

Mr Marston.

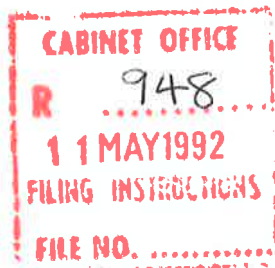
*With the compliments  
of the Permanent Secretary*

*Apologies for the delay in  
sending these to you.*

**ODA**

*Leaving listed*  
**OVERSEAS DEVELOPMENT ADMINISTRATION**  
**94 VICTORIA STREET**  
**LONDON SW1E 5JL** *B/L*

Telephone 071-917 0500  
Fax 071-917 0634/0651



POLICY IN CONFIDENCE

R7/4

BI201

Brief No. 5.1

## BRIEFING FOR NEW ADMINISTRATION

### AID TO DEVELOPING COUNTRIES

#### RESOURCES: RECENT TRENDS AND EXISTING PLANS

##### Recent Trends:



1. The aid budget was reduced between 1978/79 and 1982/83 by some 20% in real terms. Apart from some additions for special assistance to the Falkland Islands and Gibraltar, the aid budget was held broadly constant in real terms during the mid 1980s. From 1987/88 the outcome of each PES round has been that the aid budget was planned to grow, albeit modestly, in real terms, based on Treasury forecasts of inflation. Aid spending (including in-year additions from the Reserve) has increased in real terms by 8% since 1987/88, and in 1991/92 remains 13% below the 1978/79 level.

2. During the 1980s our contributions to the multilateral development institutions, including EC aid programmes, grew substantially. As a result the share of multilateral aid in the aid budget increased from 27% in 1979 to over 40% in 1983/84, since when it has broadly stabilised.

3. As a consequence, the real value of bilateral aid overall has declined by over 20% since 1979. Bilateral country aid programmes overall declined by some 35%. To respond to new priorities, aid to several of our major recipients has been reduced by almost half in real terms; in the case of India net aid has fallen by 70%. The sharper fall in country aid programmes compared to total bilateral aid reflects in particular:

POLICY IN CONFIDENCE

1

## POLICY IN CONFIDENCE

- i) a deliberate policy choice to seek to protect the scientific work of the aid programme carried out by centres of excellence in the UK, including our own Natural Resources Institute; and to increase support for UK NGOs; and
- ii) a four-fold cash increase in the Aid and Trade Provision from £25 million in 1979 to £98 million in 1991/92.

4. The oda/GNP ratio fell sharply from 0.51% in 1979 (0.41% in spending terms) to 0.31% in 1986, and to 0.28% in 1987 (though this was also artificially low because of changes in the quarterly spending profile within the relevant financial years). With some real growth in the aid budget, over the last four years 1987/1990 it has averaged 0.30% of GNP.

### Current Aid Allocations

5. The total gross amount of aid available for spending in any year (£1893 million in 1992/93) is the PES provision plus repayments of past aid loans, now about £60 million a year and comprising mainly repayments from the CDC and India. Unlike other poor countries India's outstanding aid loans were not forgiven in 1978; instead India was provided with the equivalent sum of aid annually to finance the local costs of projects. Interest on past aid loans, in accordance with Government Accounting conventions, is credited to the Consolidated Fund.

6. To help ensure that the aid budget is fully spent each year effectively, the aggregate of individual programme allocations (including a Contingency Reserve) exceeds the gross amount

POLICY IN CONFIDENCE

available for spending by some 6% (£136 million). Thus, after deducting aid administration costs of £49 million, the total amount available for allocation in 1992/93 is £1980 million. The detailed allocations for the current year 1992/93, and planned allocations for the two subsequent years agreed by the previous Government, are annexed. Ministers may wish to review these allocations, though at this stage the scope for reductions is limited by the extent of existing commitments. Should Ministers wish to make additions there is an Unallocated Contingency Reserve of £70 million within the aid budget and the possibility of a claim on the Treasury Reserve.

7. In summary the current allocations for 1992/93 are as follows:

## POLICY IN CONFIDENCE

£ million

Bilateral Aid		Multilateral Aid	
<u>Country Programmes</u>	677	European Community	375
of which		World Bank Group/IMF	257
Sub-Saharan Africa	330 (49%)	Other Banks and Funds	47
South & East Asia	233 (34%)	United Nations	74
<u>Other Bilateral</u>	448	Commonwealth	11
of which		Other international bodies	21
Sectoral Programmes	101		
Voluntary Agencies	42		
Humanitarian Provision	85		
Aid and Trade Provision	117		
CDC loans	65		
British Council Grant-in-Aid	29		
<b>TOTAL</b>	<b>1126</b>		<b>784</b>

Total Allocated      £1910

Contingency Reserve      £70

---

**TOTAL**      **£1980**


---

8. Within country programme allocations for 1992/93, 83% is allocated to Low Income Countries (income per head under \$700) and 76% to Commonwealth countries. For all bilateral aid that can be allocated by country, 76% in 1990 went to Low Income Countries. While we provide aid to some 120 countries, in 1992/93 68% of total country programme funds is allocated to 15

# POLICY IN CONFIDENCE

developing countries with aid allocations in excess of £10 million. They are:

		£ million	
India	90	Nigeria	30
Bangladesh	55	Tanzania	29 *
Pakistan	27	Zimbabwe	27 *
Nepal	17.5	Ghana	22 *
Indonesia	12	Mozambique	18.5*
Zambia	38 *	Malawi	15
Uganda	33 *	South Africa (none through SA Govt)	14.5
Kenya	31 *		

\* Includes Programme Aid in support of economic reform.

9. In 1989 calendar year total DAC bilateral aid amounted to £21 billion of which UK bilateral aid accounted for 4.3% (£890 million). In none of our countries of concentration are we normally the largest bilateral donor. Excluding South Africa, which is not clasified as a developing country, we provide 9% of total DAC bilateral aid to our fourteen main recipients, though in some sub-Saharan African countries where we have provided substantial Programme Aid in support of economic reform (eg Nigeria, Malawi, Uganda and Ghana) our share of total bilateral aid was between 20% and 30%. If one includes our imputed share of multilateral aid to these countries, our contribution to their total aid receipts was also 9% (see Table 1 atached for details).

10. In 1990/91 total spending on our bilateral country aid programmes was £628 million. £142 million was provided as Programme Aid to finance essential imports in support of economic reform programmes agreed with the IMF/World Bank. The balance

POLICY IN CONFIDENCE

of £486 million was used to finance specific projects and sectorial programmes involving the provision of management assistance and training under technical co-operation arrangements and the inputs of goods and services.

**Prospects under existing PES plans**

11. The new Survey period will be for the three years 1993/94 to 1995/96. The existing aid baseline (assuming a cash uplift factor for the last year of 2.5%) would be as follows:

	£ million			
	1992/93	1993/94	1994/95	1995/96
Existing baseline	1831	1899	1975	2024
% increase in cash terms	-	3.7%	4.0%	2.5%
% increase in real terms <sup>1</sup>	-	0.2%	1.0%	
-				
Aid as % of GNP	0.30%	0.29%	0.28%	0.27%

12. On existing plans the growth in the aid budget would just keep ahead of forecast inflation over the three years as a whole compared to the planned provision for 1992/93. Compared to the expected outturn for 1991/92 including in year additions from the Reserve (£1789 million), the planned provision for 1995/96 would be 1% less in real terms. The aid/GNP ratio would resume its downward path, falling to 0.27% by 1995/96.

---

<sup>1</sup> using Treasury forecasts of inflation (GDP deflator)

POLICY IN CONFIDENCE

13. On the basis of existing multilateral commitments, current trends in EC budget aid spending, and continued constraints on increases in multilateral spending in the limited areas where we do have some discretion, the prospect for bilateral aid overall is as follows:

	£ million				
	1991/92	1992/93	1993/94	1994/95	1995/96
Total gross aid budget	1846	1893	1959	2037	2084
Aid Administration	42	49	52	55	58
Multilateral Aid	752	784	818	860	918
Bilateral Aid	1052	1060	1089	1122	1108
Bilateral Aid in 1992/93 prices	1100	1060	1052	1053	1014
Cumulative % Real <sup>1</sup> Terms Decline	-	3.8%	4.6%	4.6%	8.5%

14. Bilateral aid overall is expected to fall in real terms by 8.5% up to 1995/96. Against this background it is likely the real value of country aid programmes might decline even more substantially, subject to policy choices that Ministers might make:

- i) the level of humanitarian aid is uncertain and needs to come from within what otherwise might be available for long term development work, unless exceptional levels of emergency assistance are financed from the Reserve;

---

<sup>1</sup> using Treasury forecasts of inflation (GDP deflator)



POLICY IN CONFIDENCE

- ii) the ATP budget is planned to increase by £19 million in cash terms in 1992/93 and the DTI may press for further increases;
- iii) the unit cost of scientific work in real terms will rise further as UK academic institutions are encouraged to charge full economic costs for their work.

TABLE I

## AID TO MAJOR RECIPIENTS OF UK BILATERAL AID 1989

£ million

	Bilateral Aid			Bilateral and Multilateral (1) aid		
	<u>Total DAC*</u>	<u>UK</u>	<u>UK as % of Total</u>	<u>Total DAC</u>	<u>UK</u>	<u>UK as % of Total</u>
Nigeria	188.9	62.9	33.3	210.7	65.9	31.3
Bangladesh	593.0	52.0	8.7	1112.6	98.0	8.8
India	691.4	50.0	7.2	1156.0	97.3	8.4
Kenya	378.5	44.3	11.7	589.0	64.8	11.0
Ghana	213.7	43.9	20.5	336.1	54.0	16.1
Tanzania	419.4	37.1	8.8	560.8	50.6	9.0
Malawi	110.8	31.6	28.5	251.0	44.9	17.9
Pakistan	416.1	25.2	6.1	706.9	42.6	6.0
Uganda	96.9	24.3	25.1	224.2	35.0	15.6
Mozambique	333.1	21.2	6.4	470.9	35.6	7.6
Zambia	191.6	18.7	9.8	239.1	23.8	10.0
Nepal	151.8	17.2	11.3	299.5	24.7	8.2
Zimbabwe	138.8	13.1	9.4	164.2	16.3	9.9
Indonesia	1039.1	8.8	0.8	1121.2	20.0	1.8
All developing countries	20876	892	4.3	27949	1567	5.6

\* Development Assistance Committee of the OECD: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, UK, U.S.

(1) Spending by multilateral aid institutions imputed to individual donors according to their relative contributions to the institutions concerned.

BRIEFING FOR NEW ADMINISTRATION

PUBLIC EXPENDITURE SURVEY 1993/94 - 1995/96

Objective

1. Departments will be required to submit any PES bids probably by early June.
2. Our objective should be to secure sufficient additional resources overall to enable HMG to pursue its foreign policy objectives in both Eastern Europe and the former Soviet Union, and in each of the regions of the developing world.

Strategy

3. To achieve this we should bid separately for the additional resources needed for each of the external assistance programmes: the aid budget to developing countries; assistance to Eastern Europe and the FSU; and the global environment assistance programme. We should resist Treasury efforts to see them all as a single budget; we should continue to argue that as a matter of policy our assistance to Eastern Europe/FSU is additional to the aid budget to developing countries. We need to build upon the Prime Minister's statement at the Commonwealth Heads of Government meeting last year in Harare:

"...the developing countries must not and, as far as the UK is concerned, will not be allowed to take a back seat. UK assistance to Eastern Europe and the Soviet Union is additional to and not at the expense of our aid to developing countries."

POLICY IN CONFIDENCE

Aid Budget for developing countries

4. In formulating a PES bid Ministers will wish to note that on existing plans (see Brief No 5.1 proposals 11-14):

- (i) the aid budget overall would increase by only 1% in real terms over the survey period, but would be some 1% less in real terms in 1995/96 compared to aid expenditure in 1991/92 (including in-year additions from the Reserve);
- (ii) as a percentage of GNP aid would assume its downward path, falling below 0.30% (the average figure for the last four years) and to an estimated 0.27% in 1991/92; and
- (iii) the amount available for bilateral aid is expected to fall by a further 8.5% compared to 1991/92.

5. The Treasury have argued that, if our international obligations result in higher multilateral aid spending, we should accept a decline in bilateral aid. But the UK has important interests in Africa, Asia and elsewhere, which at the present time require us to play a larger, not a diminishing, role in underpinning regional peace processes in (eg Southern Africa and Indo-China) and in supporting economic reform programmes (eg India and many countries of Sub Saharan Africa).

6. The multilateral agencies do play the leading co-ordinating and financing role, but the major OECD countries (particularly G7) are looked to for substantial bilateral aid contributions as part of the overall international effort. On present plans our capacity to respond and play an effective part will be further eroded.

## POLICY IN CONFIDENCE

7. To maintain the real value of our bilateral aid programme at its 1991/92 level (a year in which large EC aid expenditure severely squeezed it) would require an additional £100 million by 1995/96. If aid were to grow in real terms such that the aid/GNP value remained constant at 0.30%, we should need an additional £75 million, £150 million and £200 million for the three survey years respectively.

### Assistance to Eastern Europe & FSU

8. Brief No 6 sets out existing plans and options for future levels of assistance to these countries. We propose to have discussions at official level with the Treasury and the Diplomatic Wing about future options, and will then submit to the Minister and the Secretary of State, prior to preparing the PES bid.

### Global Environment Assistance Programme

9. Brief No 7 sets out the existing provision and the issues the Minister will have to decide upon prior to UNCED in June. Existing provision covers only existing commitments; any pledge to contribute to a replenishment of the Global Environment Facility would require additional provision in the new Survey period. The Chief Secretary has accepted that the outcome of the PES should be such that the government is seen to be honouring its commitment to 'providing "new and additional resources" to help developing countries implement measures to protect the global environment.

10. The pressures from developing countries at UNCED for donor countries to commit themselves to achieving the 0.7% of GNP UN aid target - so as to help developing countries address their own development and Environmental concerns - will also have a bearing to increase the provision for the aid to developing countries.

**BRIEFING FOR THE NEW ADMINISTRATION**

**GLOBAL ENVIRONMENTAL ASSISTANCE AND THE UNITED NATIONS  
CONFERENCE ON ENVIRONMENT AND DEVELOPMENT (UNCED)**

1. Recent years have seen growing acceptance that global environmental issues like ozone depletion, climate change and the loss of biodiversity needs to be tackled. These issues are distinct because they affect all countries and require international agreement if they are to be dealt with; but they also require action to be taken within individual countries which can be costly but may not produce national benefits which fully justify these costs. International agreements are being sought to address the issues involved. Hence the Montreal Protocol on ozone depleting substances and the current negotiations on Climate Change and Biodiversity Convention.
2. Industrialised countries need to take the lead but all countries need to play their part in dealing with global issues.
3. In current negotiations on the Conventions, and in the run-up to UNECD in Rio in June, considerable weight is being given to the role of traditional aid programmes in helping developing countries with their national environmental problems crucial to achieving sustainable development (see briefs 5.3(4) and 5.4(5)). Aid programmes are increasingly being used to address these key issues, for example, via help with forestry, energy efficiency and population growth. Action in these fields, as well as producing high benefits for the individual developing country in national terms also helps deal with the global issues, particularly climate change and loss of biodiversity.
4. At the same time OECD countries have recognised that the developing countries' national priorities are economic and social development, including poverty alleviation, and local rather than

global environmental problems. This leads developing countries generally to attach lower priority than we would like them to give to action aimed at helping deal with global warming - especially by constraining CO<sub>2</sub> emissions, preserving certain kinds of biodiversity and ending CO<sub>2</sub> use. OECD countries have therefore accepted that developing countries need special help to finance those costs which cannot be justified in terms of the benefits they produce for the country undertaking the action (in the international jargon these are being called "incremental costs"). Hence HMG's creation of the Global Environmental Assistance Programme in 1990/91 separate from the aid programme to the developing country.

#### Global Environmental Assistance

5. The Global Environmental Assistance Programme is used to provide our contributions to:

- (i) The Montreal Protocol Fund, established in June 1990, to help developing countries phase out CFCs. Our commitment is up to US \$15 million for the Fund's current 3 year programme.
- (ii) The Global Environment Facility, established in February 1991, under the auspices of the United Nations and the World Bank to help developing countries tackle climate change, loss of biodiversity, ozone depletion and pollution of international waters. Our commitment is £40.3 million to the current 3 year pilot programme.

6. The Global Environment Facility (GEF) which is supported by all key donors and has key developing countries like China, India and Brazil as members, as well as other beneficiaries, is currently being restructured to act as the multilateral fund for the incremental costs of global issues, including the Conventions on Climate Change and Biodiversity. We are committed to providing new and additional resources to a replenishment of the GEF in the context of UNCED if developing countries accept

satisfactory commitments under such Conventions and if other developed countries are willing to finance the replenishment.

#### **UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT (UNCED)**

7. UNCED, also known as the Earth Summit, will take place from 3-14 June 1992 in Rio de Janeiro. It is expected that Heads of State and Government will attend. The main outputs are expected to be:

- Conventions on Climate Change and Biological Diversity open for signature;
- Declaration of Principles on the conservation and sustainable use of the world's forests;
- Declaration of rights and obligations on the environment called the Rio Declaration (formerly known as the Earth Charter);
- a comprehensive action plan called Agenda 21 on the steps which governments, international organisations and others should take to tackle environment and development problems into the 21st century;
- recommendations on effective institutional follow-up of UNCED's results.

8. The key issue which will need to be addressed further in the final run-up to UNCED and concluded at Rio itself is the nature and scale of resources which are necessary to finance Agenda 21 and global Conventions and to ensure that UNCED is an effective milestone in promoting sustainable development at local, national, regional and global levels.

9. The industrialised countries will have to offer a credible financial package in return for credible undertakings by developing countries on global environmental issues and the



better use of aid for national development and environmental priorities. The package is likely to involve consideration of:-

- a commitment to replenish a restructured Global Environment Facility (GEF), principally to assist developing countries to meet the incremental costs of their obligations under the Climate Change and Biodiversity Conventions;
- a commitment in relation to the UN aid target of 0.7 per cent of GNP;
- a commitment on the 10th replenishment of the World Bank's International Development Association (IDA) Fund, due to be agreed later this year, including a possible 'Earth Increment' to help finance activities identified in Agenda 21.
- a commitment on debt relief.

The developing countries can be expected to continue to negotiate hard for evidence of additional resources for their development and environment priorities under Agenda 21 in addition to resources for global environmental issues.

9. The existing conditional commitment to provide new and additional resources to the replenishment of the GEF (if developing countries accept satisfactory commitments under the Climate Change and Biodiversity Conventions and provided other developed countries are willing to finance the replenishment) should meet the requirements on global environmental issues. Ministers will need to be consulted on the scale of the amount of the British contribution to be announced by the Prime Minister at UNCED. On debt, the answer may lie in evidence of further progress on the Trinidad terms. Ministers will meet to consider how planned aid resources can be more effectively deployed to meet developing countries national priorities for UNCED and how to fend off calls for a timebound commitment to the 0.7 per cent target. We will want to use the replenishment of IDA, which can be used to finance environmental activities in the poorest

countries, to head off calls from some of the developing countries that the GEF become a general Green Fund, rather than one focussed on the global issues.

10. A submission to Ministers will be prepared.