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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

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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.

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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 ^{could} 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

*Further behind Bill
reduction*

*87-82.
Bilateral*

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

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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

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- (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