

STRICTLY CONFIDENTIAL

cc: (1) Sir Kenneth Bloomfield ✓ 7/10
Mr Burns
Mr Spence
Mr Semple
Mr Small
Mr Hunter
Mr P Bell
Mr G McConnell
Mr Todd

2. AT 4/11



Mr Chesterton

INTERNATIONAL FUND - A US ADMINISTRATION VIEW

1. A number of comments occur to me on reading Mr Bell's interesting minute of 29 September 1987 on his lunch with Counsellor Curran of the US Embassy in Dublin.
2. First, at a lunch hosted last month by the Chairman of the Fund, Ambassador Price and his party, strongly supported by the US representative in Belfast, indicated their satisfaction with the progress made to date and said that they would much prefer the Fund to build on solid foundations than to go for quick, flashy action resulting in poor decisions which would quickly bring the Fund and its donors into disrepute. This is wholly consistent with the indications given by the State Department and AID last summer. They were obsessed with the means by which projects would be evaluated to ensure value for money. Progress would have been much slower if it had not proved possible to escape from the detailed project by project control by AID which they seemed initially disposed to impose.
3. Second, there is clearly a job to be done in convincing the Americans that their expectations of what by now could reasonably have been achieved by the Fund are quite unrealistic. The Board of the Fund was formally constituted in December and received funds in March. The Americans were insistent that it should not simply substitute for existing sources of funds. It therefore has to mobilise new projects and evaluate them, and the promoters have to spend money on them before the Fund can disburse. Lead times in the world of business and construction are usually much longer than the period of the Fund's life to date. Progress could have been much quicker if Fund monies had been used to augment discrete areas of Departments' own spending programmes and, generally, to ease budgetary pressures. Much could have been done, for example, to boost capital programmes in the Education and Health fields or to speed up necessary road maintenance activity - to name but a few areas. This

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would have been contrary to the Americans' wishes and unacceptable to the Board of the Fund. The Americans were adamant that the Fund should be devoted primarily to the private wealth-creating sector, narrowly interpreted. The implications of doing so were fully spelt out to them when they were formulating what they described as their 'programmatic emphasis'. A high profile for the Fund, with early visible results, would have been helped by bulky capital programmes which were already well along the planning pipeline.

4. Third, it is surprising that the Board of the Fund has not capitalized more fully on the opportunities for progress afforded by the arrangements which were made for it. It escaped the delay which would have occurred through having to recruit and run-in its own staff; instead it was able to get off the ground right away with first-class, specially selected civil servants very familiar with the area in which they were operating. It did not have to recruit a whole range of expertise to assist it with the development of individual programmes. Instead, within whatever policy parameters the Board decreed, all the critically important work was done on its behalf by the experts throughout the Government machine. Departments, at considerable inconvenience, crammed this activity into 6 weeks between April and June last. It is disappointing that, since then, the Board has not gone faster but it takes its own decisions and sets its own pace. However, assuming that when the Board next meets on 9 October, all goes well, it should then have firmly in place programmes capable of absorbing all the Fund resources so far made available and should have finalised the arrangements with individual Departments to administer them. Things should then move quickly. Already in the last few weeks the Fund has been beginning to receive favourable publicity for decisions stemming from its Business Development programme.
5. Fourth, the Advisory Committee will be considering in November the way ahead for the Fund. My own view is that it will be very difficult to identify sensible means of spending further tranches of Fund resources unless the Americans can be persuaded to modify the "programmatic emphasis". I believe that they could be. Indeed Eamon O'Tuathail and I succeeded in getting them to agree a year ago that some 25% of Fund money might be spent on infrastructure projects - a concession which the Board of the Fund has been slow to exploit. The Chairman in particular is strongly wedded to the view that the Fund should not -
 - (1) do things which Governments could be expected to do (whether or not Governments are likely to have the resources to do them within the foreseeable future);
 - (2) undertake infrastructure projects;
 - (3) normally disburse more than £1m per project or provide 100% of project costs. He favours small projects and at one time contemplated a £500 grant for all unsuccessful applicants (which is certainly one way of disbursing money quickly but hardly likely to commend itself to the Americans, and now abandoned).

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It will not therefore necessarily be easy to secure a change of course by the Board, which above all cherishes its independence. But the first step will be to mobilise self-evidently worthwhile proposals and you and I will have a chance to liaise on this in the Advisory Committee.

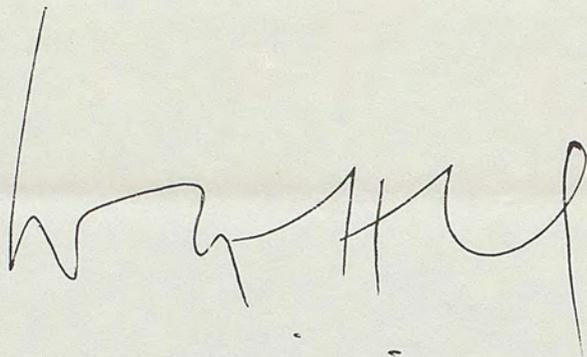
6. Fifth, as you know, DFP would be concerned about your proposed method of seeking further EC support. One cannot simply regard Fund money as PE and net it off against the PE offsets required to draw down EC funds which might trigger further US money for the Fund. Being very much immersed in the 1987 PE Survey at present, I am very conscious -
 - (1) that the Fund programmes will do nothing to relieve PE pressures. Indeed the special contingency plans which we prudently made in the current year against the possibility that the fund would not cough up for the Belfast Urban programme had to be invoked when the Fund rejected DOE's proposals.
 - (2) that the pressures on PE in N Ireland over the Survey period are such that finding EC offsets is simply out of the question.
7. Having set up a Fund which was supposed to know better than Government how to disburse the donors' money and whose independence has been underlined by Government and elevated by the Fund itself into a major principle, Government's role is severely constrained. However, the Fund would not have advanced as far and as fast as it has if we had not become constructively involved where appropriate, and I would hope that we might continue to do so. It may be that the Secretary of State should see the Chairman but I think that would best be done when we have devised proposals for the way ahead and before the Board meets to consider them. That would suggest a meeting in 7 or 8 weeks' time.
8. I do not see any easy solution to the EC dilemma. I should have thought, however, that it was not beyond the wit of man for the Irish to persuade the Commission to invite the UK and Irish to discuss a Lome-type arrangement. The UK would then be responding, not initiating, and in all probability the arrangement would run into the sand through failure to secure the unanimity which is required for a Lome-type scheme. However, the whole process would probably take so long that it would still be in train whilst a fourth US tranche was in discussion and that in itself might just be evidence of sufficient movement to swing a decision in our favour if there were enough influential Americans who wanted it. I am afraid that is a somewhat cynical view but it is more realistic, I feel, than a solution which merely creates another difficulty. DFP's view, as you know, has been that we might find the conventional, but not the Fontainebleu, offset for EC funds; hence our selfish - but understandable - preference for a Lome-type arrangement. I am bound to say, however, that I do not know where, in the current Survey, we would find any offset at all. We are struggling at present to identify how to handle the PE pressures being created by the EC Border Areas Non-Quota measure.

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E.R.

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9. I apologise for the length of this minute but I thought it might be helpful to set out fairly fully how we in DFP view matters.

A handwritten signature in black ink, appearing to read 'W G H Quigley'. The signature is written in a cursive style with a large initial 'W' and a long horizontal stroke.

W G H QUIGLEY

2 October 1987

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