



# An Chartlann Náisiúnta National Archives

<b>Reference Code:</b>	2016/52/57
<b>Creation Dates:</b>	6 March 1986
<b>Extent and medium:</b>	13 pages
<b>Creator(s):</b>	Department of the Taoiseach
<b>Accession Conditions:</b>	Open
<b>Copyright:</b>	National Archives, Ireland. May only be reproduced with the written permission of the Director of the National Archives.

S21138

filed PSM  
PSS  
McGinnis  
A.I. Letter  
Mr. P. Henderson 2/10/86  
SD  
10/1/86

DISCUSSION WITH STATE DEPARTMENT ON PROPOSED U.S.

ASSISTANCE IN SUPPORT OF THE ANGLO-IRISH AGREEMENT

1. A meeting took place at the State Department on the afternoon of March 6 to discuss proposed U.S. assistance in support of the Anglo-Irish Agreement. The list of attendance at the meeting is attached (Annex I). The meeting was chaired by Mr Martin Wenick. At the outset of the meeting Mr Wenick circulated a draft agenda (Annex II).

2. Mr Wenick began his presentation by giving an up-date of the situation with regard to the two bills in circulation. He said there is a substantial divergence between the bill approved this morning in the House Foreign Affairs Committee and the Administration bill. The Administration stands behind its proposals. Apart from the financial component of the House bill, the Administration has concerns about some other aspects of the House bill. With regard to the schedule of Congressional activity, Mr Wenick said that there has to be authorising and appropriating action in both House and Senate. There will have to be a further hearing at Committee level in the House. After adoption by the House, the bill will have to go to the Senate for consideration. In the Senate attempts are likely to be made to link the bill to the U.S./UK Extradition Treaty. Mr Wenick said that the House process has been driven by forces not in the control of the Administration. There will not be the same urgency to the timetable in the Senate. So far there appears to have been little contact between the House and Senate on the bill - the Administration is frankly surprised at the lack of contact to date. A House Appropriations Committee hearing on Middle East and European affairs is scheduled for 19 March. In many ways the hearing in the Appropriations Committee will be more crucial than that in the Foreign Affairs Committee. It is the Appropriations Committee which has to decide where the money will come from. Mr Wenick said that the Administration anticipates that House action

will be completed by Easter; Senate action is likely to come substantially later.

3. Mr Wenick added that the Administration would have preferred further discussions with the Irish and British Governments before having to testify in the House Foreign Affairs Subcommittee. However, as it emerged, the timetable did not permit that. On Monday of this week (3 March), when the bill was ready to go forward, a decision was taken to re-examine the funding question to see if anything additional might be available. At that point a decision was taken by the Secretary of State to stand by the Administration's draft of the bill. Mr Wenick emphasised that Mr Shultz has been "personally involved every step of the way".

4. Ambassador MacKernan mentioned that he had heard some talk of a hearing next week by the Senate Foreign Relations Committee. Mr Wenick said he had not heard of this. He went on to say that the Administration proposal stands. There is a \$30m gap in each of two years between the Administration and House versions of the bill. The question arises, particularly in 1987, as to where the money will come from - it will have to be taken from other USAID programmes. The White House will have to take a decision on the matter in the final analysis.

5. Apart from the question of the money, Mr Wenick said that the Administration has two areas of concern with the House bill. The first area of concern is the provision for U.S. membership of the Board of Governors (Mr Wenick asked that his comment on this remain confidential). If the U.S. had a member on the Board it would become a mediator or arbitrator in Northern Ireland affairs. This is what the U.S. has wanted to avoid all along. Perhaps the U.S. could consider membership of an Advisory Council.

6. Mr Brennan said that the British and Irish Governments had seen little point in making final arrangements for setting up the fund until it is clear that money is available and that the proposed arrangements fit in with the wishes of donors. The setting up of the fund is a first stage and the setting up of the Board is a second stage. As far as the composition of the Board is

concerned, we are in the hands of the U.S. If the U.S. wishes to be a Board member, we will find a way. If not, that is equally acceptable to us. A middle way might be to find a distinguished American for Board membership who would not formally be a nominee of the U.S. Government.

7. Mr Wenick said that the U.S. cannot tell us what it wants because everything will depend on the mandate from Congress. Mr Brennan commented that in practice it may be an unreal fear that the U.S. would be put in an awkward position through membership of the Board. Mr Wenick responded that there was a real risk of awkwardness if a U.S. member was to be in a position of having to take decisions on investment, etc. There could perhaps be an Advisory Council of donor nations in addition to the Government Advisory Council. Mr Brennan said that it might be easier for the U.S. if one had a rule where proposals before the Board would need 5 votes out of 6 to be approved. Mr Bloomfield added that perhaps there should be a unanimity rule for Board decisions - a kind of ultimate veto for all Board members. Mr Wenick said that a unanimity rule could put the U.S. member in a very difficult position.

8. Mr Kaymes said that the U.S. wishes to avoid an elaborate superstructure for U.S. involvement. The U.S. merely wants to be involved in the formulation of procedures for the fund, to look overall at how funds are managed and to get an annual report. However, some people in Congress want the Administration to go far beyond this.

9. Ambassador MacKernan asked if an Advisory Council would be a vehicle which would satisfy U.S. requirements. Mr Kaymes said he could see merit in an Advisory Council of donor countries.

10. Mr Brennan said that he would hope that the Board will have a strategy and policy role but will largely rely on proposals coming from the Advisory Council. A U.S. presence on the Board, therefore, need not involve the U.S. in too much detail.

11. Mr Wenick said that the other Administration concern with the House bill

is the question of certification and submission of annual reports to Congress. The preparation of such a report would be an "onerous redundancy". The Administration is already obliged to prepare a variety of human rights reports for Congress. These are always problematic and involve judgemental calls.

12. Mr O Tuathail asked what the certification means in practice. Mr Kaymes said that prior certification requires great detail and that USAID lawyers would prefer that the certification come from the fund.

13. Mr Brennan referred to Section 4(b)(3) of the House bill which states that the President must certify that disbursements from the fund "address the needs of both communities in Northern Ireland". He felt this wording was too narrow since 25% of the expenditure will be in Ireland. Mr Kaymes queried precisely what would be involved in expenditure in Ireland - border areas only or other areas? Mr Honahan said we did not wish to get into a situation where we had to define border areas - questions would arise as to whether a 5 or 10 mile radius or something larger should qualify as a border area. Mr O Tuathail said we should stick to the wording of Article 10 of the Agreement.

#### HOUSING GUARANTEE FUND

14. Mr Kaymes began by saying that even if we end up with a full cash package, a number of aspects of the Housing Guarantee Fund may be useful to Northern Ireland. Mr Peta provided some details on the Housing Guarantee Programme. The cost of borrowing is determined by market rates at the time of borrowing. Basically it is a very concessional programme and a 10 year grace period is offered on repayment of principle. Asked what rates are currently available to borrowers, Mr Peta said they have a choice: to borrow at fixed interest rates currently 10-11% or to borrow at a variable rate which works out about 1% above treasury bill rates. Treasury bills are currently around 7% so borrowers can get a rate of around 8%.

15. Mr Quigley said that in Northern Ireland at present the rate at which private individuals borrow from building societies is around 12%. However,

Voluntary Housing Associations are offering rates of around 10-1/4%. The repayment period is usually 25 years. A rate of 8% would obviously be more advantageous. Voluntary Housing Associations borrow about 50% of their funds from the government. Obviously, if they get these funds from elsewhere, it would free up government funds. While there is no problem with availability of credit, it would obviously be advantageous to get cheaper funds.

16. Mr Bloomfield said that he understood borrowing from the Housing Guarantee Programme is for those with below median income. In Northern Ireland those who buy their own houses are at a median income level. For those below the median income the tradition in Northern Ireland is that they rent their houses and sometimes pursue an option of co-ownership.

17. Mr Peta said that once USAID reaches an understanding in principle with a country about a package, it is up to the country concerned to put together an appropriate package. USAID tries to be flexible. There can be provision for water and sewage, sites and services, and there is also a small amount of money for additions and improvements to private homes. However, the general condition must apply that the money reaches families below median income.

18. Mr Kaymes said that he had spoken to Mr McCann in Belfast and the latter had expressed an interest in what USAID could do for rental housing. Mr Bloomfield said that the idea of starter homes is interesting and is an area which might be looked at. Housing is definitely a high priority in Northern Ireland. The unmet needs are (a) new housing for those who wish to rent and (b) rehabilitation of publicly owned estates. It is not clear how a credit guarantee is relevant to either of these needs. He has doubts if the Housing Guarantee Programme could match the real needs in Northern Ireland. There may be something here but definitely not of the order of \$20m a year.

19. Mr O Tuathail said that in Dublin we look with considerable doubt on the proposal for two reasons: firstly, the proposal is geared to the needs of developing countries which are different from our needs and secondly we do not experience any shortage of credit for housing projects. He queried if the 8%

rate available is a "floating rate" and Mr Kaymes confirmed that it is. Mr Honahan said that the Irish Government has no difficulty in getting dollar funds at good rates. While a 30 year term is attractive, we would not see the housing programme loans as significantly concessional.

20. Mr Kaymes said that USAID tries to sit down with responsible housing officials in the borrowing country and interchange ideas about what package would work. Mr Brennan asked if the potential borrower has to "shop around" U.S. banks for an attractive rate or if USAID acts as a middleman. Mr Kaymes said that USAID does assist in arranging access and makes sure that the loan agencies are bona-fide institutions (Merrill Lynch, Paine-Webber and similar are usually involved).

21. Mr Bloomfield said that he wished to register an important point: he is very leery indeed of writing against this housing guarantee provision a sum of \$20m p.a. It would simply not stand up to scrutiny. Mr Brennan added that as of now we cannot say with assurance that any housing guarantee money can be spent in Northern Ireland.

22. Mr Wenick intervened to say that it is not necessary to have the same "mix and match" every year. He wanted to point out that it is not the Administration who has pushed and rushed this aid proposal. All parties need to be mindful of the risk of a backlash. One may find some groups saying that the U.S. should not be giving money to a developed country. Factors such as this could have real repercussions for all of us.

23. Mr O Tuathail said that we still have to be convinced that the Housing Guarantee Programme is useful given that we have had no problem in raising cash. It is quite unclear how the programme's framework can apply to us. Mr Brennan added that it is not self-evident that one needs to work with the Housing Programme through the Fund, and Mr Kaymes confirmed that indeed it would not be necessary to work through Fund mechanisms.

PURPOSE OF FUND

24. Mr Kaymes said that the U.S. wishes to emphasise the development purpose of the fund while the British and Irish Governments appear to have a larger perspective. In particular the U.S. would not want money used for cultural purposes. Mr Brennan said that we would wish to retain the cultural element in the document; if there was a restriction on U.S. money, this would obviously be respected. Mr Bloomfield said that nothing is more important than stimulating the private sector of the economy; the fact is that the Small Business Agency already has all the money that it can extend. It is not realistic to say that a large percentage of the fund should be set aside for creating industrial jobs.

25. Mr Quigley said that in his view none of the aid should go to increase incentives to investment. There are enough incentives already in existence and one cannot forcefeed the private sector. The demand generated by the public sector will be met by the private sector and therefore the benefit of public sector projects will work through to the private sector. We envisage only 1 or 2% of the fund falling into the cultural category. Mr Kaymes said that the ideological trend in USAID is to emphasise private sector activity. Asked by Mr O Tuathail if the U.S. side had any specific comments on the draft arrangements for the fund, Mr Kaymes said that there was a problem with Article 5(c): USAID does not give money for travel or cultural exchange. One would have to reword that provision to state, for example, travel for "worker training". Mr Brennan said that we would envisage, in the light of discussions, looking again at the document and would give the U.S. side an opportunity to comment before the text was published.

DONORS OTHER THAN THE U.S.

26. Mr Kaymes said that a number of people in Congress have asked about other donors. He presumed the U.S. would be the majority donor. If it is simply a U.S. financed fund, this would have auditing implications. The U.S. would prefer it to be as close to a multidonor fund as possible. Mr Brennan said that we are "testing the water in Canada and in Australia but are still

waiting for an answer". The U.S. contribution will be a "triggering mechanism". It now seems unlikely that the EEC as such will make a contribution to the fund. However, there is a lot of sympathy for our case in EEC circles. We had looked at a new mechanism for EEC aid but this did not now seem to be a runner. We could now look to individual EEC governments.

27. Mr Johnson (USAID lawyer) said that unless there is substantial (i.e. not token) contribution by other donors, the U.S. is obliged to have auditing carried out by the U.S. Comptroller and Auditor General. Asked for clarification, Mr Johnson said this did not mean that the U.S. would necessarily do an audit but would reserve the right to do so. Asked what the situation would be if there was to be a time lag between U.S. and other contributions to the fund, Mr Johnson said that USAID could exercise its judgement and make a decision that the fund was in the process of becoming a multidonor fund.

#### BRITISH AND IRISH CONTRIBUTIONS

28. Mr Kaymes said that he understood from previous meetings that it was not the intention of the British and Irish Governments to make contributions to the fund. Mr Brennan and Mr O Tuathail confirmed that this was the case and outlined the expenditure of the London and Dublin Governments respectively in relation to Northern Ireland. The U.S. side appeared to accept the logic of these presentations.

#### ESTABLISHMENT OF FUND/LEGAL STATUS

29. Mr Brennan asked if, after adoption by Congress of the resolution, another document will be required to bring into effect the agreement between the U.S. and the fund. Mr Wenick said that a further such document will be required; it would be in the nature of an agreement between the U.S. and the fund but it could be a fairly simple text. Mr Kaymes queried the legal character of the fund. Mr Quigley said it would take its existence from a bank account held jointly by the two Governments. Mr Honahan said it will definitely not be a company because of problems as to where such a company

should be established. Asked where the Board, staff, etc., would be located, Mr Bloomfield and Mr O Tuathail said this had not been decided. Mr Clark added that two venture capital funds, one in Dublin and one in London, will be established. Mr Johnson commented that the fact that the fund will not have a separate identity and that the agreement will be between the U.S. and the British and Irish Governments may affect the auditing situation.

#### PRIVATE SECTOR REVOLVING LOAN FUND

30. Mr Kaymes said that this fund has a global budget of \$13m per year and up to \$3m can go to an individual country. The fund typically loans small amounts to private business. The interest rates are treasury rates plus 1%. Mr Bloomfield said that, while in general adequate funds are available to businesses in Northern Ireland, the situation falls short of the ideal with regard to venture capital where some London institutions are more reticent than they might be. Mr Kaymes said that the private sector revolving loan fund can loan to intermediate capital organisations who then loan to businesses, but it cannot provide equity. He added that the rules governing this programme would have to be amended to make it applicable to Ireland; this is true also of other USAID programmes.

31. Mr Quigley said that firms in Northern Ireland have no problem in borrowing. What is needed is an equity source of last resort. The USAID scheme does not seem of interest in this respect. Mr O Tuathail added that the type of loan that seemed to be on offer was also not attractive in Ireland.

#### TRADE AND DEVELOPMENT PROGRAMME

32. Mr Kaymes said that this programme can finance feasibility studies in the region of \$300,000-\$400,000 if USAID is convinced that there will be a big multiplier effect for U.S. business. Mr O Tuathail said that Irish industrial development agencies can do this. Mr Bloomfield commented that "we welcome your ingenuity" but the proposal is not realistic. There is no difficulty in persuading American interests to do feasibility studies if a project is any use. Mr Kaymes said that under this programme the U.S. Government may be able

to get teams of entrepreneurs to visit Northern Ireland.

OPIC

33. Mr Kaymes said that the insurance provided by OPIC is against situations such as expropriation, political risk, civil disturbances. Mr O Tuathail and Mr Honahan explained that the Irish Government would be worried about any implication that such risk exists in Ireland. Mr Bloomfield said that he would be nervous of anything that implied Northern Ireland is underdeveloped or a political risk. More generally, he would be nervous about writing a sum beside any of these programmes when uptake is so problematic. There is no hope that any combination of the programmes could add up to \$30m. While it would be extreme to say that we could not take up any of the programmes under any circumstances, it seemed highly unlikely that there could be any substantial takeup. Mr O Tuathail said he supported Mr Bloomfield fully and was particularly negative about housing guarantees.

CONCLUSION

34. Mr Wenick said that we had talked about housing two months ago. There had been ample opportunity to express reservation at that stage and none had been expressed. It was important to set the record straight on this. Mr Bloomfield said that the record should be set straight on both sides. Northern Ireland is interested in housing but not in programmes suggested by the U.S. Mr O Tuathail said that he did not see why the various U.S. programme should not be listed in the bill but there was no reasonable degree of hope that anything more than minimal funds would be taken up. Mr Quigley added that if one were talking about 1/5 or 1/6 of the sum of money involved, Northern Ireland could with some ingenuity absorb it, but it would be impossible to absorb the amounts presently being discussed.

35. Mr Kaymes suggested that further meetings with experts should be arranged for the following morning. Mr Quigley said it would be useful to get a greater insight and Mr O Tuathail agreed that while we are negative and

doubtful about some of the programmes, we always welcome an opportunity to learn. The meeting closed with Mr O Tuathail and Mr Bloomfield expressing gratitude for the time and effort being expended by the U.S. side.

*Anne Anderson*

Anne Anderson

6 March 1986

cc: Ambassador & All Officers

Mr Davenport (for appropriate circulation in Dublin)

STATE DEPARTMENT MEETING 6 MARCH 1986

ATTENDANCE

U.S. DELEGATION

Mr Martin Wenick	Director, Office of Northern European Affairs.
Ms Sarah Horsey	Irish Desk Officer
Mr Kaymes	European Section, USAID.
Mr Rodney Johnson	Legal Section, USAID.
Mr Peta	Housing Section, USAID.
Ms Sundig	Project Officer, USAID.

U.K./NORTHERN IRELAND DELEGATION

Mr Ken Bloomfield	Head of Northern Ireland Civil Service
Mr Tony Brennan	Deputy Secretary, NIO.
Mr George Quigley	Perm. Sec., Northern Ireland Department of Finance.
Mr Gerald Clarke	Irish Desk Officer, Foreign Office.
Mr Nigel Sheinwald	First Secretary, British Embassy.
Mr Greg Torney	UK Delegation to International Monetary Fund

IRISH DELEGATION

Mr Eamon O Tuathail	Assistant Secretary, Department of Foreign Affairs.
Mr Pat Honahan	Economic Adviser to the Taoiseach
Mr Bernard Davenport	Counsellor, Department of Foreign Affairs.
Ambassador Padraic MacKernan	Irish Embassy
Mr Martin Burke	Irish Embassy
Ms Anne Anderson	Irish Embassy

Annex II

March 6, 1986

BRITISH-IRISH-U.S. DISCUSSIONS:  
PROPOSED U.S. ASSISTANCE TO NORTHERN IRELAND and IRELAND

1. Welcome.
2. Review of U.S. Congressional Action and Concerns.
3. Purposes of proposed International Fund - U.S. interest in limiting Fund to development purposes, with emphasis on private sector creation of jobs, products, and income.
4. Operating and approval procedures, donors' role.
5. Donors other than the U.S. - Numbers and possible amounts of other contributions.
6. British and Irish contributions to Fund.
7. Nature of Fund establishment/legal status/organization.
8. Use of USG Financial (investment, trade promotion, and guarantee) mechanisms to support economic revitalization efforts parallel to those of the Fund.
  - a. Housing Guarantees
  - b. Private Sector Revolving Loan Fund
  - c. Trade and Development Program
  - d. Overseas Private Investment Corporation
  - e. Export-Import Bank.
9. Fund audit capabilities and intentions.
10. Reporting on Fund operations.
11. Need for additional discussions/meetings.

3/6/86