



10 DOWNING STREET

THE PRIME MINISTER

26 September 1983

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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 139 / 83

L. S. Williamsburg

Thank you for your letter about the funding of the International Development Association.

I agree with you that it is important to maintain concessional flows to the world's poorest countries. As you will know, our own bilateral aid programme is second to none in directing assistance to the poorest. About two-thirds of our funds go to them, almost all in the form of grants.

At Williamsburg, we re-affirmed the need to implement commitments to the multilateral aid agencies. The United States Government are now on course to complete their contribution to the Sixth Replenishment of IDA during its fiscal year 1984. All other donors, including the UK, are providing additional resources to alleviate the shortfall in IDA's commitment authority in that year.

All countries participating in the next Replenishment (IDA 7) have accepted that it must command full international support, with contributions based on the principle of fair

/burden-sharing

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burden-sharing among donors. But I should not disguise from you our view that the World Bank President's target of \$16 billion is likely to prove unrealistically high in the context of the current budgetary problems of those many donors, including the United Kingdom, which feel obliged to exercise strict control over public expenditure as part of their measures to deal with their own economic problems.

Whilst I cannot predict the eventual outcome of the negotiations, I assure you that Britain stands ready to support the next Replenishment within the limits of what donors can afford; but our percentage share will have to be more in line with our relative economic strength among donors, and therefore much less than the 10.1 per cent which we contributed to IDA 6. Our aim is to put the next Replenishment in place by July 1984, however, and we share your expectation that it will cover the usual three-year period.

I look forward to meeting you again soon at the Commonwealth Heads of Government Meeting in Delhi.

Yours sincerely
Rajiv Gandhi

His Excellency Lieutenant General H.M. Ershad ndc, psc,

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Foreign and Commonwealth Office

London SW1A 2AH

23 September 1983

in type WNV 22/9
Dear Michael,

International Development Association

I submit a draft reply to the enclosed copy of a letter to the Prime Minister from Lt General Ershad.

The background to the negotiations on the Seventh Replenishment of IDA is contained in the Foreign and Commonwealth Secretary's minute of 2 September to the Chancellor of the Exchequer, copied to the Prime Minister.

We shall forward the signed copy of the Prime Minister's letter by Bag, if you agree.

I am copying this to John Kerr (Treasury).

Yours ever
John Holmes

J E Holmes
Private Secretary

M C Scholar Esq
10 Downing Street

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DRAFT LETTER FOR SIGNATURE BY THE PRIME MINISTER

To: His Excellency Lt General H M Ershad ndc, psc
President of the Council of Ministers of Bangladesh

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I look forward to meeting you again soon at the Commonwealth Heads of Government Meeting in Delhi.

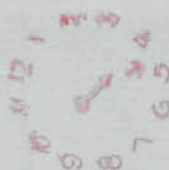
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Lt Gen H M Ershad ndc,psc
PRESIDENT OF THE COUNCIL OF MINISTERS
DHAKA

22 August 1983

DO No. 5510/6/CMLA

The Right Honourable
Mrs Margaret Thatcher,
Prime Minister of the United Kingdom of
Great Britain and
Northern Ireland,
London

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T118B/83**

Excellency,

You are aware that three years of global recession which has thwarted development in almost all the nations of the world, brought unprecedented miseries for the developing countries, particularly the least developed ones amongst them. Far from maintaining the momentum of progress which the developing countries attained in the 60s and a major part of the 70s, average per capita income for the developing countries declined in 1981 and again in 1982.

It is encouraging to note and to hear that the industrialised countries are slowly emerging from the recession and there are clear signals of recovery in many of them. The challenge now will be to turn the recovery in the developed countries into a vehicle for revival of international development cooperation for sustained growth for the entire world.

While the low income countries as a group received in recent years less than 40% of official development assistance, the share of the least developed countries have been disappointing indeed. Stagnation in the levels of official development assistance to these countries, coupled with unprecedented decline in their export earnings and deterioration in their terms of trade, drastically reduced their import capacity and investment programme. For Bangladesh the loss in the terms of trade in 80-82 amounted to a loss of income of the order of a



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billion dollars or nearly 10% of the GDP leading to declining investments. In 82-83 also the export earnings have been 10% lower than the level attained in 1979-80. Per capita income declined severely in 81-82. And in 82-83 also because of lower investment levels, GDP growth barely kept ahead of population growth.

The developing countries, particularly the least developed ones, need substantial flows of capital and concessional assistance for reversing the declines in production, income and employment. We believe that rising investment levels, apart from helping to restore per capita incomes, will have a major role in reviving international trade to the mutual benefit of the developed and developing countries. In this context the role of the International Development Association (IDA) is of crucial importance. IDA has played a significant role in the least developed countries not only in quantitative terms but also in qualitative terms. 90% of IDA funds go to developing countries with per capita income below \$ 400 a year and for many least developed countries it is the largest source of external capital flow. It was, therefore, a matter of great regret that the management of the World Bank was forced to cut-down IDA's lending programme by 20% in 1981, 35% in 1982 and 28% in 1983. This happened mainly because of short-fall in contributions for the 6th replenishment. It is, therefore, extremely urgent that the balance of IDA 6th replenishment be made available in FY'84 so that a minimum level of IDA lending programme can be maintained this year.

IDA operations have established that properly administered development assistance can strengthen the economic institutions and increase the productivity of domestic resources. Recent studies have also recognised the effectiveness of IDAs operations and its unparalleled ability to provide policy advice. IDA financed projects have not only high rates of return throughout the developing world, but more importantly, have helped promote efficient sector and project management. All the while IDA's emphasis on combatting poverty in the least developed and low income countries have remained paramount without sacrificing



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standards of efficiency and quality. Higher levels of IDA-7 will undoubtedly, mean greater effectiveness of World Bank management advice in the least developed countries.

The negotiations for the 7th Replenishment of IDA have commenced, but the prospects remain highly uncertain. The outcome of these negotiations will have profound influence on the lives of hundreds of millions of people throughout the developing world. With the entry of China, IDA's constituency now covers 2.1 billion people in the developing world. While we were looking forward to a replenishment level of \$ 20 billion, views seem to have been converging on a level of \$ 16 billion only, which will mean very little increase over IDA 6 in real terms. In our opinion a replenishment level below \$ 20 billion will be an ineffective response to the needs of the developing countries and IDA's ability to assist the recipients. We fully agree with the President of the World Bank that "the need for IDA is great, the effectiveness of IDA is beyond question but the political will to support IDA is in doubtFailure to sustain and strengthen IDA would be turning our backs on the poorest peoples of the World".

IDA-7 has already been delayed by one full year and is now scheduled to begin in July, 1984. A consensus on the level of IDA-7 is as urgent as the need for making it effective from July, 84. Aware of your very special concern for IDA and also deeply appreciating your help in strengthening IDA in its difficult days in the past, we hope that your government will do everything possible to conclude IDA-7 negotiations at an early date. For the sake of consensus a replenishment level of \$ 16 billion for the next three year cycle may be vigorously pursued.

In this connection I would like to draw your kind attention to a suggestion made in the Copenhagen meeting of the IDA Deputies for a five year time horizon for the 7th Replenishment of IDA. Even though we would have liked a longer time horizon for each replenishment, it is our considered view that under the present uncertain economic conditions the practice of three year replenishment should be

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PRESIDENT OF THE COUNCIL OF MINISTERS
DHAKA

maintained. The extension of time horizon for replenishment at this time may only reduce annual IDA flows unless there is proportionate increase in the total volume of replenishment. We hope your Government will fully appreciate this and direct the negotiators accordingly.

Please accept, Excellency, the assurances of my highest consideration.

A handwritten signature in green ink, appearing to be 'H M Ershad', written over a horizontal line.

H M ERSHAD

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Foreign and Commonwealth Office

London SW1A 2AH

7 September 1983

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Dear John,

The Bangladesh High Commission have requested us to pass to the Prime Minister the enclosed letter from Lt Gen Ershad, the President of the Council of Ministers in Bangladesh, about IDA.

We will advise on a substantive reply to the letter in due course.

Yours ever

J E Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street