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Your reference

Our reference

Date 2 June 1986

Dear Gerald



PROPOSED US CONTRIBUTION TO INTERNATIONAL FUND

- /
1. I enclose a further contribution by the US Agency for International Development (AID) on our proposed International Fund. AID's comments arise in part from my discussion with them on 11 April (my teletype of 14 April to you).
 2. We and the Irish Embassy regard this as a slightly puzzling document. It raises points which we and the Irish had thought to have been resolved; and the treatment of the question of targetting by the Fund does not seem to be phrased in the most sensitive way given the talks in January and March, and the April conversation. I have asked Sarah Horsey (Irish Desk, European Bureau, State Department) what was behind this latest AID offering. She seemed rather embarrassed and was at pains to stress that this should be regarded as an informal, working-level document raising a number of questions and making a number of suggestions. She said that a reply was not expected and implied very strongly that the State Department saw the production of this note as a way of keeping AID sweet. She stressed, as she and her colleagues have throughout, that the State Department want the US role in the administration of the Fund to be minimal and that, when the time comes for the detail of the US relationship to the Fund to be worked out, AID's apparent preferences are unlikely to be given much weight. Horsey suggested that, if we wanted to reply, the best time might be just before the arrangement establishing the Fund entered into force. There would then need to be further UK-US-Irish discussions which might tackle some of the points in the AID note.
 3. We also discussed two particular points in the AID paper:
 - a) The idea that it might be "politically useful" for the UK and Republic to make a contribution to the Fund. I reminded Sarah Horsey that this had been discussed at both the January and March meetings and at other times, and that the UK and Irish view had been explained. It had not changed. Sarah acknowledged this, and said that there was no US proposal that it should. She repeated that there was no need to answer this point in the AID note.

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b) The reference to Congressional concern over the degree of US participation in the board. Both the State Department and Irish Embassy share our view that this issue has gone quiet and that pressure for the US to be more than an "observer" is unlikely. We can expect Biaggi and co to complain, but it should be possible to see them off.

4. Sarah Horsey's advice seems reasonably sensible to me. But you will wish to discuss with the Irish how to respond to the AID paper. We would obviously not want to give the impression that we were acquiescing in the points it makes. It might be possible, for example, to instruct the two Embassies to make clear to the State Department that we had significant reservations about parts of the AID note, and intended to take these up when the time came for more detailed discussions on the way the US contribution should be administered.

Yours

Nigel

N E Sheinwald

cc: (with enc)

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
COMMENTS ON THE "DRAFT ARRANGEMENT CONCERNING THE
INTERNATIONAL FUND FOR IRELAND"

The draft arrangement concerning the International Fund for Ireland, given to State and AID staff on April 3, 1986, contains a statement of objectives, general criteria, and a proposed prioritization of potential projects as well as some general comments on Fund administration, an advisory committee, auditing, and reporting. We assume both governments will feel a need to detail further these provisions, either in the formal arrangement and/or in subsidiary implementing documents. Following are initial AID comments and questions on the draft arrangement. These reflect AID's experience gained in working with a variety of "Funds" around the world.

1. Character. The Fund is characterized as a vehicle for international support only. Thus, while the scope of the Fund's activities has been defined broadly, presumably to allow for a wide diversity of donor interest, the structure of the Fund seems to imply a narrow view of what the fund can be beyond a mere vehicle. There is no indication that the planners of the Fund have considered what role they wish the Fund to play beyond that context.

More specifically,

(a) The Fund seems to have no time frame of reference. (For example, the U.S. Alliance for Progress in the early 1960s set itself a 10 year period within which it set broad goals of accomplishments it wished to reach in that time.)

b) Is the Fund itself an instrument of greater cooperation between the two governments? If so, our experience is that this will require the Fund's active involvement in project planning and execution. The Fund is not structured in the draft arrangement to perform this function.

(c) The Fund appears to be passive rather than active, and largely constrained by donor funding. This implies that projects (with the exception of the venture capital funds) can not be planned beyond the confines of the available donor funding or the donor time frame. Our experience is that the type of industrial, infrastructure, public service, social, cultural and political development that is expected will require considerably longer-range planning and execution than is implied in the draft.

2. Funding. There is no identified source of funding for the Fund beyond any donor financing secured. Normal practice would have the Fund "capitalized" by the two governments to give it a financial base to which they are both committed and which they view as jointly held. Would it not be politically useful for the UK and Republic of Ireland to transfer into the Fund at least a small portion of funds now spent by those governments in Northern Ireland and the surrounding areas of the Irish Republic? The mere commingling of their funds would have an important and symbolic value. The decisions taken on investments would be viewed differently if each included some element of equity.

A related issue is the strong preference given to grants vs. loans. The implication is that the funds are considered to be similar to the capital budgets of each government, to be expended on a one-time basis. The major difference, of course, is that the Fund has no access to general revenues to replenish itself, nor does it have any income from endowments or interest on loans.

In addition, there is the issue of amount. While an amount of up to \$250 million dollars (the current highest amount under discussion) over a five year period seems large, in comparison to the task and the size of the economies involved it is a scarce resource. In that sense, the priority should be for loans over grants (with the latter receiving the qualifier of "exceptionally" instead of the former) and policies should be devised to use the available funds in the most efficient manner, e.g. leveraging other sources of funding through guarantees, support for public bonds, etc. For these reasons, would not a revolving loan fund, assuming most of the projects are productive and revenue producers, be more appropriate?

3. Fund Administration. The subject draft calls for a six-member board, assisted by an advisory committee and necessary supporting staff. This underscores the perceived transitory nature of the effort. If the perceptions of the Fund were to change to incorporate a longer term and institutional approach, then it is likely that some effort would be directed to establishing an administrative structure with greater "management depth" than is now apparent.

Also, as previously discussed, and as observed at Congressional hearings on this subject, the U.S. may be required to do more than send observers to board meetings. Our Congress may insist that the Fund have a more formally constituted advisory board.

4. Donor Discrimination. The list of activities that the Fund "...will give priority on a value for money basis..." is broad;

however, it is likely that donors (especially the USG) will want to identify their funds with certain of these activities and not with others. We have made it clear both to our Congress and to the two Governments involved that our main interest is in private sector investment, rather than educational, social, communications activities, etc. This implies that the Fund should have as wide a spectrum of donors as possible, plus resources of its own. Otherwise, the decision by a donor to limit its contributions to given sectors will inhibit the Fund from accomplishing the broad range envisioned.

5. Reporting. If we are to satisfy Congressional concerns as to our continuing knowledge of Fund operations, particularly of project approvals, we will probably need more periodic, e.g. quarterly reports on certain aspects of these operations.

In closing, we repeat our earlier request that once the Fund agreement comes closer to reality we be given an opportunity to give more formal U.S. views on general objectives, policy formulation, operating procedures, and criteria for project approval.

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