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FCS/89/104

Nelson

RUB  
W/SCHIEF SECRETARY

Overseas Development Administration: PES Bid  
Overseas Aid Vote

1. This financial year we shall, for the first time since 1979, have some real growth in our aid programme. As a result we have at last checked the decline in the proportion of our GNP spend on aid which in 1979 was 0.52%. The average for the last two years is 0.30% and that is what we can expect for 1989. Halting the decline in our aid performance is a welcome sign of our economic strength.

2. We have worked hard and successfully, as I think you will agree, to ensure that our aid is used effectively. But there are still important areas where we should be making a greater contribution and where it would be in our economic, political and environmental interests to do so. I need additional aid resources if we are to be able to meet our three closely inter-related and fundamental objectives:

- a) to further the Government's objectives internationally of limiting global environmental damage;

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- b) to maintain our present key policies, of supporting economic reform, regional peace processes, and contributing substantially towards a positive measures policy in Southern Africa;
- c) further to promote the role of the private sector overseas and more effective alleviation of poverty.

3. Our economic success at home has restored our respect abroad. There has been a renewed willingness to listen to us. But with it has come also a renewed pressure for Britain to accept its share of the aid burden. We see this within the European Community and the OECD, at Commonwealth and UN meetings, and at Economic Summits. There is also growing pressure in multilateral aid negotiations for us to accept more generous replenishments and to increase our shares now that our economy is strong again. Our record has become increasingly difficult to explain to our friends or defend against our critics.

4. Furthermore, in the context of global environmental concerns where we are already playing a leading role internationally, we shall be expected to meet our share of the costs of helping developing countries participate in international initiatives. If we want developing countries to give the priority to limiting global environmental damage which we believe they should we must be willing to provide them with additional resources. We cannot expect the poorer countries to help solve the problems we largely created by our own industrialisation at the expense of their own development.

/Programme Expenditure

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Programme Expenditure

5. My first bid is to enable the aid programme to help further the Government's objectives internationally of limiting global environmental damage. I have already explained why we must be prepared to provide additional resources to achieve this rather than diverting existing aid. My bid at this stage covers primarily an expansion of our forestry work overseas which the Prime Minister has recognised would make a valuable contribution to efforts internationally to prevent de-afforestation, and some provision for initiatives, bilaterally and multilaterally, to increase energy efficiency and encourage the adoption of ozone friendly technology. But I have no doubt that in due course we shall find that we shall need to do more than this. Nicholas Ridley's letter of 15 May to the Prime Minister notes the pressure we shall come under, after the London and Helsinki meetings, to agree to a Climate Fund.

1990/91	1991/92	1992/93
£15m	£40m	£90m

6. My second bid is for the minimum additional resources we envisage at this stage will be necessary to meet further new commitments for multilateral aid. Without this the real value of our bilateral aid overall would need to decline still further. After a decade in which the value of bilateral country programmes overall has fallen by over one third, and many individual programmes by one half, this trend must now be reversed. The PAC noted recently the practical limitations of a policy of

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seeking to constrain multilateral aid in order to protect our bilateral programmes. I should also otherwise have to take an even tougher line in the IDA 9 negotiations. As it is our resource constraints will require us to adopt a restrictive position. My bid covers both EDF 7 which is currently being negotiated, and where we shall find it very difficult to hold a replenishment of 9.5 billion ecu, which I am assuming here, and the Treasury's forecast growth in EC budgetised aid expenditure which is attributed to the aid programme and over which we have no control. For 1990/91 I am also seeking to offset the agreed reduction in respect of the overspend on EC attributed expenditure last year, currently estimated to have been £15 million.

1990/91	1991/92	1992/93
£37m	£27m	£40m

7. My third bid is to enable us to continue to play our part bilaterally in support of economic policy reform, particularly in sub-Saharan Africa and to help the front line states reduce their dependence upon South Africa as part of our positive measures policy. We have already shifted the balance of existing resources as far as we can. Any more would require further damaging reductions elsewhere, prevent us from contributing to regional peace processes, and cause us to miss out on new opportunities such as in China. I include in my bid sums for Nigeria on the basis we have already agreed (some £50 million annually at current exchange rates). To the extent that we could get away with less in the later years it would

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allow us to respond more effectively elsewhere: otherwise my bid does not provide for Sudan and Zambia should they accept the necessity of economic reform:

1990/91	1991/92	1992/93
£60m	£70m	£80m

8. My fourth bid is to allow me to fund an expansion of CDC activity through the aid programme now that it is clear that, despite having taken legislation to allow overseas borrowing outside the PSBR, we have no assured system for doing so which is acceptable to the Treasury. The CDC is our main vehicle for investing directly in the private sector overseas and should be seen as part of our overall policy of promoting the private sector. We shall be encouraging it to do more in this area, including equity investment, and also forestry.

1990/91	1991/92	1992/93
£25m	£35m	£45m

9. My fifth bid is for a further expansion of our support for the work of the voluntary agencies overseas. They are effective at grassroots level in helping to alleviate poverty and to protect the local environment. It also brings us considerable political credit domestically.

1990/91	1991/92	1992/93
-	£8m	£15m



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10. My sixth bid acknowledges that having held the mixed credit part of the ATP budget constant at £66 million for some years we shall need to augment it in the later years of the Survey if we are to maintain our support for industry in key markets, particularly the Far East.

11. I leave aside the issue of a possible extension of the ATP soft loan scheme which we shall need to discuss separately once officials have reported.

1990/91	1991/92	1992/93
-	£10m	£15m

12. Our aid performance as a percentage of GNP has bottomed out at a level which leaves us comparing badly with other countries. Against the internationally agreed target for aid spending of 0.7% of GNP to which we remain committed the latest figures show us ranked fourteenth amongst OECD donors, above only Australia, New Zealand, Ireland and the United States (which has never accepted the target and whose aid in absolute terms is five times ours). Because of this and because we contribute substantially to EC aid programmes, our overall bilateral aid, the real value of which has declined substantially over the last decade, is now small compared to the US, Japan, Germany and France, and falling well behind that of Canada and Italy.

13. The existing PES provision even on present Treasury forecasts of inflation shows a decline in real terms over the provision for the current year. The effect of my bids would be for the aid programme to continue to grow

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in real terms. More significantly, politically, it would also have the effect of the aid programme being seen to increase again, albeit modestly, as a percentage of GNP. That would transform our position internationally and domestically in presenting our aid policies.

Running Costs

14. Finally I need to bid for additional running costs for ODA and ODNRI. It is only with considerable reluctance that I seek to reopen the three year settlements we agreed last year. But my letter of 25 May 1988 did say that we were able to forgo any addition to ODA resources for 1989/90 and 1990/91 only on the understanding that pay settlements in those years did not exceed the assumed level of 5%. My bid therefore includes provision for the additional cost of the 1989 pay settlements, to avoid arbitrary and inefficient cuts which would damage the effectiveness of programme expenditure. In order to try to avoid a recurrence of this problem, the bid also reflects revised pay assumptions for the years 1990/91 to 1992/93 as detailed in the ODA Efficiency Management Plan which will accompany the PFO's letter. Nor is it realistic to assume that, in addition to the plans for efficiency savings which have already been agreed the ODA can absorb the newly imposed cost of VAT on the rent of its official premises.

15. I am also seeking additional resources for staff to enable the ODA to undertake three new activities. First, additional money is needed in the first two years to begin implementing ODA's agreed Information Technology

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Strategy, developed in conjunction with CCTA and aimed at improving staff effectiveness and the quality of aid delivery. From 1992/93 onwards we expect to find the running cost resources for this from the efficiency savings planned for that year.

16. Secondly, I am also concerned that present running costs provision allows us no scope to respond to growing concerns about the environment. I have therefore included a new running costs bid in support of the bid for additional programme resources in this area. Thirdly, in parallel with my bids for the Diplomatic Wing, I am also seeking additional resources to fund the cost of improvements in health care arrangements for staff overseas.

17. For ODNRI some additional running costs will be necessary now that the actual costs of running the new Chatham site can be more reliably assessed, to provide for slightly enhanced external contracts programme, and to reflect some further rephasing of relocation costs.

18. In total my running cost bid is:

1990/91	1991/92	1992/93
£3.7m	£4.6m	£7.1m

19. Further details of all my bids and the improvements in performance and output that they will achieve, are included in the ODA's PFO letter, together with the draft Management Plans for the ODA and ODNRI which are at present the subject of discussion between our officials.

/20. Finally,

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20. Finally, over the PES period, we expect to take on further contingent liabilities for the callable element of capital subscriptions to regional development banks and for providing guarantees under the forthcoming Lomé Convention. These will add only marginally to the total reported ODA liabilities and will not put public expenditure at risk. Details will be included in the separate report on Contingent Liabilities.

21. I am copying this minute to the Prime Minister.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
25 May 1989

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A.B.M.

Pace

W/S

CHIEF SECRETARYPublic Expenditure Survey: FCO (Diplomatic Wing)

1. Last year we halted a steady decline in the Diplomatic Wing's resources. The arrangement we reached is already paying dividends in allowing us to pursue more assertive commercial, political and cultural policies abroad. As a result, we are now exploiting the rise in Britain's international stature for practical advantage. The successful overseas visits by the Prime Minister and her colleagues, together with the increasing flow of influential visitors to this country, reflect the sound investment we are making in promoting British interests so as to serve the security and economic well-being of the country.

2. This year I want to build on that progress. In particular I have focussed on meeting specific new pressures or opportunities. Even after taking account of our efficiency efforts, I shall require modest additional resources. Leaving aside any adjustment for movement in overseas prices and some contingency requirements identified at the end of this letter, my bids for the 1989 Survey comprise:

	£m (running cost in brackets)	
1990/91	1991/92	1992/93
48.00 (20.93)	58.59 (19.54)	55.23 (21.77)

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