objectives set out in paragraphs 20 and 21, the Department of Industry and the Department of Trade will provide the FCO with guidance on priorities between different product and project areas and markets taking account of: relative capacity and resource utilisation in the United Kingdom; future growth in demand; viability of United Kingdom suppliers; United Kingdom commercial strategy; new project and commercial opportunities and their importance to particular companies; and, for overseas mining projects, the raw material supply situation for United Kingdom industry. This guidance will need to be modified periodically to take account of changes in the industrial scene.

67. Country Policy Papers (CPPs). The Country Policy Paper, which establishes British aid policy towards the country concerned, is an interdepartmentally agreed document (in future the DOI are to be associated with this). Together with the country's allocation in the aid framework, the CPP forms the basis on which the ODA is authorised to commit and implement the programme within delegated authorities agreed with the Treasury. CPPs are generally revised every two years.

68. Programme Management. Day-to-day management of the aid programme is carried out by the ODA, though there is informal consultation with other Departments, notably the Treasury and the Department of Trade. Large projects are cleared formally with other Departments before being put to the Projects and Evaluation Committee who in turn recommend to the Minister for Overseas Development whether they should be approved. In future the Departments of Trade and of Industry will be associated with the presentation of projects to the Projects and Evaluation Committee. In addition there will be continuous consultation between the ODA and the Departments of Trade and of Industry on any project

opportunities, changes in priorities as they occur, tactical priorities in the use of aid and strategies to be adopted in relation to major markets or sectors. It ia also agreed that, in order to improve the flow of information to industry about aid assisted business -

- bilateral aid opportunities will be publicised through the Export Intelligence Service

- a compendium will be prepared by ODA based on the quarterly returns showing projects and consultancies agreed with the recipient governments by country, sector and the projected year of start.
  (A similar document is produced by the European Development Fund).

THE NEXT STEPS

69. The fact that overseas aid policy is under review has been announced in Parliament with an indication that there will be a further announcement. Thus when Ministers reach conclusions on the review some form of Parliamentary announcement may be necessary. The options are a Written PQ answer, an Oral Statement, or a White Paper. If Ministers accept our recommendations, we suggest that the changes, which are essentially of emphasis and machinery rather than a radical new departure, would be sufficiently important to warrant an Oral Statement to Parliament, but not a White Paper.

Cabinet Office

19 December 1979

ANNEX A

AID AND FOREIGN POLICY

Note by the Foreign and Commonwealth Office

INTRODUCTION

1. This note examines how aid can be used as an instrument of foreign policy to sustain our political relationships with the developing countries, both individually and collectively. It also considers how our aid policy affects relations with our Western partners who are also aid donors.

THE FRAMEWORK FOR FOREIGN POLICY

2. Britain, like other Western countries, has a strong interest in avoiding a serious deterioration over the next decade in the world environment in which our foreign policy aims are pursued. One serious threat to this environment is the increasing gap in living standards between rich and poor. Certainly in absolute terms the gap will continue to widen. If the richer countries of the world were seen to be withdrawing their support for the poorer, antagonism between these two

groups of countries could deepen to hostility with harmful consequences for Western interests. The results of this hostility could be, for example, irresponsible actions by those developing countries which have, or can achieve, a nuclear capability, amounting to threats to Western security; difficulties over supplies of minerals and other essential raw materials; and uncompensated expropriation and other restrictions on Western economic interests.

3. Prospects for developing countries over the next decade are generally poor, and are particularly bleak for the low income countries. The middle income countries, who can call on the commercial banking system, may be able to achieve, for the most part, adequate growth rates and levels of per capita income, though some will on occasion suffer economic setbacks. The World Bank forecast that per capita incomes in this group will grow on average at 3% per annum or more through the 1980s and that by 1990 they will average some $1,400 at 1975 prices, compared with $9,000 or more in industrial countries. For the low income countries, the outlook is much worse. In this group per capita incomes, which now average around $150 are forecast to grow much more slowly - by 2.7% per annum for the group as a whole and by only 1% in Africa - reaching only $200 by 1990. The World Bank estimates are based on assessments which could prove to be optimistic, in which case the prospects for the poorest will be worsened.

4. Western aid programmes alone cannot have a decisive effect in improving this situation. Other sources, notably trade flows and private investment, can make a greater or more efficient contribution. But aid has a part to play, particularly in those poorer countries who cannot afford to borrow from

private sources and need help before they can benefit from expanded trade. Aid therefore remains essential for the achievement of any degree of progress by many developing countries, as well as being an embodiment of the interest and concern of the developed world.

FRUSTRATING COMMUNIST PENETRATION

5. Western aid programmes also have an important part to play in reducing communist penetration. The attraction of the Soviet Union and other Communist countries for the Third World has nothing to do with aid, on which their performance is derisory. It lies rather in their anti-Imperialist posture and even more in the practical military help the Russians, Cubans and others have been prepared to provide. It is however significant that communist penetration has not generally taken place in countries where the previous metropolitan power, together with other Western donors, has maintained a sizeable aid programme over a number of years. Aid programmes have helped in building up links, both politically and economically, which reduce the attractions of the communist system, diminish its prospects for expansion and promote in certain areas a trading system not based on state control. Conversely the sudden withdrawal of Western aid can have the opposite effect: Dulles' refusal to finance the Aswan Dam led to many years' domination of Egypt by the USSR.

THE COLLECTIVE WESTERN EFFORT

6. The long term foreign policy aims outlined in the last four paragraphs are shared by all Western donor countries.

This mutuality of interest has been reflected in the development of a consensus among the major Western donors on the importance of aid in international affairs. This consensus covers targets which the Western donors should strive to reach and the ways in which aid programmes both bilateral and multilateral should be structured. It is generally agreed that it is in the Western interest to increase aid flows and that particular attention should be devoted to the poorest countries. Crucial to this consensus is the acceptance by all donors that they should participate in the Western aid effort according both to their means and to the scale of the interests they have at stake. One aspect of this is that particular donors are expected to take prime responsibility for countries with which they have special links.

7. The United Kingdom participates in the series of discussions between developed and developing countries known as the North/South Dialogue. The Western aid record is one of the points adduced by Western countries in discussion as evidence in the North/South Dialogue of their concern for the Third World. It helps to resist unwelcome pressures from the latter for schemes harmful to Western interests.

8. In theory, the UK could withdraw from the consensus on aid, sharply reducing her official development assistance in the process. The consequences of such a course would however be serious. The UK would be singled out for concentrated attack by the Third

World in international discussions, while certain developing countries could make our lower aid performance the excuse for actions damaging to our bilateral interests. Other Western nations would also exert severe pressure on the British Government, for instance at Summit Meetings, not to take unilateral action of this sort. Our fellow donors would resent the fact that Britain, as an ex-imperial power, was shirking its share of the burden, and would be unlikely to take our part in answering criticism from the Third World. We should be involved in acrimonious discussions with our Community partners especially, which would make it harder to reach satisfactory solutions on our other European problems.

MULTILATERAL OR BILATERAL

9. So far as these common Western aims are concerned, both bilateral and multilateral aid have a role to play. The response of the West as a whole is important. Multilateral programmes administered by responsible agencies can at times be more effective than a combination of bilateral programmes. A particular strength of the multilateral agencies lies in their power to exert pressure on recipients to adopt appropriate Western-oriented economic policies, without attracting criticism of "neo-colonialism" towards individual Western donors. Our belief in the efficacy of the World Bank group has led us to accept a high level of contractual commitments extending several years ahead. Likewise, we are contractually bound to contribute, at a fixed level, to the aid programmes of the European Community. We support the objective of using aid to build up the relations of the Community;

as a whole, with developing countries, and are working to improve the distribution of Community aid in order to meet our own interests more closely.

10. While multilateral aid is effective in promoting our general interests, more specific British interests are better served through bilateral aid. This can often clearly be seen to be British, and we can expect to derive credit from such aid. Moreover, we are free to direct bilateral aid to those countries and in those forms which we prefer. The effect of bilateral aid on our political relationships with specific countries is examined in the following paragraphs.

THE COMMONWEALTH

11. Britain's relations with developing Commonwealth countries, both collectively and individually, are closer than those with the rest of the Third World. A common history has resulted in the concentration of British trade and investment in Commonwealth countries, and in extensive migration flows both to and from Britain. The emergence of the Commonwealth as an organisation with a membership covering all regions of the world and all stages of economic development, has provided an opportunity for us to exert our influence in a way that can have an impact on the world as a whole.

12. Aid is an important instrument in maintaining relationships with Commonwealth countries. They look first to us, rather than to others for assistance and we, because of the common ties of

language, education, habits of thought and of business, are particularly well qualified to supply this assistance effectively. Our aid programme stems from our direct responsibility for these countries in the pre-Independence period. Our remaining dependencies are still a first charge on the aid programme. Aid has played a significant role in bringing former colonies to independence and smoothing the transitional period. Following independence British aid has contributed to the economic success achieved by some Commonwealth countries, and for others British aid remains an important factor in development. Some examples of Commonwealth countries where British aid has helped to sustain political relationships are examined below.

(a) Malaysia and Singapore, which have been significantly helped since independence by British aid, are now economically thriving and adopt, in general, helpful and sensible attitudes in international discussions.

(b) In Africa our aid programmes to several countries have undoubtedly contributed to stable development, to close links with Britain, and to constructive and helpful attitudes in international affairs:

(i) Some - for example Malawi, Botswana and Swaziland - which have received considerable UK aid either in total, or in proportion to their size, have shown very good or even spectacular growth rates.

(ii) In Kenya British aid has not only helped to diversify the economy but also, through the land transfer programme,

assisted in smoothing the path from white to black rule. Without this scheme for the purchase by Africans of farmland formerly owned by whites the political evolution of the country would have been much less easy.

(iii) Zambia's development as a major copper producer has been greatly assisted by British aid, which has influenced its political attitudes. In particular the arrangement in 1978 whereby HMG agreed to provide a £20 million copper purchase loan, which helped the Zambian Government to counter her serious economic difficulties, was a factor in deterring President Kaunda from turning to the Eastern bloc for further arms purchases and an increased Cuban presence.

(c) It is arguable - though difficult to prove - that our considerable aid programmes in the poor countries of South Asia - India, Sri Lanka and Bangladesh - have made a contribution to the stability of the region and containment of Soviet penetration. For the present at least these countries are relatively peaceful and firmly within the Commonwealth, in contrast for example to the instability of (non-Commonwealth) Afghanistan.

13. These examples show that our aid has been used, with some effect, to buttress good political relations with Commonwealth countries. But neither Britain nor any other Western donor has had total success, and political relations can at times be difficult

even with major aid recipients, eg Pakistan, a former member of the Commonwealth. In such cases we have normally concluded that the extent of our interests and ties with the country concerned is such that cutting off or cutting down aid, as a sanction, would only make matters worse. Except in rare and flagrant cases, such as Uganda under Amin, we have preferred to maintain our aid programme if on a reduced scale, in the hope that its long term effect will facilitate a return to more friendly attitudes by the recipient; as has happened, for example, in Sri Lanka.

14. France, the other major ex-colonial power, also concentrates its bilateral aid on its former territories, chiefly in Africa. These form a less populous and more homogeneous group than the Commonwealth and France devotes more resources to aid than we do. French influence on these countries is strong and France can normally rely on consistent political support from them. The French Government is convinced that their massive aid programme contributes greatly to this. But the French have also had their difficulties. The use of aid as a sanction against Guinea led to a very long period of bad relations, while France has not been able to prevent irresponsible or unhelpful behaviour by, for example, Madagascar or the Central African Empire.

OTHER LONG TERM RECIPIENTS

15. Most of the remainder of British bilateral aid goes to countries where the extent of our long term interests has been similar to those with Commonwealth countries. We have aided Jordan,

the Sudan and (more modestly) Egypt as a reflection both of our close historical links with these countries and of our concern to influence developing political stability in the Near East. Our aid to Jordan has been particularly successful from this point of view. Nepal remains a major aid recipient while the recruitment of Gurkhas is needed for the British Armed Forces.

AID TO SECURE IMMEDIATE POLITICAL ADVANTAGE

16. In addition to the pursuit of long term interests, British bilateral aid can be used - often as part of a collective Western effort - to gain immediate political benefit or to ward off imminent threats. Examples of aid used for these purposes are:

(a) The British aid programme in Indonesia helped to restore good relations after the end of Confrontation.

(b) Western and Community programmes of aid for Portugal after 1974 succeeded in preventing economic collapse and thus propping up a democratic regime in a country of political and strategic importance.

(c) In Turkey, British aid, together with that of other Western donors is being used to help counter serious economic problems which have threatened Turkey's continued membership of NATO.

(d) Priority is being given in Britain's aid programme to countries with influence on a Rhodesian settlemement; both in Africa (including the Front Line States) and Bolivia as a member of the Security Council.

17. Aid can be effective in obtaining the short term benefit desired and, particularly given the uncertain world economic situation,

some short term flexibility in the aid programme is needed to respond to new demands. However, the benefits of aid may often only be obtained if aid is continued or repeated, and if it is given in a form which the recipients perceive to be appropriate. There is therefore a risk that new commitments undertaken for immediate political reasons may, over time, reduce the amount available for countries where our long term interests are greater.

SUMMARY AND CONCLUSIONS

18. This paper has argued that:

(a) The economic prospects for many developing countries, including the poorest, are bleak. The Western aid effort helps to mitigate the hostility generated by awareness of the gap between rich and poor; and to frustrate the advantage which this might give to the Soviet Union and its allies.

(b) The collective Western effort is what counts in this context. Britain's contribution to it is scrutinised by fellow-donors and recipients alike, and British interests would suffer if we tried to opt out. Multilateral and bilateral aid are both needed.

(c) Bilateral aid is one instrument, among many, for promoting good relations with those developing countries where our interests are extensive and we are well placed to pursue them. This has meant concentrating mainly on Commonwealth recipients, where we have had some success.

(d) Aid can also be used effectively to secure immediate political advantage. But the benefits may often be lost unless aid is sustained or repeated. There is a risk of distorting the balance of the aid programme. But we need flexibility to respond to sudden threats to our interests and to changing patterns in external interests.

ANNEX B

AID AND INDUSTRIAL POLICY

Note by the Department of Industry

A sound manufacturing sector is crucial for the future. The aid programme inevitably affects industry through the surrender of domestic resources and through its effect on overseas sales. The real resource cost of the aid programme depends principally on its size and terms but the way in which aid is administered can significantly influence the extent of offsetting benefits.

Current Industrial Background

2. Manufacturing companies have over the last decade or so been subject to a particularly difficult economic environment. This has included high and erratic levels of inflation and interest rates, recently combined with a high level of sterling. These hazards have been compounded by market imperfections, which constrain the level of output achievable at any given rate of inflation. Imperfections in the labour market may lead to high levels of unemployment for certain types of labour and in certain areas extending over a long period. Imperfections in the capital market may also frustrate activity if, for example, private interests fail to take a long enough view or are too risk averse.

3. Government policies are aimed at improving the general economic environment, especially by reducing inflation, and reducing market imperfections. Such policies are bound to take time to work through. In the short and medium term, their effect may be to reduce output. For instance, pressure to reduce public expenditure will force up the costs of industrial inputs supplied by nationalised industries, and monetary objectives presently require very high interest rates.

4. The sharp cut-back in manufacturing investment in the UK and other developed countries has led to serious under-utilisation of capacity in the heavy engineering and capital goods sectors. Developing countries now account for a much higher proportion of sales opportunities for these sectors. With suppliers in most developed countries in a similar situation, competition for orders in the developing world has become sharper with deployment of aid often playing a crucial part in deciding the companies to whom the available orders go. In circumstances where there is a large surplus of capacity over demand, the level of capacity utilisation between competing companies becomes even more significant in deciding their relative level of economic pricing.

The company which can maintain the most efficient production flow will have a stronger competitive price position. It follows that gaining an order can have a sharp double effect in terms of improving the winner's production loading whilst correspondingly denying work to competitors, and so putting the former in a stronger competitive position for subsequent orders.

Objectives

5. Industrial/commercial objectives for aid may vary. In present circumstances, the prime objective in this sphere is to contribute to output over the next few years by providing a flow of additional orders to particular manufacturing activities. The benefit of such orders arises predominantly from their effect on the composition of demand. If aid-directed demand can be brought to bear in instances where there are imperfections in the labour market or in financial markets, constraints on supply may be eased, permitting an increase in the level of output achievable at a given general rate of inflation.

6. Although care has to be exercised in selecting domestic capacity to which tied aid should be directed, in present circumstances heavy engineering and capital goods sectors should provide candidates for which support is justified. For example, the UK has traditional strength in supplying process plant, power plant and railway systems and there is a prospect of growth in demand for these products, but unless unit costs are kept down through securing export orders, UK companies in these sectors will decline in competitive strength.

7. The use of aid can be especially important when the majority of industrial country governments provide aid finance or other subsidies for major projects so that, without support, UK firms would be at disadvantage. In these circumstances, given the problems of creating or re-opening manufacturing capacity and of re-establishing marketing presence, in certain product and project areas there is justification for maintaining activity in UK industry during the period when an abnormally high proportion of sales opportunities require aid finance to match the competitive conditions created by the use of aid by other donors. There will clearly be limits to such support, depending upon the duration of these conditions, the viability of the enterprises and the non-price competitive strength of the product.

8. The second major industrial/commercial objective for aid is to assist in safeguarding vital raw material supplies for British industry. Recent experience

shows the extreme volatility in the supply and price of raw materials. Interruptions in supply would have serious disruptive effects on industrial output and competitiveness. The Department of Industry keeps under close review the supply position on raw materials for which the UK is heavily dependent on a limited number of politically unstable sources. The discovery and exploitation of new sources of supply is constrained by the high infrastructure costs and political risks in developing countries, by the long lead-times for opening a new mine (8 years or so) and the risks involved in ventures whose viability is predicated on increases in raw material prices. A recent interdepartmental report has established that the risk of, an interruption of supplies of the key minerals on which the UK is inescapably dependent - particularly Southern African minerals - justifies taking political initiatives with a view to ensuring the continuity of those supplies. The minerals indentified in the report are chrome manganese, vanadium, platinum, cobalt and antimony. If the Government is intending to give aid anyway and it can be used in ways which both meet other objectives and also increase the security of raw material supply to British industry, it makes sense to do so.

Means

9. Whilst there may be some benefit to industry from aid-giving based on exclusively developmental and political objectives, the full industrial/commercial potential will only be realised if these objectives are deliberately and consistently taken into account in the detailed administration of aid. This would involve a number of changes.

10. The objective of increasing UK output basically requires that any given aid expenditure should generate additional orders and the higher the ratio of aid to additional business, the greater the potential benefit. But it is also important, given supply constraints on the domestic economy and the objective of overcoming imperfections of the kinds discussed above, that a far greater proportion of tied aid should be directed to particular product and project areas.

11. As far as bilateral aid is concerned, the basic technique for achieving "additionality" is to require recipients to spend the aid on British goods and services. This is known as "tying" aid and some 76% of all bilateral aid is tied. However, studies suggest that a substantial amount of tied aid was spent on goods which the recipient would otherwise have purchased with free-foreign exchange. Taking account of this "switching" effect, it is estimated that bilateral aid has created additional demand for British goods and services of about 60% of expenditure. The basic requirement for increasing industrial/commercial benefit is therefore to reduce "switching". This can be done by increasing the proportion of project aid, which is inherently less prone to switching, and also by negotiating aid to apply to specific orders not expected otherwise to come to British companies.

12. At best, however, action to reduce switching could, by itself, only achieve a 1 : 1 ratio of aid to additional demand. (In practice it would be less because of, for example, the requirement of some countries for non-project financial aid which is bound to have a significant "switched" component). However there are a number of other ways in which a higher than 1 : 1 ratio can be achieved.

13. Aid can be negotiated to apply either to part of a project on the understanding that other procurement for the project would be done in the UK or to one order where this creates a prospect of further business being placed in the UK. Again the scope for this is not unlimited. In particular, account would need to be taken of the impact of such bargaining on our relations with the Government of the recipient country and of the extent to which that Government was able and willing to influence the award of particular orders, for which in some cases the purchaser would be a private sector body.

14. Another way of increasing the additional business generated by aid is to provide aid to countries with free-foreign exchange and for products for which there is potential future demand in those countries, particularly if the product is not already known in the market. For example, aid could be used to facilitate the market launch of System X, Prestel, Teletext, fast train or urban transport systems, space satellite commercial systems and hydro-electric stations. In all these cases the UK has a developing capability to be deployed in a highly competitive but rapidly growing world market.

15. A number of attempts have been made to investigate the econometric evidence about relationships between aid and future levels of exports to a market. However, aid is only one factor affecting trading performance and both the way in which it is negotiated (eg to ensure "additionality") and also the particular business selected would determine its effectiveness in trade promotion. Accordingly, it is not surprising that no significant relationships have been demonstrated. However, this does not invalidate the proposition that the appropriate use of aid can have a beneficial trade effect.

16. As to multilateral aid, since business is open to competition by companies in all donor countries, the scope for focusing the effects on particular industrial activities is negligible.

17. The objective of safeguarding raw material supplies for British industry could be assisted by using aid to stimulate the discovery and exploitation of deposits of those raw materials for which UK supplies seemed particularly vulnerable.

18. At present British aid, though not that of our competitors, is largely limited to assisting developing countries with initial prospecting and there is no systematic attempt to allocate resources according to our own requirements. Indeed British aid can at present reduce the sources of raw material to British industry by assisting developing countries with projects for processing their own raw materials, but other donors in similar circumstances have made the continuation of raw materials supplies to their own industries a condition of aid for such projects.

19. Possible ways of serving this objective include:-

(a) concentrating aid on areas and schemes offering the best prospects of securing minerals of special interest to the UK and in countries favourably disposed to the UK;

(b) providing aid for feasibility studies after prospecting has found mineral deposits meeting criterion (a) above;

(c) providing aid for infra-structure associated with the exploitation of such deposits (finance for mining projects themselves is not advisable both because of the high cost and also because the private sector should be able to finance a viable mining project);

(d) seeking to obtain preferential access by UK companies to the exploitation of deposits; and

(e) where aid is requested to finance local processing of a raw material from a source which presently supplies the UK, making continued supply to the UK a pre-condition of British aid.

CONCLUSION

20. Industrial/commercial objectives have major implications: for example, for the proportion of expenditure as between multilateral and bilateral aid; within bilateral aid, for the relative proportions of aid that should be focused on particular kinds of industrial activity; for the geographical distribution of aid, and for the way aid is negotiated. Hence improvement in the procedures for inter-departmental consultation on the allocation of aid and increased flexibility in allocation are required to ensure the maximum industrial/commercial benefit consistent with other policy objectives. The Department of Industry could provide a continuing flow of information on priorities between different product and project areas on the basis of the criteria set out above.

DOI

13 December 1979

ANNEX C

AID POLICIES OF OTHER DONOR COUNTRIES

Note by the Foreign and Commonwealth Office

Introduction

1. This paper documents the Western 'consensus' on aid; considers the factors that shape other donors' aid policies; and examines the influence of commercial factors on other donors' programmes.

I. THE "CONSENSUS"

2. For twenty years the Western donors in the Development Assistance Committee (DAC) of the OECD, and its predecessor, have sought to compare their experience and respective efforts against uniform tests, to carry forward their collective thinking about the development process and the role of aid, and to prepare common views on relevant questions under discussion with the developing countries (LDCs). Regular reviews of each donor's performance and policies by the rest serve to identify points of difference and to exert leverage for what is seen as improvement. This process has in recent years been greatly strengthened by the growth of the World Bank which, through its operational role (not least as leader in most country aid consortia and consultative groups) and its powerful analytic capacity, has progressively led the way in reassessing both what is needed and how it should be done. A good deal of the resulting doctrine has been incorporated in successive texts agreed in negotiation with the LDCs.

3. Though these results reflect a consensus rather than an identity of views, there has increasingly emerged a measure of agreement about the growth, shape and direction that Western aid efforts ought to take. This consensus at its most fundamental covers (a) volume - that aid should increase; (b) quality - that certain standards of concessionality should be met, and that efforts should be made to reduce conditions militating against developmental value (eg tying, offshore procurement only and excessive project aid); and (c) distribution - that aid should increasingly go to the poorer countries, which cannot service external finance on non-concessional terms, that so far as practicable attention should also concentrate on certain key sectors, and that support for multilateral institutions should rise.

4. Because each donor is sovereign, and DAC understandings are not reached as a rule by a process of negotiation, the pace and extent of each donor's movement in the direction of the different elements of the consensus vary. Nevertheless, the leverage of other donors combined with LDC nagging has produced over a period some quite significant shifts. The most striking example is the successful pressure on Japan to increase aid, to improve its financial terms, and to raise her share in multilateral agencies like IDA (a process which however still has a considerable way to go).

5. Each donor naturally approaches the DAC and IBRD perception of the lessons learned from the past, and the policies appropriate for the future, from the standpoint of its own existing aid pattern. This pattern is very largely determined (as will be seen below) by its historic and cultural ties and - especially where the ties are weak - its perception of macro-economic and geo-political interests; these can include, as for some Scandinavian countries and the Dutch, a perception of political interests coinciding largely with developmental criteria. Some donors, including some with large programmes - France is the best example - administer their aid through several independent departments. Others attempt to impose a coherent pattern on their efforts and to balance conflicting interests within it.

6. Even where aid programmes differ tremendously (notably in country distributions) there can be scope for their progressive adaptation to fit the changing prescriptions of the consensus. For example, France can shift its aid to the poorer Francophones, and Japan can soften its terms for the poorer countries in S E Asia. The scope is smallest where histroic ties lead to high concentration: eg Belgium will inevitably have a "good" distribution because of the poverty of its ex dependencies, and Australia and New Zealand conversely a "bad" one.

Volume

7. Even though the US and Switzerland have rejected it as a concept, the 0.7 per cent GNP aid target established by the present international development strategy has been accepted as a marker by other Western donors. There is more general agreement - including the US and Switzerland - that donors should try to increase their aid effectively and substantially in real terms. While only four donors (the Dutch and the three main Scandinavians) passed 0.7 per cent in 1978 a comparison of donor performance in 1970 with that in recent years (Table 1) shows evidence of improvement. There was no consistent trend in volume in the early part of the decade, but there have been increases in every year since

1974 (Table 2). On the basis of the known intentions of donors the DAC Secretariat estimate that the real value of Official Development Assistance should increase by $4-5bn (20-25 per cent) over the years 1978 to 1982.

Table 1: Net ODA as per cent of GNP - All DAC Members

	1970	1976	1977	1978 (provisional)
Median	0.32	0.41	0.39	0.39

Table 2: Net ODA from All DAC Donors in 1970 prices

Year	$m		Index 1970 = 100
1970	6,807		100
1971	7,388		108
1972	7,536		111
1973	6,718		99
1974	6,672		98
1975	7,121		104
1976	7,139		105
1977	7,381		108
1978	(7,898)	provisional	(116)

Terms

8. The financial terms of ODA commitments by DAC Members have softened considerably during the last ten years and are now highly concessional (Table 3).

The 1978 DAC Recommendation on Terms and Conditions of Aid (a revision of a Recommendation dating from 1972) raised the overall grant element target to 86 per cent and stipulated that flows to the Least Developed should either be in grant form or on highly concessional terms.

Table 3: Financial Terms of DAC ODA Commitments

	1970	1977	1978
Overall grant element: %	84.1	89.3	90.0
Share of grants in ODA: %	63.3	72.1	73.4
Median grant element to LLDCs: %	90.0	98.7	..

9. At the Ministerial Meeting of the Trade and Development Board in March 1978 Members of the DAC agreed to consider retroactive terms adjustment (RTA) of their outstanding ODA loans to the Least Developed (and to some other poor countries). Virtually all have since announced or implemented specific undertakings in this connexion. (The agreement on RTA is a good example of the consensus in action: the more reluctant members of the group were drawn along by the readiness of the proponents to act, and eventually followed their example).

10. Movement on other quality aspects has been less steady. In particular steps towards untying have been frustrated because of lack of support for a multilateral arrangement, though Germany, Sweden (and to a small extent Japan) have acted unilaterally. DAC countries however subscribe to the common understanding on local cost aid, and this form of assistance has steadily increased in recent years.

Distribution

11. Most DAC Members accept that the geographical distribution of their aid should give particular attention to the needs of Low Income countries, and all agree that special priority should be accorded to the Least Developed

Countries (LLDCs). Median data for net disbursements to the Least Developed are shown in Table 4. Overall commitments to this group rose from 7 per cent in 1970 to 16 per cent in 1977. Commitments and disbursements to the larger grouping of Low Income countries (defined for DAC purposes as those with a GNP per caput of $400 or less in 1976) have also increased in proportionate terms, though the trend is much less pronounced. The share of the Low Income countries in commitments was 58 per cent in 1977 (as against 54 per cent in 1970) and is expected to rise significantly as donors implement their declared policies of increasing allocations to this group.

Table 4: Aid to Least Developed Countries by DAC Members

	Net ODA to LLDCs as per cent of total bilateral aid ODA			
	1970	1976	1977	1978
Median	11.6	16.9	22.3	(25.4)

12. Multilateral aid shares in total distribution have also risen as the role of the IFIs (including the Community) has expanded, on the whole faster than donors' total aid programmes.

Table 5: Contributions to Multilateral Institutions as a per cent of total net ODA - all DAC Members

	1970	1976	1977	1978
Median	22.7	34.0	36.9	38.9

Table 6: IDA Replenishment Increases 1969/71 - 1978/80

	Second (FY69-71)	Third (FY72-74)	Fourth (FY75-77)	Fifth (FY78-80)
Per cent increases	7.4	41.6	43.4	41.3
Real Increase Per Annum	2.4	12.3	12.8	12.2

II. INDIVIDUAL CHARACTERISTICS

13. While the general direction in which aid policies have developed is clear, each donor's programme is highly individual, responding to its own priorities as it sees them. The following notes pick our some of the main characteristics of the programmes of the six other main donors whose aid, with that of Britain, reached 80 per cent of the DAC total in 1978, or nearly $20bn. In order of size these were the United States, France, Germany, Japan, Britain, the Netherlands and Canada. Among other information the notes draw on assessments provided by HM Embassies in Paris, Bonn and Washington of the political factors which the French, Germans and Americans take into account in their aid programmes.

United States

14. A major part of the US bilateral aid programme is overtly political: large sums of Security Supporting Assistance go to eg Israel and Egypt to bolster US policy in the Middle East. Development assistance is regarded as being in a separate category, with the criterion of need at the head of the priorities used to determine its disposition. In practice, however, there are important political factors here too, including, with the advent of the Carter administration, the human rights record of potential recipients, The Americans feel that a developmentally respectable aid programme is important in dealing with the attempts of the Group of 77 in the UN and elsewhere to squeeze concessions from the developed countries.

France

15. French aid is administered by different departments. The country distribution is conditioned very largely by political and cultural factors, with dependencies accounting for about half the bilateral total and Francophone countries for most of the remainder. The share of non-Francophone countries was only 9 per cent of French net ODA in 1977. The significance that is attached to cultural objectives is reflected in the share of bilateral aid devoted to technical co-operation (45 per cent of net bilateral ODA in recent years - higher than any other major donor) and the heavy emphasis within this area of assistance on teachers and education. The French openly admit that they regard aid as an instrument of political, in particular foreign, policy: for example, French aid is conceived as having an important role to play in promoting European influence in Africa. There are signs of increasing French interest in the use of aid to exploit commercial and industrial opportunities. Given these preoccupations it is natural that the French should have a preference for bilateral over multilateral aid.

Japan

16. The Japanese bilateral programme has traditionally been concentrated on the 'co-prosperity sphere' of the Far East and South Asia, with Indonesia as the principal beneficiary; but more recently aid has also been given to some Middle Eastern and African countries. In the face of sustained international pressure Japan has taken steps in the last two years to increase her aid programme and to liberalise its terms. Project aid is being progressively untied, more aid is being offered on grant terms, and the (dollar) value of disbursements is scheduled to double over the period 1977-80. Japanese technical co-operation is constrained by language difficulties, and accounted only for 16 per cent of disbursements in 1977.

Germany

17. Germany, like Japan, has attracted criticism in recent years on grounds of a disappointing performance against the volume criterion. Efforts are now being made to achieve rapid increases in expenditure, and tentative information from the DAC Secretariat is that disbursements could grow to approximately $3.4bn in 1982, an increase of 40 per cent over 1978. Disbursements to Low Income countries accounted for a little over half the bilateral total in 1978 and those to LLDC's for almost one quarter. Foreign policy considerations play a significant role in the apportioning of German development assistance. Aid is seen as a means of promoting a stable and Western-oriented world, and, in particular, of countering East German influence in developing countries. Political interests are reflected in the choice of major recipients: in 1977 the ten largest included Yugoslavia, Egypt, Israel and Turkey, as well as Bangladesh, Pakistan and Tanzania. German aid policy is at present being reappraised. The practical implications are as yet unclear, but attention is being given to the relationship between the aid programme and domestic economic considerations and to the use of aid to exploit and safeguard raw material supplies.

Canada

18. Canada has a good record on volume and has made special efforts since 1975 to concentrate assistance on rural development in the poorer countries. There is a strong Commonwealth bias in the country distribution (Canadian activities in the Caribbean have been especially helpful in terms of our own policies for the region); but there is also an interest in the Francophone parts of the Third World. Canadian aid policy is at present being reviewed and its future complexion is unclear.

The Netherlands

19. The Netherlands is one of the four DAC Members who have met the 0.7 per cent volume target (the others being Norway, Sweden and Denmark). Aid expenditure has grown very rapidly - by 74 per cent in real terms between 1973 and 1978. The Government have now determined that it should represent the equivalent of 1.2 per cent of GNP, and in 1980 the aid budget will amount to approximately £940m (thus overhauling the British aid programme). Dutch aid is characterised by liberal terms and a distribution that gives a substantial share to ex-colonies (one quarter in 1977) and most of the rest to a dozen Low Income 'target countries'.

III THE PURSUIT OF COMMERCIAL ADVANTAGE

20. The changes in the pattern of aid noted above - the increasing proportion of ODA channelled to multilateral institutions, the shifting focus of aid towards the poorer countries and the softening of terms - show the increasing emphasis that is being placed on developmental criteria. The following paragraphs examine the evidence that other donors also use their aid programmes to pursue commercial and economic interests. Such an appraisal is far from easy because systematic evidence is hard to locate. Nevertheless certain conclusions can be drawn from internationally reported statistics and from the statements of individual governments. The following aspects of bilateral programmes of leading DAC members are considered:

(a) country distribution;
(b) sectoral distribution;
(c) procurement tying;
(d) mixed credit and special arrangements;
(e) raw materials.

(a) Country Distribution

21. The distribution of bilateral aid by the seven largest DAC donors is summarised by country income group in Table 7. Dependencies have been excluded from the analysis. The Canadian and British programmes give the smallest shares to the better off developing countries (ie those with a GNP per head of

over $1000 in 1976); and the Dutch programme falls into this category if aid to the former colony of Surinam is discounted. The comparative distribution prompts the question whether France, Germany, Japan and the United States allocate a higher proportion of their programmes to the richer developing countries in the belief that prospects for commercial follow-up orders are better there than in the poorer countries. The hypothesis would be that the more resources a recipient had to make future purchases without aid the greater the potential commercial benefits from aid to that country. But an analysis of who the richer countries are (Table 8) does not convincingly bear this out. The allocation of French and American aid to better-off recipients would seem to be explained largely by political interests and historical ties. German activity at this end of the income range appears to be motivated by a mixture of political and economic interests, and Japanese activity partly by economic consideration and partly by a wish to remain on good terms with oil-producing countries. To the extent that other donors' help for richer countries is commercially motivated there remains the question whether it is successful in this objective. The point is difficult to explore statistically, but some limited research by the ODA has yielded no evidence of a positive relationship between aid flows and trade shares for the main recipients of French, German, Japanese and US bilareral aid in this income group over the period 1971-76. Moreover, given the very large general purpose commercial borrowing to which they have access it seems unrealistic to suppose that richer developing countries would show any marked interest in tied British aid; and to the extent that they took up such offers there would be a high risk that the aid would simply be switched, ie replace goods they would otherwise have bought with hard money on purely commercial grounds.

Table 7: Allocation of Gross Bilateral ODA by Main DAC Donors: 1977 (excluding dependencies)

Per cent	Country Income Groups:			
	LLDCs	All under $400	$400 - $1000	Over $1000
United Kingdom	23	69	26	5
France	19	56	26	18
Germany	20	52	23	25
Japan	10	52	31	17
Netherlands	25	62	13	25
USA	9	41	20	38
Canada	27	72	23	5

Table 8: Selected DAC Donors: Main Recipients excluding dependencies in Income Category of over $1000: Gross ODA 1977

$m

France		Germany		Japan		USA	
Algeria	73	Yugoslavia	63	Iraq	70	Israel	787
Djibuti	34	Turkey	54	Iran	35	Cyprus	44
Gabon	25	Israel	48	Brazil	29	Chile	35
Greece	4	Brazil	35	Algeria	14	Panama	24
Turkey	3	Algeria	27	Singapore	10	Lebanon	22
						Brazil	22
	140		227		158		934
Total to over $1000	182		318		181		1089

(b) Sectoral Distribution

22. Generally speaking the sectoral distribution of bilateral aid is determined by the developmental priorities of recipient countries, though some donors follow a policy of deliberate concentration on certain sectors. The Canadian programme is focused on transport and forestry, while the development assistance programme of USAID concentrates on food and nutrition, health and population, and education and human resource development. Most other donors

have in recent years declared a particular interest in agriculture and rural development and there is a growing interest in energy. Germany has announced energy, appropriate technology and agriculture as areas of particular concern, and Japan has similarly identified human resources, food and nutrition and energy. Table 9 indicates that the German and Japanese programmes are biased towards public utilities and transport equipment, but it is not clear how far this reflects active promotion by these donors as against the influences of recipient countries. Those recipients who are in a position to exercise a degree of choice between donors may be expected to turn to Germany and Japan for aid assistance in sectors where exports from those countries have a competitive advantage, and IBRD procurement data show that Germany and Japan do possess such an advantage in those sectors.

Table 9: Sectoral Allocation of Bilateral Commitments (including Technical Co-operation): Main DAC Donors: Average 1976-77

per cent

	Public Utilities (incl transport)	Agriculture	Industry, Mining and Construction	Education and Health	Other Sectors
Canada	39	21	4	9	27
France	18	8	5	50	19
Germany	37	14	11	20	18
Japan	49	9	23	4	15
Netherlands	22	26	9	24	19
USA	16	28	16	20	20
UK	22	20	12	25	21

(c) Procurement Tying

23. Table 10 shows the extent to which the bilateral programmes of the eight largest DAC donors were untied in the period 1976-78 (no earlier statistics are readily available). The United Kingdom is well below the DAC average and is notably less liberal in this respect than France and Germany, two countries whose aid practices are often thought to have a pronounced commercial

orientation, and who might therefore be expected to follow a close-fisted approach to procurement. The Japanese proportion of untied aid is broadly equivalent to our own, but the Government's declared intention progressively to untie their bilateral aid will soon put Japan into a more favourable light on this criterion. It should be borne in mind that the statistics in Table 10, which are based on information about aid that is formally untied, may not tell the full story, since it is possible for donors to resort to various informal devices to ensure that some part of the untied portion of their aid is spent on their own exports.

Table 10: Tying Status of Bilateral ODA: Main DAC Donors: 1976-78

Gross disbursements

	Percentage Untied		
	1976	1977	1978
Canada	15	16	36
France	42	42	41
Germany	79	75	74
Japan	26	16	17
Netherlands	44	40	44
Sweden	71	78	87
UK	21	23	15
US	18	14	..
DAC average	36	36	..

(d) Mixed Credits and Special Allocations

24. The ECGD have recently completed a review of our knowledge of other donors' use of mixed credits. France is the major user of the technique. In 1978 the French notified 17 mixed credit agreements totalling £615m (£422m commercial credits, £193m aid credits) and reported that Treasury loans totalling £170m had facilitated exports of £340m-£425m ie 6-7 per cent of French capital goods exports or 1.5 per cent of total French exports. The recipient countries were mainly outside the traditional Francophone area, in the Far East, Central and South America, Western Europe and the Middle East. The French appear to be deliberately using the mixed credit technique outside their traditional Francophone markets to gain the maximum commercial leverage from the 9 per cent of their aid programme which goes to non-Francophone countries.

25. Japan ceased providing mixed credits in July 1976 but resumed them recently, and indicated that it intended to use them in the future. In the past, Japanese mixed credits have often been for projects in the natural resources sector.

26. The Netherlands and Germany both use their aid programmes to provide direct assistance to industry. The Dutch scheme represents about 5 per cent of the current value of the aid programme and is directed to unspecified 'industrial exports'. In 1978 the German Government introduced an item into the aid budget for measures in the field of programme assistance which are 'also of structural, employment-generating and conjunctural benefit' to the domestic economy. This represents a broadening of an initiative taken in 1976, under which part of the aid budget was earmarked for purchases from the German ship-building industry. The value of the special allocation was between 10 and 15 per cent of the aid budget in 1978 (10 per cent of cash authorisations and 15 per cent of commitment authorisations) and the principal items to be financed are ships and locomotives.

27. We have no evidence that other donors systematically subsidise particular industries from their aid programmes. Sweden has announced a scheme worth approximately £14m to promote ships for export to developing countries; but it is financed separately from the Swedish aid programme and is not sufficiently concessional in DAC terms to count as Official Development Assistance.

(e) Raw Materials

28. The security of supplies of raw materials is a common objective of three major donors: France, Germany and Japan. France and Germany consider that Africa has a key role to play in the raw materials context, and there is evidence that Japan, with an increasing aid programme in Africa, takes a similar view. It should be noted in this connexion that the interdepartmental Working Party on Procurement of Overseas Raw Material Supplies, which reported in December 1976, considered *inter alia* the role of government in ensuring that UK consumers were not disadvantaged with respect to consumers in other industrialised countries. Having reviewed the French, German and Japanese

measures, the Working Party concluded that "it is not clear how far these have succeeded in promoting a flow of investment to developing countries". In dealing with exploration grants, the Working Party's view was that "Assistance to mining projects in LDC's might be given as part of bilateral aid programme when such assistance ranks high amongst the priorities for that country's development. Otherwise, if such a programme was initiated it would fall to be administered by the Department of Industry and the finance for it would primarily be expected to be found within that Department's PESC allocation or be considered along with other outstanding claims on the contingency reserve".

29. More recently, in an exchange of Ministerial correspondence initiated by the Secretary of State for Industry on problems associated with UK dependence on imported minerals, the Secretary of State for Trade said that he did not believe that government action to stimulate additional exploration (still less to stimulate investment in new overseas mining capacity) was likely to be effective.

Other Considerations

30. The impression that other donors use their aid 'unfairly' to win commercial advantage may be due in part to the fact that in countries where another donor's programme is larger than our own, British goods financed on commercial terms may come into competition with others supplied from an aid programme. The likelihood of this will be greatest in countries where other donors have large programmes and we have none. No misuse of aid is involved in these circumstances, but it is easy to see how it prompts a belief in commercial guile on the part of other donors.

Foreign and Commonwealth Office

December 1979

ANNEX D

PROFESSOR BAUER'S VIEWS ON AID

Note by the Department of Industry and the Foreign and Commonwealth Office (Overseas Development Administration)

1 For many years Professor Bauer has been a persistent critic of aid. The most comprehensive exposition of his views is contained in his book, Dissent on Development, first published in 1971. The theses presented there have remained essentially unaltered in his subsequent writings.

2 Bauer's main theses can be stated as follows:

- aid is neither necessary nor sufficient for economic development;
- aid may finance low-productivity investment and have adverse effects on development;
- aid strengthens the centralization of power and planning in recipient countries;

I ECONOMIC DEVELOPMENT

(i) General

3 "Economic achievement depends primarily of people's abilities and attitudes and also on their social and political institutions. ... Foreign aid is ... indisputably not generally necessary or sufficient for advance from poverty." (Dissent, p 98).

4 Bauer states that all developed countries reached their present condition without foreign aid and that many developing countries have made rapid progress without aid (citing as an example Taiwan since 1964, when aid to that country ended). Thus aid is not necessary. Similarly he states that any amount of aid will not promote development if the population is not attached to values and customs conducive to material progress. So, according to Bauer, aid is not sufficient either.

5 There is no argument about Bauer's stress on the basic conditions required for material progress and hence his contention that aid alone is not sufficient. It is also true that aid has not always been a necessary condition for development, although Bauer discounts the possibility that the conditions under which today's

industrialized countries developed may be crucially different from those now facing developing countries. However, whether or not aid is necessary or sufficient for development, many people believe that it makes development less painful by reducing the amount of output which has to be diverted to investment rather than used for immediate consumption. In arguing against this view, however, Bauer states (a) that aid does not necessarily augment net capital resources in developing countries and (b) that it may actually impede development in a number of ways.

(ii) The Supply of Capital

6 "If all conditions for development other than capital are present, capital will soon be generated locally ... or ... will be available on commercial terms from abroad ..." "It is highly probable that without aid the governments of many underdeveloped countries would have borrowed more from abroad on commercial terms." (Dissent, pp97, 108).

7 Bauer suggests that aid displaces local savings. He states that foreign aid encourages the recipient government to impose extensive controls in the name of development planning; and to pursue inflationary policies since the amount of aid often depends on the balance of payments difficulties of these countries. These policies engender a widespread feeling of insecurity, which in turn discourages the local population from saving and investing internally and encourages export of capital.

8 Bauer also believes that aid could displace private inflows of capital. He argues that recipient governments are unlikely to borrow on commercial terms when they have the option of aid funds on concessional terms. He states that most recipients of foreign aid restrict the inflow of private foreign capital in the interests of planning.

9 It is true that some developing countries borrow in substantial amounts on private capital markets or attract private direct investment; but these are among a small group of richer developing countries (Brazil, Korea, Mexico, etc) or those with exportable oil. The great majority of developing countries (certainly those with per capita incomes of less than $400) are limited in their ability to borrow, and, as Table 1 (overleaf) shows, have not been large scale borrowers in the recent past. For these countries aid has been the main source of foreign finance.

Table 1

DISTRIBUTION OF PRIVATE INVESTMENT STOCK AND PRIVATE FLOW BY PER CAPITA INCOME OF RECIPIENT[1]

Country group (1976 p.c.i.)	No of countries	PODI stock per capita 1976 $	No of countries	Approx flow[2] of all private finance per capita (1974-77) $	No of countries	ODA 1974-77 per capita
Under 200$	18	9.2	25	1.7	25	21
200$ and under 400$	15	73.0	25	9.2	24	37[4]
400$ - under 600$	13	142.0	12	19.4[3]	13	43
600$ - under 800$	10	457.0	13	17.9	13	36
800$ - under 2000$	18	537.0	17	32.9	17	24

Source: DAC Chairman's Report 1978. Tables D3, D6 and E1. World Bank Atlas.

Notes

1 Countries under 2000$ pc in 1976 and excluding all OPEC countries and dependencies. The results are not significantly affected by excluding OPEC oil exporters.

2 Private flows are estimated by subtracting oda from all sources from net total flows from all sources. Although this picks up most private finance it also includes other official flows (OOF) which are largely official export credits. OOF flows are relatively small compared to the rest and official export credits are often used in support of private export credits and therefore have similar character.

3 Average private flow for 400$ - 600$ group excludes Liberia. If included the average rises to 40.5$.

4 Excludes W. Samoa. If included it raises averages to 84.

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10 Insofar as developing countries control inflows of private capital this cannot be attributable simply to the availability of foreign aid. Many factors - economic, social and political - can enter into the formulation of policy in this sphere.

11 The crucial question remains whether aid adds to the volume of investible resources in developing countries. As to the econometric evidence, studies of the particular question of the displacement of local savings, suggest there may be some limited substitution, but there is no clear evidence either way that aid displaces commercial finance and other private net inflows. A priori, aid however could well be seen as complementary to private investment in the long-term, by building up local infrastructure, which in developing countries generally has a pay-off period too long for private investors (foreign or local), in part because the profits enjoyed by the country as a whole may accrue to other user enterprises rather than to the investor. Bauer does not accept this view in general and points again to the historical experience of the industrial countries and some developing countries. However, he does recognise the potential importance of aid for infrastructure purposes in some sectors, of which he cites road-building as an example. Moreover, he acknowledges that aid has been a crucial factor in providing the basis for development, notably in Taiwan, where he says that aid in the 1950s helped to restore confidence at a critical time. Other examples could perhaps be mentioned, in particular Korea.

(iii) Low Productivity and the Adverse Effects of Aid

12 "The positive economic productivity of a piece of (aid) expenditure cannot be taken for granted. This ... is particularly relevant when the funds are spent by persons who neither bear the cost nor enjoy the economic return. In these conditions negative productivity is distinctly possible, especially when the funds are external gifts." "External doles ... tend to bias the development process in directions based on external prototypes which are often inappropriate and therefore damaging." "The flow of ... aid supports, underwrites and encourages ... many recipient governments (to) pursue courses of action which patently reduce the level of income or retard its increase ... for instance ... (expelling) the most productive groups of the population from their countries... These policies are not questioned by the advocates of aid." (Dissent, pp. 99, 101.)

13 Bauer's first contention here is that, because of its concessionality, aid induces the recipient to use it less productively than the same commercial finance. His evidence, such as it is, is selective and out of date; and he seems to be unaware of donors' stringent procedures for ensuring good use of concessional funds. As far as donors are concerned there is a significant amount of evidence on the yields of aid-financed projects. A recently-published evaluation of IBRD projects indicated that 91 per cent had been successful and, of 58 projects for which an economic rate of return could be calculated, all but six yielded a real rate of return of 10 per cent or more. On 54 projects passing through the ODA's Projects Committee (1974-77) the average expected real rate of return was 15 per cent. Recent thorough studies of the effects of British aid to Kenya, Malawi and Southern Africa by independent authors conclude that it has been clearly beneficial and explicitly state that the criticisms of Professor Bauer are not borne out.

14 This is not to deny that some aid projects are unsuccessful, but there is little evidence on the quality of investment financed by foreign private credits and the indirect evidence seems to contradict Bauer's thesis. The cases of serious misallocation of resources, default and rescue operations have not been confined to major aid recipients: indeed, they have occurred more frequently in countries which have borrowed excessive private finance, not aid finance (eg Ghana, Zaire and Turkey).

15 Donor agencies have long been concerned to deploy tax-payers' money to the maximum development advantage and have been under continuing public surveillance. The ODA have very stringent project appraisal procedures for scrutinizing the technical and economic merits of projects and schemes before approving aid expenditure. Although the finance may be offered as grants, the ODA requires a minimum positive rate of return for public sector projects which is set by the best that could be expected from marginal investment anywhere else in the recipient economy. Aid is also channelled into the private sector through programme loans and local development banks. In this case the ODA tries to ensure that concessional funds are on-lent at a commercial rate to private users. The ODA also monitors the implementation of projects - a safeguard that is not usually available to private lenders in these countries. The ODA's well-developed system of project appraisal is administered by staff on the ground in developing countries as well as in London and has no parallel for projects financed by private foreign banks alone. Moreover, a number of developing countries have been influenced by the ODA and the World Bank, especially in the improvement of their own domestic investment appraisal mechanisms.

16 Although the proposition is ultimately untestable, it could be argued against this that the profitability of projects financed by aid is no clear guide to its economic effect. Sound projects could simply be chosen by recipients from those they wished to pursue, so that, if aid happens to increase investible resources, it is unlikely to do more than permit additional marginal projects, about which donors can have little information.

17 Bauer's next concern is that aid biases the development process in directions based on inappropriate prototypes, specifically the transfer of western-type universities to developing countries. This is a very genuine concern of those involved in development but it is unfair to attribute to aid the main pressure to import inappropriate systems. Western-type universities, educational and legal systems were well developed before aid was involved and would almost certainly have occurred without aid. Indeed, although mistakes have been made, aid donors have often been the main force seeking to persuade developing countries to pursue standards more appropriate to their conditions and culture. Over the years the ODA has continually sought to provide aid for appropriate types of education, appropriate standards for roads, housing, health, etc, and appropriate technology. More recently, the major donors have sought to direct a higher proportion of aid to assisting poor people directly.

18 Bauer's other concerns under this heading can be dealt with more briefly. As to the expulsion of minorities, this is a sad fact of life, but it has nothing to do with aid, nor has its practice been confined to recipients of aid. Moreover, aid donors are patently sensitive to flagrant abuses of human rights (eg Uganda and Chile).

II CONCENTRATION OF POWER

19 "Foreign aid augments the resources of recipient governments compared to those of the private sector thereby promoting concentration of power in the recipient countries. This effect is much reinforced by the preferential treatment in allocation of aid of governments engaged in comprehensive planning, a criterion based, at any rate ostensibly, on the ground that such a policy is a condition of economic development." (Dissent, pp 106-107.)

20 Bauer considers that aid is given preferentially to developing country governments engaged in comprehensive planning, which in turn results in the politicization of economic life.

21 All governments plan to some extent and it is difficult to find any developing country government which does not take some sort of active role in the economy, but the extent to which aid reinforces this characteristic in developing countries is a matter for argument as is the effect of the degree of planning on development.

III SUBSIDIARY ARGUMENTS

22 Bauer criticizes a number of what he cites as subsidiary arguments in support of aid.

(i) Aid as redistributive taxation (Dissent, pp 115-120.)

23 Bauer states that "foreign aid is paid by governments to governments" and that it is "therefore partly regressive, because many taxpayers in donor countries are poorer than many people in recipient countries." And moreover, "this regressive aspect is increased in practice by the fact that foreign aid benefits better-off people within the recipient countries, notably members of the urban population ..."

24 Such assertions are extremely difficult to prove one way or the other, and Bauer does not attempt to do so. Moreover he implicitly recognizes this by adducing, as a Parthian shot, some well-known arguments relating to the problem of justifying redistributive taxation even within national boundaries.

25 Bauer dilates on the problem of international income comparisons, quoting extensively (pp 57-8) from an account of research done on the national income of Thailand. Of course statistical errors and biases arise, and donors are well aware of the problem of accurately comparing living standards internationally. Nonetheless it seems obvious that the majority of developing countries are so poor compared with donor countries that the situation is not significantly altered.

26 Bauer presents no evidence for the regressivity of aid. UK Household Expenditure Survey data, however, indicate that households with incomes below £4000 pa are not net contributors to the Exchequer. We have not looked at the data for other donor countries, but for the UK there would seem to be little evidence in support of Bauer's claim about regressivity at the donor end of the transfer.

27 That the richer groups in recipient countries may benefit from aid transfers has been a problem with which donors are also well aware. Since the publication of Bauer's book, however, donors have been designing their aid programmes in such a way as to minimise this anomaly, by directing aid more at the poorest developing countries and at the poorest groups within these. This has been reflected in an increase in aid projects situated in the rural areas, where the great majority of the poorest people live.

(ii) Aid as a moral duty (Dissent, pp 126-127)

28 Bauer's criticisms under this head are in part related to those ranged against the redistributive argument above. He states that "foreign aid is often advocated as if it were the discharge of a moral duty to help the poor ... but (that) the analogy with moral obligation fails (because) foreign aid is taxpayer's money compulsorily collected (and is hence) outside the area of volition and choice." This is his own value judgement which is not shared by everybody.

(iii) Aid and political strategy (Dissent, pp 128-130)

29 According to Bauer, the arguments that aid helps the political interests of the West and helps to preserve world peace are invalid.

30 As reproduced by Bauer, the former argument rests on the belief that, by promoting development, aid helps to keep the developing countries out of the Soviet bloc. Since, in Bauer's view, aid does not necessarily promote development, this argument obviously falls down. However, even if the development case were correct, Bauer feels that the conclusion does not necessarily follow, for reasons in part related to the very act of transferring resources by means of aid. He states that an inclination to accept communism is not dependent on living standards; and that, by promoting centralized and closely controlled economies, the operation of foreign aid tends to favour and strengthen governments which lean towards the Soviet bloc. Moreover, Bauer states that political advantage is unlikely to follow from aid since recipients are apt to resent the donors and to harbour suspicions of sinister motives. notably of political domination.

31 These points, inter alia, are discussed in Annex A, Aid and Foreign Policy.

IV PROFESSOR LIPTON

32 Professor Lipton's book, Why Poor People Stay Poor, has been cited as evidence that Professor Bauer's views on aid are echoed from the other end of the political spectrum. That book, however, is not primarily concerned with aid: nonetheless Professor Lipton's views on aid are germane in this context, since they form part of that body of opinion which led to the adoption of the strategy of "Aid to the Poorest", with its greater emphasis on rural development. In his view, donors should persist in their increased concentration of assistance to the rural and agricultural sectors, in spite of the difficulties which this throws up. While holding the view that there is a limit to what can be achieved unless recipient governments alter their priorities, Lipton nowhere suggests that aid is on balance harmful and should be reduced.

V CONCLUSIONS

33 Professor Bauer's criticisms of aid relate primarily to its implications for development. Bauer believes aid is generally ineffectual and in some cases positively harmful. But his principal conclusions are essentially the result of a priori hypothesis.

34 Such econometric work as has been done on relevant issues offers no conclusive results, and in the absence of clear objective evidence there is room for honest differences of opinion. For example, although Bauer tries to link aid to the less desirable characteristics of some recipient governments, there is no way of demonstrating a causal connection. But it is at least plausible that aid has generally promoted development, by adding to the stock of capital in recipient countries, and by financing worthwhile projects that might not otherwise have been conducted. In this regard there is evidence that aid has financed a number of profitable projects, even if its effect on recipient country output overall is unknown. Despite his general hostility, even Professor Bauer concedes aid may have been helpful to development in one or two cases.

35 Professor Bauer's views have a bearing on the administration of aid. They are an injunction to pay particular attention to possible adverse effects of aid and to take considerable pains to ensure that aid is efficiently used for developmental purposes.

Department of Industry/Overseas Development Administration
12 December 1979

ANNEX E

STATISTICAL TABLES

1. The Aid Programme and Central Government Expenditure 1970-78

2. Net Official Development Assistance 1968-78

3. World Aid Flows by Donor 1970-78

4. Public Expenditure on Overseas Aid:
   Gross Disbursements by Component 1970-78

5. Public Expenditure on Overseas Aid:
   Percentage of Gross Disbursements by Major Category 1968-78

6. Gross Bilateral Public Expenditure on Aid by Region 1968-78

7. Percentage Gross Bilateral Public Expenditure on Aid by Region 1968-78

8. Gross Bilateral Official Development Assistance by Recipient Country Group 1973-77

9. Low Income Countries of Importance in the UK Aid Programme

10. Low Income Countries which received less than £1 million of UK Aid in 1977

11. Higher Income Less Developed Countries with Import Markets of at least £1 billion in 1977

12. The Non-Arab Oil Exporters

13. The UK Bilateral Aid Programme 1976-78 (analysis of tied and untied aid)

14. The UK Multilateral Aid Programme 1976-78

15. UK Contributions to and Shares of Procurement from Certain International Agencies

16. Situation of the Fourth European Development Fund as at 30 June 1979

17. The 'Most Aided' Countries: Economic Performance in Relation to Average, 1970-77.

Table 1. THE AID PROGRAMME AND CENTRAL GOVERNMENT EXPENDITURE: 1970-78

£m

	Net aid programme	Total Central government expenditure	Net aid programme % of central govt exp
1970	186	17,676	1.05
1971	231	20,054	1.15
1972	240	22,509	1.07
1973	241	25,412	0.95
1974	304	32,595	0.93
1975	387	44,110	0.88
1976	469	50,550	0.93
1977	521	54,307	0.96
1978	676	62,519	1.08

Sources: British Aid Statistics - ODA

Financial Statistics - CSO

Table 2. NET OFFICIAL DEVELOPMENT ASSISTANCE : Current and Constant Prices

	Value (£m)		% of GNP at Current Prices	Volume Index (1968=100)
	Current prices £m	1975 Prices £m		
1968	173	382	0.41	100
1969	180	386	0.39	101
1970	186	375	0.36	98
1971	231	427	0.41	112
1972	242	417	0.38	109
1973	246	377	0.34	99
1974	307	381	0.37	100
1975	389	389	0.37	102
1976	462	377	0.38	99
1977	524	373	0.37	98
1978	632	410*	0.39	107*

Figures for Real Net ODA were obtained by applying the DAC ODA deflator converted to a sterling basis.

* Provisional

TABLE 3 WORLD AID FLOWS BY DONOR: 1970-78

Country	Net oda $m 1970	1974	1978*	Increase in net oda 1970 - 1978 %	Net oda as % of GNP 1970	1978*
Australia	202	430	491	143	.59	.45
Austria	11	59	156	1,318	.07	.27
Belguim	120	271	513	327	.46	.52
Canada	346	713	1,053	204	.42	.52
Denmark	59	168	386	554	.38	.75
Finland	7	38	56	700	.07	.18
France	971	1,616	2,689	177	.66	.57
Germany	599	1,433	1,984	231	.32	.31
Italy	147	216	240	63	.16	.10
Japan	458	1,126	2,215	384	.23	.23
Netherlands	196	436	1,072	447	.61	.82
New Zealand	14	39	55	293	.23	.34
Norway	37	131	355	859	.32	.90
Sweden	117	402	783	569	.38	.90
Switzerland	30	68	176	487	.15	.20
UK	447	717	1,212	171	.36	.39
USA	3,046	3,437	4,857	59	.31	.23
Total DAC Countries	6,807	11,302	18,293	169	.34	.32
Concessional flows from:						
OPEC Countries+	500	3,020	4,800		-	1.5
Centrally planned+ economies	780	1,110	640		-	-
World concessional flows to developing countries	8,087	15,432	23,733			

* provisional

\+ estimates

TABLE 4 PUBLIC EXPENDITURE ON OVERSEAS AID: GROSS DISBURSEMENTS BY COMPONENT: 1970-78

£m at current prices

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
TOTAL PUBLIC EXPENDITURE ON OVERSEAS AID	210.0	218.1	272.9	282.2	284.5	351.9	436.7	513.6	589.3	726.0
BILATERAL	176.9	198.2	242.5	233.3	221.9	266.8	305.2	376.3	387.6	542.1
Financial Aid	133.3	152.6	189.1	171.9	149.3	190.4	208.9	249.0	260.9	388.9
Project	64.9	67.9	103.2	99.4	105.2	109.3	119.9	131.0	137.3	187.4
General	51.8	54.7	80.3	79.1	84.3	74.5	92.7	105.1	101.4	155.3
CDC	13.1	13.2	22.9	20.3	20.9	34.7	27.3	25.9	35.9	32.2
Non-Project	68.4	84.7	85.9	72.5	44.1	81.1	89.0	118.0	123.6	201.5
Budgetary Support	14.6	16.2	5.7	5.9	5.9	6.2	8.9	7.7	10.4	14.4
Pensions etc	1.9	2.3	.9	.3	0	1.5	.4	.6	.5	0
Debt Reorganisation	7.5	-	9.8	18.1	1.4	9.5	9.4	13.2	25.5	5.8
Disaster Relief	1.4	2.9	3.7	4.6	1.1	1.1	1.5	1.3	1.0	2.8
Fertiliser Programme	-	-	-	-	-	-	2.8	12.1	7.0	1.0
Food Aid	4.7	4.4	4.3	.4	0	7.2	10.3	8.9	7.6	15.0
Programme (import) Financing	37.6	58.8	58.6	40.6	34.7	52.4	54.8	72.9	71.5	132.1
Other	.7	0	3.0	2.6	1.1	3.3	.8	1.3	.1	30.4
Grants (excl TC)	42.9	40.3	44.6	42.2	33.7	47.7	68.9	169.2	181.2	265.6
Loans	90.4	112.3	144.5	129.7	110.6	142.7	140.0	79.7	79.8	123.4
Technical Cooperation	43.6	45.6	53.4	61.4	72.6	76.4	96.3	127.4	126.6	153.2
Regional Programmes	34.8	35.2	38.9	44.7	54.4	56.5	69.0	89.0	92.9	111.7
Functional Programmes	8.8	10.4	14.5	16.7	18.2	19.9	27.2	38.4	33.7	41.5

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Table 4 (continued)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
MULTILATERAL	33.1	20.0	30.4	48.9	62.6	85.1	131.6	137.2	201.7	183.9
Financial Aid	26.6	13.1	23.3	38.9	47.3	68.5	99.0	109.4	161.6	126.8
UN Agencies	4.5	4.2	6.8	14.7	8.2	2.8	7.5	1.6	4.5	3.0
World Bank Group	20.2	7.8	15.9	22.1	31.5	49.2	66.0	69.3	88.9	64.4
Reg: Dev: Banks	1.9	1.2	0.6	2.1	4.6	4.7	6.4	12.4	13.5	13.0
EEC	-	-	-	-	3.0	11.9	18.9	26.1	57.8	42.3
Other	-	-	-	-	-	-	.2	-	-	-
Technical Cooperation	6.5	6.8	7.2	10.0	15.3	16.6	32.5	27.8	40.1	57.1
UN Agencies	6.4	6.6	7.0	9.3	14.2	15.0	29.8	23.6	34.4	47.1
Other	.1	.2	.2	0.7	1.0	1.7	2.7	4.2	5.7	10.0

Note: Figures may not add to totals because of rounding.

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Table 5. PUBLIC EXPENDITURE ON OVERSEAS AID
PERCENTAGE OF GROSS DISBURSEMENTS BY MAJOR CATEGORY

Percentage

	BILATERAL AID				MULTILATERAL AID	TOTAL
	Project Aid (inc CDC)	Non Project Aid	Technical Cooperation	Total		
1968	(31.7)	(38.0)	(20.1)	(90.6)	(9.1)	(100.0)
1969	30.9	32.6	20.8	84.2	15.8	100.0
1970	31.1	38.7	20.9	90.8	9.2	100.0
1971	37.8	31.5	19.6	88.9	11.1	100.0
1972	35.2	25.7	21.8	82.7	17.3	100.0
1973	37.0	15.5	25.5	78.0	22.0	100.0
1974	31.1	23.0	21.7	75.8	24.2	100.0
1975	27.5	20.4	22.1	69.9	30.1	100.0
1976	25.5	23.0	24.8	73.3	26.7	100.0
1977	23.3	21.0	21.5	65.8	34.2	100.0
1978	25.8	27.8	21.1	74.7	25.3	100.0

TABLE 6

GROSS BILATERAL PUBLIC EXPENDITURE ON AID BY REGION

£m

REGION	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
AFRICA											
Eastern Africa	25.3	22.5	24.8	26.4	24.6	26.4	31.0	27.8	43.8	38.4	61.1
Northern Africa	0.1	0.1	0.5	0.2	0.5	2.0	2.6	3.3	3.2	4.0	4.0
Southern Africa	28.1	26.2	17.0	20.3	22.4	23.1	28.6	34.5	41.4	53.1	79.1
Western Africa	15.4	14.1	19.0	16.9	11.6	13.2	12.4	13.4	17.4	19.3	29.8
Regional Africa	*	0.3	*	- 0.1	*	*	0.1	0.1	0.1	0.3	0.6
Total Africa	68.9	63.1	61.3	63.8	59.0	64.7	74.7	79.2	106.0	115.2	174.6
of which: Commonwealth	67.6	61.0	58.7	60.8	55.4	58.6	65.6	66.6	87.8	98.3	145.8
AMERICA											
Central America (inc Carib)	12.0	13.4	15.2	25.1	19.7	21.0	21.6	26.6	24.2	18.4	37.4
South America	3.8	4.5	5.2	4.1	4.7	3.8	7.9	12.8	14.2	13.8	15.1
Regional America	0.1	-	-	-	0.4	0.6	0.7	0.7	1.6	0.6	0.8
Total America	15.9	17.9	20.4	29.2	24.8	25.4	30.2	40.2	40.0	32.9	53.4
of which: Commonwealth	14.3	15.7	18.5	27.5	21.9	21.6	22.9	23.6	25.3	18.0	44.4
ASIA											
East and S E Asia	11.9	14.9	19.9	23.8	24.0	23.8	24.1	19.7	11.8	22.1	16.4
Southern Asia	58.3	52.9	61.1	80.3	81.3	61.7	92.0	94.9	137.4	137.9	194.8
South Western Asia	5.3	3.6	2.7	4.8	3.6	4.1	3.8	9.9	7.4	8.2	7.3
Regional Asia	0.1	-	-	-	0.3	0.3	0.2	0.2	0.3	0.2	0.2
Total Asia	75.5	71.4	83.7	108.8	109.2	89.9	120.1	124.7	156.9	168.5	218.7
of which: Commonwealth	66.5	61.5	74.7	93.3	77.0	66.5	93.5	93.3	133.6	116.8	174.5
: Joint Com/Non-Commonwealth					0.3	0.3	0.2	0.2	0.3	0.2	0.2

TABLE 6 (cont)

GROSS BILATERAL PUBLIC EXPENDITURE ON AID BY REGION

£m

REGION	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
EUROPE											
Total Europe	13.2	7.9	13.9	17.3	12.5	9.8	7.7	7.4	6.5	10.0	17.1
of which: Commonwealth	7.3	4.8	8.7	11.2	5.5	7.3	6.8	5.9	6.0	6.7	6.1
OCEANIA											
Total Oceania	6.1	7.8	8.3	8.5	10.9	13.8	14.1	19.4	25.5	24.2	30.4
of which: Commonwealth	6.1	7.8	8.3	8.5	10.9	13.8	14.1	19.4	25.5	24.2	30.4
UNSPECIFIED											
Total	7.2	8.8	10.5	14.8	17.0	18.3	20.3	34.3	41.4	36.9	48.0
of which: Commonwealth	4.3	5.8	7.2	12.5							
: Joint Comm/Non-Com					17.0	18.3	20.3	34.3	41.4	36.9	48.0
ALL DEVELOPING COUNTRIES											
Total	186.6	176.9	198.2	242.5	233.3	221.9	266.8	305.2	376.3	387.6	542.1
of which: Commonwealth	166.1	156.5	176.0	213.7	170.6	167.8	202.7	208.8	278.2	263.9	401.2
: joint Comm/Non-Com	-	-	-	-	17.3	18.6	20.5	34.6	41.8	37.1	48.2
: Non-Commonwealth	20.5	20.5	22.1	28.8	45.4	35.5	43.6	61.8	56.4	86.5	92.8

TABLE 7

PERCENTAGE GROSS BILATERAL PUBLIC EXPENDITURE ON AID BY REGION

%

REGION	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
AFRICA											
Eastern Africa	13.6	12.7	12.5	10.9	10.5	11.9	11.6	9.1	11.6	9.9	11.3
Northern Africa	0.1	0.1	0.3	0.1	0.2	0.9	1.0	1.1	0.9	1.0	0.7
Southern Africa	15.1	14.8	8.6	8.4	9.6	10.4	10.7	11.3	11.0	13.7	14.6
Western Africa	8.3	8.0	9.6	7.0	5.0	5.9	4.6	4.4	4.6	5.0	5.5
Regional Africa	*	0.2	*	*	*	*	*	*	*	0.1	0.1
Total Africa	36.9	35.7	30.9	26.3	25.3	29.2	28.0	26.0	28.2	29.7	32.2
of which: Commonwealth	36.2	34.5	29.6	25.1	23.7	26.4	24.6	21.8	23.3	25.4	26.9
AMERICA											
Central America (inc. Carib)	6.4	7.6	7.7	10.4	8.4	9.5	8.1	8.7	6.4	4.7	6.9
South America	2.0	2.5	2.6	1.7	2.0	1.7	3.0	4.2	3.8	3.6	2.8
Regional America	0.1	-	-	-	0.2	0.3	0.3	0.2	0.4	0.2	0.1
Total America	8.5	10.1	10.3	12.0	10.6	11.4	11.3	13.2	10.6	8.5	9.9
of which: Commonwealth	7.7	8.9	9.3	11.3	9.4	9.7	8.6	7.7	6.7	4.6	8.2
ASIA											
East and S E Asia	6.4	8.4	10.0	9.8	10.3	10.7	9.0	6.5	3.1	5.7	3.0
Southern Asia	31.2	29.9	30.8	33.1	34.8	27.8	34.5	31.1	36.5	35.6	35.9
South Western Asia	2.8	2.0	1.4	2.0	1.5	1.8	1.4	3.2	2.0	2.1	1.3
Regional Asia	0.1	-	-	-	0.1	0.1	0.1	0.1	0.1	0.1	*
Total Asia	40.5	40.4	42.2	44.9	46.8	40.5	45.0	40.9	41.7	43.5	40.3
of which: Commonwealth	35.6	34.8	37.7	38.5	33.0	30.0	35.0	30.6	35.5	30.1	32.2
: Joint Com/Non-Com					0.1	0.1	0.1	0.1	0.1	0.1	*

TABLE 7 (cont)

PERCENTAGE GROSS BILATERAL PUBLIC EXPENDITURE ON AID BY REGION

%

REGION	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
EUROPE											
Total Europe	7.1	4.5	7.0	7.1	5.4	4.4	2.9	2.4	1.7	2.6	3.2
of which: Commonwealth	3.9	2.7	4.4	4.6	2.4	3.3	2.5	1.9	1.6	1.7	1.1
OCEANIA											
Total Oceania	3.3	4.4	4.2	3.5	4.7	6.2	5.3	6.4	6.8	6.2	5.6
of which: Commonwealth	3.3	4.4	4.2	3.5	4.7	6.2	5.3	6.4	6.8	6.2	5.6
UNSPECIFIED											
Total	3.9	5.0	5.3	6.1	7.3	8.2	7.6	11.2	11.0	9.5	8.9
of which: Commonwealth	2.3	3.3	3.6	5.2	-	-	-	-	-	-	
: Joint Com/Non-Com	-	-	-	-	7.3	8.2	7.6	11.2	11.0	9.5	8.9
ALL DEVELOPING COUNTRIES											
Total	100	100	100	100	100	100	100	100	100	100	100
of which: Commonwealth	89.0	88.5	88.8	88.1	73.1	75.6	76.0	68.4	73.9	68.1	74.0
: Joint Com/Non-Com	-	-	-	-	7.4	8.4	7.7	11.3	11.1	9.6	8.9
: Non Commonwealth	11.0	11.6	11.2	11.9	19.5	16.0	16.3	20.2	15.0	22.3	17.1

TABLE 8

Gross Bilateral Official Development Assistance by Recipient Country Group (classified by income level): 1973-77

£ thousand

	1973	1974	1975	1976	1977
Classified by per capita income in 1976					
$280 or less	109,529	144,471	149,560	221,404	209,085
$281 to $550	34,294	37,225	45,826	51,754	60,278
$551 to $1,135	29,118	31,214	43,521	40,458	47,069
$1,136 or more	26,834	30,120	21,107	21,154	19,566
Other and regional organisations	21,722	18,232	38,379	46,314	39,777
	221,497	261,262	298,393	381,084	375,775

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TABLE 9

LOW INCOME COUNTRIES (LESS THAN $520 PER HEAD IN 1975 PRICES) OF IMPORTANCE IN THE UK AID PROGRAMME

	UK Gross Aid Disbursements 1977 £M	Total Merchandise Imports 1977 $M	Average annual (real) growth rate of imports 1970-77 %	UK Merchandise Exports 1977 £M	UK Share of imports 1977 %	Average annual (real) growth rate of UK exports 1970-77 %
India	79.8	6593	3.1	277.9	7.4	-1.7
Bangladesh	22.0	1181	-5.0	30.6	4.5	0.4
Kenya	16.4	1284	-2.4	118.6	16.1	4.9
Pakistan	25.8	2447	4.4	121.1	8.6	3.0
Tanzania	6.7	748	-1.3	72.3	16.9	2.3
Zambia	12.6	828	-5.7	80.2	16.9	-5.3
Sri Lanka	4.0	695	-4.9	28.0	7.0	-11.1
Malawi	16.5	235	3.0	18.4	13.7	- 2.9
Solomon Is	7.9	n/a	n/a	n/a	n/a	n/a
Sudan	5.0	1060	6.5	86.8	14.3	11.8
Botswana	5.7	n/a	n/a	3.0	n/a	1.6
New Hebrides	5.1	n/a	n/a	0.6	n/a	-22.2
Nepal	4.3	168	n/a	2.8	2.9	- 1.7
Egypt	3.6	4808	15.2	190.4	6.9	26.5
Ghana	2.8	1100	2.0	100.1	15.1	3.6

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TABLE 10

LOW INCOME COUNTRIES WHICH RECEIVED LESS THAN £1M OF UK AID IN 1977

	UK Gross Aid Disbursements 1977 £M	UK Gross Aid Disbursements 1974-77 £M	Total Merchandise Imports 1977 $M	Average annual (real)growth rate of imports 1970-77 %	UK Merchandise Exports 1977 £M	UK Share of imports 1977 %	Average annual (real)growth rate of UK exports 1970-77 %
Angola	0	0	340	- 7.4	10.5	5.4	25.6
Benin	0.012	0.155	246	5.0	10.0	7.1	17.1
Cameroon	0.483	1.715	764	4.9	20.8	4.8	6.4
Congo	0.078	0.252	282	6.9	3.5	2.2	14.2
El Salvador	0.308	1.663	950	8.2	11.8	2.2	10.1
Honduras	0.598	1.152	580	1.0	7.0	2.1	7.8
Liberia	0.196	0.533	464	3.1	21.6	8.1	3.6
Madagascar	0.121	0.327	350	-5.3	3.1	1.5	1.6
Mauritania	0.017	0.042	207	8.4	4.4	3.7	21.5
Morocco	0.045	0.123	3194	11.9	68.0	3.7	12.5
P.New Guinea	0.791	1.269	492	n/a	10.1	3.6	3.5
Philippines	0.165	0.805	4270	4.4	92.9	3.8	10.0
Senegal	0.141	0.510	670	5.1	9.5	2.5	12.2
Togo	0.041	0.212	284	8.4	16.1	9.9	10.7
Uganda	0.474	1.209	241	-10.4	21.3	15.4	-12.7
Upper Volta	0.055	0.153	209	8.0	3.7	3.1	33.3
Yemen A R	0.921	2.741	1040	n/a	28.4	4.8	27.2
Zaire	0.091	0.356	610	- 8.8	18.2	5.2	10.5

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TABLE 11

HIGHER INCOME LDCs (BETWEEN $520-2000 PER HEAD) WITH IMPORT MARKETS OF AT LEAST $1 BN IN 1977

	UK Gross Aid Disbursements 1977 £M	UK Gross Aid Disbursements 1974-77 £M	Total Merchandise Imports 1977 $M	Average annual (real)growth rate of imports 1970-77 %	UK Merchandise Exports 1977 £M	UK Share of Imports 1977 %	Average annual (real)growth rate of UK exports 1970-77 %
Brazil	1.213	8.674	13229	7.9	255.3	3.4	2.9
Korea Rep of	0.246	1.182	10811	12.4	75.9	1.2	9.6
China (Taiwan)	-	-	8522	13.5	61.6	1.3	20.7
Turkey	3.278	5.947	5694	13.1	210.2	6.4	13.4
Mexico	0.847	2.619	5489	3.9	79.0	2.5	3.8
Portugal	0.025	0.292	4963	0.9	299.6	10.5	0.7
Malaysia	10.099	27.038	4633	6.1	147.9	5.6	0.2
Argentina	0.024	0.333	4162	-0.2	130.3	5.5	4.6
Syrian A R	0.030	0.095	2657	17.4	57.2	3.8	23.6
Chile	2.073	3.791	2035	-3.8	39.5	3.4	-5.2
Peru	3.570	6.969	1911	4.8	34.6	3.2	5.0
Tunisia	0.207	0.709	1825	12.9	28.4	2.7	16.3
Ivory Coast	0.086	2.095	1752	9.5	25.2	2.5	17.3
Lebanon	0.123	0.246	1631	-0.1	48.7	5.2	-13.1
Colombia	1.229	5.995	1563	-0.8	41.7	4.7	0.2
Guatemala	0.003	0.264	1079	7.8	16.7	2.7	3.5
Costa Rica	0.777	7.838	1021	3.7	10.6	1.8	- 5.2

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TABLE 12

THE NON-ARAB OIL EXPORTERS

	UK Gross Aid Disbursements 1977 £M	UK Gross Aid Disbursements 1974-77 £M	Total Merchandise Imports 1977 $M	Average annual (real) growth rate of imports 1970-77 %	UK Merchandise Exports 1977 £M	UK Share of Imports 1977 %	Average annual (real) growth rate of UK exports 1970-77 %	Per Capita GNP 1977
Algeria	0.183	0.868	7126	18.4	98.7	2.4	10.8	1110
Ecuador	2.037	8.070	1508	12.3	59.5	6.9	14.3	790
Indonesia	5.646	17.074	6230	18.4	86.7	2.4	16.2	300
Nigeria	5.997	17.330	11306	26.3	1068.3	16.5	18.2	420
Venezuela	0.006	0.061	10353	14.0	176.1	3.0	8.9	2660

TABLE 13

UK BILATERAL AID PROGRAMME 1976-78 ANNUAL AVERAGES (£mn)

Programme	(a) Total	(b) % Switched	(c) Effectively Tied	(d) Effectively Untied	(e) Resource Cost of (d)	(f) Total Cost (c+e)
I Tied: of which	325	19	262	63	75	337
Project	102	10	92	10	12	104
Non-Project	89	60	36	53	63	99
Technical Cooperation	134	0	134	0	0	134
II Untied: of which	94	-	-	94	113	113
Project	40	-	-	40	48	48
(CDC)	(17)	-	-	(17)	(20)	(20)
(Local Cost)	(11)	-	-	(11)	(13)	(13)
Non-Project	52	-	-	52	62	62
(Debt Relief)	(22)	-	-	(22)	(26)	(26)
Technical Cooperation	2	-	-	2	2	2
TOTAL (I+II)	419		262	157	188	450

Notes: Column (c) shows the amount of nominally tied aid less estimated "switching", hence the direct impact on exports.

Column (d) shows the amount of nominally tied aid "switched". Thus (c) and (d) equals (a).

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TABLE 14

UK MULTILATERAL AID PROGRAMME 1976-1978 ANNUAL AVERAGES (£mn)

Programme	(a) Contribution	(b) Procurement	(c) Procurement less Contribution	(d) Resource loss/gain of (c) (ie 0.2c)	(e) Total Resource Cost (a-d)
IBRD Group	74	85	+11	+2.2	72
of which					
IBRD + IFC	9	47	+38	+7.6	-1
IDA	65	38	-27	-5.5	70
Regional Banks	13	40*	+27	+5.4	8
of which					
As.D.F.	5	22	+17	+3.4	2
I.A.D.B.	5	3	-2	-0.4	5
C.D.B.	2	1	-1	-0.2	2
EEC	42	7	-35	-7.0	49
of which					
E.D.F.	24	7	-17	-3.4	27
Food Aid	16		-16	-3.2	19
Technical Cooperation	43	56**	+13	+2.6	41
of which					
U.N.D.P.	20	26+	+6	+1.2	19
TOTAL	172++	188	+16	+3.2	169

Notes: * Includes procurement from Ordinary Capital Resources of the Asian Development Bank.

** Includes an estimate for procurement from agencies other than U.N.D.P. assuming a similar procurement to contribution ratio.

+ Average for 1974-76.

++ Total excludes £3 million of "Other U.N." contributions.

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TABLE 15

UK CONTRIBUTIONS AND PROCUREMENTS IBRD, ADF, IDA, UNDP

IBRD

Total UK contribution to IBRD paid-in capital = $313.7m (= current value of original subscription)

Year	Total foreign procurement $m	UK procurement $m	UK share of foreign procurement (%)
1972	906.3	109.1	12.0
1973	860.0	76.4	8.9
1974	1065.9	88	8.3
1975	1403.9	115.0	8.2
1976	1707.4	103.3	6.1
1977	1773.6	99.0	5.6
TOTAL	7,717.1	591.0	7.66

Asian Development Bank

Total UK contribution to paid in capital = $32m

Year	Tfp	UK p	UK share of tfp (%)
1972	124.8	7.3	5.85
1973	137.5	7.3	5.31
1974	316.8	12.2	3.85
1975	300.5	4.9	1.63
1976	294.5	7.9	2.71
1977	235.0	9.0	3.82
TOTAL	1409.1	48.6	3.45

IDA

Year	UK contribution	Tfp	UKp	UK share of tfp (%)
1972	51.2	224.3	35.3	15.7
1973	52.4	381.3	54.0	14.2
1974	80.1	562.0	76.2	13.6
1975	115.2*	808.2	74.5	9.2
1976	151.9*	902.8	106.3	11.8
1977	192.0	875.2	84.4	9.6

*NB Ida disbursement figures for 1975 and 1976 are artificially inflated by the accelerated drawdown on UK's IDA Notes. Future draw downs will be faster on US Notes than on those of other donors (including UK).

TABLE 16

SITUATION OF THE 4TH EDF AS AT 30 JUNE 1979

"ACP" and "Third Countries" excluded

in 000 units of account

Country	Works Contracts			Supply Contracts			Techncial Cooperation /Consultants			Total		
	Amount	% 30.6.79	% 31.12 78	Amount	% 30.6.79	% 31.12 78	Amount	% 30.6.79	% 31.12 78	Amount	% 30.6.79	% 31.12 78
Germany	31.394	13.57	14.60	23.363	28.70	31.95	30.062	24.80	25.08	84.819	19.55	20.37
Belgium	26.388	11.41	12.73	4.132	5.08	3.70	14.429	11.90	12.62	44.949	10.36	11.13
France	98.216	42.47	46.50	27.131	33.33	32.04	24.451	20.17	17.85	149.798	34.52	36.45
Italy	59.181	25.59	18.71	7.488	9.20	7.71	16.294	13.44	13.96	82.963	19.127	15.55
Luxembourg	-	-	-	-	-	-	2.797	2.31	2.73	2.797	0.65	0.72
Netherlands	7.279	3.15	3.51	2.667	3.28	3.31	11.574	9.55	10.55	21.520	4.96	5.33
Denmark	-	-	-	41	0.05	0.07	4.501	3.71	3.62	4.542	1.05	0.96
United Kingdom	8.814	3.81	3.95	16.569	20.36	21.22	14.684	12.12	11.98	40.067	9.23	9.07
Ireland	-	-	-	-	-	-	2.427	2.00	1.61	2.427	0.56	0.42
Total	231.272	100	100	81.391	100	100	121.219	100	100	433.882	100	100

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TABLE 17 'MOST AIDED' COUNTRIES: ECONOMIC PERFORMANCE IN RELATION TO AVERAGE, 1970-1977

10 countries receiving most aid in relation to their GNP

	(1) Average annual aid flow (£m) 1969-76 (Note 1)	(2) Average aid/GDP ratio 1969-76	(3) Growth rate of GDP 1970-77
1 Mali	67.7	10.1	3.5
2 Niger	76.0	9.6	-1.8
3 Chad	42.7	7.8	0.8
4 U. Volta	42.0	7.5	3.3
5 Rwanda	42.7	7.4	3.9
6 Mauritania	24.7	6.1	3.3
7 Central African Rep	29.1	6.1	0.9
8 Lesotho	18.6	5.9	5.2
9 Malawi	41.5	5.2	6.3
10 Tanzania	130.8	4.2	4.5
Average weighted by country GDP			3.6
Average, all 37 'least developed countries' (Note 2)			3.2

10 countries receiving most UK official aid in relation to their GDP

	(4) Average official UK aid flow 1973-77 (£m) (Note 1)	(5) Average ratio official UK aid to GDP 1973-77	(6) Average growth rate of GDP 1973-77
1 Botswana	8.2	4.0	8.4
2 Malawi	19.2	2.4	6.3
3 Lesotho	4.8	1.5	5.2
4 Zambia*	15.2	0.7	2.8
5 Yemen PDR	2.7	0.45	5.1
6 Nepal	5.2	0.35	2.8
7 Kenya	12.4	0.31	6.2
8 Jordan*	5.7	0.27	7.0
9 Sri Lanka	4.6	0.16	3.1
10 Tanzania	4.5	0.14	4.5
(* not 'least developed countries')			
Average (1-10), weighted by country GDP			4.8
Average, all 37 'least developed countries'			3.2

Notes

1 'Aid' in columns 1 and 2 is net disbursement of concessional assistance by DAC countries in the years stated, and in columns 4 and 5 it is net disbursement of official UK assistance in the years stated. The source for these aid data is OECD, Geographical Distribution of Financial Flows to Developing Countries (Paris 1978), pages 2-6, supplemented by ODM, British Aid Statistics 1973-77 (HMSO 1978) table 22; for all other data it is World Bank, World Development Handbook 1979 (Washington, August 1979) appendix tables 1 and 2.

2 The 'least developed countries' are those with an income per capita less than £300 in 1977.

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Overseas Aid

NBPM

Rhod – 24/9

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

24th September, 1979

Dear Peter

EFFECT ON RHODESIA POLICY OF CUTS IN THE 1979-80 OVERSEAS AID PROGRAMME

Thank you for your minute of 17th September.

I am sure you are right in instructing the ODA to monitor their expenditure closely so that emergency action can be taken if necessary, in good time to contain expenditure within the cash limit. There can, of course, be no question of achieving this by merely postponing payments which have fallen due. Indeed I would much prefer such action to take the form of cancellations rather than deferments, lest we exacerbate the problem of containing expenditure in 1980-1. But I am prepared to delay action, as you suggest, until we have a clearer idea of the estimated out-turn for 1979-80.

I am sending copies of this letter to the Prime Minister and to Sir John Hunt.

Yours

GEOFFREY HOWE

The Rt. Hon The Lord Carrington, K.C.M.G., M.C.

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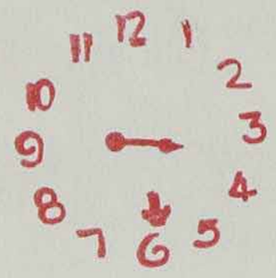


Overseas Aid

(2)

Prime Minister

FCS/79/153

CHANCELLOR OF THE EXCHEQUER

Effect on Rhodesia Policy of Cuts in the 1979-80 Aid Programme

1. Thank you for your letter of 7 September in which you said that you did not feel able to consider the possibility of topping up the 1979-80 aid programme by up to £16.6 million if that should become necessary in the circumstances described in my minute of 31 August.

2. After the cuts we have now made to this year's aid programme, we have little room left for manoeuvre. The second set of cuts, about which Ian Gilmour wrote on 9 August, went deep into most of the allocations and important objectives have had to be sacrificed. We had to work these figures out quickly, since the longer we allowed the previous ones to stand, the greater the likelihood of overspending. It was incidentally for this reason that the ODA felt obliged to inform the Indian authorities without delay of the sharp reduction in their allocation, by some £37 million from our previous planning figure, and more than that from the Indians' own expectations.

3. Insufficient funds now remain in the 1979-80 programme for us to carry out our intentions to the full in respect of those governments whose support we need in working for a Rhodesia settlement. As I said in my previous minute, we could reduce their figures up to the point where consultation with them would be necessary; but at this critical juncture I do not wish to have to discuss with them reductions beyond that point.

4. I therefore propose to restore some of the cuts listed in the annex to my minute within the published cash limit, as you have agreed. This could mean overspending unless corrective

/action is

action is taken; this will depend very much on the rate of spending during the rest of the year. I have instructed ODA to monitor expenditure very closely over the rest of the financial year, and if the need arises to take emergency action towards the end of the year to defer payments on whatever scale and in whichever directions are necessary to stay within the cash limits. This is of course a thoroughly undesirable procedure; not only does it cause trouble with recipients, but it pushes problems forward into 1980-81 when we can already foresee that money will be as tight as this year. However, I consider it to be justified in the present exceptional circumstances.

5. I am copying this minute to the Prime Minister and to Sir John Hunt.

(CARRINGTON)

Foreign and Commonwealth Office

17 September 1979

CONFIDENTIAL

Overseas Aid
NBPM yes
Mrs 12/9

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

7th September, 1979

Dear Secretary of State,

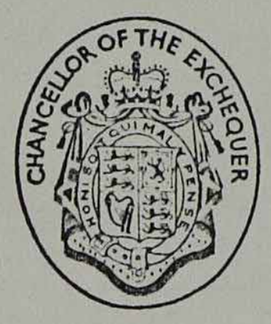
EFFECT ON RHODESIA POLICY OF CUTS IN THE 1979-80 AID PROGRAMME

Thank you for your minute of 31st August about the pressure on the 1979-80 aid programme. Ian Gilmour also minuted Nigel Lawson on the same subject, in relation to a new aid commitment to Bangladesh, on the same date.

I, of course, entirely understand the importance of doing all we can to ensure the success of our Rhodesian policy, and I can well see the strength of the political case for avoiding any reductions in our aid programmes to countries whose support for this policy is vital, as you cogently argue in your minute. I accept, too, of course, Ian Gilmour's assessment of the limited remaining room in the aid programme's contingencies margin (although I do not think it is consistent with this to say, as your paragraph 5 does, that the margin is already fully earmarked for firmly foreseen needs). It was this consideration which led Nigel reluctantly to agree to an extra £1½m. for Bangladesh on the clear understanding that offsetting savings of £1.4m. were available, that the contingency reserve limit of £32.5m. was sacrosanct and that there would be no consequent overspend on the aid programme cash limit.

I am bound, however, to say that I think it would be entirely wrong to depart from the fundamental principle that the aid programme must be administered within its cash limit. The political difficulty of making cuts in these Rhodesia-related aid expenditures was, of course, entirely foreseeable a month ago when your Department was re-arranging the aid programme to accommodate the Budget cut and the recent surge in spending - and when Ian Gilmour assured me (his minute of 9th August) that he was satisfied that a contingencies margin of £32.2m. was adequate to cover expenditure in 1979-80 not then covered by specific allocations. It seems a pity that the re-arrangement of the programme enclosed with Ian's minute was unrealistic in this way.

The Rt.Hon. The Lord Carrington, KCMG, MC.



For all these reasons I am afraid I don't feel able to increase the total aid programme at the expense of the Public Expenditure Contingency Reserve (which in any case - as you know - we decided at the time of the Budget to reduce, and is already under substantial pressure from a variety of sources). Even in the context in which you now raise the point I do not see how we could defend an increase in the aid programme cash limit in the wake of the £50 million Budget reduction and given our firm commitment to the control of public expenditure in general and to cash limits in particular.

I can agree, therefore, to the restoration of the cuts earlier allocated as listed in the annex to your minute only on the understanding that aid expenditure will be contained within the published cash limit, by whatever further re-arrangement of the aid programme is necessary; and that you will stand ready to cut back on existing commitments later on this year if this proves necessary to preserve the integrity of the cash limit - not excluding the possibility of thinking again later in the year about allocations (e.g. to India) to which the ODA has (prematurely, it now appears) very recently committed itself. The political difficulties of this latter course are clear enough. But they are, it seems to me, the price we would have to pay - within the reduced aid programme - for the very high priority we attach to a Rhodesian settlement.

I am sending copies of this letter to the Prime Minister and Sir John Hunt.

pp. (GEOFFREY HOWE)

(Approved by the Chancellor of the Exchequer and signed in his absence).

Foreign and Commonwealth Office
London SW1

7 September 1979

Thank you for your letter of 7 August in which you make a number of suggestions in connection with the policy review on overseas aid. I agree that the word "industrial" should be read into the terms of reference, and I understand that this was accepted at the first meeting of the Review Group.

You also ask that the views of Professor Bauer on the role of aid in development should be taken into account. This, too, is in hand; the ODA are putting in a paper on this subject, and this will be discussed in the Group.

I am sorry that it has not been possible to reply to you sooner. I am sending copies of this letter to the recipients of yours.

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
123 Victoria Street
London SW1

CONFIDENTIAL

PRIME MINISTER

EFFECT ON RHODESIA POLICY OF AID CUTS

You are of course correct in noting on the Foreign and Commonwealth Secretary's minute (attached) that there will be a 2% increase in real terms in our aid programme in this financial year. The difficulty in cutting the current aid programme below a certain point is that so much of it is the subject of inter-governmental agreements or is tied up in programmes (capital, educational, etc.) which are half-way to completiton. The process of cutting future aid programmes and commitments where this factor is less of a problem, i.e. those for the next financial year and beyond, is, as you know, well launched.

I am assured that we have arrived at the point for this year's programme where further cuts would involve us in abrogating agreements, sending students in this country home, and the like. (I understand that the hurricane disaster in the Caribbean has put the aid programme under even a greater strain than before.) There are no cuts which can be made elsewhere to create room for the continuation of programmes in Southern Africa at a level which would enable us to avoid having to face countries in the region with an overt reduction in our programmes to them. Hence Lord Carrington's minute: he is asking for contingency cover for the maintenance of planned programmes to a number of countries whose support is important for the achievement of the Government's Rhodesia policy. (The request is only for contingency cover at this stage in case some unforeseen saving becomes possible before the end of the financial year.)

I imagine that the Chancellor may well see difficulties in agreeing to the Foreign and Commonwealth Secretary's request and that Lord Carrington may seek your views. If the request for contingency cover seems excessive, would you be prepared to agree that contingency cover should, at least, be provided for the aid programmes to the three Front Line States involved (Tanzania, Zambia and Botswana)? The sum involved would be £5.9 m.

Await Chancellor's views. MT

6 September 1979

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Lord Carrington has clearly made this request with some reluctance. But it would very damaging to have to ask the Front Line States to accept aid cuts just now.
Prime Minister

Cuts? but we agreed there has been an increase!
2% increase!
Rhodesia 3/9

FCS/79/147

CHANCELLOR OF THE EXCHEQUER

Effect on Rhodesia Policy of Cuts in the 1979/1980 Aid Programme

1. On 9 August Ian Gilmour sent you revised outline figures for the Aid Programme in 1979-80; these were agreed by Nigel Lawson's letter of 14 August. These figures were further reduced from the levels which I had sent you earlier (my minute of 17 July). This was because we had found that spending in the first part of the financial year was running at an excessively high level because of the commitments previously accepted. As a result, we had to make cuts in the previously planned figures going deeper than originally indicated to meet the £50m reduction in the programme which we had agreed.

2. Officials have since been examining the detailed implications, and these give me great concern, with particular respect to our policies for a settlement in Southern Africa. As you know, the Prime Minister made the point that leverage in our aid programmes would be a factor in keeping relevant Commonwealth countries in line over Rhodesia (her Private Secretary's letter of 9 August), but the reply from my Private Secretary had to say that the scope of this was extremely limited because of the cuts, and that sharp reductions in programmes for countries of importance in this context would be needed.

2% increase!

3. I have considered this most carefully, but I am forced to the conclusion that the kind of reductions now envisaged could seriously jeopardize our wider political objective in the area. Such cuts entail asking the governmentsof a number of countries, whose support for our Rhodesia policy as it emerged from the Lusaka Commonwealth Heads of Government meeting is essential, for consultations with them about reductions in their aid programmes which will undoubtedly strike them as very harsh. We will have to do this within the next week or two, if we are to get levels of expenditure reduced before it is too late; since this is the period leading up to the Rhodesian Conference,

/the

the timing could hardly be worse.

4. I therefore think we should restore to the programmes for the key countries (i.e. those including the Front Line States and Bangladesh (Security Council), whose support is vital to the success of our strategy) at least that element which will suffice to avoid the need for such consultations. It is relevant that the Lusaka communique spoke of the need for increased aid to such countries. I also think we should avoid sharply reducing the number of Rhodesian African students accepted for training in Britain this autumn; to go back on the commitment of the previous Administration, on the very eve of the Rhodesia Conference, would undoubtedly cause serious and unnecessary difficulties. I attach a schedule of the minimum amounts necessary to achieve the above.

5. I have, of course, looked at the possibility of making yet more severe cuts on other parts of the programme during 1979/80. But, as the table attached to the Lord Privy Seal's minute of 9 August shows, the two-stage cuts between April and August removed £127m from the bilateral programme alone. As a result, we are now down to firm commitments which we cannot break. In addition, the contingencies allocation is now fully earmarked for firmly foreseen needs.

6. My proposal furthermore means that cuts will still be made for the key countries where this is possible without consultations, and in other, less crucial, African countries even when consultations are necessary. For example, even if the amounts in the attached schedule are restored, cuts from planned aid levels will include Sudan £1m, Somalia £0.7m, Seychelles and Mauritius £1.1m, Malawi £1m, Mozambique £1.2m, Ghana £1m, Nigeria £0.3m, Bangladesh £3.9m.

7. I am not asking you at this stage to restore part of the £50m cut in the programme. It is impossible to foretell the actual out-turn with complete accuracy and of course it

 /may be

may be that not all of the expenditure we now foresee will materialise to the full. But I do conclude that we cannot do what I regard as necessary in the Rhodesia context without the risk of going over the presently agreed figure for the reduced aid programme. I must therefore seek your agreement that, should our present forecasts prove accurate, up to £16.6m would be made available from Central Contingencies later in the year; and that we should take the necessary Supplementary Estimate in the Spring. I do not think we should need to announce now that we had adopted this fallback position.

8. You will appreciate that I am asking you for this because of the enormous political interests we have in a settlement.

9. I am sending a copy of this minute to the Prime Minister and to Sir John Hunt.

C

(CARRINGTON)

Foreign and Commonwealth Office

31 August 1979

LIST OF COUNTRIES AND AMOUNTS NEEDED TO AVOID

SUBSTANTIAL CUTS REQUIRING CONSULTATION

	£m
Tanzania	2.1
Zambia	2.8
Botswana	1.0
Sudan	1.5
Lesotho and Swaziland	1.0
Malawi	1.1
Kenya	2.2
Bangladesh	2.0
Rhodesia Training Programme	1.4
Overall training provision (divided between various countries)	1.5
	£16.6m

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Overseas Aid

Treasury Chambers, Parliament Street, SW1P 3AG

14 August 1979

The Rt Hon Sir Ian Gilmour Bt MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

Dear Ian

NBPM
Agd
17/8

AID PROGRAMME FOR 1979-80

Thank you for your letter of 9 August. I am replying as Geoffrey Howe is now on holiday.

I am glad that you are taking corrective action to deal with the risk of overspending this year. In the circumstances, we will not press our suggestion of an increase to the contingency margin.

I am also glad that you agree about the importance of maintaining flexibility for 1980-81, but I am concerned to learn that commitments for that year are already so extensive as to make it impracticable to keep 30% of the total gross programme uncommitted. I should be still more concerned if this is the case with the total for the programme calculated inclusive of a 20% estimating adjustment. I am prepared to accept your modified proposal for retaining flexibility for the time being, however, on the clear understanding that we must do all we reasonably can to hold down the extent of forward commitments for future years, in particular on multilateral aid.

I am sending copies of this letter to the other recipients of the earlier correspondence.

Yours ever
Nigel

NIGEL LAWSON

Overseas Aid

LORD PRIVY SEAL

Foreign and Commonwealth Office
London SW1

9 August 1979

NBPM
Bpl
BJ

Dear Geoffrey,

In your letter of 25 July to Peter Carrington you suggested that we should increase the contingencies margin for 1979-80 by at least £10 million; and that firm commitments for 1980-81 should not be allowed to exceed 70 per cent of the gross amount available for allocation, pending Ministerial consideration of the framework of allocations for that year.

Your major concern in relation to 1979-80 was that the figures enclosed with Peter Carrington's minute of 17 July continued to assume a 20 per cent underspend overall - the so-called "estimating adjustment". Since that minute was written, we ourselves have become increasingly concerned at evidence that the very high rate of disbursement which developed in the last quarter of 1978-79 was continuing, and that, against a programme which has been reduced by £50 million, we might overspend in 1979-80 if corrective action were not taken. We thought it necessary to instruct ODA staff without delay that spending on all allocations must be kept within lower figures than those enclosed with that minute. A table of the revised allocations is attached at Annex A. It reduces the total allocated by about £90 million, to £855.9 million. The effect is that we have removed a little over half of the estimating adjustment.

/Since

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

Since we have thus accepted the necessity which you had attempted to spare us, I take it we need not pursue your alternative suggestion of transferring £10 million from India to contingencies. As for India, you will see that we have reduced the figure not by £10 million but by £19.2 million. As for the contingencies margin, the action we have now taken will greatly reduce the pressure on it. It now stands at £32.2 million, and I am satisfied that this is adequate to cover the actual expenditure which might result in 1979-80 from commitments not now covered by allocations. The lead time is usually such that only a small proportion of new commitments are reflected in expenditure over an eight month period.

On your other point, I agree that for the reasons you give we should aim at maximum flexibility for 1980-81, consistent with effective management of programmes. But I think your suggestion that we should not commit more than 70 per cent at this stage is impracticable; especially in view of the high level of unavoidable multilateral commitments, which leaves us virtually no room for manoeuvre. What I am prepared to agree is that bilateral commitments should be kept within a limit of 70 per cent of the assumed bilateral share of the total programme for the present; though even this will leave little headroom. I agree that this ought to hold until we have settled the 1980-81 allocations on which ODA officials are now working; although if we seemed likely to take longer than we expected in settling these, I might need to ask for the restriction to be relaxed in advance.

I should like also to comment on the points which John Nott made in his letter of 27 July. He suggests that we should see whether we could not make deeper cuts in the Mozambique programme than the £1.7 million proposed. I enclose a note giving details of our present commitments to Mozambique. Further examination shows that we can in fact slightly increase the cut this year, to £2.3 million; though most of this is postponement rather than cuts in the amount which will flow to Mozambique against existing commitments. We cannot do more than that without going back on firm commitments.

/John

John suggests that the ATCP might be overspent this year by as much as £8-9 million. That certainly cannot be ruled out, but I believe it is realistic to work on the basis of £6 million. That could be contained without having to defer any of it to 1980-81, although some slippage could occur for reasons beyond our control.

There is certainly something in John Nott's third point, about the effect in later years of deferring payments on the multilateral side. Unfortunately we have had little choice but to take that course this year; and unavoidable multilateral commitments, notably those to the Community, will produce further heavy expenditure in future. There may have to be a temporary hump in multilateral contributions, but over time I would not expect any dramatic increase in their share of the total programme. The matter is of course one we can look at in the aid policy review.

I hope we can now agree without delay the revised allocations in Annex A, with £35.8 million for the ATCP and £32.2 million for other contingencies. I should perhaps just register the point that I regard the halving of the estimating adjustment for the rest of this year as an emergency measure, not in itself carrying any implications for the future. Your suggestion that we should consider reducing or even abolishing the estimating adjustment can be looked at on its merits, and in the light of recent experience.

I am sending copies of this letter to those to whom you copied yours.

Yours ever

Ian.

ANNEX A

1979-80 AID FRAMEWORK SUMMARY : COMPARATIVE TABLE

£ million.

	Aid Framework as at: April	June	August
MULTILATERAL AID			
EEC Group	112.6	144.4	144.4
World Bank Group	87.0	53.0	45.0
UN Group	63.3	49.4	49.4
Regional Development Banks	18.7	18.3	18.3
Other multilateral	15.6	13.9	10.9
Total multilateral	297.2	279.0	268.0
BILATERAL AID			
Africa : East & General	77.2	72.5	63.8
West & North	39.9	37.7	33.2
Central & Southern	81.2	75.7	66.6
(Total Africa)	(198.3)	(185.9)	(163.6)
Asia (ex India)	114.5	112.0	98.6
India	177.1	160.0	140.8
Caribbean & Pacific	41.7	40.7	34.8
Latin America	12.8	10.2	9.0
Middle East & Mediterranean	19.8	16.0	14.1
Dependencies	25.3	24.3	22.4
R & D	20.2	19.8	17.4
Education	37.0	36.1	31.8
Other Functional TC	12.0	11.8	10.4
CDC	37.7	32.7	30.0
Pensions	19.1	15.0	15.0
Total Bilateral	715.5	664.5	587.9
ATCP	35.8	35.8	35.8
Contingencies	27.2	32.2	32.2
TOTAL AVAILABLE FOR ALLOCATION	1075.7	1011.5	923.9
Estimating Adjustment	179.3	168.6	81.0
Gross Aid Programme	896.4	842.9	842.9
Amortisation	52.8	52.8	52.8
Net Aid Programme	843.6	790.1	790.1

AID TO MOZAMBIQUE

1. Summary

	£m
Programme Loan 1976	5
Programme Loan 1977	5
Project Loan 1977	10
Programme Loan 1978	2.5
	£22.5m

2. Details

i) Programme Loan 1976: (£5m). £4.8m already spent. All orders have been placed and most goods and equipment have arrived in Mozambique. These include trucks, landrovers, bus chassis, vehicle and aircraft spares, textile machinery and electrical equipment.

ii) Programme Loan 1977: (£5m). Fully allocated in loan agreement, though orders for only £0.5m actually placed. No equipment has arrived yet. Loan includes sugar machinery, telecommunications equipment and vehicles.

iii) Project Loan 1977: (£10m.) £6m committed to roads project and £1.9m committed to power project. Expenditure to date £2.9m. Roads will be built in Gaza and Cabo Delgado provinces with British consultants financed under technical cooperation. Plant and equipment all ordered, and consultants due to arrive this summer. Power station project is at Quelimane: equipment has been ordered, some is on site and British engineers have started installation.

iv) Programme Loan 1978: (£2.5m). Fully allocated. Orders for £1.4m have been placed and paid, but remainder not yet finally ordered. Loan includes aeronautical telecommunications equipment.

3. Present expenditure position (latest estimates in £m)

	Spent	Unspent but allocated	Unallocated
1976 Loan (£5m)	4.8	0.2	-
1977 Loan (£5m)	-	5	-
1977 Loan (£10m)	2.9	5	2.1
1978 Loan (£2.5m)	1.4	1.1	-
Totals (£22.5m)	£9.1	£11.3	£2.1

/4.

4. In addition to these capital aid commitments, we are committed to technical cooperation activities amounting to approximately £3m. The largest element in this is the roads consultancy (which cannot be terminated without incurring a substantial cancellation charge).

5. These figures exclude food aid. We have a "national action" commitment to provide 15000 tonnes (which if provided in the form of wheat would cost about £1.6m) but this has not yet been implemented.

Central and Southern Africa Department
Overseas Development Administration

24 July 1979

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

7 August 1979

Lord Carrington PC KCMG MC
Secretary of State for Foreign &
Commonwealth Affairs
Downing Street
London SW1

Dear Peter.

I note that you and Geoffrey Howe are working towards a policy review on overseas aid. There are Departmental interests involved and I am glad to see that an official of this Department will be a member of the reviewing group. I also agree with the suggestion that the ATWP should continue its work which should provide a useful input for a wider review.

I realise that the review will seek to identify the interests of this country to be served by any aid programme. Insofar, however, as aid is conceived as a genuine help to recipient countries, may I ask that the arguments of Professor Bauer be taken into account in the review? As you know he maintains that government-to-government aid tends often to do more harm than good by propping up dictatorial regimes and shrivelling the spontaneous processes of self help. It is interesting that from the other end of the political spectrum Professor Michael Lipton in his recent book "Why Poor People Stay Poor" makes the same criticisms (x) I only ask that in assessing the allegedly humanitarian arguments for government-to-government aid and in defending our posture, the Bauer analysis should be taken into account.

One further point I would like to make is to suggest a small change to the terms of reference. I know the phrase "commercial objectives" is sometimes used as a short-hand to include industrial objectives too, but for the avoidance of doubt, I would suggest the addition of "industrial" to the terms of reference. They would then read "To examine the policies governing the aid programme in relation to developmental, political, industrial and commercial objectives ..."

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Trade, the Lord President of the Council, Neil Marten and Sir John Hunt.

Yours
Keith

(x and see main centre page article in this morning's Financial Times by Anthony Harris.

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

1 August 1979

Dear Peter

OVERSEAS AID: POLICY REVIEW

Thank you for your minute of 30th July. I am glad that you agree that we should commission a review of aid policy, and welcome your suggestion that the aim should be to complete the review by the end of October. I am content with the terms of reference and other arrangements you suggest, and hope that our colleagues concerned will be ready to arrange for their officials to contribute to the work.

I am sure that this review will be very useful in helping the Government to determine the appropriate priorities for the use of whatever amounts of aid we decide in the course of the Public Expenditure Review that the country can afford.

I am sending copies of this letter to the recipients of yours.

(GEOFFREY HOWE)

The Rt. Hon. Lord Carrington, KCMG, MC

BGC to see o/r
MAP 30/VII
9/8

CHANCELLOR OF THE EXCHEQUER

FCS/79/138

Overseas Aid : Policy Review

1. You wrote to me on 9 July supporting a suggestion made by John Nott that we should set in hand a fundamental review of aid policy. Now that we have reached decisions on the size of the aid programme for 1980/81 I think it would be timely to commission a policy review on the lines you propose.

2. I propose therefore:

i. that a group of senior officials should be set up under Cabinet Office chairmanship with representation from both wings of the FCO, the Treasury, the Department of Trade, the Department of Industry, the Civil Service Department and the CPRS.

ii. that their terms of reference should be:-
"To examine the policies governing the aid programme in relation to developmental, political and commercial objectives and to make recommendations"; and

iii. that they should be asked to produce a report by the end of October.

3. Since we want the work to begin as soon as possible I will assume the agreement of my colleagues to this proposal if I do not hear to the contrary by 1 August, and would invite the Cabinet Office to make the necessary arrangements to set up the group with a view to starting work in the group at about the end of August. The intervening time could usefully be employed in the preparation of papers. I have it in mind that the FCO would put in an initial paper to start the proceedings. Other Departments might also wish to put in their ideas.

4. I am copying this minute to the Prime Minister, the Secretaries of State for Industry and Trade, the Lord President of the Council and Sir John Hunt.

(CARRINGTON)

Foreign & Commonwealth Office
30 July 1979

Civil Service Department,
Whitehall,
London, SW1A 2AZ

17AD

With the Compliments

of the

Private Secretary

to the

Lord President of the Council

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

27 July 1979

Martin Hall Esq
Private Secretary to
Chancellor of the Exchequer
Parliament Street
LONDON SW1P 3AG

Dear Martin,

OVERSEAS AID: POLICY REVIEW

The Chancellor wrote to the Foreign Secretary on 9 July.

I shall be grateful if officials here in CSD could be kept in touch with the arrangements.

I am copying this letter to Brian Cartledge (No 10), Private Secretaries to the Secretaries of State for Industry and Trade, Minister for Overseas Development, and Martin Vile in Sir John Hunt's office.

Yours sincerely,
Jim Buckley

J BUCKLEY
Private Secretary

CONFIDENTIAL

Overseas Aid

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

Mr Lankester to see.
Noted MCS 12.
25/7

25 July 1979

Dear Secretary of State,

THE 1979-80 AID PROGRAMME

Thank you for your minute of 17th July, with which you sent revised planning figures for this year's aid programme.

I am sure that you were right to identify reductions substantially in excess of the £50 million Budget cut, in order to create a reasonable degree of flexibility within the programme. But I am doubtful whether a contingency margin of £32 million goes far enough in this direction. There are two, quite separate, considerations here.

First, your list of contingency claims (Annex B to your minute) represents in large degree not so much contingencies as additional commitments already known, and provides no room for new contingencies so far unseen; and includes estimates which in one or two cases (I have particularly in mind the aid/trade contingency provision and the programme loan to Turkey) may prove to be on the low side.

But more important, as paragraph 2 of your minute makes clear, these plans continue to be based on the assumption that there will be a 20 per cent underspend on the aggregate of individual allocations. This is, it seems to me, a highly doubtful assumption, in the light of the acceleration of ODA disbursements and the likely overspend in the 1978-79 programme. I can see that at this stage in the present financial year it would be disruptive to reduce the 20 per cent estimating adjustment to which the ODA has been accustomed to operate in recent years. But I am sure we must look at this again for 1980-81, with a view to substantially reducing, or even abolishing, this adjustment.

As to this year's programme, I am inclined to think we should deal with both these problems by increasing the contingency margin by not less than £10 million, to at least

/£42 million,

The Rt. Hon. The Lord Carrington, KCMG, MC

£42 million, e.g. at the expense of the proposed allocation of £160 million to India. Even if this were done, I should remain very concerned about the risk, entailed in your present figuring, of aid disbursements this year exceeding the cash limit for the aid programme; and I must emphasise the need for the ODA to ensure that no such overspending takes place.

I note that about two-thirds of the £97 million reductions you have identified are to be achieved by postponement rather than by cancellation of expenditure. That is, I suppose, an inevitable consequence of the high level of commitment of this year's programme and will limit our ability to preserve flexibility in the later years. But I am sure you will agree that we must do all we can to reach a high degree of flexibility, so that we can respond both to the results of a review of aid policy (such as I proposed in my letter to you of 9th July) and to new requirements for aid, as well as giving ourselves time to reconsider the arrangement concerning the estimating adjustment. To this end, I suggest that, pending in the first instance Ministerial consideration of the framework of allocations for 1980-81 on which I understand your people are now engaged, firm commitments for that year should not be allowed to exceed 70 per cent of the gross amount available for allocation. I hope that you can agree to this.

I should add that I have seen Neil Marten's letter of 4th July to Nigel Lawson about aid projects on which he would like to make formal commitments now. Following Nigel's reply (of 17th July), I can now confirm that I am content for these commitments to go ahead once we are all agreed on the revised plans for 1979-80.

Copies of this letter go to the Prime Minister, the Secretaries of State for Industry and Trade, and to Neil Marten and Sir John Hunt.

M A Hall

[Approved by the Chancellor of the Exchequer and signed in his absence]

(GEOFFREY HOWE)

Overseas Aid

Foreign and Commonwealth Office

London SW1A 2AH

18 July 1979

Dear Martin,

M.A. Hall
19/7

The 1979-80 Aid Programme

Annex B of Lord Carrington's minute to the Chancellor of the Exchequer of 17 July listed probable and possible claims against contingencies.

Lord Carrington has asked me to say that it might be necessary to allocate sums for other contingencies, for example Rhodesia, Egypt or natural disasters, which would take precedence over the claims listed in Annex B.

I am copying this letter to Bryan Cartledge (No 10) and to Martin Vile (Cabinet Office).

Yours ever,

Stephen

J S Wall
Private Secretary

M A Hall Esq MVO
Private Secretary to the Chancellor
of the Exchequer
H M Treasury
Parliament Street
London SW1P 3HE

2

1. Mr. Lankester
2. Prime Minister
for information.
OPS
17/7

FCS/79/133

CHANCELLOR OF THE EXCHEQUER

The 1979-80 Aid Programme

1. You asked me to let you have our revised planning figures when we had been able to assess fully the implications of the £50 million cut in this year's aid programme.

O.A
OPS
18/7

--- 2. I attach Annexes detailing how we intend to reshape expenditure for 1979-80, having regard to the extent to which such expenditure is already firmly committed. Annex A lists savings totalling £97 million. It has been necessary to find savings of this order to accommodate the £50 million cut; to cover the additional provision necessary for the EDF; to cover new claims against contingencies (eg Kenya, Uganda, Turkey); and to recreate a reasonable contingencies reserve. Annex B lists probable and possible claims against contingencies, but does not include a full provision for Vietnamese refugees. Annex C shows revised summary figures for the 1979-80 programme using the normal 20 per cent estimating adjustment which, with Treasury agreement, we apply for planning purposes.

3. We agreed in OD to find £5 million for the UNHCR's refugee programme. I intend that a further £4 million should be taken from India, revising the allocation to £160 million for this purpose. This change does not, however, alter in any material respect the overall position.

4. I hope that you and John Nott, to whom I am copying this minute, will feel able to agree quickly that for 1979-80 we should proceed on the basis of the revised figures shown in Annex C without prejudice to the more considered review we shall be undertaking of the aid programme in the longer term.

5. I am also copying this minute to the Prime Minister and Sir John Hunt.

C

(CARRINGTON)

Foreign and Commonwealth Office

17 July 1979

ANNEX A

SAVINGS PROPOSED

		£m
World Bank Group: IDA payments deferred		34.0
UN Group		13.9
- World Food Programme cash contribution and provision of lorries deferred	1.15	
- UNRWA, payment of initial tranche of 1980 contribution delayed	2.20	
- UNFPA, payment of part of 1979 pledge deferred	2.00	
- UN Women's Fund, deferred payment	0.20	
- UNDP, payment of initial tranche of 1980 contribution delayed	8.00	
- UN Industrial Development Fund	.35	
Regional Development Banks: Caribbean Development Bank reduced drawings		0.4
Other multilateral: IFAD reduced drawings		1.7
Total multilateral		50.0
East Africa and General		4.7
Kenya	1.0	
Tanzania	1.3	
Seychelles	0.7	
Sudan	0.8	
Other	0.9	
West and North Africa:		2.2
Ghana	0.95	
Gambia	0.25	
Sierra Leone	0.20	
Other	0.80	
Central and Southern Africa		5.5
Mozambique	1.70	
Botswana	0.50	
Rhodesia Students	1.00	
Other	2.30	
Asia		2.5
India		13.1
Caribbean		0.5
Latin America		2.6
Bolivia	1.5	
Honduras	0.5	
Dominican Republic	0.3	
Other	0.3	

		£m
Middle East		3.8
Afghanistan	1.0	
Cyprus	1.0	
Portugal	0.75	
Yemen Arab Republic	0.6	
CENTO tc	0.25	
Other	0.2	
Dependencies:		
South Pacific	0.50	
Turks & Caicos	0.30	
Belize	0.45	
Falklands	0.25	
Functional Technical co-operation		1.5
Commonwealth Development Corporation		5.0
Pensions Takeover delayed		4.1
Total bilateral		47.0
Total savings identified		97.0

CONTINGENCY CLAIMS

Probable		£m
Kenya	Expenditure against £11m programme loan agreed during President Moi's state visit	3.0
Uganda	Programme aid	2.0
Zambia	Programme aid to offset the cost of maize purchases	2.0
ICRC	Africa-wide appeal for assistance to refugees June - November 1979. Half the UK contribution to be earmarked for work in Southern Africa.	1.0
Turkey	Expenditure against £15m programme loan	5.0
St Vincent	Rehabilitation assistance following eruption of La Soufriere volcano	0.5
UNHCR	Assistance to Vietnamese refugees	1.0
Pensions	Additional provision required for non-aid pensions.	6.0
	SUB-TOTAL	20.5

Possible		
Angola	Benguela railway rehabilitation	0.75
ATCP	Possible overexpenditure on Aid/Trade Contingency Provision projects	6.0
		6.75

TOTAL	Probable	20.5
	Possible	6.75
		27.25

Contingencies provision 28.2

/Note

ANNEX B

Note

1. No provision has been made for Rhodesia because it is unlikely that any expenditure will arise this year.

2. Nothing has been included for disaster relief; expenditure is entirely unpredictable.

1979-80 AID FRAMEWORK SUMMARY

ANNEX C

	Savings		AF 9.3.79	Revised AF
MULTILATERAL				
EEC Group	*		112.6	144.4
World Bank Group	24.0		87.0	53.0
UN Group	13.0		63.3	49.4
Regional Development Banks	0.4		18.7	18.3
Other Multilateral	1.7		15.6	13.9
Total Multilateral Aid		50.0	297.2	279.0
BILATERAL				
Africa: East & General	4.7		77.2	72.5
West & North	2.2		39.9	37.7
Central & Southern	5.5		81.2	75.7
Total Africa		12.4	198.3	185.9
Asia & Pacific	2.5		118.3	115.8
India	13.1		177.1	** 164.0
Caribbean	0.5		20.6	20.1
Latin America	2.6		12.8	10.2
Middle East & Mediterranean	3.8		19.8	16.0
Dependencies	1.5		42.6	41.1
Other regions		24.0		
Total Direct Bilateral		36.4	589.5	553.1
R & D	0.4		20.2	19.8
Education	0.9		37.0	36.1
Other Functional	0.2		12.0	11.8
CDC	5.0		37.7	32.7
Pensions	4.1		19.1	15.0
Other Bilateral		10.6		
Total Bilateral Aid		47.0	715.5	668.5
ATCP			35.8	35.8
Contingencies			27.2	28.2
TOTAL AVAILABLE:				
Multilateral			297.2	279.0
Bilateral			715.5	668.5
ATCP			35.8	35.8
Contingencies			27.2	** 28.2
			1075.7	1011.5
Estimating adjustment (20% of the Gross Aid Programme)			179.3	168.6
Gross Aid Programme			896.4	842.9
Amortisation			52.8	52.8
Net Aid Programme			843.6	790.1

Note * The revised Aid Framework figure for the EEC Group incorporates the additional 1979-80 requirement of £31.8m.

** See penultimate paragraph of covering letter.

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

9 July, 1979

Mr. Lankester

Dear Peter

OVERSEAS AID: POLICY REVIEW

There was, I understand, some discussion at the meeting of E(EA) Committee on 19th June about the need for a review of overseas aid policy - a subject on which we have had several airborne and chairborne exchanges of view!

I very much agree with the line which John Nott took at that meeting, that we should now set in hand a fundamental review of aid policy. Current UK overseas aid policy, naturally, owes much to the decisions of the previous government announced in their 1975 White Paper, More Help for the Poorest. We need to examine this whole area closely, and agree upon a policy for the reduced overseas aid programme which is consistent with, and so far as possible supportive of, our policies as a whole. What is needed, as I see it, is a wide-ranging review, designed to lead to decisions about the objectives of our overseas aid programme and the best means of achieving those objectives. It should deal with the political, economic and commercial purposes of our aid as well as with its developmental aims; and it should cover the geographical and sector distribution of our aid and its public service manpower implications, as well as the terms and conditions on which we give aid. It might also give us some guidance on the best way of providing for the numerous special claims which seem to arise during the course of a year.

The review would not, of course, be concerned with the size of the aid programme. That is a matter for decision in the public expenditure review on which we are now embarking. The aid review would have to take the decisions of the general expenditure review as its starting point. I have no doubt, however, that it could usefully begin its work immediately, in advance of the Cabinet's decisions on expenditure.

/This review

The Rt. Hon. The Lord Carrington, KCMG, MC

This review would, to a considerable degree, overtake the work which is currently being done by the Aid and Trade Working Party. But I think, nevertheless, that there will be advantage in this Working Party carrying on with its work, which can be taken account of, or assimilated, in the wider review.

In my view there will be much advantage in the aid policy review being undertaken by a fairly wide group of Whitehall Departments - including the CSD and CPRS. I think the group should aim to produce its report by the end of the year, in time to influence the preparation of the 1980 Aid Framework.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Industry and Trade, the Lord President of the Council, Neil Marten and Sir John Hunt.

(GEOFFREY HOWE)