

OPS cc MASTER

T118B/83

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SUBJECT: OVERSEAS AID
Briq Pt 3



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 doubt ... Failure 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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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 black ink, appearing to read 'H M Ershad', is written over a horizontal line. The signature is stylized and cursive.

H M ERSHAD