

CONFIDENTIAL



*Overseas
NBPA yet Aid
Amis 12/5*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7th September, 1979

Dear Secretary of State,

EFFECT ON RHODESIA POLICY OF CUTS IN THE 1979-80 AID
PROGRAMME

Thank you for your minute of ~~31st~~ August about the pressure on the 1979-80 aid programme. Ian Gilmour also minuted Nigel Lawson on the same subject, in relation to a new aid commitment to Bangladesh, on the same date.

I, of course, entirely understand the importance of doing all we can to ensure the success of our Rhodesian policy, and I can well see the strength of the political case for avoiding any reductions in our aid programmes to countries whose support for this policy is vital, as you cogently argue in your minute. I accept, too, of course, Ian Gilmour's assessment of the limited remaining room in the aid programme's contingencies margin (although I do not think it is consistent with this to say, as your paragraph 5 does, that the margin is already fully earmarked for firmly foreseen needs). It was this consideration which led Nigel reluctantly to agree to an extra £1½m. for Bangladesh on the clear understanding that offsetting savings of £1.4m. were available, that the contingency reserve limit of £32.5m. was sacrosanct and that there would be no consequent overspend on the aid programme cash limit.

I am bound, however, to say that I think it would be entirely wrong to depart from the fundamental principle that the aid programme must be administered within its cash limit. The political difficulty of making cuts in these Rhodesia-related aid expenditures was, of course, entirely foreseeable a month ago when your Department was re-arranging the aid programme to accommodate the Budget cut and the recent surge in spending - and when Ian Gilmour assured me (his minute of 9th August) that he was satisfied that a contingencies margin of £32.2m. was adequate to cover expenditure in 1979-80 not then covered by specific allocations. It seems a pity that the re-arrangement of the programme enclosed with Ian's minute was unrealistic in this way.

The Rt.Hon. The Lord Carrington, KCMG, MC.



For all these reasons I am afraid I don't feel able to increase the total aid programme at the expense of the Public Expenditure Contingency Reserve (which in any case - as you know - we decided at the time of the Budget to reduce, and is already under substantial pressure from a variety of sources). Even in the context in which you now raise the point I do not see how we could defend an increase in the aid programme cash limit in the wake of the £50 million Budget reduction and given our firm commitment to the control of public expenditure in general and to cash limits in particular.

I can agree, therefore, to the restoration of the cuts earlier allocated as listed in the annex to your minute only on the understanding that aid expenditure will be contained within the published cash limit, by whatever further re-arrangement of the aid programme is necessary; and that you will stand ready to cut back on existing commitments later on this year if this proves necessary to preserve the integrity of the cash limit - not excluding the possibility of thinking again later in the year about allocations (e.g. to India) to which the ODA has (prematurely, it now appears) very recently committed itself. The political difficulties of this latter course are clear enough. But they are, it seems to me, the price we would have to pay - within the reduced aid programme - for the very high priority we attach to a Rhodesian settlement.

I am sending copies of this letter to the Prime Minister and Sir John Hunt.

J. W. S. S. S.

pp. (GEOFFREY HOWE)

(Approved by the Chancellor of the Exchequer and signed in his absence).

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