

PO - CH / NL / 0128

PART A



Part A

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Begins: 15/7/87.

Ends : 23/5/88.

  
PO -CH /NL/0128 028  
~~028~~  
  
PART A

Chancellor's (Lawson) Papers:

**ZAIRES INTERNATIONAL  
DEBT**

PO -CH /NL/0128  
PART A

Disposal Directions: 25 Year

*[Signature]*  
22/8/95.



**S.G.WARBURG & CO. LTD.**

35 KING WILLIAM STREET, LONDON EC4R 9AS  
TELEPHONE: 01-280 2222 TELEX: 22941  
FACSIMILE: Gp 2/3 01-280 2820

15th July 1987

*Handwritten signature*

11/17

EXCHEQUER
16 JUL 1987
MR WALSH
EST
SIR G. LITTLER
MR LAVELLE
MR H.P. EVANS
MR MOUNTFIELD

*Den-Nigel,*

In view of your very important initiative in seeking to alleviate the debt problems of African countries, I feel that you would be interested in some proposals we are developing together with the African Development Bank in respect of external debt of Zaire which we plan subsequently to extend to some other countries.

Our approach has the following objectives:-

- (1) debt service paid should contribute to a reduction of the total of debt outstanding;
- (ii) debt service payments should be of a size which are realistic in relation to the debtor country's foreign exchange revenues;
- (iii) the whole of the existing debt, with the exception of multilateral debt, should be refinanced in a single transaction so that annual reschedulings are avoided.

Our route to these objectives entails the issue to all external creditors, other than multinational institutions, of marketable notes with a twenty year maturity. The debtor country would make a contribution to a redemption fund of 2 per cent. per annum of the value of the outstanding notes which would accumulate to 100 per cent. at the end of twenty years. The notes would carry an interest rate of 4 per cent. per annum. The 6 per cent. per annum total payment called for in the case of Zaire is equal to the average of the actual payments, after reschedulings, that the country has been able to make on its outstanding debt over the last ten years. The notes would have further alternatives attached to them which would increase their marketability and facilitate debt/equity swaps.

.... /2



I attach a summary term sheet of what is proposed for Zaire. From what has been publicly reported, it appears that this proposal meets your various requirements. The main difficulty in selling it to some governments is the suggestion which you yourself have endorsed that the refinanced debt would carry a fixed interest rate below the market rate. Your support in this area would therefore be invaluable particularly when we come to make our presentations to the United States and German Governments.

A new draft of the complete proposal will shortly be ready following further detailed discussions between ourselves and the African Development Bank last week and I and my colleagues would be most interested to discuss it with you or your officials should you so wish.

*Yours Gms,*

*David*

David Scholey

The Rt. Hon. Nigel Lawson, MP,  
Chancellor of the Exchequer,  
H.M. Treasury,  
Parliament Street, London  
SW1P 3AG

DGS:er  
Encl.



REPUBLIC OF ZAIREDebt Conversion Proposal: Interest Rate Options

In order to offer creditors the greatest flexibility in joining the debt conversion exercise, several options concerning the interest rate have currently been devised. The object is to balance the need to meet specific creditor requirements with the necessity of preserving simplicity in the structure of the note issue itself.

I. Standard notes

It is anticipated that the bulk of notes issued under the programme, particularly those issued to Paris Club creditors, would be issued at par, with a fixed interest rate of 4% per annum, and redemption fund payment of 2% per annum dedicated to the amortisation of the principal at maturity.

II. Higher Coupon notes

It should be recognised that Zairean public obligations are currently available in secondary markets at discounts to face value of as much as 70 - 75% (ie. 25 - 30% of face amount), and that many commercial banks and other private creditors have provided heavily against their remaining Zairean outstandings. Such creditors might therefore be prepared to accept conversion of their debts at discounted levels, particularly if such notes carried more attractive running returns.

Higher coupon notes could therefore be offered to creditors, which would be issued in exchange for the cancellation or surrender of double their nominal value in outstanding debts to be converted (which implies an issue 'price' of 200% for the new notes provided). Such Higher Coupon notes would carry an annual interest rate of 8% with a Redemption Fund payment of 2% per annum.

III. Insured notes

Creditors who desire a higher annual interest payment, but who, for various reasons, may be unable to take notes at an implied discount would have the option of joining an umbrella insurance scheme whereby a single premium paid at issue by the creditor would provide for the principal repayment at maturity. In recognition of this, Zaire would devote the 2% redemption fund payment in respect of such notes to current interest, thus increasing the annual interest payment to 6%.



IV. Early Redemption ('Accelerated notes')

Under the options proposed for early redemption of the notes, creditors would be able to forego all payments of interest, allowing the 4% per annum standard interest payment to be contributed to the Redemption Fund in respect of such notes. The more rapid consequent build-up of the Redemption Fund should therefore allow for early retirement of such notes.

V. Summary

	<u>Interest Rate</u>	<u>Redemption Payment</u>	<u>Face value of old debt : Amount of new notes (*)</u>
Standard Notes	4%	2%	1 : 1
Higher Coupon Notes	8%	2%	2 : 1
Insured Notes	6%	-	1 : 1
Accelerated Notes	-	6%	1 : 1

(\*) Proportion of face values, at issue.



REPUBLIC OF ZAIREConversion of External DebtSUMMARY OF TERMS

Borrower: The Republic of Zaire or an agency of state acting on its behalf.

Principal Amount: Up to US dollars [5,000] million.

Final Maturity: 20 years from the date of issue.

Currency: Special Drawing Rights (SDRs).

Interest Rate: 4 per cent. per annum, payable semi-annually in arrear on the Principal Amount (or such other amount of Notes which remain outstanding from time to time) until Final Maturity.

Redemption Fund: The Borrower will make an annual transfer of 2 per cent. of the Principal Amount of Notes outstanding into a Redemption Fund to be administered by the Trustee. The Redemption Fund will be used to repay the Principal Amount of Notes outstanding at Final Maturity.

Issue Price: 100 per cent., payable by surrender or cancellation of an equivalent face amount of foreign currency denominated obligations of the Republic of Zaire, to be negotiated with each person or agency subscribing to the issue.

Instrument: The issue will be comprised of fixed rate notes (the "Notes") denominated in SDRs.

Denomination and Transfer: The Notes will be in registered form in the denomination of SDRs [10,000] each, and will be freely transferable.



Taxation: All payments on the Notes will be made free and clear of any withholding or other tax whether in the Republic of Zaire or any other jurisdiction.

Trustee: [The International Bank for Reconstruction and Development].

Listing: Application will be made to list the Notes on the [ ] Stock Exchange(s).

Paying Agents: [The International Monetary Fund] for SDRs.

Status of the Notes: The Notes will be direct unsecured general obligations of the Republic of Zaire. The various types of notes issued (see Options) would rank equally amongst themselves.

### Options

Higher Coupon Notes:

Subscribers to the Notes would have the option of receiving interest payments at the rate of 8 per cent. per annum in respect of Notes for which twice their nominal value in outstanding debts had been cancelled or surrendered. Redemption Fund payments of 2 per cent. per annum would be made in respect of all Higher Coupon Notes issued.

Insured Notes:

Holders may, at their own expense, insure their Notes. This insurance will be carried out under an umbrella policy negotiated on behalf of all creditors such that a premium payment by the obligation holders of approximately [20 per cent.] of the face value of the obligations would provide a guarantee of principal repayment at Final Maturity of the face value of the Notes so insured plus the premium payment.



Holders opting to join the insurance scheme would receive interest payments on their Notes at 6 per cent. per annum, but the Borrower would make no contribution to the Redemption Fund in respect of such Notes.

Early Redemption: Holders of Notes would have the options of:

(i) Waiving their right to receive the annual 4 per cent. interest payment in respect of their Notes, such payments being made instead to the Redemption Fund. Early redemption of such Notes would then take place when sufficient build-up had occurred in the Redemption Fund to cover the amount of Notes so treated.

(ii) Surrendering their Notes to the Banque du Zaire against payment, from the Redemption Fund, of that pro rata share of the Redemption Fund then applicable to the nominal amount of Notes to be tendered.

Equity Conversion: Holders of Notes will have the option of surrendering Notes to the Banque du Zaire in exchange for zaires for approved investment purposes. Rates of exchange and other conditions will vary and be subject to detailed guidelines.



- 1. Mr K *✓* 3ys
- 2. C, To see.

*Julia*  
21/7.

**S.G. WARBURG & CO. LTD.**  
 55 KING WILLIAM STREET, LONDON EC4R 9AS  
 TELEPHONE: 01-280 2222 TELEX: 22941  
 FACSIMILE: Gp 2/3 01-280 2820

21st July 1987

*Dear Nigel,*

It was extremely good of you to dine with us at Hector's last week, particularly at the end of a grindingly tiring, if outstandingly successful, session.

I was almost apologetic about handing you the letter I did about our African idea but I did not hesitate to do so in view of the very considerable importance you attached to the subject in your Washington speech and subsequently.

I enclose a further draft of the memorandum which we have now produced for review by the African Development Bank and whenever you or one of your ministerial or official colleagues would like to discuss it with us we shall be delighted to do so. Arnie Nachmanoff, who is formerly of the U.S. Treasury and has for a number of years headed our Overseas Advisory Division which concentrates on such matters, is very much looking forward to listening to you at the All Party Group on Overseas Development lunch tomorrow.

I very much hope to see you again soon but if I do not do so before you have a richly earned break, then very soon thereafter.

*Yours faithfully,*  
*JW*

*\* WITH ATTACHMENT*

<b>CH/EXCHEQUER</b>	
REC.	21 JUL 1987
ACTION	MR WALSH *
COPIES TO	EST
	SIR G LITTLER
	MR LAVELLE
	MR H P BANT
	MR MOUNTFIELD

The Rt. Hon. Nigel Lawson, MP,  
 Chancellor of the Exchequer,  
 H.M. Treasury,  
 Parliament Street, London  
 SW1P 3AG

*Please return att.  
with advice.*

DGS:er  
 Encl.



*I thought would  
write the be check*

FROM: M I PITCAIRN  
DATE: 10 August 1987

*5  
19  
/8*

PS/CHANCELLOR

*Ch/ Content to  
write as drafted?*

cc

Mr Mountfield o/r  
Mrs Case  
Mr Walsh o/r  
Miss Life  
Mr Carpinter  
Miss Higgins

*OK as  
11/8*

David Scholey's letters to the Chancellor have as attachments proposals prepared by S G Warburg & Co Ltd for the African Development Bank for restructuring Zaire's external debts.

2. Like a number of proposals before it, the paper argues for the consolidation of all of the overhang of debt excluding that owed to the IFIs into long term securities offering lower yields than the present market rates on much of this debt.

3. Many of the proposals contained in Warburg's paper are not inconsistent with what the Chancellor proposes for managing the debt of the poorest and most heavily indebted countries (eg concessional interest rate of 4% and market mechanisms in the form of exit bonds). However there is a complete absence of any mention of conditionality to accompany the restructuring. The theory is basically sound though there would be practical problems in its implementation, not least in the way that all creditors bar the IFIs are to be included in the same security. This is not the way official creditors are accustomed to approaching debt reschedulings and nor would we wish to become directly linked with the banks in this way. It would provide a very unwelcome precedent for the middle income debtors. Also under the present arrangements there is an on-going dialogue with Zaire that is worth sustaining.

4. Under the terms of the most recent Paris Club agreement which included a rescheduling of previously rescheduled debt Zaire is required to pay official creditors SDR 5.9 million a month over the consolidation period. This equates to an interest rate of 3.3% on the amount rescheduled, half the 6%



annual cost to Zaire of Warburg's proposals.

5. Warburg's act as advisers to a number of debtor countries and understand the practical problems involved in rescheduling only too well eg Nigeria. It might be worthwhile taking up Scholey's suggestion of a meeting with officials to update Warburg's on the Chancellor's Sub-Saharan debt initiative and on the attitude of official creditors towards debt rescheduling through the Paris Club.

MP

M I PITCAIRN



DRAFT

Pr type for the sig.  
(Address below)

Amended telephoned  
by Mr Pitso. 25/11/8

Thank you for your <sup>recent</sup> letters of ~~21~~ July enclosing details of your work for the African Development Bank on restructuring Zaire's debts.

2. I found your paper most interesting. <sup>(I will not quarrel)</sup> The ~~analysis and~~ many of your conclusions ~~mirror our own findings~~. I share your objective that the interest rate for a country such as Zaire which is amongst the poorest and most heavily indebted countries in Sub-Saharan Africa should be set at a level that is affordable, and that at the same time we should avoid adding to the existing stock of debt by capitalising unpaid interest.

3. There are, however, several aspects of your proposals which would be of concern to official creditors. The first is the absence of any formal IMF-style conditionality. Secondly, the interests of official creditors and commercial banks are not necessarily the same, and we would want to continue to be free to pursue our own interests, as would, I imagine, the banks. Combining the existing exposure of both the banks and official creditors in a single bond issue would not allow these separate interests to be adequately reflected. Nonetheless, there may well be room for the banks to follow up your initiative, if that reflects their commercial judgement



of the best way forward.

4. ~~Our own analysis and that of our Paris club colleagues has led us to extend the grace periods before the principal of the loan becomes repayable, whereas your proposals envisage Zaire contributing to a redemption fund from year one. I can see that~~  
*The Deval - Vited m No*  
*our own approach is*  
*your*  
*this* idea would enhance the marketability of the underlying bonds, provided of course that the debtor could afford to meet the payments.

5. Your proposals are a valuable contribution to the debate on how to tackle the problems of the poorest and most highly indebted countries undertaking adjustment. But it is clearly for individual creditor groups to make their own decisions based on their own commercial judgements.

6. If you or your colleagues would like to discuss your proposals in more detail, may I suggest that they contact Peter Mountfield (x4479) who has responsibility for international debt matters within the Treasury particularly as they impinge on both the Paris Club and Sub-Saharan Africa. X



CC Mr Mountfield o/r  
Mrs Case  
Mr Walsh o/r  
Mr Pitcairn  
Miss Life  
Mr Carpenter  
Miss Higgins



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

PWP

12 August 1987

David Scholey Esq  
S G Warburg & Co Ltd  
33 King William Street  
LONDON EC4R 9AS

A handwritten signature in dark ink, appearing to be 'David Scholey'.

Thank you for your recent letters enclosing details of your work for the African Development Bank on restructuring Zaire's debts.

I found your paper most interesting. I would not quarrel either with your basic analysis or with many of your conclusions. I share your objective that the interest rate for a country such as Zaire which is amongst the poorest and most heavily indebted countries in Sub-Saharan Africa should be set at a level that is affordable, and that at the same time we should avoid adding to the existing stock of debt by capitalising unpaid interest.

There are, however, several aspects of your proposals which would be of concern to official creditors. The first is the absence of any formal IMF-style conditionality. Secondly, the interests of official creditors and commercial banks are not necessarily the same, and we would want to continue to be free to pursue our own interests, as would, I imagine, the banks. Combining the existing exposure of both the banks and official creditors in a single bond issue would not allow these separate interests to be adequately reflected. Nonetheless, there may well be room for the banks to follow up your initiative, if that reflects their commercial judgement of the best way forward.

The prevailing view in the Paris Club is that the best approach is to extend the grace periods before the principal of the loan becomes repayable, whereas your proposals envisage Zaire contributing to a redemption fund from year one. I can see that your idea would enhance the marketability of the underlying bonds, provided of course that the debtor could afford to meet the payments.





Your proposals are a valuable contribution to the debate on how to tackle the problems of the poorest and most highly indebted countries undertaking adjustment. But it is clearly for individual creditor groups to make their own decisions based on their own commercial judgements.

If you or your colleagues would like to discuss your proposals in more detail, may I suggest that they contact Peter Mountfield (X4439) who has responsibility for international debt matters within the Treasury particularly as they impinge on both the Paris Club and Sub-Saharan Africa.

A handwritten signature in black ink, appearing to be 'Nigel Lawson', written in a cursive style.

NIGEL LAWSON



Journal Folder

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TELEPHONE: 01-280 2222 TELEX: 22941  
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17th August, 1987

*Pages please*

*DG. Nigel*

*✓*

Thank you for the encouraging comments on the proposal we have been developing for the African Development Bank on restructuring Zaire's external debt. We see the force of the concerns you identified, but I believe they need not present insurmountable problems. We have assumed that a fundamental debt restructuring of this kind would have to be considered in the context of the debtor country's overall economic adjustment programme, and there would have to be a means of reviewing performance, but the precise mechanism by which this might be accomplished would be for negotiation between the debtor and its creditors. As it is generally the prospect of new resource flows which provides the most effective opportunity to influence a debtor country's economic policies, our proposal suggests that the multilateral agencies and governments could continue to review Zaire's economic performance through the annual Consultative Group meetings (which would include the IMF).

We also appreciate that different classes of creditors will have separate interests. The purpose of proposing a single bond issue was to maintain the principle of comparability of treatment for the private and official creditors. However, the availability of a number of options would permit different creditors to choose those features which would best suit their individual requirements.

I am sure that these aspects of the proposal will be subject to further discussion when the African Development Bank and the Government of Zaire present the proposal formally to the creditors. In the meantime, I have asked my colleagues Arnie Nachmanoff and Euan Macdonald to contact Peter Mountfield as you suggested to discuss the concept with him in more detail.

*Yours faithfully,  
DGS*

David Scholey

The Rt. Hon. Nigel Lawson, MP,  
Chancellor of the Exchequer,  
Treasury Chambers,  
Parliament Street,  
London SW1P 3AG.

Chancellors Office	
RECD	20 AUG 1987
ACTION	Mr Mountfield
	EST Sir P Middleton
	Sir G Kitter
	Mr Lavelle
	P F Davis
	Mrs Case
	M. Trotter

DGS/avs



PS/Chancellor

S.G. WARBURG & CO. LTD.

33 KING WILLIAM STREET, LONDON EC4R 9AS  
TELEPHONE: 01-280 2222 TELEX: 22941  
FACSIMILE: Gp 2/3 01-280 2820

pwp

Mr Macdonald duly came to see me on 4 Sept. I shall be reporting

in the form of one of the briefs for Washington; & a draft reply to Ndiaye

of the African Devt Bank, who wrote in August (undated; recd 17 Aug). This

D.G. Nigel. letter from Scholey needs no further reply. PR 17.9

Thank you for the encouraging comments on the proposal we have been developing for the African Development Bank on restructuring Zaire's external debt. We see the force of the concerns you identified, but I believe they need not present insurmountable problems. We have assumed that a fundamental debt restructuring of this kind would have to be considered in the context of the debtor country's overall economic adjustment programme, and there would have to be a means of reviewing performance, but the precise mechanism by which this might be accomplished would be for negotiation between the debtor and its creditors. As it is generally the prospect of new resource flows which provides the most effective opportunity to influence a debtor country's economic policies, our proposal suggests that the multilateral agencies and governments could continue to review Zaire's economic performance through the annual Consultative Group meetings (which would include the IMF).

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I am sure that these aspects of the proposal will be subject to further discussion when the African Development Bank and the Government of Zaire present the proposal formally to the creditors. In the meantime, I have asked my colleagues Arnie Nachmanoff and Euan Macdonald to contact Peter Mountfield as you suggested to discuss the concept with him in more detail.

Yours faithfully,  
DGS

David Scholey

The Rt. Hon. Nigel Lawson, MP,  
Chancellor of the Exchequer,  
Treasury Chambers,  
Parliament Street,  
London SW1P 3AG.

DGS/avs

Chancellors Office	
RECD	20 AUG 1987
ACTION	Mr Mountfield
	Mr Middleton
	Mr Gitter
	Mr Lavelle
	Mr Davis
	Mrs Case
	Mr Trotter



BANQUE AFRICAINE DE DÉVELOPPEMENT  
AFRICAN DEVELOPMENT BANK

BIF with  
advice  
or ~~Fig~~ Alex  
O/R



ADRESSE TÉLÉGRAPHIQUE  
AFDEV ABIDJAN  
TÉLÉPHONE 32-07-11  
TELEX 23717  
23498  
23263  
01 B. P. 1387 ABIDJAN 01  
COTE D'IVOIRE

PRESIDENT

REFERENCE  
DATE

Right Honorable Nigel Lawson MP, PC  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

(United Kingdom)

*\*With Attachments*

CH/EXCHEQUER	
REC.	17 AUG 1987
ACTION	MR PITCAIRN*
COPIES TO	CST, EST SIR S. LITTLE MR MOUNTFIELD MRS CASE MR WALSH MS LIFE MR CARPENTER MISS HILGINS

Dear Mr. Lawson,

The African Development Bank has for some time been considering possible ways to alleviate the debilitating debt problem faced by many of its African member countries. Following extensive consultation with the authorities of the Republic of Zaire, the African Development Bank and S.G. Warburg & Co. Ltd., have developed a proposal designed to achieve a comprehensive long-term restructuring of the external debt of Zaire. The approach proposed would have relevance to a number of African countries, and several other Governments have expressed interest in adopting it.

I believe that this approach is consistent with the recognition which your Government, and the Governments of other industrial nations, have given to the need for special efforts to reduce the crushing burden of debt of the African countries. Accordingly, with the agreement of the Government of Zaire, I am enclosing a copy of our proposal for your consideration.

*(not attached now - draft below)*

The objectives of the approach are to:

- establish debt service payments at a level which the country can afford in relation to its foreign exchange revenues;



ANNUQUE AFRICAINE DE DÉVELOPPEMENT  
AFRICAN DEVELOPMENT BANK

PRESIDENT

- halt the continued build-up of debt by ensuring that the debt service paid will contribute to repayment of the outstanding debt;

- refinance the whole of existing debt, other than multilateral debt, in a single transaction, thereby ending the unproductive cycle of annual reschedulings and freeing the financial authorities to concentrate on management of the economy.

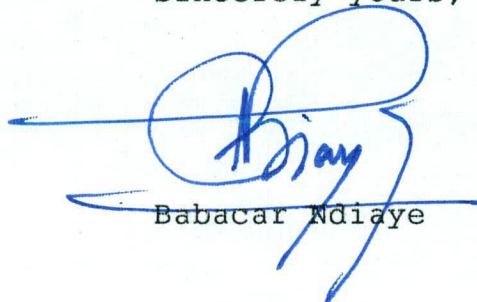
The way in which we propose to arrive at these objectives entails the issue to all external creditors, other than multinational institutions, of marketable notes with a 20-year maturity. Zaire would make a contribution to a redemption fund of 2 per cent. per annum of the value of the outstanding notes which would accumulate to 100 per cent. at the end of 20 years. The notes would carry an interest rate of 4 per cent. per annum. The resulting 6 per cent. per annum total payment is in fact equal to the average of the actual payments, after reschedulings, that Zaire has been able to make on its outstanding debt over the last 10 years. Further options are suggested which would increase the marketability of the notes and facilitate debt/equity swaps.

Although the multilateral agencies will not be asked to participate in the refinancing, their growing support will be essential to Zaire, and therefore they will have a continuing important involvement in evaluating the economic policies and programmes of Zaire in the context of the Consultative Group.

Thus, if adopted, the proposal would have the effect of extending maturities, reducing debt service to a sustainable level, and assuring eventual repayment of all of the outstanding debt without requiring write-off. Official, commercial bank, and other private sector creditors would be treated equally, and cooperation would continue between the debtor country and the multilateral agencies on economic policies.

I would welcome an opportunity to discuss this proposal with you during the Annual meeting of the World Bank and the IMF in Whashington. I shall be very grateful if you could tell me if that will be possible.

Sincerely yours,



Babacar Ndiaye

Enc:



CONFIDENTIAL

070351  
MDLIAN 5759

0703 p1  
(on  
b.f.  
for tomorrow,  
I think)

CONFIDENTIAL

FM ABIDJAN

TO PRIORITY FCO

TELNO 158

OF 151610Z SEPTEMBER 87

AND TO HM TREASURY (MOUNTFIELD), ODA (ROBERTS)

FOR DRUMMOND (ERD) FROM UK EXECUTIVE DIRECTOR, AFRICAN DEVELOPMENT BANK.

ZAIRE DEBT : ADB INITIATIVE

1. MY ORAL REPORT TO PRESIDENT N'DIAYE DREW ON THE HELPFUL SUMMARY IN YOUR TELELETTER OF 10 SEPT.

2. N'DIAYE READILY ACCEPTED THE ADVICE THAT HE SHOULD SEE SIR G. LITTLER RATHER THAN THE CHANCELLOR IN WASHINGTON. HE ALSO AGREED THAT IT WOULD BE PREMATURE FOR MRS CHALKER TO RECEIVE A TEAM FROM WARBURG'S. THE OBJECTIVE WOULD INSTEAD BE TO DEVELOP THE PROPOSAL DURING AND SUBSEQUENT TO DISCUSSIONS WITH SIR G. LITTLER, SO THAT N'DIAYE MIGHT INSTEAD AIM TO HAVE A BETTER PREPARED EXCHANGE WITH MR LAWSON IN LONDON. HE ACCEPTED THAT THAT WOULD BE CONDITIONAL ON THE FURTHER OUTCOME OF THE CHANCELLOR'S INITIATIVE, AND NATURALLY ON SIR G. LITTLER HAVING CONCLUDED THAT THE ADB/WARBURG PROPOSAL WAS WORTH SERIOUS STUDY.

3. THE PRESIDENT UNDERSTOOD THE POINT THAT THE PROPOSAL WOULD CARRY MORE CONVICTION (ESPECIALLY IN TERMS OF CONDITIONALITY) IF IT APPLIED TO A COUNTRY WITH A STRONG RECORD ON STRUCTURAL ADJUSTMENT. THE SAME MESSAGE IS COMING FROM WARBURG'S AFTER THEIR MEETING IN WASHINGTON WITH MR MCPHERSON. N'DIAYE WOULD DEARLY LIKE TO TRY SENEGAL (WHICH HAS SHOWN A STRONG INTEREST) BUT BEING SENEGALESE HIMSELF WOULD FIND IT AWKWARD TO DO SO. HE IS HOWEVER CONSIDERING THE CASES OF UGANDA AND MALAWI.

4. I WAS ALSO ABLE TO SPEAK RELATIVELY POSITIVELY ON BEHALF OF BONN. THEY HAD CONFRONTED ME WITH A VERY LARGE GROUP, INCLUDING THE LEADING MEMBERS OF THEIR PARIS CLUB TEAM. LATTER FELT THAT PARIS CLUB WERE LIMPING ALONG, DOING A JOB FOR WHICH THE CLUB WAS NOT DESIGNED. A BETTER, LONGER TERM SOLUTION WAS NEEDED BUT THE ADB PROPOSAL DID NOT SOUND LIKE THE ANSWER. IN ADDITION TO THE SAME DOUBTS AS UK THEY OBVIOUSLY OPPOSE DEEP INTEREST RATE CUTS. WHILST KEEN NOT TO

PAGE 1  
CONFIDENTIAL



CLOSE THE DOOR TO N'DIAYE THEY TOO FAVOUR A DIFFERENT CHOICE OF CANDIDATE COUNTRY (PERHAPS ONE WHERE THE UK RATHER THAN GERMANY IS HEAVILY EXPOSED).

5. I HOPE THAT IT WILL NOW BE POSSIBLE FOR THE CHANCELLOR TO RESPOND TO PRESIDENT N'DIAYE'S LETTER, PERHAPS REFLECTING THE CONSTRUCTIVE TONE OF THE LETTER OF 12 AUG TO SCHOLEY (WARBURG'S) AND SUGGESTING A MEETING FIRST WITH SIR G. LITTLER IN WASHINGTON. AS N'DIAYE IS LEAVING EARLY NEXT WEEK, LETTER SHOULD BE SENT PLEASE BY FAX OR TEL. N'DIAYE HAS ASKED THAT I SHOULD BE AVAILABLE TO ATTEND THE MEETING, IN PARALLEL TO MY FRENCH AND AMERICAN COLLEAGUES PARTICIPATION IN DISCUSSIONS WITH FRENCH, BELGIAN AND U.S MINISTERS AND OFFICIALS (A MEETING AT MR BAKER'S LEVEL NOW LOOKS LESS LIKELY, FOR MUCH THE SAME REASONS AS WE ARE DISCOURAGING AN APPOINTMENT WITH THE CHANCELLOR).

6. IN ORDER TO HELP FURTHER PROMOTE THE CHANCELLOR'S INITIATIVE I SHALL CIRCULATE A NOTE TO THE ADB DELEGATION TO WASHINGTON, DRAWING ON TELNO 98 OF 3 JULY TO ALGIERS. GRATEFUL FOR ANY FURTHER POINTS YOU WOULD LIKE INCLUDED.

SUTHERLAND

YYYY

DISTRIBUTION

149

MAIN 148

MONETARY WAD

ADDITIONAL 1

MR MOUNTFIELD HM TREASURY

NNNN



FROM: P MOUNTFIELD  
DATE: 17 September 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Economic Secretary  
Sir G Littler  
Mr Lavelle  
Mr H P Evans  
Mrs Case  
Mr Walsh  
Ms Life  
Mr Carpenter  
Mr Pitcairn

*Ch/Content to write as  
drafted? (I have suggested a  
few minor amendments).*

*26/17/9*

**AFDB/WARBURG DEBT REFINANCING PROPOSAL FOR ZAIRE**

(Revised submission, replacing that of 14 September.)

*Not seen - I withdrew  
it because impeded.  
Pitcairn*

Babacar Ndiaye, President of the African Development Bank, wrote to you in August, enclosing a further copy of this proposal, and asking to meet you in Washington during the Annual Meetings to discuss the proposal. I have delayed submitting a reply until now, so that we could discuss the proposal with Warburgs, and with the UK Executive Director of the AFDB.

2. When David Scholey first wrote to you in August, Mr Pitcairn's submission of 10 August listed two main objections to the scheme. First, inadequate conditionality, and second, complications with the banks. These difficulties remain, but are less acute than we then thought. Warburgs say, reasonably enough, that the conditionality imposed through the Paris Club insistence on a Fund programme is more apparent than real for African countries. So long as they remain dependent on aid flows, Warburgs argue that refusal of aid, through the Consultative Group process, is a more effective instrument.

3. On the second point, the Paris Club (rightly) demands comparability of treatment for all creditors, so it is difficult to reject Warburgs' proposals out-of-hand. They have made it



clear that securitisation is not central to their scheme, so long as the terms offered to all creditors are the same. There may be problems of comparison, because the original bank loans are often on terms very different from those applied to export credits. But these points are negotiable. The real problem is that we don't want governments out in front, recommending banks to accept a scheme involving a degree of interest discount, while the recent Brazilian proposals are still around. (In the case of Sub-Saharan Africa, we have just said that we would expect the banks to consider following our example if your initiative were adopted: but we have left the decisions to them: in this case, if exactly comparable terms were negotiated, we should be seen to force the banks to accept a write-down).

X | 4. All this suggests that we should remain pretty cautious about the Warburg scheme. But there is a plus. The US Treasury have told us (and Warburgs confirm) that some of the Congressional problems with the Sub-Saharan debt initiative might be reduced, if an 'off-budget' device involving securitisation were substituted for a straight reduction of the current interest rate on ordinary debt. We don't yet know whether there is much in this. But I suggest we keep the Warburg proposal in play, as a possible fall-back position, if we cannot rally enough support eventually for your original proposal. It has much the same effect, in terms of the actual debt relief given, and could be ring fenced in much the same way. On balance it seems sensible not to kill it off now.

5. However, Zaire is not the country to start with. Ndiaye quite takes this point (see attached telegram, Abidjan 158) and is looking for an alternative candidate.

6. You won't want to be bothered with Ndiaye in Washington. I have therefore suggested that he might approach Sir G Littler instead. (My apologies to him!) He will need to avoid being drawn on the question of a capital contribution to the ADB.



8. I attach a draft reply, which should if possible go before the Washington meeting.

R<sub>1</sub>

P MOUNTFIELD



*Budget for the 80's*

**DRAFT LETTER FROM THE CHANCELLOR TO BABACAR NDIAYE PRESIDENT  
OF AFRICAN DEVELOPMENT BANK**

Thank you for your letter enclosing your very interesting proposal for refinancing Zaire's external debt. I have delayed replying until now so that my officials could discuss your proposal with Warburgs and the United Kingdom's Executive Director to the African Development Bank.

I am grateful to you for bringing me in so fully on your proposal, which is another approach to the problem I tried to attack in my speech to the Development Committee in April. We share the objective that the interest rate for the poorest and most heavily indebted countries in Sub-Saharan Africa should be set at a level that is affordable, and that at the same time avoids adding to the existing stock of debt by capitalising unpaid interest.

However, several aspects of your scheme give me cause for concern. The first is the lack of any formal IMF-style conditionality and the resulting lack of leverage that creditors would have. As you know, several governments had serious doubts about Zaire's adjustment programmes when they were recently discussed in the IMF and IBRD Boards. The second is the inclusion of both commercial bank and government debt in your proposal. I accept of course that both groups of creditors must receive broadly comparable treatment. But your scheme may not make sufficient allowance for creditors' separate roles, and it risks disrupting current burden-sharing arrangements.



*I continue to favour*

Although, ~~on balance I prefer my own scheme which directly~~ <sup>addresses</sup> ~~attacks~~  
~~things that~~ <sup>what?</sup> governments themselves can do, I will certainly  
consider your scheme further. I would have liked to discuss  
it with you at the Annual Meetings, but unfortunately my schedule  
is too tight to permit a meeting of sufficient length to explore  
the details of your proposal. May I suggest ~~that~~ <sup>that you discuss the proposal</sup> instead ~~a~~  
~~meeting~~ with Sir Geoffrey Littler who will be with me in Washington <sup>?</sup>  
~~might be constructive.~~

*my senior adviser*

CONQUEROR



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FM ABIDJAN  
TO ROUTINE FCO  
TELNO 160  
OF 171130Z SEPTEMBER 87  
AND TO ROUTINE HM TREASURY (MOUNTFIELD), ODA (ROBERTS)

ABIDJAN TELNO 158 TO FCO: ZAIRE DEBT  
1. YOU WILL WISH TO KNOW THAT SECRETARY BAKER HAS AGREED TO SEE  
PRESIDENT N'DIAYE IN WASHINGTON. THIS DOES NOT CHANGE MY  
RECOMMENDATION THAT N'DIAYE SHOULD SEE SIR G LITTLER.

SUTHERLAND

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MR MOUNTFIELD HM TREASURY

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EST  
 Sir G Littler  
 Mr Lavelle  
 Mr H P Evans  
 Mrs Case  
 Mr Mountfield  
 Mr Walsh  
 Ms Life  
 Mr Carpinter  
 Mr Pitcairn



*PHP*

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-270 3000

18 September 1987

Mr Babacar Ndiaye  
 President  
 African Development Bank  
 Abidjan  
 Ivory Coast

*Babacar Ndiaye*

Thank you for your letter enclosing your very interesting proposal for refinancing Zaire's external debt. I have delayed replying until now so that my officials could discuss your proposal with Warburgs and the United Kingdom's Executive Director to the African Development Bank.

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Although, I continue to favour my own scheme which directly addresses what governments themselves can do, I will certainly consider your scheme further. I would have liked to discuss it with you at the Annual Meetings, but unfortunately my schedule is too tight to permit a meeting of sufficient length





to explore the details of your proposal. May I suggest instead that you discuss the proposal with Sir Geoffrey Littler, my senior adviser, who will be with me in Washington?

NIGEL LAWSON

*Yours truly  
Nigel Lawson*



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TELNO 133  
OF 231125Z MAY 88  
INFO PRIORITY UKDEL IMF/IBRD WASHINGTON

MY TELNO 112: ZAIRE RELATIONS WITH IMF/IBRD

SUMMARY

1. PRESIDENT MOBUTU AGAIN SUMMONS THE REPRESENTATIVES OF CERTAIN OECD COUNTRIES, THE IMF AND THE IBRD TO A MEETING AT WHICH HE SAYS ZAIRE IS UNABLE TO MAKE THE REPAYMENT DUE TO THE IMF IN JUNE. THE MEETING IS A FURTHER SHOT IN THE PRESIDENT'S CAMPAIGN TO GET AN ACCEPTABLE PROGRAMME AGREED WITH THE IMF/IBRD.

DETAIL

2. WE WERE AGAIN SUMMONED AT SHORT NOTICE TO A MEETNG WITH THE PRESIDENT ON SATURDAY MORNING, 21 MAY, AT WHICH THE IMF/IBRD WERE ONCE MORE IN THE FIRING LINE. MOBUTU RETURNED TO THE THEME OF ZAIRE HAVING TO PAY BACK MORE TO THE IMF THAN SHE WAS GETTING. FOR NEARLY A YEAR, HE SAID, NOTHING HAD BEEN RECEIVED FROM THE IMF WHILE ZAIRE HAD REPAYED REGULARLY. THE LIMIT HAD NOW BEEN REACHED AND THEY WERE SIMPLY NOT ABLE TO PAY THE FIFTY FIVE MILLION DOLLARS DUE IN JUNE. IT WAS NOT A REFUSAL TO PAY BUT INABILITY TO DO SO. HE HAD OBLIGATIONS TO HIS PEOPLE TOO AND QUOTE THE PRETTIEST GIRL IN THE WORLD CANNOT GIVE MORE THAN SHE HAS UNQUOTE.

3. FURTHERMORE HE WAS INCENSED BY THE FACT THAT IT HAD ONLY TAKEN 10 MINUTES OF DISCUSSION (IN WASHINGTON) TO APPROVE THE IMF PROGRAMME FOR THE COTE D'IVOIRE WHEREAS THE ZAIRE PROGRAMME HAD BEEN SUBJECTED TO LENGTHY QUESTIONING. HE CITED A NUMBER OF INSTANCES IN WHICH THE COTE D'IVOIRE'S INVESTMENT PROPOSALS HAD BEEN APPROVED ON THE NOD WHEREAS EQUIVALENT ZAIREAN PROPOSALS HAD BEEN OBJECTED TO. SINCE THE ECONOMIC SITUATION IN THE TWO COUNTRIES WAS SIMILAR, THE ONLY CONCLUSION HE COULD DRAW WAS THAT THE PROGRAMME FOR ZAIRE HAD BECOME A POLITICAL QUESTION. CONSULTATION WAS ONE THING BUT ZAIRE WOULD NOT ACCEPT BEING DICTATED TO AND WOULD RATHER REMAIN POOR AND FREE THAN BE COLONISED BY THE INTERNATIONAL FINANCIAL INSTITUTIONS.



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4. THE IMF/IBRD REPRESENTATIVES ABLY DEFENDED THEIR POSITIONS AND A FAIRLY LENGTHY TECHNICAL DISCUSSION ENSUED WITH THE PRIME MINISTER, THE MINISTERS OF FINANCE AND BUDGET, AND THE GOVERNOR OF THE CENTRAL BANK ALL CONTRIBUTING. SINCE THE REST OF US HAD NOT SEEN ANY OF THE DOCUMENTS BEING REFERRED TO THE FINER POINTS PASSED US BY. THE MAIN COMPLAINT ON THE ZAIREAN SIDE, HOWEVER, SEEMED TO BE THAT THE IMF/IBRD KEPT MOVING THE GOAL POSTS AND REFUSED TO TAKE ACCOUNT OF ZAIREAN COUNTER-PROPOSITIONS. THE PRESIDENT ASKED, MORE THAN ONCE, WHETHER THE FINANCIAL INSTITUTIONS WERE HAPPY TO HAVE ZAIRE PAYING MORE THAN SHE GOT, AND REMINDED US THAT THE INSTITUTIONS ONLY UNDERSTOOD STATISTICS AND THAT IT WAS FOR OUR GOVERNMENTS TO CONSIDER THE POLITICAL DIMENSION. THE FOREIGN MINISTER TOOK A SIMILAR LINE ADDING THAT ZAIRE'S DEBT WAS ESSENTIALLY OWED TO ALL OF US AND, SINCE IT WAS SURELY NOT IN OUR INTERESTS TO STRANGLE HER, WE SHOULD FIND AN EQUITABLE WAY OF DEALING WITH IT.

5. COMMENT

THIS MEETING, AT WHICH THE OECD AMBASSADORS WERE SPECTATORS RATHER THAN PARTICIPANTS, WAS PRESUMABLY A FURTHER SHOT IN THE PRESIDENT'S CAMPAIGN TO GET AN ACCEPTABLE PROGRAMME AGREED WITH THE IMF/IBRD. WHEN THE IMF REPRESENTATIVE ASKED WHETHER HE SHOULD TELL WASHINGTON THAT ZAIRE WOULD NOT BE PAYING THE FIFTY FIVE MILLION DOLLARS DUE AT THE END OF JUNE MOBUTU HEDGED. IN AN EFFORT TO COUNTER THE PRESIDENT'S INSISTENCE ON DRAWING A DISTINCTION BETWEEN THE IMF/IBRD AND THE OECD COUNTRIES THE US AMBASSADOR POINTED OUT THAT THE FORMER WERE ACTING ON OUR BEHALF AND HAD ZAIRE'S BEST INTERESTS AT HEART. MOBUTU, HOWEVER, ASKED HIM TO CONFINE HIMSELF TO SPEAKING FOR HIS OWN COUNTRY.

6. THE IMF/IBRD DELEGATIONS RETURNED TO WASHINGTON EARLIER IN THE WEEK LEAVING A DRAFT LETTER DETAILING THE PROGRAMME CONDITIONS. ACCORDING TO THE IMF DELEGATE THE DIFFERENCES WITH THE ZAIREANS ARE NOT GREAT BUT THE CONDITIONS ARE A GOOD DEAL TOUGHER ALL ROUND THAN LAST YEARS AND SOME OF THEM ARE POLITICALLY DIFFICULT. ZAIREAN REACTIONS TO THE DRAFT ARE NOW AWAITED. THE PRESIDENT IS DUE IN WASHINGTON ON 6-9 JUNE AND WILL NO DOUBT HAVE DISCUSSIONS WITH THE IMF/IBRD.

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