

P.O.-CH/NL/0346

Part. A.

CONFIDENTIAL

(Circulate under cover and  
notify REGISTRY of movement)

Begins: 19/1/88.

Ends: 22/11/88.



PO -CH /NL/0346



PART A

Chancellor's (Lawson) Papers:

ECONOMY AND FINANCE IN  
AFRICAN COUNTRIES

DD's: 25 Years

17/11/95.

NL/0346

-CH

PO

PART A

CONFIDENTIAL

162460  
MDLIAN 3249

CONFIDENTIAL  
FM LUSAKA  
TO PRIORITY FCO  
TELNO 012  
OF 191410Z JANUARY 88  
AND TO PRIORITY UKDEL IMF/IBRD WASHINGTON

ZAMBIA ECONOMIC

SUMMARY

1. AT THE STATE OPENING OF PARLIAMENT ON 15 JANUARY PRESIDENT KAUNDA APPEARED TO RULE OUT DEVALUATION OF THE KWACHA, AN INCREASE IN INTEREST RATES AND A RAISING OF THE TEN PERCENT DEBT REPAYMENT CEILING IN THE BUDGET ON 29 JANUARY. OUR SUBSEQUENT ENQUIRIES HAVE CONFIRMED THIS. BUT KAUNDA SPOKE POSITIVELY OF HIS MEETINGS WITH IFI REPRESENTATIVES AND STILL SEEMS TO FAVOUR A SETTLEMENT WITH THE IFI'S.

DETAIL

2. KAUNDA, IN A NINETY MINUTE SPEECH, MUCH OF IT DEVOTED TO THE ECONOMY, SAID THAT 'THE PRIMARY CONCERN AT THE MOMENT IS FINANCIAL STABILISATION AND THEREFORE IT WOULD NOT BE NECESSARY TO REVIEW THE EXCHANGE AND INTEREST RATES UNTIL REASONABLE STABILITY IS ATTAINED'. AT THE SAME TIME HE SAID 'THIS IS NOT TO SAY THE EXCHANGE RATE AND INTEREST RATES WOULD NOT BE REVIEWED AT ALL. IT IS TO SAY WHEN THIS IS CALLED FOR BY CONDITIONS OBTAINING - WHICH ARE UNDER CAREFUL EXAMINATION ALL THE TIME - THESE RATES COULD BE ALTERED EITHER WAY'. PRESUMABLY THE SAME APPLIES TO THE DEBT REPAYMENT LEVEL.

3. ON THE POSITIVE SIDE, KAUNDA SPOKE WARMLY OF HIS MEETING WITH CAMDESSUE (IMF) IN WASHINGTON IN OCTOBER 1987 AND DESCRIBED THE VISIT OF THE IMF DELEGATION HERE IN DECEMBER AS 'QUITE USEFUL'. HE EMPHASISED THE NEED TO REDUCE INFLATION, CUT THE BUDGET DEFICIT 'TO A LEVEL WHICH COULD BE FINANCED SAFELY WITHOUT EXCESSIVE MONEY CREATION', AND TO RESTRUCTURE THE BUDGET TO SET ASIDE MORE FUNDS FOR INVESTMENT AND ESSENTIAL SERVICES, WHILE CUTTING DOWN ON CONSUMPTION EXPENDITURE. HE ACKNOWLEDGED THAT THE RECOVERY PROGRAMME WAS BEING HAMPERED BY INADEQUATE FUNDING - THE RESULT OF THE 'EXCESSIVELY NARROW' TAX BASE AND REDUCED DONOR FLOWS. KAUNDA COMMENTED ON THE LACK OF DIVERSIFICATION OF EXPORTS. IN ANOTHER SPEECH, ON 17 JANUARY, TO PARTY OFFICIALS KAUNDA GAVE A CLEAR HINT THAT ZAMBIA COULD NO

LONGER AFFORD THE PRESENT LEVEL OF SUBSIDIES.

4. CARTER (DHC) YESTERDAY, 18 JANUARY, CALLED ON A MEMBER OF THE RULING UNIP CENTRAL COMMITTEE TO DISCUSS THE IMPLICATIONS OF THE PRESIDENT'S STATEMENT IN PARLIAMENT. HE WAS TOLD IN STRICT PERSONAL CONFIDENCE THAT THERE WOULD INDEED BE NO DEVALUATION OF THE KWACHA IN THE BUDGET NOR, BY IMPLICATION, ANY CHANGE IN INTEREST RATES. BUT THE NUMBER OF ITEMS SUBJECT TO PRICE CONTROL WOULD BE REDUCED FROM 23 TO 11. THESE DECISIONS HAD BEEN AGREED AT A JOINT MEETING OF THE CENTRAL COMMITTEE AND CABINET ON 8 JANUARY (ABOUT WHICH THE ZAMBIANS HAVE BEEN UNUSUALLY TIGHT LIPPED) . CARTER'S CONTACT ADDUCED VARIOUS REASONS FOR THE EXCHANGE RATE DECISION:

- (I) PRICES WOULD RISE SHARPLY FOLLOWING DEVALUATION BRINGING POTENTIAL SOCIAL DIFFICULTIES.
- (II) THERE WAS CONCERN THAT THE PRICE OF COPPER HAD PEAKED AND WOULD BRING ZAMBIA DECLINING REVENUES IN 1988/9. IF THERE HAD BEEN CONFIDENCE THAT THE PRICE WOULD REMAIN HIGH THE DECISION ON DEVALUATION MIGHT HAVE BEEN DIFFERENT.
- (III) IF A DEVALUATION WAS INTRODUCED UNILATERALLY IN THE BUDGET, THE IMF WOULD SIMPLY SEEK FURTHER CUTS AS THE PRICE OF A SETTLEMENT PACKAGE WITH THEM.

5. THE CENTRAL COMMITTEE MEMBER BELIEVED THAT ZAMBIA AND THE IMF WOULD REACH A SETTLEMENT - WITH COMPROMISES ON BOTH SIDES. ZAMBIA WOULD BE MAKING ITS COMMITMENT CLEAR IN THE BUDGET THROUGH THE REDUCTION IN PRICE CONTROLLED ITEMS. WHEN THE TIME CAME FOR A SETTLEMENT WITH THE IMF, ZAMBIA WOULD BE READY TO DEVALUE BUT AS A PART OF A PACKAGE INVOLVING THE INFLOW OF FUNDS TO CUSHION THE IMPACT ON THE HARD PRESSED ZAMBIAN POPULACE.

6. CARTER PUT THE CASE FOR AN AT LEAST MODEST DEVALUATION IN THE BUDGET, MENTIONING A FIGURE OF K10/11 TO US DOLLAR ONE AND THE NEED TO MAKE RAPID STRIDES TO REACH A SETTLEMENT WITH THE IFI'S BEFORE THE PROBLEM OF THE ARREARS GREW EVEN MORE UNWIELDY. HE MENTIONED THE NEW INITIATIVES TO HELP SUB-SAHARAN AFRICAN DEBTOR COUNTRIES. NOTE WAS TAKEN BUT THE DIE FOR THE BUDGET SEEMS TO BE CAST. POLITICAL CAUTION IN AN ELECTION YEAR AND IDEOLOGICAL RESERVATIONS ON THE PART OF SOME IN THE LEADERSHIP HAS COMBINED TO PUT A DAMPENER ON THE PROSPECTS FOR THE BUDGET ITSELF MARKING A WATERSHED ON THE PATH BACK TO THE IFI'S . BUT THERE ARE STILL TWO WEEKS TO GO BEFORE THE BUDGET, A LONG TIME IN ZAMBIAN ECONOMIC PLANNING. POSITIVE AND CONVINCING NEWS IN IT ON

CONFIDENTIAL

16246U  
MDLIAN 3249

TACKLING THE BUDGET DEFICIT AND SUBSIDIES/PRICE CONTROLS WOULD PROVIDE AT LEAST SOME FAT FOR IMF NEGOTIATORS TO CHEW ON.

WORLD BANK

7. THE ZAMBIANS CONTINUE TO TRY TO STICH TOGETHER A PACKAGE TO CLEAR THEIR WORLD BANK ARREARS. A MEETING OF POTENTIAL DONORS WAS HELD AT STATE HOUSE ON 14 JANUARY. BUT A GAP OF SOME US DOLLARS 10 MILLION IS STILL SAID TO BE UNACCOUNTED FOR ASSUMING THAT THE ZAMBIANS COME UP WITH US DOLLARS 20 MILLION. A VICE PRESIDENT OF THE WORLD BANK IS SAID TO BE ARRIVING HERE AT THE BEGINNING OF FEBRUARY.

8. FCO PLEASE GIVE MONETARY DISTRIBUTION.

WILLSON

YYYY

DISTRIBUTION

154

MAIN 154

MONETARY

CAFD

NNNN



FCS/88/042

SECRETARY OF STATE FOR DEFENCE

CH/EXCHEQUER	
REC.	04 MAR 1988
ACTION	CST
COPIES TO	

4/3/88.

Ethiopia Famine: Air Transport Operations

1. Since it became clear that 1988 would see famine in Ethiopia on the scale of 1984/85, there have been Parliamentary and public calls for Britain to send the RAF again. We have so far resisted these on the grounds that present needs for air operations are being met effectively by an airlift using chartered aircraft. However, there is a strong possibility that the pressures on us will increase. We therefore need to consider how we should respond.

2. The need for air operations has so far been largely confined to airlifting food into the most seriously affected provinces of Tigray and Eritrea, where civil war is making it impossible to move sufficient quantities by road. Five Hercules are at present engaged in this, together with a number of smaller aircraft. Two Hercules are chartered by the Office of the United Nations Disaster Relief Coordinator (UNDRO) from the Belgian Air Force and the American firm Southern Air Transport (SAT). ODA has contributed £2 million towards the cost of this operation. Two further SAT Hercules are being operated by a group of charities funded by the European Community through the voluntary agency CARITAS. The fifth Hercules is operated by the Red Cross and chartered from the Belgian Air Force. This operation is working well. As long as the requirement for aircraft remains confined to airlifting into Tigray and Eritrea, I believe that this

/can



can probably continue to be met by extending the present arrangements. I expect to offer a further contribution to UNDR0 for this purpose as soon as they make a final appeal. This air operation will probably need to be maintained at least until the next harvest in October/November.

3. However, it is now becoming evident that a separate airdrop operation may be needed further south in the inaccessible mountain region of northern Shewa. The number of famine victims in this area is expected to treble over the coming months to at least half a million. Food is currently being transported by a number of small Stol aircraft using rudimentary airstrips, which will not be usable during the rainy season from June to September. The amounts of food which can be airlifted in by these aircraft is barely sufficient to meet current needs: no stockpiling for the rainy season or to cope with increasing demands is possible. The United Nations Special Representative in Ethiopia, Mr Michael Priestley, has already asked us informally if the RAF could undertake this airdrop. He knows we have been reluctant to commit the RAF, and has not so far made a public appeal, but argues that the RAF would be best able to do the job. (The civilian operator, SAT, lacks experience of airdrop work, the Belgian Air Force is said to be fully committed in Eritrea and Tigray, and the Luftwaffe has only Transalls, which, even if available, carry less food than a Hercules.)



4. The Ethiopian Government has now written to ask us to provide Hercules aircraft "for airlift and airdrop". We intend to reply by expressing willingness to provide further funding for the UN airlift. However, this line could become difficult to maintain if the requirement for airdropping firms up, and if political pressure for sending the RAF increases. The House of Commons' Select Committee on Foreign Affairs (FAC) is visiting Ethiopia this week as part of its enquiry into the UK response to the famine. We may need to respond rapidly, and as positively as possible. I should therefore like to explore the possibilities with you.

5. I think we are both agreed that we should much prefer not to become committed to a further RAF operation in Ethiopia. The likely costs, and the difficulty of withdrawing the aircraft once they are there, are obvious problems. There is also the question of security. The conflict between the Ethiopian army and the rebel movements has intensified recently. However, Shewa, where the airdrop is likely to be needed, is not in the disputed area, and rebel activity has not been a barrier to relief efforts there. Even in Eritrea and Tigray, the rebels have not shown any sign of wishing to disrupt the relief airlift, and commercial air traffic is still able to operate safely.

6. I understand that the RAF Hercules squadron may have some spare capacity for periods during the early summer, but is heavily committed from late August to October with exercises in South-East Asia and the Australian Bicentennial, as well as a continuing commitment to the

/Gulf



Gulf. Nevertheless I should be grateful to know whether, if necessary, RAF Hercules aircraft could be found to help in Ethiopia this year. If it is impossible to provide aircraft for the whole period until October/November, a Hercules operation starting soon and continuing until mid-August might still be worth offering. This would enable substantial quantities of food to be moved into Shewa before the rains make operations difficult.

7. If there were to be any serious question of sending RAF Hercules to Ethiopia we should need to consider carefully the costs, and how these would be apportioned. We might explore the possibility of trying to get other donor governments, either through the UN or the EC, to share the costs (the European Commission has indicated that this might be a possibility). It would be necessary to work out a method of collecting these contributions and transferring them to the MOD, but I have no doubt that this could be managed. What may be a more substantial problem, and one which may prove to be an insuperable obstacle to getting either the UN or EC to pay, is the very high cost of the RAF - about £5,500 per flying hour compared with about £2,000 for the Belgian Air Force and about £3,000 for SAT. The contrast between the figures is very striking. I would be grateful therefore if you could consider whether there is any scope for reducing this cost. If cost did prove to be the stumbling block, we could find ourselves facing a good deal of public criticism, whether or not the airlift went ahead.



8. Even if, whatever the cost, we could get others to contribute, there is little doubt that a major part of the cost of any operation would have to be met by HMG. In 1984/85 the costs were borne equally ODA and MOD. Even so, this placed an enormous burden on our limited aid budget. HMG was heavily criticised, not least by the FAC, for failing to make additional money available. I would hope that, if a further RAF operation proves inevitable, it would be possible to finance it in ways which did not disadvantage the remainder of the aid programme as much as last time.

9. During the Ethiopian emergency this year, we have so far managed to retain the political initiative on the home front and avoid the impression that we are being driven reluctantly into each humanitarian gesture by public opinion. I am keen that we should continue to be well up with events and believe that we may therefor need to take some quick decisions in the next month or so on this issue. We may still of course be able to avoid this coming to a head.

10. I am copying this letter to the Prime Minister, and, in view of the financial implications, to the Chancellor of the Exchequer.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

4 March 1988



*mp*

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALING 01-218 2117

CH/EXCHEQUER

March 1988

MO 19/2E

REC.	22 MAR 1988
ACTION	CST
COPIES TO	

✓  
22/3

*Dear Geoffrey,*

Thank you for your minute of 4th March about the possibility of RAF aircraft assisting once more in Ethiopian famine relief operations.

I am grateful for your advance warning of the deteriorating situation in Ethiopia and the likelihood of increasing pressure to offer RAF assistance. As you know, my strong preference, as yours, is that we should avoid becoming involved in a further RAF operation in Ethiopia if at all possible, not only because of the penalties to our defence commitments, but also because we would then be establishing a powerful precedent which I suspect would become almost impossible to break in the foreseeable future, so long as relief operations continue to be necessary. There is the danger too that these could also extend beyond Ethiopia.

I have nonetheless considered carefully what we might be able to provide, against the background of the heavy commitments, which I know you appreciate, facing our Air Transport Force during the period in question. My conclusion is that whilst any operation, even in the early part of the year, would cause some pain in terms of its effects on operations and training in all three services, it would be possible to provide assistance of the order of Op Bushel (that is, two Hercules in theatre with supporting personnel). This could

The Rt Hon Sir Geoffrey Howe QC MP



begin soon (for preference we should need three weeks notice) and last until early mid/August. But I must stress the importance of our being able to withdraw the aircraft at that stage. Otherwise the operational difficulties are likely to be severe, in a period that includes some very major and politically high profile defence commitments. I would wish to make it clear from the outset that any RAF involvement would be a temporary and short term diversion of scarce resources from important defence tasks.

As far as funding is concerned, I believe that we must, in accordance with the established interdepartmental agreement on funding disaster relief, look to ODA to reimburse all the extra costs arising on defence votes as a result of the operation. It was made clear at the time that the previous cost sharing agreement was exceptional. It is, of course, entirely up to you to seek other sources of funding but I must make it clear that my Department will expect ODA to reimburse Defence Votes directly and promptly. I should add that the figure of £5,500 per RAF Hercules flying hour you mention in your minute appears to be the full cost rate (around £5,000) plus some additional costs. The "extra cost" rate which would apply in this case would be around £2,500 which compares well with the costs charged by other operators you mention.

I am sending copies of this letter to the Prime Minister and to the Chancellor of the Exchequer.

Yours sincerely,  
*George*

George Younger



*[Handwritten signature]*

10 DOWNING STREET  
LONDON SW1A 2AA

✓  
12/4  
From the Private Secretary

11 April 1988

CH/EXCHEQUER	
REC.	11 APR 1988
ACTION	Mr H.P. EVANS
COPIES TO	Sir P. MIDDLETON
	Sir G. LITTLER
	Sir T. BURNS
	Mr MOUNTFIELD

I enclose a copy of a message to the Prime Minister from the President of Cameroon about the economic problems of African states in general and Cameroon in particular, seeking our help with the IMF and the World Bank. It also deals with one or two wider aspects of our relations.

I should be grateful for a draft reply in due course. I am copying this letter and enclosure to Alex Allan (HM Treasury) and Myles Wickstead (Overseas Development Administration).

(C. D. POWELL)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.



*République du Cameroun*

*Le Président  
de la République*

A 329/CAB/PRC

Yaoundé, le 25 MARS 1988

DEAR PRIME MINISTER,

I HAVE BEEN FOLLOWING WITH CLOSE ATTENTION THE PROGRESS OF YOUR RECENT ACTIVITIES ON THE INTERNATINAL STAGE, FROM YOUR KEY MEETING IN LONDON WITH GENERAL SECRETARY GORBACHEV BEFORE THE SIGNING OF THE INF TREATY IN WASHINGTON, AND FROM YOUR IMPORTANT VISITS TO KENYA AND TO MY NEIGHBOUR, NIGERIA, AND NOW TO YOUR CURRENT EFFORTS TO HELP SHAPE EUROPE INTO A FINANCIALLY SOUND COMMUNITY OF POWERFUL NATIONS.

YOUR VISIT TO KENYA AND NIGERIA WAS WELL TIMED AND ITS EXECUTION WELL JUDGED, IF I MAY SAY SO. (I WOULD VERY MUCH HAVE LIKED TO WELCOME YOU TO CAMEROON, HAD YOU BEEN ABLE TO MAKE IT BUT I WAS TOLD YOU HAD JUST A FEW DAYS AVAIL-  
ABLE FOR THIS FIRST, AFRICAN TOUR OF YOURS. I HOPE IT WOULD BE POSSIBLE NEXT TIME). THIS IS A CONTINENT WHICH, WELL INTO THE NEXT CENTURY I AM AFRAID, WILL CONTINUE TO POSE PROBLEMS OF MANY KINDS NOT ONLY FOR ITS CONSTITUENT PARTS BUT FOR THE LEADING NATIONS OF THE WESTERN WORLD. BRITAIN'S ROLE WILL REMAIN CRUCIAL, AND I AM ENCOURAGED TO THINK THAT UNDER YOUR LEADERSHIP IT WILL REMAIN CONSTRUCTIVE.

THE RT. HON. MARGARET THATCHER, FRS, MP  
PRIME MINISTER OF THE UNITED KINGDOM

.../...

LIKE YOU, I HAVE BEEN STRUCK PARTICULARLY, AS HAVE OTHER LEADERS THROUGHOUT THE CENTURIES NO DOUBT, BY THE CLOSE RELATIONSHIP BETWEEN ECONOMIC STRENGTH AND POLITICAL INFLUENCE. YOUR OWN EFFORTS TO RESHAPE THE BRITISH ECONOMY HAVE, BY NO MERE COINCIDENCE, BEEN ACCOMPANIED BY A STRENGTHENING OF BRITISH DIPLOMACY ABROAD. I SEE A SOUND FINANCIAL MANAGEMENT OF THE EUROPEAN COMMUNITY AS LIKELY TO HERALD A SIMILAR INCREASE IN THE INFLUENCE ABROAD OF THE COMMUNITY AS A WHOLE AND OF ITS MEMBERS.

THE SAME PROBLEM FACES CAMEROON. WE HAVE A ROLE TO PLAY IN AFRICA AND PERHAPS, AS A BRIDGE BETWEEN THE ANGLOPHONE AND FRANCOPHONE COUNTRIES, IT IS A SPECIAL ROLE. CERTAINLY I BELIEVE IT IS ONE WHICH CAN CONTRIBUTE TO THE PEACEFUL SOLUTIONS WE AFRICANS NEED. WE HAVE MANY OBSTACLES TO OVERCOME AND THE GREATEST OF THEM, UNDER-DEVELOPMENT, IS NOT LIMITED TO THE ECONOMIC DOMAIN. BUT WITHOUT SOUND ECONOMIC POLICIES, NONE OF US ON THIS CONTINENT CAN BRING ABOUT THE POLITICAL DEVELOPMENT WE ALSO NEED. WITH A STRONGER ECONOMY, AND THE GREATER INFLUENCE WHICH GOES WITH IT, CAMEROON WILL BE BETTER PLACED TO OFFER A CONSTRUCTIVE, MODERATE AND HELPFUL CONTRIBUTION TO THE SOLUTION OF THE PROBLEMS AFRICA POSES FOR ITSELF AND FOR THE OUTSIDE WORLD.

THE ECONOMIC DIFFICULTIES MY COUNTRY IS CURRENTLY FACING ARE PRIMARILY FOR US TO SOLVE. THE FALL IN OIL AND COMMODITY PRICES, AND THE DEPRECIATION IN THE VALUE OF THE DOLLAR, HAVE HIT US HARD. WE SHALL HAVE TO LOOK FOR NEW SOURCES OF EXPORT INCOME, AND IN THE PUBLIC SECTOR WE SHALL NEED TO CUT OUR COAT ACCORDING TO OUR CLOTH. THIS RESTRUCTURING WILL REQUIRE CAREFUL POLITICAL MANAGEMENT WITHIN CAMEROON, AND IT WILL IN ANY CASE TAKE TIME TO BRING ABOUT. I HAVE ALREADY SET IN HAND SOME OF THE MEASURES NEEDED, AND MORE WILL HAVE TO COME. THE IMF HAVE A TEAM HERE IN CAMEROON AT THE MOMENT, AND THERE WILL BE CONTINUED DISCUSSIONS WITH THEM AND WITH THEIR IBRD COLLEAGUES TO ENABLE ENOUGH INTERIM ASSISTANCE TO BE GIVEN. THESE ARE, I AM SURE, THE RIGHT INTERNATIONAL INSTITUTIONS FOR SUCH TASKS.

.../...

BUT, PRIME MINISTER, I BELIEVE THERE IS A ROLE ALSO FOR BRITAIN TO PLAY. WE SHALL NEED A HELPFUL AND FRIENDLY VOICE IN THE COUNCILS OF THE IMF AND THE WORLD BANK, AND I HOPE YOUR DELEGATION THERE CAN BE BRIEFED TO EXERCISE IT.

WE SHALL CONTINUE TO NEED ALSO THE HELP AND UNDERSTANDING OF YOUR GOVERNMENT AND YOUR BUSINESSMEN IN THESE DIFFICULT TIMES. I FULLY APPRECIATE ALL THAT HAS ALREADY BEEN DONE. AND I CAN HARDLY BE SURPRISED IF FOREIGN BUSINESSMEN, SUFFERING PAYMENT PROBLEMS, SHOULD FEEL DISMAYED AND DISCOURAGED. BUT I WOULD STILL URGE THEIR GOVERNMENTS TO TAKE A LONGER VIEW AND TO ENCOURAGE THEIR ENTREPRENEURS AND INVESTORS TO KEEP THEIR NERVES. CAMEROON MAY BE GOING THROUGH HARD TIMES. BUT IF BRITISH AID AND ENTERPRISES CAN STILL HELP US TO DEVELOP OUR EXPORTS AND SO STRENGTHEN OUR ECONOMY, THERE WILL BE PROFITS TO SHARE AND POLITICAL DIVIDENDS FOR ALL TO REAP.

PLEASE ACCEPT, DEAR PRIME MINISTER, THE ASSURANCES OF MY HIGHEST CONSIDERATION.



PAUL BIYA

~~Area?~~  
→ Division

DEVELOPMENT COMMITTEE

April 15, 1988

Statement by Mr. Mohamed Berrada

88E0625 April 25, 1988  
French (Morocco)  
EDS06 PS:jb REV:JCB

Statement by H.E. Mohamed Berrada  
Minister of Finance of the Kingdom of Morocco  
to the Development Committee Meeting, April 15, 1988

The uncertainties and disequilibria that have characterized the world economy in recent years have shown no significant signs of abating. While the numerous attempts of the industrialized nations to harmonize their economic and financial policies have had some encouraging results in certain developed countries, they have, as yet, done nothing to reduce the excessive real interest rate levels or to abolish protectionist barriers with regard to the developing countries. Weak growth in the industrialized countries remains an obstacle to any expansion of international trade and to any significant recovery of raw materials prices.

This international environment and the inadequacy of capital transfers to developing countries, particularly those that are heavily indebted, have continued to hamper their sustained adjustment and growth efforts.

Progress in the area of debt strategy has also remained extremely limited, and there is still a long way to go before an equitable and lasting solution to the debt problem is achieved that will be compatible with the demands of growth and proportionate to the efforts undertaken in the adjustment and restructuring of those economies.

As emphasized by the President of the World Bank, the key problem in connection with the adequacy of resource transfers still lies in the insufficient flow of funds to meet the needs arising in the areas of economic growth, poverty control and structural adjustment, and to solve the problem of the debt.

Being aware of the need for adjustment, the developing countries, particularly those that are heavily indebted, have generally introduced far-reaching reforms in their economic and financial systems. In so doing, they have, in cooperation with the World Bank and the IMF, made their economies more outward-looking, strengthened their international competitiveness and substantially increased their domestic savings. In several countries, these reforms have also led to rationalization of the public sector and to a more vigorous private-sector contribution to development.

It is clear, however, that the success and strengthening of these reforms will, to a large extent, depend on the achievement of sufficient growth. This continues to be handicapped by the very low level of investments, attributable, in particular, to the excessive debt burden and the inadequacy of capital transfers and to the protectionist measures adopted in the industrialized countries with regard to developing country exports. It is therefore of paramount importance to formulate and swiftly implement a comprehensive strategy incorporating restructuring and growth policies, a satisfactory solution to the debt problem, revitalization and liberalization of international trade and an increase in resource transfers to the developing countries.

It is encouraging to note that in recent months numerous initiatives and proposals have been put forward concerning the debt burden and the developing countries' capacity to cope with it. It is therefore up to the governments of industrialized countries, commercial banks and multilateral finance institutions to play a more active role in identifying and implementing the mechanisms needed to reduce the debt service burden, and it is up to the World Bank to strengthen its role as catalyst in this area. It would be desirable, in this connection, for all debt reduction plans to take account of both market data and the debt service capacity of the indebted countries.

It is essential that the multilateral financial institutions have sufficient funds available to support their efforts toward solving the debt problem and stepping up net transfers to the developing countries. In this respect, we are delighted at the outcome of the negotiations on a general capital increase for the Bank. This decision must be followed by the rapid settlement of two issues that have been pending: evaluation of Bank capital, and voting power of the developing countries. In our opinion, the Bank should seek more objective capital evaluation formulas which would, for once and for all, solve the problem of its disbursement margin. We also feel that the voting power of developing countries should be restored to at least its pre-1984 level.

In our view, the time has also come for a review to be made of the fee structure and repayment terms of Bank loans, with a view to assessing the real cost of these loans more effectively and reducing the exchange risks borne by borrowers.

In view of the importance and urgency of the above issues, namely evaluation of Bank capital and borrower exchange risks, we recommend that the Bank prepare reports on these two points for presentation to our Committee at its next meeting.

The achievement of an adequate volume of transfers will also call for a substantial general increase in IMF quotas and a return to a positive contribution by the Fund to the financing of adjustment and growth efforts. It will also entail a stepping up of concessional aid flows to low-income countries--particularly those of sub-Saharan Africa--principally through adoption of the recommendations of the working group on concessional aid. Efforts are also needed to promote the transfer of non debt-creating capital, mainly in the form of direct investment. The entry into effect of the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) can only encourage these transfers.

Turning to the second item on the agenda, we are in full agreement with the conclusions of the Brundtland Commission regarding the direct link between environmental protection and the fight against poverty. We encourage the Bank to help the developing countries in this area, in such areas as investment project preparation and financing of additional costs within the framework of country programs and priorities. Care must be taken, however, to ensure that environmental protection does not result in more rigorous conditionality for World Bank assistance.

27 APR 1988



FINANCIAL SECRETARY	
REC.	27 APR 1988
ACTION	MR. SHEPHERD - IR
COPIES TO	PS/Amcclott
	Mr. Coppin Mr. Foster
	Mr. Mountfield
	Mr. May
	PS/IR

Foreign and Commonwealth Office

London SW1A 2AH

27 April 1988

*Dear Charles*

### Morocco

Following your contacts with Colonel-Major Kadiri over recent months (over cooperation with SAS, the Crown Prince's tutor/companion, and locusts) we have been considering whether we might use this channel to pursue some objectives of our own. We currently face two particular problems where an approach to Kadiri might serve to cut through Morocco's legendary bureaucracy and the King's reluctance to turn his attention towards outstanding bilateral business.

The first concerns the UK Moroccan Double Taxation Convention, which was signed in London in September 1981, with the intention of exchanging instruments by the end of that year to allow the Convention to come into immediate effect. British Parliamentary approval was given in December 1981, but the Moroccan Parliament did not act until May 1985, since when the Convention has been awaiting Moroccan Royal Assent. We have used every suitable opportunity to press for the King to grant this, so far without success. The position is now that claims for relief under the Convention, as negotiated, will fall outside the statutory time limit under UK domestic law. This can be resolved by the negotiation of a single-paragraph protocol to restore the intent of the Convention, but this can be done only after the King has given his approval to the Convention. Until this is done, Inland Revenue tell us that claims for relief will mount.

The second relates to a possible sale to Morocco of Vickers battle tanks. Last October a Moroccan military mission visited London and DESO then arranged a field demonstration of main battle tanks in Morocco in December. The response was positive. DESO believe that a recommendation to buy Vickers tanks was put to the King and that this awaits only his personal approval (finance being expected from Saudi sources). It is not clear why the King has not given this approval. According to one source available to DESO, the King is hoping for a 'signal' of political commitment from the UK. (The Moroccans may be hoping for a visit by the Prime Minister, about which I have written separately. Since this is not likely to be feasible in the foreseeable future, DESO are considering recommending an early visit by Lord Trefgarne in order to further our Defence Sales

CONFIDENTIAL



interests.) An alternative version has it that the report has not yet reached King Hassan but is stuck with the Private Secretary. We cannot however exclude the possibility that the Moroccans would like to buy the Vickers tank but have not tied up the financing.

Whatever the reason, the uncertainty is damaging to Vickers. It would therefore be helpful if you could seek Colonel Kadiri's advice on how the stalemate can be broken. At the same time you could also ask if he can help on advancing the King's Assent to the Double Taxation Agreement.

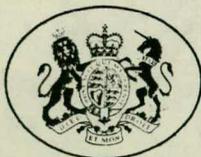
I am sending copies of this letter to Mr Hain-Cole (PS/Lord Trefgarne), Mr Bewley (PS/Mr Chandler) and Mr Heywood (PS/Financial Secretary to the Treasury).

*Done over*

A handwritten signature in cursive script, appearing to read 'R N Culshaw'.

(R N Culshaw)  
Private Secretary

C D Powell Esq  
10 Downing Street



Foreign and Commonwealth Office

London SW1A 2AH

9 May 1988

CH/EXCHEQUER	
REC.	09 MAY 1988
ACTION	Mr H.P. EVANS
COPIES TO	Sir P. MIDDLETON Sir G. LITTLER Sir T. BURNS Mr MOUNTFIELD

9/5

Dear Charles,

Cameroon/IMF

You sent me with your letter of 11 April a copy of a message to the Prime Minister from President Biya of Cameroon about his economic problems and requesting UK support in the IMF and World Bank.

I enclose a draft reply. This was delayed so that account could be taken of the results of the Cameroon Presidential elections and the re-election of Biya (who was in fact the sole candidate).

It is encouraging that President Biya appears at last to be nerving himself for an approach to the Fund to prepare the way for the economic reform programme which Cameroon badly needs. Cameroon has considerable long-term resources and if it can make the best use of them its future should be bright. The measures required are, however, likely to take time. We remain ready to support Cameroon in the international financial institutions subject to our judgement of the technical merits of their programme. But we should avoid getting involved in technical discussions with them over the contents of their programme: that is for the IMF/IBRD.

Mrs Chalker is planning to include Cameroon in a visit to West Africa in July. Biya's present moves make these plans especially timely, given that the IMF proposed Standby Arrangement is likely to be before the Fund Board in June/July. The enclosed draft accordingly encourages President Biya to pursue this exchange during Mrs Chalker's visit.

I am copying this letter and its enclosure to Alex Allan and Myles Wickstead.

Yours ever,  
L Parker

(L Parker)  
Private Secretary

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Copies to:

H.E. Mr Paul Biya *G C M G*

President of the Republic of  
Cameroon

SUBJECT:

PRIVACY MARKING

..... In Confidence

CAVEAT .....

Thank you for your letter of 25 March outlining your Government's economic policies. I should also like to offer you my ~~very~~ warmest wishes on your new term of office following the Presidential elections on 24 April.

I was particularly interested to hear of Cameroon's current contacts with the International Monetary Fund and World Bank, and of your Government's commitment to economic restructuring. The path you have chosen is not an easy one, but I believe that it offers the best chance of sustainable long term growth. For our part we shall be very ready to support Cameroon *[* in the spirit of our traditionally close and friendly links *]* in the *International* financial institutions, on the basis of a good Fund programme which addresses the problems which you describe. Such a programme will put the resources of the institutions at your disposal.

Enclosures flag(s) .....

RS1ACS

It is clearly important that our two countries should continue in close touch during the important period which lies ahead. I strongly share the views you express about the importance of continued close cooperation. For this reason I am [particularly] glad that the Minister of State for Foreign and Commonwealth Affairs, Lynda Chalker, will be visiting Cameroon on 13-14 July when I know she looks forward very much to meeting you *and to hearing more about your plans*

FROM: D J BATT  
DATE: 20 May 1988

MR EVANS  
PS/CHANCELLOR

cc Mr Lankester  
Mr Mountfield  
Mr Walsh O/R  
Mr Hudson  
Ms Life  
Mr Segal  
Ms Higgins

*Ch*  
I have rejigged  
the first para., +  
made one or two  
other amendments.  
Content?  
*df 20/5*

*sees in draft.*

**ARTICLE IN 'OVERSEAS DEVELOPMENT'**

The Chancellor has agreed to put his name to a short article in ODA's newspaper (Overseas Development), dealing mainly with the ESAF, but touching also on his sub-Saharan Africa initiative. The article is to be illustrated with a photograph of the recent exchange of ESAF documents with Mr Camdessus.

2. I submit a draft. This is slightly over 600 words, which ODA would be happy with. We need, if at all possible, to send this to ODA on Monday (25 May).

*Mr Lankester  
himself.*

*23?*

*David Batt*

D J BATT  
IF1  
270-5564

*\* This is appalling  
rough - it is not  
smooth - it is not  
name is - I put in  
quote of Mr Lankester. We have  
it also for smooth. We have  
minutes (x) for photos - fair  
copies (x) for photos - fair  
OK pos. on this matter - fair  
have found substantial  
document pls  
an - a met.  
Let's send on  
your way on  
20/5*

**ENHANCED STRUCTURAL ADJUSTMENT FACILITY (ESAF)**Introduction

The Enhanced Structural Adjustment Facility (or ESAF) is a new facility established by the IMF to provide concessional lending to developing countries. The UK will be contributing up to £327 million towards <sup>its</sup> the subsidy costs of this facility over the next 14 years; <sup>making</sup> this is the largest single subsidy contribution <sup>to</sup> the ESAF.

*Additional funds have been made available to the UK aid programme to meet this charge.*

The establishment of the ESAF <sup>responds to</sup> reflects growing international concern about the problems of the poorest and most heavily indebted countries, particularly in sub-Saharan Africa. The UK has <sup>led the way in seeking solutions</sup> been in the forefront in drawing attention to these problems, and I have launched a three-point initiative for helping to relieve the heavy burden of debt owed by these countries to the governments of industrialised countries. My initiative and the assistance to be provided by the IMF are both needed if the economies of the poorest and most indebted countries are to be put on a sustainable basis.

The role of the IMF

The ESAF marks a further evolution in the IMF's role. For much of the post-war period the Fund was concerned mainly with <sup>providing</sup> the provision of short-term loans, at near-market rates, to either industrial or developing countries in temporary balance of payments difficulties. But during the 1980s its lending <sup>became</sup> has become entirely concentrated <sup>on</sup> in developing countries, many of which faced deep-rooted structural as well as macroeconomic problems. The Fund responded by starting to adapt its lending facilities, and in 1986 established a new concessional facility for medium-term lending to help the poorest countries - the Structural Adjustment Facility (or SAF) - with resources of around £2 billion.

The ESAF will provide around £4.5 billion in new concessional loans, in support of 3-year programmes of macroeconomic and structural adjustment. The precise mix of policy measures will

vary from case to case, [but] 'macroeconomic adjustment' typically includes action on fiscal and monetary policy, and on the exchange rate; 'structural adjustment' typically includes [the] opening up [of] markets to international trade, [the liberalising of] pricing policy (leading for instance to higher prices for farmers and increased agricultural production), and [the] streamlining [of] the public sector. These are all areas where reforms are vital in order to pave the way for sustainable economic growth, and thus improved living standards.

The first ESAF programmes are expected within the next two months. Loans will be at an interest rate of 0.5 per cent, disbursed over 3 years on the basis of detailed annual programmes, and repayable in ten semi-annual instalments over a period between 5 and 10 years from the date of each disbursement. Over 60 low income countries are eligible. We expect the facility to be of particular benefit to the poorest countries in sub-Saharan Africa.

The UK will be providing the subsidy on around £750 million of ESAF lending, representing around one-sixth of the expected total lending. [On the basis of current interest and exchange rates, we expect the total cost of our subsidy contribution to be up to £327 million, spending up to around £40 million a year in the mid-1990s. The UK will be the largest single subsidy contributor. Additional funds have been made available to the UK aid programme for the facility.]

### The UK initiative

But for many of the poorest and most heavily countries further help will be needed. I have therefore [been <sup>continued</sup> continuing] to press the UK's own initiative on official debts. This involves converting old aid loans to outright grants (as the UK has done for very many of the poorest countries); extending the period of rescheduling on other - mainly export credit-loans (longer grace and repayment periods have been agreed in ten cases over the last year), and reducing interest rates charges on these debts to well below market levels.

Measures along these or similar lines are needed to help the poorest countries break out of the vicious circle of ever-increasing debt. They need to be accompanied by economic reform - supported by the ESAF - in the countries themselves, and continuing bilateral and multilateral development aid. I shall be seeking wider agreement on the UK initiative among other leading industrial countries, at the Toronto Economic Summit next month.

*Int. -  
M. J. G. J.*

From: T P Lankester  
Date: 24 May 1988

MR J TAYLOR

*Ch. Much better. One  
or two suggestions from  
APH: me. OK. 21/5  
25  
24/5*

CC

Sir G Littler  
Mr Walsh  
Mr Mountfield  
Mr A Hudson  
Mr D Batt

**AFRICA**

As requested I attach a redraft of the article on Africa for Overseas Development.

2. Their deadline is tomorrow. So if we could have the Chancellor's approval overnight, I would appreciate it.

T P LANKESTER

**UK TAKES ACTION ON SUB-SAHARAN DEBT: MAKES LARGEST SUBSIDY  
CONTRIBUTION TO NEW IMF FACILITY FOR POOREST COUNTRIES**

The countries of Sub-Saharan Africa face daunting economic problems. Many of their difficulties have been self-inflicted. Inefficient public sectors, large fiscal deficits, overvalued exchange rates, misguided controls over prices and imports and discouragement of private enterprise have all had their toll. Add to these the impact of drought, rapidly rising populations and weak administrations, and it is hardly surprising that over the past 15 years real per capita incomes in the region have fallen by as much as 25 percent.

2. Many African governments now recognise the need for policy reform if this decline is to be reversed, and a number of them have embarked on wide-ranging reform programmes. But these programmes are unlikely to succeed unless they are supported by extra concessional finance from abroad and unless something is done to alleviate the burden of overseas debt.

3. The countries of the region have about \$100 billion of debt outstanding, owed mainly to governments and international financial institutions. For the poorest of them, proper servicing of this debt is, <sup>quite</sup> ~~proving~~ simply <sup>practically</sup> ~~(an~~ impossibility. If they are to have any real prospect of growing out of their present difficulties, the debt service burden has to be substantially reduced.

4. Just over a year ago in Washington, I put forward three proposals for dealing with this problem:

- conversion of old aid loans into grants
- longer repayment terms on export credit and other official loans
- reducing interest rates on these loans.

These would be conditional on the adoption of sensible economic policies.

5. Since I made these proposals, I am glad to say that other creditor nations have increasingly come to realise that action is needed. There has been good progress in implementing the first two proposals. But action to reduce interest rates on rescheduled official debt has so far been held up by the reluctance of several key countries, including the USA, to join in. At the Toronto Summit in June I will again be pressing for agreement on this third proposal as well.

6. As for concessional finance, the UK is ~~contributing~~ <sup>playing its part</sup> in two important ways. First of all, we are contributing £250 million over the next three years to the Special Programme of Assistance for Sub-Saharan Africa being mounted by the World Bank.

7. Secondly, ~~the UK has been instrumental in enabling the Enhanced Structural Adjustment Facility (ESAF) of the IMF to get off the ground.~~ <sup>even - and more important still -</sup> ~~And we have reinforced our commitment to this new~~

~~Facility by making the largest single contribution, to ESAF's ~~future~~~~  
~~subsidy.~~

8. The normal loans which the IMF can make to its member countries are at close to market interest rates and with relatively short maturities. The poorest, debt distressed countries simply cannot afford to go on borrowing on these terms. Yet these countries need the IMF's help. The ESAF has been set up with about £4½ billion to enable them to borrow from the IMF over a longer period at an interest rate of ½ percent.

9. Other governments will lend the capital for on-lending. The UK government has chosen to contribute to the subsidies that are needed to reduce the interest rate to this level.

10. We will be the largest subsidy contributor, accounting for one-sixth of the total. This will involve grants totalling up to £327 million. Additional funds have been made available to the Aid Programme for this purpose.

11. The ESAF money will be used, in conjunction with funds from the World Bank, to help support economic reform programmes mostly in Africa. We will be insisting that recipient countries carry these programmes through; otherwise, the money will simply be wasted.

12. With these additional resources and provided we make further progress with my debt proposals, I believe that there is now a real opportunity for African countries to break out of the stagnation and decline that has beset so many of them.



FROM: J M G TAYLOR

DATE: 25 May 1988

A handwritten signature in the top right corner of the page.

MR LANKESTER

cc Sir G Littler  
Mr Walsh  
Mr Mountfield  
Mr A Hudson  
Mr Batt**AFRICA**

The Chancellor was most grateful for your note of 24 May, and the enclosed redraft of an article for "Overseas Development".

2. The Chancellor has one or two very minor suggestions:

Paragraph 3, line 4. To read: "... of this debt is, quite simply, proving an impossibility."

Paragraph 6, line 1. To read: "As for concessional finance, the UK is playing its part in two important ways."

Paragraph 7, line 1. To read: "Second - and even more important - the UK has been instrumental ...".

3. The Chancellor is otherwise well content with the draft.

A handwritten signature in the bottom center of the page.

J M G TAYLOR

RESTRICTED  
FM ODA LONDON  
TO ROUTINE ABIDJAN  
TEL NO MODEV 59  
OF 1015Z JUN

RESTRICTED.

INFO ROUTINE LAGOS NAIROBI LUSAKA HARARE GABORONE DAKAR UKDEL IBRD

payp

AFRICAN DEVELOPMENT BANK/FUND ANNUAL MEETING ABIDJAN 1-3 JUNE

SUMMARY

1. THE WIDER DEBATE ON AFRICAN ECONOMIC PROBLEMS CONCENTRATED ON DEBT, COMMODITY PRICE PROBLEMS AND THE NATURE OF ADJUSTMENT, WITH SECRETARY BAKER'S ANNOUNCEMENT ON NEW US DEBT POLICY WELCOMED BUT NOT AT THE CENTRE OF DISCUSSION. PARALLEL DEBATE ON THE BANK'S ROLE MARKED BY ALMOST UNIVERSAL NON-AFRICAN MISGIVINGS, ESPECIALLY ABOUT SIZE OF NON-PROJECT LENDING, PROJECT QUALITY AND ADMINISTRATIVE WEAKNESSES.

PRESIDENT N'DIAYE SOUGHT TO APPEASE THESE CONCERNS BY PROMISING THEIR SERIOUS EXAMINATION, BUT SPOILT THE EFFECT BY EMOTIONAL INSISTENCE THAT HE WOULD GO HIS OWN WAY ON MAJOR ISSUES REGARDLESS. NON-REGIONALS LEFT INCREASINGLY WORRIED.

2. RESOLUTION FOR REPLENISHMENT OF FUND SECURED NECESSARY VOTES TO COME INTO EFFECT 31 MAY.

DETAIL

3. N'DIAYE'S ADDRESS AFTER FORMAL OPENING BY PRESIDENT HOUPHOUET BOIGNY UNDERLINED DISAPPOINTMENTS IN AFRICA'S 1987 PERFORMANCE, GAVE BALANCED ANALYSIS CITING EXTERNAL AND INTERNAL FACTORS AND PROMISED RIGOROUS ACTION BY BANK GROUP ON ALL FRONTS, INCLUDING NON-PROJECT LENDING AND TRADE FINANCE, IN THE WAKE OF AGREEMENT ON TREBLING BANK'S CAPITAL AND 50 PCT FUND REPLENISHMENT. HE SPEND MUCH TIME ELABORATING AND DEFENCING HIS PROPOSAL FOR DEBT SECURITISATION. HE ALSO PROMISED IMPROVEMENTS IN PROJECT QUALITY AND ADMINISTRATION; BUT FOR PROPER ATTENTION TO NEW ISSUES SUCH AS ENVIRONMENT BANK WOULD NEED EXTRA RESOURCES.

4. DEBT. BAKER'S ANNOUNCEMENT OF US READINESS TO ACCEPT PARIS CLUB MENU INVOLVING EITHER INTEREST SUBSIDIES OR LONGER MATURITIES FOR THOSE CREDITORS ABLE TO PROVIDE THESE, WITH 67 REACTIONS, HAS BEEN REPORTED SEPARATELY. SEVERAL AFRICAN GOVERNORS ALSO WELCOMED STATEMENT, THOUGH NOT ALL APPEARED TO UNDERSTAND WHAT WAS INVOLVED. (KENYAN GOVERNOR THANKED BOTH UK AND US FOR PROMISING ADDITIONAL MONEY TO AFRICAN DEVELOPMENT FUND). OKONGWU (NIGERIA) CALLED FOR MYRAS WITH VERY GENEROUS TERMS AND CONDITIONS, AND ALSO APPEALED MILDLY TO DONORS TO MAKE THE POSTPONED OAU DEBT CONFERENCE "POSSIBLE AND FRUITFUL". OTHERS MADE MORE GENERAL APPEALS FOR IMPROVEMENTS IN APPROACH TO DEBT. BY CONTRAST KONE (IVORY COAST) THOUGHT DEBT PROBLEMS COULD ONLY BE SOLVED BY IMPROVED COMMODITY PRICES.

5. ADJUSTMENT. UNANIMOUS ACCEPTANCE OF THE NEED FOR CHANGE AND REFORM BUT CONSIDERABLE STRESS BY THE WEAKER BRETHREN ON THE ALLEGED UNREALISTIC NATURE OF SOME IMF/IBRD PRESCRIPTIONS. CHIDZERO (ZIMBABWE) EMPHASISED THAT ADJUSTMENT TO OBTAIN RECOVERY AND GROWTH WAS RIGHT POLICY FOR ALL AFRICA. CHIGAGA (ZAMBIA) GAVE COHERENT IF UNCONVINCING PRESENTATION OF THEIR HOME-GROWN ALTERNATIVE. BARRE (SOMALIA) CLAIMED IMF ACCEPTANCE OF HIS GOVERNMENT'S APPROACH AS BASIS FOR A COMPREHENSIVE NEW ADJUSTMENT PROGRAMME. SIFI (ALGERIA) MADE LONG ASSAULT ON IMF PHILOSOPHY OF ADJUSTMENT, AND ON ASSISTANCE WHICH HE SAID POLLUTED THE ECONOMIC ENVIRONMENT, CANCELLING ATTEMPTS BY DEVELOPING COUNTRIES TO RECONSTRUCT THEIR ECONOMIES. BURKINA FASO HOWEVER CALLED FOR BETTER COUNTRY PROGRAMMING AND POLICY DIALOGUE.

6. ON PURELY BANK ISSUES MANY AFRICANS CALLED FOR URGENT ELIMINATION OF SUBSCRIPTION ARREARS AND PAYMENT TO NEW GCI; REGIONAL SUBSCRIPTIONS ARE COMING IN SO SLOWLY THAT NON-REGIONALS NOW HOLD NEARLY HALF THE VOTING POWER INSTEAD OF ONE-THIRD.

7. NON-REGIONALS MANIFESTED CONSIDERABLE DISQUIET WITH MANY ASPECTS OF BANK/FUND ACTIVITY. THE MOST IMPORTANT ISSUE FOR VIRTUALLY ALL, LED BY THE NORDICS, WAS THE RISE IN NON-PROJECT LENDING TO 36 PCT OF ALL ACTIVITIES AND OVER HALF OF BANK LENDING LAST YEAR, DESPITE CLEAR AGREEMENT IN NEGOTIATIONS OF GCI AND FUND REPLENISHMENT ON CAUTION AND AN UPPER LIMIT OF 20 PCT. CHIDZERO NOTED INCREASED ROLE OF SUCH LENDING. CAUTION AND DILIGENCE WERE NEEDED AND COORDINATION WITH WORLD BANK AND OTHERS. NORDICS POINTED TO POOR STATE OF PROJECT PIPELINE, AND WITH OTHERS FEARED ADVERSE IMPACT ON BANK'S FINANCIAL STANDING. LARGE RISE IN LENDING AND DISBURSEMENTS WAS ENTIRELY DUE TO THESE OPERATIONS.

8. WE AND OTHES ALSO POINTED TO IMPORTANT DECISIONS STILL OUTSTANDING ON FINANCIAL AND OTHER ISSUES, AND LIKE BOTSWANA CALLED FOR MORE FREQUENT MEETINGS OF BOARD OF DIRECTORS. OTHER THEMES INCLUDED NEED TO APPLY STRICTLY POLICY OF SANCTIONS, NON-ACCURAL AND PROVISIONING AGAINST LOAN ARREARS, TO IMPROVE PROJECT QUALITY AND SUPERVISION AND TO RESTRAIN STAFFING AND ADMINISTRATIVE COSTS (JAPAN SPOKE FIERCELY ON THIS.) SEVERAL CALLED FOR RESTRAINT IN NEW INITIATIVES; WE SPOKE PARTICULARLY OF RISKS IN PROPOSAL FOR NEW EXIM BANK.

9. N'DIAYE REACTED WITH EMOTION TO THESE CRITICISMS IN PRIVATE BILATERALS (EG WITH FRG MINISTER KOHLER). IN HIS CLOSING SPEECH, AFTER PRIVATE ADVICE FROM SISAY (GAMBIA) HE INCLUDED AN OLIVE BRANCH PROMISING SYSTEMATIC ATTENTION TO ALL POINTS RAISED AND ACTION TO REMEDY WEAKNESSES SO THAT BY NEXT YEARS 25TH ANNIVERSARY SUCH COMPLAINTS NEED NOT BE MADE. BUT HE WENT ON TO SPOIL THIS BY INSISTING THAT BANK MUST PROVIDE NON-PROJECT AID IN RESPONSE TO NEEDS, THAT EXIM BANK WOULD FULFIL ESSENTIAL FUNCTION AND INVOLVE NO AFDB MONEY AND THAT NON-REGIONAL GOVERNORS RISED ENDANGERING BANK'S CREDIT RATING BY THEIR OPEN CRITISISMS WHICH SHOULD BE DEALT WITH AT LOWER LEVEL. AFDB COULD STAND COMPARISON WITH ANY IFI.

10. NON-REGIONAL REACTIONS AS MEETING BROKE UP WERE DISAPPOINTED, ALL FEARING THAT UNLESS THEY COULD MAKE GOOD POLICY DECISIONS ALREADY APPROVED BY GOVERNORS AFTER DIFFICULT NEGOTIATIONS THEN NEXT YEAR'S MID TERM REVIEWS OF BANK AND FUND LENDING WOULD BECOME A PITCHED BATTLE, AND GOVERNOR'S AUTHORITY WOULD HAVE BEEN UNDERMINED. IMMEDIATE PROBLEMS ARE WHAT TO DO ABOUT QUEUE OF NON-PROJECT LOANS LIKELY TO COME UP FOR APPROVAL OVER THE NEXT YEAR, AND HOW TO ENLIST EFFECTIVE AFRICAN SUPPORT FOR NON-REGIONAL CONCERNS IN SUCH A WAY AS TO GET N'DIAYE TO LISTEN. UNLESS HE DOES, OVER THE LONGER TERM ATTITUDES TO NEXT AFDF REPLENISHMENT WILL HARDEN: SEVERAL NON-REGIONALS PRIVATELY REGRETTED THAT THEY HAD BEEN SO GENEROUS LAST YEAR.

11. NIGERIA OFFERED ABUJA AS SITE OF NEXT YEARS MEETING

HOWE

OELNAE 073

MONETARY

DISTRIBUTION: 147.

NNNN

ODA

PAGE II

RESTRICTED.

CONFIDENTIAL

131653  
MDLIAN 4880

CONFIDENTIAL  
FM UKDEL IMF/IBRD WASHINGTON  
TO ROUTINE FCO  
TELNO 130  
132300Z JUNE 88  
INFO ROUTINE KAMPALA, BDDEA NAIROBI, ABIDJAN

(ABIDJAN FOR SUTHERLAND, AFDB)

IMF: UGANDA

SUMMARY

1. FUND BROADLY SATISFIED WITH POLICIES AGREED FOR SECOND-YEAR SAF BUT CONTINUE TO BE WORRIED ABOUT THE TIMELINESS AND QUALITY OF DONOR ASSISTANCE IN VIEW OF THE VERY LIMITED ROOM FOR MANOEUVRE AVAILABLE TO GOU.

DETAIL

2. WE DEBRIEFED KEYES AND TAHA FROM THE STAFF MISSION TO UGANDA. THE BUDGET DUE ON 17 JUNE SHOULD CONTAIN A FULL AND DETAILED EXPOSITION OF THE POLICIES TO BE SUPPORTED BY A SECOND-YEAR SAF. THE FUND WERE BROADLY SATISFIED WITH THESE POLICIES AND GOU COMMITMENT (CHARACTERISED AS ''SINCERE IF SOMETIMES MISGUIDED''). WE BELIEVE THE EXCHANGE RATE WILL BE DEVALUED TO 150 AS PART OF THIS PACKAGE (PLEASE PROTECT). PRODUCER PRICES WILL BE INCREASED FURTHER, FISCAL POLICY REBASED, INTEREST RATES RAISED BY 10 PERCENTAGE POINTS, AND GREATER ATTENTION GIVEN TO THE MONITORING AND CONTROL OF POLICY IMPLEMENTATION. THE STAFF SUGGESTED THAT THE WEAKEST LINK IN THE PACKAGE WAS INTEREST RATE POLICY. THE PROPOSED INCREASE OF 10 PERCENTAGE POINTS WOULD REPRESENT ONLY MODEST PROGRESS TOWARDS POSITIVE REAL INTEREST RATES. THE STAFF COMMENTED THAT THEY HAD PRESSED THE UGANDANS FOR COMPLETE DEREGULATION OF INTEREST RATES AND WOULD CONTINUE TO DO SO BUT NOTED THAT THE UGANDANS WERE UNCONVINCED OF THE IMPORTANCE OF INTEREST RATES AND WERE MORE APPREHENSIVE ABOUT ACTION ON THIS FRONT, GIVEN THE VARIOUS POLITICAL AND SOCIAL COMPLICATIONS, THAN ABOUT EXCHANGE RATE ADJUSTMENT.

3. WE DISCUSSED THE EXCHANGE RATE WITH THE STAFF AT LENGTH. THEY SUGGESTED THAT THEY WOULD HAVE PREFERRED AGREEMENT ON A DEVALUATION LARGER THAN THE ONE INTENDED BY THE UGANDANS. HOWEVER, THEY BELIEVE AT THIS STAGE THAT THE AGREED DEVALUATION WOULD SUFFICE IN ITS MAIN PURPOSE, WHICH IS PERCEIVED AS PROVIDING SCOPE FOR NECESSARY INCREASES IN

PRODUCER PRICES. THE STAFF DOUBT THAT AN EXCHANGE RATE ADJUSTMENT CAN DO MUCH MORE THAN KEEP COFFEE EXPORT EARNINGS FLOWING THROUGH OFFICIAL CHANNELS UNTIL THE BASIC FABRIC OF THE ECONOMY HAS HEALED FURTHER. IT IS DOUBTED WHETHER A FULL CORRECTION TO AN EQUILIBRIUM RATE, HOWEVER CALCULATED, COULD SUCCEED IN STEMMING CAPITAL FLIGHT, WHICH IS GENERATED BY HISTORIC AND POLITICAL CONCERNS. AND THE STAFF BELIEVE THAT IT WOULD BE DIFFICULT FOR THE AUTHORITIES TO YET CONSIDER ALLOCATING FOREIGN EXCHANGE FOR CONSUMER GOODS IMPORTS, BOTH FOR POLITICAL REASONS AND GIVEN THE TECHNICAL WEAKNESS OF THE BANK OF UGANDA.

4. STAFF WERE RATHER MORE CONCERNED ABOUT THE MECHANISM FOR ADJUSTING THE EXCHANGE RATE IN THE FUTURE. THE AUTHORITIES HAD PROPOSED AN ARRAY OF JUDGEMENTAL CRITERIA, INCLUDING INFLATION, MONEY SUPPLY, EXPORT PROFITABILITY AND FISCAL SITUATION. THE STAFF WOULD HAVE PREFERRED REFERENCE TO SOME REAL EFFECTIVE EXCHANGE RATE BUT WERE WILLING TO CONCEDE THE POINT AFTER HAVING SATISFIED THEMSELVES WITH THE COMMITMENT OF THE AUTHORITIES TO THE PRINCIPLE OF FUTURE FLEXIBLE MANAGEMENT OF THE EXCHANGE RATE.

5. THE STAFF SUGGESTED THAT SOLID PROGRESS HAD BEEN MADE IN IMPROVING BUDGETARY PROCEDURES, PARTICULARLY APPROVALS OF EXPENDITURES. THE GOU HAD PROVED RECEPTIVE TO SUGGESTIONS AIMED AT ESTABLISHING A MORE EFFECTIVE MONITORING APPARATUS AND ATTENTION HAD BEEN PAID TO THE NEED TO REINFORCE THE TRACKING OF DONOR ASSISTANCE AND DEBT SERVICE. THESE IMPROVEMENTS WILL BE MADE APPARENT IN THE FORTHCOMING PFP. GREATER BUDGETARY RESTRAINT AND A STRENGTHENING IN THE REAL ECONOMY COULD BRING INFLATION DOWN TO AT LEAST 60 PER CENT THIS YEAR.

6. THE STAFF'S MAIN CONCERN WAS THE TIGHTNESS OF FOREIGN EXCHANGE AND THE CONTINUING MISMATCH BETWEEN EXTERNAL ASSISTANCE AND UGANDAN NEEDS. A RESIDUAL FINANCING GAP OF DOLLARS 30-50 MN IS EXPECTED IN 1988. THIS IS DESPITE A PROJECTED DOUBLING LN DONOR ASSISTANCE IN 1988 AND 1989 (BASED ON A FUND SURVEY OF FIRM COMMITMENTS) AND INCLUDES NO REDUCTION IN CASH ARREARS OR INCREASE IN RESERVES. STAFF FIGURES INCLUDE THE CLEARANCE OF ABOUT DOLLARS 10 MN IN CURRENT ARREARS TO THE FUND AND A FURTHER DOLLARS 5 MN DUE BY THE END OF JUNE. IMPORTS ARE PROJECTED TO RISE FROM DOLLARS 164 MN IN 1987/88 TO 283 MN IN 1988/89, MADE POSSIBLE BY DONOR IMPORT SUPPORT, BUT THERE IS LITTLE RELIEF AS REGARDS OIL IMPORTS, DEBT SERVICE, COFFEE TRANSPORT COSTS AND OFFICIAL IMPORTS (INCLUDING ARMS). THE STAFF BELIEVE THAT

THE GAP WOULD HAVE TO BE FILLED BY A VARIETY OF EXPEDIENTS, INCLUDING CONTINUED ADVANCE SALES OF COFFEE. A SUPPLEMENT TO THE CURRENT WORLD BANK REHABILITATION CREDIT, WHICH THE BANK IS PRESENTLY CONSIDERING, CANNOT HELP THE CRITICAL AREAS.

7. HOWEVER, EVEN IF THE GAP WAS FILLED IN COMMITMENT TERMS, THE STAFF WWOULD STILL BE WORRIED ABOUT THE TIMELINESS OF DONOR DISBURSEMENT: ONLY THE UK HAD PROVED RELIABLE IN THIS REGARD. THE EXTENDED DELAY EXPERIENCED IN RECEIVING DISBURSEMENTS IN SUPPORT OF LAST YEAR'S PROGRAMME (NOTHING UNTIL OCTOBER) HAD DISILLUSIONED THE GOU AND COMPLICATED NEGOTIATIONS WITH THE FUND. THE STAFF WOULD ENCOURAGE THE GOU TO FOLLOW THE SENEGALESE PRECEDENT AND PERIODICALLY PURSUE DONOR COMMITMENTS. THEY BELIEVED THAT THE AUTHORITIES' STRATEGY OF BILATERAL CONTACTS WITH DONORS WAS PROBABLY MORE EFFECTIVE THAN AN EARLY CG.

8. FCO PLEASE PASS TO BATT (HMT), WARE (BOE), T RICHARDSON (ERD) AND BREACH (ECGD).

CASSELL

YYYY

DISTRIBUTION 157

MAIN 156

. MONETARY EAD  
ERD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

RESTRICTED

127.165  
MDLIAN 4629

PS/CHANCELLOR OF THE EXCHEQUER  
TREASURY

RESTRICTED  
FM BAGHDAD  
TO ROUTINE FCO  
TELNO 397

OF 130825Z JUNE 88  
INFO ROUTINE DEPT OF ENERGY, OPEC POSTS, WASHINGTON,  
INFO ROUTINE UKDEL OECD PARIS, UKREP BRUSSELS, VIENNA

LAGOS TELNO 580 TO FCO: DUS MEETING WITH LUKMAN.

1. IT MIGHT BE WORTH CORRECTING ONE OF THE FIGURES ATTRIBUTED TO LUKMAN BEFORE IT GAINS CURRENCY.
2. IN PARAGRAPH 5 OF TUR, HE IS QUOTED AS SAYING THAT THE EXTRA OIL FOR IRAQ'S ACCOUNT PRODUCED FROM THE SAUDI-KUWAITI NEUTRAL ZONE AMOUNTED TO 600,000 BPD. IT HAS ALWAYS BEEN OUR UNDERSTANDING, AND THIS WAS CONFIRMED IN REPORTS OF THE DECEMBER 1987 OPEC MEETING, THAT THE AGREEMENT IS FOR AROUND 310,000 BPD. WE BELIEVE THAT IN PRACTICE SALES WERE RUNNING WELL BELOW THIS IN 1987, AVERAGING ABOUT 260,000 BPD.

CLARK

YYYY

DISTRIBUTION 276

MAIN 234

.OIL	SAMD
STANDARD	MCAD
ESSD [-]	WAD
COMED	SEAD
ECONOMIC ADVISERS	MR FAIRWEATHER
ECD (I)	SIR D MIERS
MED	MR MAUD
NENAD	

ADDITIONAL 42

OIL

NNNN

RESTRICTED

135204  
MDLOAN 2196

RESTRICTED  
FM FCO  
TO PRIORITY KAMPALA  
TELNO 200  
OF 141825Z JUNE 88  
INFO PRIORITY UKDEL IMF/IBRD WASHINGTON, BDDEA NAIROBI  
INFO PRIORITY TEL AVIV

UGANDA AND THE PARIS CLUB  
YOUR TELNO 309

1. DURING THE TOUR D'HORIZON AT LAST WEEK'S PARIS CLUB MEETING MOUNTFIELD (HMT) RAISED THE UGANDANS' APPROACH TO YOU. HE MADE CLEAR THAT UK COULD NOT BECOME INVOLVED IN NEGOTIATIONS BETWEEN UGANDA AND ISRAEL. THIS WAS A TECHNICAL PARIS CLUB ISSUE AND IT WAS MORE APPROPRIATE FOR THE PARIS CLUB ITSELF TO DEAL WITH UGANDAN OBJECTIONS. SECRETARIAT AGREED: THEY WILL SEND THE UGANDAN AUTHORITIES A TELEX REMINDING THEM THAT A NEW RESCHEDULING AGREEMENT REQUIRES PRIOR SIGNATURE OF ALL BILATERALS.
2. WE HAVE SEPARATELY LEARNED INFORMALLY FROM MORGAN GRENFELL THAT THE UGANDANS HAVE APPROACHED THEM FOR HELP WITH THIS ISSUE. WE SHALL TRY TO FIND OUT MORE DETAILS.

HOWE

YYYY

DISTRIBUTION

152

MAIN 151

.MONETARY

EAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN



pmf

Ch.

FCO have asked whether you would be prepared to see Dr Tiwari, the Indian Finance Minister, next Thursday or Fri.

I said:

- (i) short advice
- (ii) Toronto 'til Wednesday, ∴
- (iii) Crammed diary ∴
- (iv) probably impossible.

2. Mr Namfield & Mr Evans see no particular reason why you should see Dr T. Regards? (T.M. BST)

HT

CSI is seeing him. 17/6

UNCLASSIFIED

151501  
MDHIAN 3978

UNCLASSIFIED

FM DHAKA

TO DESKBY 210900Z JUNE FCO

TELNO 209

OF 200600Z JUNE 1988

AND TO IMMEDIATE ODA

INFO ROUTINE BANGKOK

AND SAVING UKDEL WASHINGTON



YOUR TELNO 218 (NOT TO ALL): BANGLADESH BUDGET

1. FINANCE MINISTER ABDUL MUNIM PRESENTED THE 1988/89 ANNUAL BUDGET AND DETAILS OF THE ANNUAL DEVELOPMENT PROGRAMME (ADP) IN PARLIAMENT ON 16 JUNE.

2. HE ENVISAGED GROSS REVENUE RECEIPTS OF TK 55.69 BN AND GROSS EXPENDITURE OF TK 52.50 BN WHICH ARE UP BY 8.21 PER CENT AND 10.99 PER CENT RESPECTIVELY ON THE REVISED 1987/88 BUDGET. ADP RESOURCES ARE PUT AT TK 46.47 BN AGAINST AN ESTIMATED EXPENDITURE OF TK 53.15BN - UP BY 19.14 PER CENT UNDER REVISED ADP FIGURES FOR 1987/88. THE PROPORTION OF FOREIGN ASSISTANCE IN THE ADP IS 85.68 PER CENT. FOOD EXPENDITURE OF TK 16.67BN OF WHICH TK 6.79BN WILL BE MET BY FOREIGN ASSISTANCE IS ENVISAGED. GDP GROWTH TARGET IS 6.1 PER CENT COMPARED WITH TARGET OF 5.1 PER CENT IN 1987/88 AND AN ESTIMATED ACTUAL OUT-TURN OF 2.58.

3. MUNIM SUMMARISED HIS PRINCIPAL OBJECTIVES OF THE BUDGET AS TO INCREASE AGRICULTURAL AND INDUSTRIAL GROWTH (6.2 PER CENT AND 7.1 PERCENT RESPECTIVELY), FOOD SELF-SUFFICIENCY BY 1990 AND POVERTY ALLEVIATION IN RURAL AREAS CONTINUING TO BE A MAJOR FOCUS.

4. BUDGET MEASURES INCLUDE NET INCREASES OF IMPORT DUTIES AND SALES TAX REVENUE OF TK 1.50BN, EXCISE DUTIES TK 2.02BN, INCOME TAX TK 1.50BN. AIR TICKET, INSURANCE PREMIUMS AND MOTOR RELATED TAXES ADD ON ANOTHER TK 0.14BN. THIS ADDITIONAL REVENUE FROM DIRECT AND INDIRECT TAXES AMOUNT TO TK 517.1BN (THE HIGHEST AMOUNT OF ADDITIONAL TAX LOAD SINCE INDEPENDENCE). THE BALANCE OF THE TK 6.68BN SHORTFALL BETWEEN THE PROPOSED ADP RESOURCES AND EXPENDITURE WILL BE FINANCED BY YIELDS FROM A DEVELOPMENT LEVY AND TELECOMMUNICATIONS (TK 0.86BN) AND BORROWING (TK 0.65BN) FROM THE BANKING SYSTEM. FROM 1 JULY 1988 GAS PRICES TO POWER, FERTILISER, INDUSTRIAL, COMMERCIAL AND DOMESTIC

(NON-METERED) SECTORS WILL INCREASE BY 15 PER CENT - 80 PER CENT OF WHICH WILL GO TO THE EXCHEQUER AND 20 PER CENT RETAINED BY THE GAS COMPANIES. TAXES ON BASIC GOODS SUCH AS FUEL OIL, EDIBLE OIL, LOW COST CIGARETTES, SUGAR AND TEA HAVE ALSO BEEN RAISED.

5. BY REDUCING CUSTOMS DUTIES AND SALES TAXES ON A NUMBER OF RAW MATERIALS EG IRON, STEEL AND CHEMICALS, THE FINANCE MINISTER HOPES THAT THESE INDIGENOUS INDUSTRIES WILL BE STRENGTHENED THUS INCREASING THE SCOPE FOR IMPORT SUBSTITUTION AND REDUCING THE WIDENING TRADE DEFICIT. AN EXPANSION OF THE SCOPE FOR DEDUCTING TAX AT SOURCE AND EXTENSION OF THE FACILITY OF THE QUOTE NO QUESTIONS ASKED UNQUOTE 20 PER CENT TAX ON INCOME DECLARED FROM OTHER SOURCES WITH A REDUCED RATE OF 10 PER CENT FOR THOSE PERSONS INVESTING 90 PER CENT OF THE DECLARED AMOUNT IN SPECIFIC INDUSTRIES IS EXPECTED TO STIMULATE INVESTMENT AND CREATE EMPLOYMENT. AS IN LAST YEAR'S BUDGET IN THE NON-DEVELOPMENT SECTOR DEFENCE AND EDUCATION ACCOUNT FOR THE HIGHEST SHARE OF EXPENDITURE - 17.6 AND 16 PER CENT RESPECTIVELY.

#### COMMENTS

DETAILED ANALYSIS WILL FOLLOW ON HOLDING'S RETURN FROM LEAVE LATER THIS WEEK. INITIAL REACTION IS THAT THIS APPEARS TO BE A SERIOUS ATTEMPT TO ENHANCE FINANCIAL DISCIPLINE, IMPROVE THE LEVEL OF TAX COLLECTION, MOBILISE DOMESTIC RESOURCES AND TO BROADEN THE COUNTRY'S INDUSTRIAL BASE. THE CHAMBERS OF COMMERCE HAVE GENERALLY WECOMED IT DESCRIBING IT VARIOUSLY AS INVESTMENT ORIENTATED BUT LACKING A CLEAR CUT AND REALISTIC DIRECTION FOR ACCELERATING THE PACE OF ECONOMIC RECOVERY. CONCERN IS ALSO EXPRESSED THAT THE MAN IN THE STREET WILL SUFFER FROM THE INCREASED TAXATION WHILE AT THE SAME TIME IT IS NOT EVIDENT HOW THE BUSINESS AND ENTPRENEURIAL COMMUNITY WILL BENEFIT. ON THE WHOLE REACTIONS APPEAR TO BE POSITIVE.

STREETON

YYYY

UNCLASSIFIED

151501  
MDHIAN 3978

DISTRIBUTION

153

MAIN 152

. MONETARY

ERD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

RESTRICTED

167720  
MDLIAN 7629

RESTRICTED

FM DAKAR

TO PRIORITY FCO

TELNO 163

OF 231030Z JUNE 88

INFO ROUTINE TREASURY, ODA (WNAMD), BANK OF ENGLAND, ECGD

SENEGAL: ECONOMY AND FINANCE

SUMMARY

1. SENEGALESE PRAISE FOR CHANCELLOR OF EXCHEQUER'S ADVOCACY OF THIRD WORLD DEBT REFORM. REQUEST FOR US TO CONSIDER PROVIDING BUDGETARY AID.

DETAIL

2. WHEN I CALLED ON NEW MINISTER OF ECONOMY AND FINANCE ON 22 JUNE HE PAID WARM COMPLIMENTS TO BRITAIN BOTH FOR THE BILATERAL AID WE HAVE BEEN PROVIDING AND FOR THE CHANCELLOR OF THE EXCHEQUER'S QUOTE BRILLIANT ADVOCACY UNQUOTE IN INTERNATIONAL FORA OF THE NEED TO RESOLVE THE THIRD WORLD DEBT PROBLEM. HE HAD MADE A REPORT TO THE PRESIDENT OF BRITAIN'S PARTICULAR ROLE. HE HOPED TORONTO WOULD PROVIDE SOME QUOTE OXYGEN UNQUOTE TO ENABLE SENEGAL'S DEVELOPMENT PROGRAMME TO PROCEED. HE WOULD WELCOME ANY DETAILED READOUT WE COULD GIVE IN DUE COURSE OF WHAT THE OUTCOME OF THE SUMMIT WOULD SPECIFICALLY MEAN FOR SENEGAL (WE DISCUSSED THE OUTCOME IN GENERAL TERMS). OVER HALF OF HER DEBT WAS WITH FRANCE.

3. SERIGNE LAMINE DIOP ALSO SPOKE OF SENEGAL'S NEED FOR EXTERNAL FINANCE IN THE SHORT TERM. THE DROP IN THE PRICE OF RICE HAD REDUCED REVENUE BY CFA 9 BILLION (OUR TELNO 157). THE PROJECTED OVERALL BUDGETARY SHORTFALL BY JUNE 1989 WAS CFA 70 BILLION. THEY HOPED FOR ASSISTANCE FROM VARIOUS WESTERN FRIENDS. COULD BRITAIN PROVIDE ANY BUDGETARY AID? I EXPLAINED THE TRADITIONAL FOCUS OF OUR AID EFFORTS: NO COMMITMENT COULD BE MADE BUT I TOOK NOTE.

4. GRATEFUL IF YOU COULD CONSIDER IF WE COULD PROVIDE SOMETHING TAILORED FOR THE SENEGALESE ON DEBT POST-TORONTO (PARA 2 ABOVE). GIVEN SENEGAL'S ROLE ON THE ISSUE IN AFRICAN AND INTERNATIONAL FORA THIS COULD PAY DIVIDENDS.

DEWAR

YYYY

RESTRICTED

167720  
MDLIAN 7629

DISTRIBUTION

178

MAIN 178

FINANCIAL

WAD

NNNN

CONFIDENTIAL

165642  
MDHIAN 4584

CONFIDENTIAL

FM LAGOS

TO IMMEDIATE FCO

TELNO 634

OF 230842Z JUNE 88

AND TO IMMEDIATE TREASURY, BANK OF ENGLAND, ECGD,

AND TO PRIORITY DTI, ODA, UKDEL IMF/IBRD WASHINGTON

INFO SAVING KADUNA

INFO SAVING ABIDJAN (FOR UK DIRECTOR AFRICAN DEVELOPMENT BANK)

NIGERIA AND THE IMF/IBRD

SUMMARY

1. IMF AND IBRD MISSIONS HAVE RETURNED TO WASHINGTON WITHOUT REACHING ANY AGREEMENTS WITH THE NIGERIANS. EMPHASIS IS NOW ON THE NEED FOR TIGHTER BUDGETARY CONTROL, RATHER THAN INCREASING REVENUE BY A FURTHER REDUCTION OF THE PETROLEUM SUBSIDY. NIGERIANS APPEAR TO ACCEPT THE NEED FOR GREATER STRINGENCY. THEY ALSO APPEAR READY TO ACCEPT THE NEED TO ALLOW THE NAIRA TO FIND ITS CORRECT LEVEL IN THE FOREIGN EXCHANGE MARKET. STEPS ALREADY BEING TAKEN IN THIS DIRECTION. IMF AND WORLD BANK TEAMS DUE TO RETURN NEXT MONTH.

DETAIL

2. THE WORLD BANK AND IMF TEAMS LEFT LAGOS OVER THE WEEKEND AMID PRESS REPORTS THAT NO AGREEMENT HAD BEEN REACHED WITH THE NIGERIAN GOVERNMENT. OUR DEBRIEFING OF THE WASHINGTON BASED OFFICIALS SUGGEST THAT SOME PROGRESS HAS BEEN MADE ALTHOUGH AN AGREEMENT WITH THE IMF WAS NOT POSSIBLE IN PART AT LEAST DUE TO THE ABSENCE OF CERTAIN KEY NIGERIAN OFFICIALS.

3. COOPERATION AT THE TECHNICAL LEVEL WAS DESCRIBED AS GOOD AND THE APPOINTMENT OF ALHAJI ABUBAKER AS MINISTER OF STATE WITH RESPONSIBILITY FOR THE BUDGET AND ECONOMIC PLANNING. SEEN IN WASHINGTON AS A POSITIVE MOVE WHICH SHOULD HELP THE NIGERIAN GOVERNMENT COME TO GRIPS WITH THE REALITY OF THEIR ECONOMIC SITUATION.

4. THE IMF ARE NOW LOOKING FOR TIGHTER BUDGETARY CONTROL AS THE BEST WAY TO REDUCE THE NIGERIAN DEFICIT, AND SEEM TO HAVE ACCEPTED THAT FURTHER REDUCTIONS IN THE PETROLEUM SUBSIDY IS NOT A POLITICAL POSSIBILITY FOR THE PRESENT. NEVERTHELESS WE BELIEVE THEY HAD PREPARED AN EIGHTEEN MONTH PROGRAMME FOR THE GRADUAL REDUCTION

CONFIDENTIAL

165642  
MDHIAN 4584

OR ELIMINATION OF THE SUBSIDY. WE KNOW THAT THE IMF HAVE BEEN PRESSING THE NIGERIANS TO EXERCISE TIGHTER BUDGETARY CONTROL. THERE WAS STILL ROOM FOR SUBSTANTIAL TRIMMING OF THE CAPITAL BUDGET. THE NIGERIANS HAD FOR EXAMPLE ALREADY CUT BACK EXTENSIVELY ON THE MASS TRANSIT PROGRAMME, AND THEY HAVE JUST ANNOUNCED AN END OF THE (VERY LIMITED) ASSISTANCE GIVEN TO POORER AFRICAN COUNTRIES. OTHER CURRENT BELT TIGHTENING HAS SEEN THE INFLATIONARY PACKAGE, WHICH HAD ALREADY HAD AN INJECTION OF US DOLLARS 500M, BEING PUT ON ICE, PUBLIC SECTOR SALARY INCREASES HAVE BEEN DELAYED OR FROZEN.

5. THE AJAOKUTA STEEL WORKS CONTINUED TO BE A DRAIN ON RESOURCES. SENIOR OFFICIALS HAD LITTLE IDEA OF THE TRUE COSTS OF THE PROJECT. THE WORLD BANK HAVE SPONSORED A STUDY OF THE STEEL SECTOR. THE PRELIMINARY REPORT WAS NOW AVAILABLE AND THE MAIN REPORT WOULD BE OUT BY THE END OF THE YEAR. THE LATTER WOULD BRING HOME THE ENORMOUS COSTS OF THE PROJECT AND THE WORLD BANK HOPED THAT THE REPORT, IF ACCEPTED BY THE NIGERIANS, WOULD LEAD TO RATIONALISATION AND REDUCTION IN FUTURE COMMITMENTS AT AJAOKUTA.

6. THE WORLD BANK WERE LESS WELL SIGHTED ON THE COSTS AT ABUJA AND HAD FOUND IT DIFFICULT TO GET FIGURES ON CURRENT EXPENDITURE.

7. SPENDING BY PARASTATALS WOULD NEED TO BE MORE TIGHTLY CONTROLLED. THEY THOUGHT IT WOULD BE ECONOMICALLY BENEFICIAL TO REHABILITATE NIGERIA'S RAIL NETWORK. PROSPECTS FOR NEPA, IN PARTICULAR THE CRASH PROGRAMME, WERE PROMISING BUT THE GOVERNMENT WERE INSISTING THAT ANY INCREASE IN TARIFFS WOULD HAVE TO BE TIED TO AN IMPROVEMENT IN SERVICES.

8. THE DISPARITY BETWEEN THE OFFICIAL AND AUTONOMOUS EXCHANGE RATES WAS WORRYING. THE ORIGINAL INTENTION OF A MARKET WHICH WOULD BE ALLOWED TO OPERATE FREELY WAS CLEARLY NOT HAPPENING WITH THE CENTRAL BANK (CBN) INTERVENING IN ORDER TO PUT PRESSURE ON THE COMMERCIAL BANKS TO KEEP THE NAIRA AT A POLITICALLY ACCEPTABLE EXCHANGE RATE. THE IDEA OF A MANAGED FLOAT, WITH THE NAIRA BEING ALLOWED TO FIND ITS OWN LEVEL WITHIN A CERTAIN BAND, HAD ITS ATTRACTIONS BUT CBN DID NOT HAVE THE CAPITAL RESERVES TO INTERVENE IN SUCH A SITUATION. IN FACT, THE CBN WAS WITHOUT CAPITAL RESERVES OTHER THAN THOSE HELD IN THE SPECIAL ACCOUNT IN THE BANK OF ENGLAND. HOWEVER, THE IMF AND THE WORLD BANK HAD FOUND THE NIGERIANS AMENABLE TO CHANGES IN THE FOREIGN EXCHANGE MARKET AND THERE ARE NOW CLEAR SIGNS OF THIS HAPPENING. HOWEVER, THE DIRECTION BEING TAKEN MAY NOT BE ENTIRELY TO THE FUND'S LIKING.

CONFIDENTIAL

165642  
MDHIAN 4584

COMMENT

9. WHILST THE WASHINGTON VISITORS FOUND A GREATER DEGREE OF COOPERATION AMONGST NIGERIAN OFFICIALS, THEY SAID THAT MANY STILL DID NOT APPRECIATE THE SERIOUSNESS OF THE COUNTRY'S ECONOMIC DIFFICULTIES. THEY THOUGHT IT IMPORTANT THAT THE RETURN VISITS BY THE IMF AND WORLD BANK IN JULY SHOULD MAKE SUFFICIENT PROGRESS TO ENABLE THE IMF, IN PARTICULAR, TO GO AWAY WITH THE MAKINGS OF AN AGREEMENT.

HEAP

FCO PSE PASS SAVING ABIDJAN  
YYYY

DISTRIBUTION 158

MAIN 156

.MONETARY  
ERD [-]  
WAD

MR MUNRO  
MR FAIRWEATHER

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

SAVING 1

ABIDJAN

NNNN

ALTHOUGH THIS ACTION MAY ENABLE THE PRESIDENT TO STEM CRITICISM FOR A TIME. THIS HAS BEEN DESCRIBED AS A SHUFFLE RATHER THAN A RESHUFFLE. IT IS BEING PUT ABOUT THAT THERE ARE STILL MORE CHANGES TO COME.

PARTRIDGE

YYYY

DISTRIBUTION

424

MAIN

424

FCO (PALACE)/WHITEHALL  
WAD

NNNN

CONFIDENTIAL—FINAL REVISE

[to be published as Command 432 by  
Her Majesty's Stationery Office  
Price £2.20 net]



HMSO publications are available from:

**HMSO Publications Centre**

(Mail and telephone orders only)

PO Box 276, London SW8 5DT

Telephone orders 01-622 3316

General enquiries 01-211 5656

(queuing system in operation for both numbers)

**HMSO Bookshops**

49 High Holborn, London, WC1V 6HB 01-211 5656 (Counter service only)

258 Broad Street, Birmingham, B1 2HE 021-643 3740

Southey House, 33 Wine Street, Bristol, BS1 2BQ (0272) 264306

9-21 Princess Street, Manchester, M60 8AS 061-834 7201

80 Chichester Street, Belfast, BT1 4JY (0232) 238451

71 Lothian Road, Edinburgh, EH3 9AZ 031-228 4181

**HMSO's Accredited Agents**

(see Yellow Pages)

and through good booksellers



FIRST REPORT FROM THE  
FOREIGN AFFAIRS COMMITTEE

SESSION 1987-88

Famine in the Horn  
of Africa

Observations by the Government

ISBN 0 10 104322 8

NOT FOR PUBLICATION, BROADCAST OR USE ON CLUB TAPES  
BEFORE 3. 30 p.m. ON Thursday 21 July

**strategic food stockpiles (para 85). We recommend that the ODA in cooperation with other donors consider without delay how such stockpiles can be established.**

Stockpiling is not a new concept in Sudan, where cereal surpluses are available in some years. The stocks held by the Agricultural Bank of Sudan from the good harvests of 1985 and 1986 are currently being used to cover the deficit from the last harvest. However, due to Sudan's huge size, poor transport infrastructure and administrative weaknesses, considerable difficulties have been encountered in transporting food from surplus to deficit areas, and the cost of storage is high. The question of buffer stocks was considered in a recent food security study funded by the EC, and will be addressed specifically later this year as part of a more detailed Darfur Regional Food Security Study to be funded by the ODA.

**(106) A most urgent need is to provide assistance to the refugees from Sudan to south-west Ethiopia, and we welcome the Government's recent pledge of 5,000 tonnes of food aid (para 89). We recommend that every effort be made to deliver emergency assistance to the refugees in south-west Ethiopia and we commend the Ethiopian Government's willingness to do all they can to assist these people (para 90).**

The Government shares the Committee's concern that adequate emergency assistance should reach Sudanese refugees in Ethiopia. The figure of 280,000 quoted in the Report is growing as hundreds more continue to arrive daily in a malnourished condition. Since the pledge of 5,000 tonnes of wheat flour referred to above, the Government has provided £275,000 towards the purchase and airfreight by Band Aid of large quantities of tents, blankets and sheeting, and has made a commitment to UNHCR to supply dried skimmed milk. A special appeal from UNHCR is now under urgent and sympathetic consideration.

**(107) We welcome the enlarged provision for disaster relief in the aid programme, and believe that it illustrates a more sensible approach to emergency budgeting; but we recommend that if an exceptional emergency such as that in Ethiopia requires resources in excess of that provision, the ODA's budget should be increased as necessary to accommodate the additional expenditure, so that money is not called upon, which would otherwise be available for development work (para 14).**

The Government appreciates the Committee's concern that the response to large-scale and unforeseen emergencies should not have repercussions upon ODA's continuing programmes of development aid and it takes this opportunity to confirm that allocations of emergency and relief aid to Ethiopia have been made from allocations set aside for this purpose and not at the expense of other bilateral or multilateral programmes.

The Government's policy of making provision within the Aid Programme for food aid and humanitarian assistance was set out in its observations on the earlier Foreign Affairs Committee report on "Bilateral Aid: Country Programmes" (Cm 225 of October 1987). The Government continues to believe that it would impose unnecessary inflexibility in the use of aid funds to treat humanitarian assistance separately. It is committed to maintaining a substantial aid programme within which prudent provision can be made for responding effectively to emergencies without adversely affecting the funding of longer-term programmes. The Aid Programme for this financial year is £72 million larger than that for the previous year, an increase considerably in excess of the expected rate of inflation.

without giving tacit endorsement to the programme as it has been implemented by the Ethiopian Government.

It is indeed accepted by the ODA, as well as by many other donor agencies, that resettlement must be an essential part of the long-term solution of the problem posed by overpopulation and environmental degradation in the highlands. The Government has always maintained, however, that any programme of resettlement must be very carefully planned and executed and must be on a purely voluntary basis, without resort to coercion. This has not, regrettably, always been the case in the past. The Government is mindful of the Committee's paramount concern that people in need should be helped and is aware that a number of non-government organisations—in particular CONCERN, which has been supported by Band Aid—are doing valuable work to improve the living conditions of people who have been resettled. On balance, however, it feels that it would be wrong to lend support to the Ethiopian Government's resettlement programme by the provision of official funds, albeit indirectly via selected NGOs, without clear and compelling evidence of a change of approach to its implementation. Such evidence is not yet available, although we are aware of the Ethiopian Government's assurances that the present phase of resettlement is being carried out on a purely voluntary basis. We therefore take full note of the Committee's recommendation and will keep an open mind as to the possibility of providing assistance for this purpose, in company with other donors, if future conditions should appear favourable for a properly planned and voluntary programme.

**(103) We believe that Sudan is threatened with a major disaster by the war in the south and the lack of adequate infrastructure or logistical capacity (paras 85–86). We have taken relatively little evidence on the situation in Sudan, and were only able to visit Khartoum briefly for this enquiry. The displaced persons within Sudan, of whom there are estimated to be between 1 and 2 million, are in desperate straits. Many of them are victims of the war in the south, others are victims of drought. We recommend that ODA should respond generously to appeals for assistance for these people (para 88).**

The Government fully shares the Committee's concern over conditions in the South of Sudan. Over the past eighteen months, the Government has responded, through ODA's Disaster Unit, to a number of requests for financial assistance from voluntary agencies working with displaced persons within Sudan. In 1987, over £1 million was provided for relief in Equatoria Province, including 20 trucks to Oxfam for the delivery of food supplies in and around Juba. In 1988, a further £400,000 has been provided to date, including food for the displaced around Juba and Malakal, and in South Darfur. The Government accepts the Committee's recommendation and expects to be able to respond sympathetically to further requests for assistance.

**(104) As in Ethiopia, a solution to Sudan's problems depends upon an end to the war, and we encourage the British Government to do all that it can to facilitate a negotiated settlement. The ICRC has recently succeeded in negotiating an agreement to distribute food aid in the conflict areas. We recommend that the ODA provide funds to assist the ICRC in financing its relief operation in Southern Sudan for which it has not budgeted (para 86).**

The Government very much welcomed the agreement reached by the ICRC with the Government of Sudan and the Sudanese People's Liberation Movement for relief operations to get underway in combat zones in the South and noted with concern that the findings from the first of the surveys carried out by the ICRC confirmed existing reports that the situation in towns such as Wau was extremely grave. Once it has completed its assessment, the ICRC is expected to issue a special appeal to donors for financial assistance with the provision and transportation of food supplies. The Government will consider sympathetically any request made by the ICRC.

**(105) Sudan's vulnerability to famine is considerably increased by the absence of**

# First Report of the Foreign Affairs Committee of the House of Commons (Session 1987–88)

## FAMINE IN THE HORN OF AFRICA

### OBSERVATIONS BY HER MAJESTY'S GOVERNMENT

#### Introduction

1. The Government has studied the report of the Foreign Affairs Committee on the subject of Famine in the Horn of Africa with great interest. It welcomes the report as a thorough and constructive analysis both of the problems and of approaches to their alleviation.

2. The Committee has emphasised that the essential message is stark and simple: namely, that there is a serious and growing risk of tragedy in Ethiopia on a scale even greater than that of 1984–85. As the Committee points out, the underlying causes of famine are clear. Recurrent drought, a high rate of population growth, poor farming techniques, inappropriate agricultural policies and environmental degradation set the scene for a perennial threat to the adequacy of food supplies and to the wellbeing of those in the affected areas. But the factor most likely to bring about disaster in 1988 and beyond is the continuing and increasing level of military activity in Eritrea and Tigre, where all parties concerned in the conflict are giving priority to military rather than humanitarian considerations.

3. The Government fully endorses this analysis and would echo the warning which the Committee has given. Events which have occurred since the Committee finished taking evidence serve to underline still further the theme of the report. Military activity has intensified, and relief operations in the north continue to be curtailed. Furthermore, the International Committee of the Red Cross (ICRC) which, because of unparalleled experience of operating in combat zones, could play a particularly vital role in Ethiopia, has been obliged to withdraw after failing to reach agreement with the Ethiopian Government on an acceptable mode of operation. The rains have just begun in Ethiopia and Sudan, but it is too early to predict whether these will be adequate to ensure a good harvest this year. If they again fail, a further massive international relief effort will be necessary.

4. Positive lessons were learned from the experience of 1984–85. Famine early warning systems and mechanisms for coordinating relief assistance have been strengthened. It was clear by the autumn of last year that Ethiopia was likely to face a further crisis in 1988 and, as the Committee has noted, the response from the international donor community has been "speedy and generally well co-ordinated", with the estimated need for 1.3 million tonnes of food aid covered by pledges made. The Committee has also noted Britain's positive contribution to this international response. Since the beginning of 1987, we have committed over £45 million for emergency relief, including the cost of some 95,000 tonnes of bilateral food aid, contributions totalling £3 million to the UN's airlift operation, and our share of assistance made available by the European Community. Details of this assistance are summarised in the Memorandum reproduced on pages 66 to 70 of Minutes of Evidence attached to the Committee's report.

5. The Government takes this opportunity to pay tribute to the work both of

the international relief agencies and of non-governmental organisations such as Save the Children Fund and Oxfam, whose dedication and expertise have provided an essential complement to the efforts of the Ethiopian Government's own Relief and Rehabilitation Commission. In particular, the United Nations agencies, under the leadership of the Secretary General's Special Representative, Mr Michael Priestley, have played a key role in ensuring coordination of the relief effort. We are convinced that if the operation had not been disrupted by the escalation of civil conflict, this relief effort would have succeeded in averting famine. If, as is now feared, deaths from famine begin to occur, the combatants will bear a heavy responsibility.

6. The Committee points to certain positive steps which have been taken by the Ethiopian Government. The Government welcomes the recent decision to reform agricultural pricing and marketing policy which has enabled the European Community to agree on two schemes for assistance for agricultural development which should help to increase food production and thus alleviate the threat of future famine. The Government gave its support to these proposals, subject to careful monitoring of their implementation and of progress in implementing agricultural policy reforms.

7. The Government also takes this opportunity to record its welcome for the recent release from custody of seven female members of the former Ethiopian royal family. It very much hopes that this step will be followed by release of the remaining three male members of the royal family and of the many other prisoners who are being detained without trial.

8. A further development to be welcomed is the agreement of the Ethiopian Government, following the visit of the United Nations Secretary General to Addis Ababa in May, to freer access for representatives of the UN and of other donors to Government-controlled areas for the purpose of monitoring food delivery.

9. There is, however, no room for complacency about the current situation in Ethiopia and little enough for optimism. As the Committee has noted, up to seven million people are at risk of starvation, some three million of whom are in Eritrea and Tigre. As a result of the most recent fighting, many of these—possibly upwards of a million people, notably in Tigre—may now be beyond the reach of current relief operations.<sup>1</sup>

10. In Sudan as in Ethiopia hunger does not result primarily from an overall shortage of food, but from civil war which prevents the food available from reaching those most in need. Since the Committee visited Khartoum in February, the situation in Southern Sudan has continued to deteriorate. Problems of security make it difficult to collect information, but all available reports indicate that the situation there is very grave indeed. Displaced persons continue to flock from the countryside into towns such as Juba and Aweil. Others are travelling further afield to South Darfur—some en route to Khartoum—and to South Western Ethiopia where they are arriving destitute and in extremely poor physical condition.

11. The Government is convinced that the conflict cannot be resolved militarily and continues to urge both the Government of Sudan and the Sudanese People's Liberation Movement to reach a negotiated settlement in order to avert further human suffering. It has made clear its readiness to help achieve this, although the prospects for the success of any political intervention from outside are not good.

12. The Government is also concerned about the situation in Western Sudan where much of the food pledged by donors—including the European Community

<sup>1</sup> See footnote on page 4.

policy framework which enables it to be used effectively. The Government welcomes the Ethiopian Government's recent decisions on reform of agricultural pricing and marketing policies, which constitute a useful first step in this direction. We accordingly supported the recent allocations of European Community aid totalling some £53 million for two agricultural development projects designed to increase food production by peasant farmers. Proposals for a similar project are expected to be put soon to the Board of the International Development Association (the soft loan arm of the World Bank). Provided that the Ethiopian Government continues to pursue policies which stimulate higher food production, and provided also that we can be confident that the aid in question reaches those for whom it is intended, the Government believes it appropriate for the multilateral donors to continue to make available substantial amounts of aid.

As far as bilateral aid is concerned the Government would recall that Ethiopia has never—either before or after the revolution—been regarded as a major recipient of such assistance from Britain. The Government continues to believe that it is right to focus our bilateral aid primarily on those countries with which we have traditionally had close connections, notably the poorer members of the Commonwealth and certain other Anglophone countries. In the Government's view Britain's main participation in Ethiopia's long-term development should thus continue to be through the multilateral development agencies, to which we make substantial contributions. For example, Britain's share of European Community development aid made available to Ethiopia under the third Lome Convention amounts to some £25.5 million.

The Government broadly accepts the arguments which the Committee has advanced in favour of following up the substantial provision of emergency assistance with some help for carefully selected small-scale rural and agricultural projects.

Following the 1984–85 famine the Government decided to supplement the existing small programme of technical cooperation with a £3 million grant for rehabilitation assistance along the lines indicated by the Committee. Expenditure from this grant is covering well rehabilitation in Welo Province, help in planning a food security reserve, and construction of a strategic seed store.

We are prepared to examine the possibility of providing further famine rehabilitation assistance of this nature if the policy environment continues to improve and the security situation permits. As for the way such rehabilitation assistance might be taken forward, the government is ready to consider working with the Ethiopian Government where this is judged likely to obtain results: indeed, we are already doing so in respect of our current rehabilitation projects. But for "grass roots" rural development projects, in Ethiopia and in other countries too, our preferred channel remains tried and tested British non-government organisations and these would be our starting point. The Government would add that it is not convinced by the argument that collaboration between the ODA and the Ethiopian Government would have the effect of encouraging further favourable agricultural policy reforms. While it has been shown that the prospect of large-scale EC and IDA aid can exert a favourable influence on government policies, this is far less likely to apply in the case of such bilateral assistance for rehabilitation purposes that Britain might offer.

**(102) The implementation of the resettlement programme has caused much concern. We agree, however, with the ODA, the UN agencies and many of the NGOs that, if properly conducted, it must form part of the solution to the problems of Ethiopia's degraded and over-populated highlands (paras 62–64). Also it is a policy to which the Ethiopian government is committed. We therefore recommend that the ODA consider supporting NGOs with a proven record of successful work with people affected by resettlement schemes (para 64).**

The Government has given careful consideration to this recommendation. The question is whether it is possible to give assistance in the context of resettlement

The Government agrees that timely and accurate information about the number of people in need and supplies available from all sources is vital to the success of relief operations. However, it is an extremely difficult task to obtain and collate such information in a civil war when the situation is changing rapidly and where access by foreign relief agencies to all parts of the war zone is at present very limited.

**(100) The cycle of drought and famine in northern Ethiopia is unlikely ever to be broken while the military conflicts continue (para 69). We do not believe that a military victory is realistically possible for either side (para 37). Consequently any settlement must be negotiated. We are also very concerned by the position taken by the TPLF that they could never negotiate with the present regime (para 81). With regard to the Eritrean conflict, however, we recommend that the British government apply itself with its European Community partners, within the UN and elsewhere (for example in discussions with the Soviet Union, and with African members of the Commonwealth) to facilitating negotiations towards a political solution of the conflict (para 76).**

The Government endorses the Committee's conclusion and accepts its recommendation. The Committee has noted that the Government has already been active in keeping in close touch with our European partners and other concerned governments, to impress upon all parties involved in the civil conflicts in Ethiopia the need to seek a negotiated settlement of outstanding differences. We have also urged other countries, including the USSR, to use their influence to this end.

The Government is under no illusion about the deep-seated nature of the differences between the Ethiopian Government and the TPLF and EPLF and the difficulty of their resolution. But it joins with the Committee in urging upon all concerned the imperative need to give the highest priority to humanitarian considerations and to desist from aggravating the suffering of the famine victims by seeking a military solution. We shall continue, in close liaison with our European Community partners, to press for a negotiated end to these destructive conflicts.

A solution to the Eritrean problem should be consistent with the territorial integrity of Ethiopia. It should also ensure the observance of human rights and take account of the distinctive historic and cultural identity of Eritrea.

**(101) Ethiopia is the world's poorest country and is in desperate need of development aid particularly in the agricultural sector (paras 7 and 67). Until recently many western donors, including the UK, have felt constrained from providing such assistance principally because of the agricultural and marketing policies of the Ethiopian government (para 59). New policies, however, were introduced at the beginning of 1988 (paras 56-57), and as a consequence aid from the World Bank and the EC has been released. We are optimistic that if these policies are implemented as they were described to us, they could play a crucial part in the long-term development of Ethiopia's agriculture (para 57). Furthermore it is misconceived to offer only short-term assistance for a long-term problem (para 67). We therefore recommend that as a start the ODA should identify areas of rural and agricultural development in which small-scale low technology projects could provide real benefits (para 68). We believe that development aid need not be provided suddenly and in great quantities, but step-by-step, in response to the capacity to exploit it. We understand the Minister's preference for working with NGOs, but we recommend that the government should seriously consider the encouragement that would be given to the agricultural policy reforms, on which we have laid great stress, if the ODA were to work directly with the RRC (or the appropriate ministry) on selected projects (para 68).**

The Government accepts that there is a need for sustained development assistance if the cycle of deprivation and famine referred to by the Committee is to be broken. However, such aid can only help to achieve the priority aims of increasing food production and arresting environmental degradation if there is a

—has not yet reached the remoter areas of Kordofan and Darfur because of problems of transportation and insecurity. Further delay has been caused by difficulties over the release of cereals to donors by the Agricultural Bank of Sudan. The onset of the rains will hamper further food distribution to some areas.

13. The Government shares the Committee's concern that, if there is a further drought this year, Sudan's production of cereals may be inadequate to meet the needs of the population. The Government is watching the situation carefully and will be discussing with other donors—multilateral and bilateral—how best to assist the Government of Sudan to cope with any further emergency, bearing in mind the extreme difficulty of supplying food to the South.

14. Recognising the gravity of the threat to life in both Ethiopia and Sudan, as so clearly revealed in the Committee's report, the Government undertakes to continue the active role which it has so far played in the international relief efforts in these countries. Recognising also that the success of this effort in the months ahead will depend above all upon the cessation of military activity, the Government will continue to do all it can, in company with its European Community partners and other concerned governments, to impress upon all of the parties concerned in these conflicts the need for a peaceful and negotiated resolution of differences.

15. The Committee has, finally, made recommendations about provision of long-term development aid for Ethiopia and of assistance to people who have been resettled. For reasons which are discussed below in response to specific recommendations, the Government has not felt able fully to accept these recommendations. It agrees nevertheless with the Committee's conclusion that Ethiopia is suffering from a complex of deep-seated problems which can only be overcome through sustained action within a favourable policy framework.

16. In concluding these introductory observations, the Government would like to thank the Foreign Affairs Committee for a report which, through the clarity of its analysis and the force of its conclusions, has made a most useful and constructive contribution to the formulation of policy on this subject.

#### OBSERVATIONS ON CONCLUSIONS AND RECOMMENDATIONS

17. The following paragraphs give the Government's observations on the Committee's specific conclusions and recommendations as set out in paragraphs 95 to 107 of the report. These paragraphs are reproduced below in bold type.

**(95) There is a serious danger that there will be a major catastrophe in northern Ethiopia on a far greater scale than that of 1984-85. An impression may have been created in the donor countries that, since so many lessons have been learnt, the horrors of 1984-85 would not reoccur. This would be dangerously false optimism (para 3). With luck, and if the Ethiopian government, the EPLF and the TPLF put humanitarian considerations ahead of their political and military objectives, the tragedy might not come in 1988. But droughts will occur again—the rains have failed or been inadequate in three of the last four years—and, with a fast-growing population, poor farming techniques, widespread deforestation and land degradation, the consequent famines are likely to be increasingly severe (paras 7-10). And by each successive drought the resilience of the people and of the land is diminished. It is a spiral which, if unbroken, must result in tragedy.**

The Government agrees with the Committee's analysis of the underlying problems in Ethiopia. The lessons learned in 1984-85 enabled the international community to respond quickly and effectively as soon as it became apparent that there would be widespread harvest failure in 1987. However, there can be no doubt that famine is likely to recur in the Horn of Africa, as a result of the complex of natural and man-made factors which the Committee has identified, intensified by the tragic persistence of civil conflicts in the region.

(96) The prospects for 1988 itself are bleak (para 38). However, it should be clearly understood that this year distress and death due to starvation throughout this region will be caused by war, and not simply by climatic difficulties, since the international community had the capacity to support the Ethiopian food supply in good time and in sufficient quantity. While the present military tensions continue, it is not possible to mount a relief operation on the government side on anything like the scale required. Neither could a relief operation mounted from Sudan hope to fill the gap (para 50). Apart from the difficulty of the terrain, once the rains come the roads from Sudan into Tigre will be impassable by trucks. It is possible that, with the cooperation of the EPLF, food could be brought along the road from Kassala and then south into Tigre, but it would be a very long journey on a road of limited capacity in an area which has been subject to considerable military activity (para 47). Consequently people will die (para 50). Either they will die in their villages, or they will walk in search of food. Those that reach a food distribution centre will camp outside it. Many will die in those camps. Furthermore, if they leave their villages at this time of the year they will not be able to plant for the harvest this November, so that, even if the rains come, they will have no food next year.

This is the key conclusion of the report. The Government strongly agrees with the view expressed. The international community responded promptly and generously with pledges of food and other relief aid, and has provided considerable logistical help—particularly through the airlift coordinated by the Office of the United Nations Disaster Relief Coordinator (UNDRO)—to enable this aid to reach those who need it. However, relief operations are being severely hampered by the civil conflict in Eritrea and Tigre. Military activity has frequently interrupted road transport of food from the ports and on occasion destroyed it; port congestion and delays in unloading food aid have followed. The recent territorial gains by the rebel movements have resulted in a substantial reduction in the number of people who can be fed from distribution centres in government-held territory. While the rebel movements appear to have had some success in increasing the scope of their cross-border relief operations, it seems likely that large numbers of people—possibly upwards of a million—may now have no access to any food distribution operation.<sup>1</sup> Reliable information is inevitably scarce but there are as yet no signs of the deaths from starvation or mass movements of population which were earlier predicted. This may be due to families managing to eke out their reserves of food from the relatively good 1986 harvest, and the relief supplies distributed before the latest upsurge in military activity, as well as to a better than expected rate of delivery of food supplies from Sudan to rebel-held areas. However, the situation remains extremely precarious, and it appears increasingly likely that camps, breeding grounds for disease and despair, will again have to be established. The relief agencies are making contingency plans for this in areas to which they are allowed access.

The Committee has rightly pointed out that if people leave their villages now they will be unable to plant for the November harvest. If this year's drought victims are to avoid permanent destitution, it is essential that they be provided with the means of planting a crop during this summer's rains. The Government has therefore provided emergency aid for the distribution of seeds and tools through non-governmental organisations.

If the rains again fail the outlook for 1989 will be even more bleak than for the remainder of this year.

**(97) We recommend that the ODA should continue to do all that it can to assist the operation of the relief effort in Eritrea and Tigre. We have been informed that the prospects are better in Eritrea than in Tigre because the relief operation has been maintained at a higher level in Eritrea (para 50). But both relief operations**

<sup>1</sup> At the time of publication, Ethiopian Government forces had regained control of most of the territory lost to rebel advances in May and June. This has improved prospects for food distribution from established centres.

depend upon there being no escalation of military activity. In this area it is not always best to operate by bold public statements but we must not allow the stubborn and unreasonable sensitivities of either the Ethiopian government or the rebel movements to prevent us from drawing attention to the fact that the government and both rebel movements give greater priority to their political and military objectives than to the humanitarian needs of their people. In particular we recommend most strongly that the ICRC should be permitted to operate, according to its international conventions, in Eritrea and Tigre.

The Government accepts this recommendation and will indeed continue to do all it can to assist relief efforts in Ethiopia, and particularly in Eritrea and Tigre where the threat to life is most acute. It shares the Committee's concern that the parties to the conflict appear to be giving greater priority to political and military objectives than to humanitarian needs.

The Government strongly endorses the view that ICRC should be allowed to resume its operations, and has made representations to the Ethiopian Government to this effect. Although the mandate given to the ICRC by international conventions formally covers international, rather than civil war situations, the ICRC's unique experience in carrying out relief operations in combat zones qualifies it to play a particularly important role in Eritrea and Tigre. It is a matter of profound regret that at present neither the Ethiopian Government nor the Eritrean and Tigrean Liberation Fronts will agree to let ICRC operate in areas which they control, and that the recent failure of ICRC's negotiations with the Ethiopian Government has resulted in the complete cessation of its operations in Ethiopia.

**(98) In addition to the relief operation on the government side in Ethiopia, a substantial cross-border operation will be necessary throughout 1988 (paras 42-51). We are concerned that the distribution of food aid delivered to ERA and REST cannot be properly monitored, and do not believe that the exorbitant prices charged by REST for internal purchase can be justified. It is, however, important that adequate stockpiles of food are established in Tigre before the arrival of the rains (para 47), and that the capacities of the relief organisations are enhanced to match the military gains of the rebel groups (para 49).**

The Government has made clear its acceptance of the territorial integrity of Ethiopia within its existing frontiers, and of its support for a negotiated political settlement of disputes within the framework of relevant UN resolutions. In the present situation, its concern is solely with the provision of humanitarian relief for the people of Ethiopia whose lives are now at serious risk.

Given the recent escalation of military activities in the North and the disruption of the relief effort, it is clear that cross-border supply of food from Sudan to rebel-held areas has taken on increased significance within the overall relief effort. If there is another poor harvest in 1988, and a further massive relief exercise is needed, all donors will need to take account of the current realities of the political and military situation in examining the available options for ensuring that relief supplies reach those in need, wherever they may be located.

The immediate position in Tigre is now thought to be less critical than was earlier feared, following the recently announced agreement between the EPLF and TPLF to open an all-weather route for food supplies from Sudan through Eritrea to Tigre. This should help regular food transport to continue through the rainy season; this may reduce the need for stockpiling although the numbers at risk in Tigre are such that the distribution effort required will have to be immense if it is to succeed.

**(99) It is also important that the international assistance to relief operations on the government side and on the rebel side are considered together and that the maximum amount of information is exchanged between agencies operating on each side (para 51).**

CONFIDENTIAL

126663  
MDLIAN 2637

CONFIDENTIAL

FM FREETOWN

TO PRIORITY FCO

TELNO 244

OF 091140Z NOVEMBER 88

AND TO PRIORITY UKDEL IMF/IBRD WASHINGTON

SIERRA LEONE ECONOMY

SUMMARY

1. THE GOVERNOR OF THE BANK OF SIERRA LEONE CLAIMS THAT SIERRA LEONE IS ABOUT TO MAKE A FURTHER ATTEMPT AT ECONOMIC REFORM, IN CONSULTATION WITH THE IMF AND IBRD. HE EXPECTS A WORLD BANK DELEGATION TO VISIT DURING THE WEEK BEGINNING 15 NOVEMBER AND THEN RETURN IN JANUARY. AN IMF MISSION IS EXPECTED AT THE END OF NOVEMBER.

DETAIL

2. I CALLED ON ABDUL TURAY, GOVERNOR OF THE BANK OF SIERRA LEONE, ON 8 NOVEMBER FOR A GENERAL DISCUSSION ON HOW HE SEES THE WAY AHEAD FOLLOWING HIS MEETING WITH MR HUDSON AT THE ODA ON 24 OCTOBER. I FOUND THAT HE IS EXPECTING SIGNIFICANT MOVEMENT IN THE NEXT 3 MONTHS. HE SAYS THAT AT MEETINGS WITH THE WORLD BANK AND IMF IN WASHINGTON DURING HIS VISIT TO THE UNITED STATES IN EARLY OCTOBER, PRESIDENT MOMOH GAVE ASSURANCES OF INTENT TO TAKE MEASURES ADVISED BY THE BANK AND THE FUND. ACCORDINGLY TWO REPRESENTATIVES OF THE BANK (WHO WILL INCLUDE RON FENNEL) WILL BE COMING TO FREETOWN NEXT WEEK TO BEGIN TALKS ON STRUCTURAL ADJUSTMENT. UNDER THE BANK'S AUSPICES, A PROFESSOR OF ECONOMICS FROM DAR-ES-SALAAM WILL ALSO BE COMING AND STAYING FOR A MONTH OR AS LONG AS IS NECESSARY TO DEVISE A PROGRAMME TO BE AGREED WITH THE BANK. A DELEGATION FROM THE IMF IS EXPECTED ON 29 NOVEMBER THEN THE WORLD BANK TEAM WILL RETURN IN JANUARY.

3. TURAY CLAIMS THAT THE PRESIDENT IS NOW PERSUADED THAT RESOLUTE ECONOMIC MEASURES ARE REQUIRED. FOR POLITICAL REASONS, HOWEVER, THEY WILL HAVE TO BE SO DEvised THAT THE MOST VULNERABLE SECTIONS OF THE COMMUNITY ARE SHIELDED. THE TWO MOST SENSITIVE COMMODITIES SO FAR AS THE SIERRA LEONE PEOPLE ARE CONCERNED ARE RICE AND PETROLEUM. THEY WILL BE LOOKING FOR TWO QUOTE VERY GOOD FRIENDS UNQUOTE TO HELP IN THESE RESPECTS. IN THE CASE OF RICE, HE APPEARS TO HOPE FOR AMERICAN SUPPORT OUTSIDE THE NORMAL PL480 AMBIT. IN THE CASE OF PETROLEUM, HE HOPED THAT BRITAIN MIGHT BE ABLE TO HELP AS WE HAD IN THE CASE OF GAMBIA. I SAID THAT MY UNDERSTANDING WAS THAT WE HAD GIVEN GAMBIA PETROLEUM PRODUCTS AS PROGRAMME AID WHEN THEY ADOPTED

CONFIDENTIAL

126663  
MDLIAN 2637

A FULL IMF PROGRAMME. I UNDERSTOOD THAT MR HUDSON HAD MADE CLEAR IN LONDON THAT IT IS FIRM BRITISH POLICY TO GIVE PROGRAMME AID ONLY IN SUPPORT OF A FULL AND NOT JUST A SHADOW PROGRAMME. TURAY SAID THAT HE HOPED THAT WE WOULD BE FLEXIBLE AND NOT BE HIDEBOUND BY TERMINOLOGY.

4. I SAID THAT WE DO OF COURSE WISH TO SUPPORT SIERRA LEONE IN EFFORTS TO APPLY SOUND ECONOMIC POLICIES, BUT FRANKLY PRESIDENT MOMOH'S ADMINISTRATION HAS LOST CREDIBILITY. TURAY ACKNOWLEDGED THAT THOSE WHO BENEFIT FROM THE STATUS QUO HAVE HITHERTO BEEN ABLE TO FRUSTRATE ATTEMPTS AT REFORM. BUT HE BELIEVES THAT THINGS WILL BE DIFFERENT THIS TIME, ALTHOUGH THE QUOTE INERTIA UNQUOTE OF WHICH HE SPOKE IN LONDON WILL HAVE TO BE OVERCOME. I SAID THAT I HOPE THIS WILL BE SO. THERE HAD BEEN MANY DISAPPOINTING QUOTE FALSE STARTS UNQUOTE DURING MY TIME HERE. I HOPE THAT HE WILL NOW BE ABLE TO PERSUADE THE PRESIDENT AND MINISTER OF FINANCE TO TAKE HIS ADVICE. HE REITERATED THAT THEY NOW RECOGNISE THE NEED FOR FIRM ACTION.

5. I SHOULD BE GRATEFUL IF UKDEL WASHINGTON COULD CHECK WITH THE WORLD BANK AND IMF ON THEIR PROPOSED VISITS AND TO SEE TO WHAT EXTENT TURAY'S UNDERSTANDING OF WHAT WAS AGREED IN WASHINGTON ACCORDS WITH THEIRS. IT DOES NOT APPEAR TO ACCORD WITH IMF REVIEW DISCUSSION REPORTED IN UKDEL SAVINGRAM 371, WHICH I HAVE RECEIVED AFTER MY MEETING WITH TURAY.

COD PLEASE ADVANCE TO WAD, ERD, ODA, HMT AND BANK OF ENGLAND.

PARTRIDGE

YYYY

DISTRIBUTION

127

MAIN 126

.MONETARY

ERD[-]

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

PAGE 2  
CONFIDENTIAL

CONFIDENTIAL

140242  
MDLIAN 3601

CONFIDENTIAL

FM ALGIERS

AMENDED DISTRIBUTION 12/11/88

TO PRIORITY FCO

TELNO 306

OF 101000Z NOVEMBER 88

INFO PRIORITY RABAT, TUNIS, WASHINGTON, PARIS, ECGD, DTI, BANK OF ENG

INFO PRIORITY HM TREASURY

MIPT ALGERIAN ECONOMY

1. OUR ENQUIRIES OVER THE LAST FEW DAYS INDICATE THE FOLLOWING ATTITUDES AMONG OECD COLLEAGUES.

FRANCE

2. THE FRENCH EXPECT TO SETTLE THEIR DIFFERENCES ON GAS PRICING WITH THE ALGERIANS WITHIN THE NEXT FEW WEEKS. IT IS HARD TO BELIEVE THAT MITTERAND WILL COME HERE AS PLANNED WITH SO IMPORTANT AN ISSUE UNSETTLABLE. THE FRENCH HAVE A LARGE CREDIT UP THEIR SLEEVES SAID TO BE OF THE ORDER OF BETWEEN FF 3 AND 4 BILLION, WHICH THEY ARE LIKELY TO MAKE AVAILABLE WHEN THE GAS DEAL IS SETTLED. FOR THE MOMENT COFACE ARE ACTING NORMALLY IN THE MARKET.

WEST GERMANY

3. HERMES ARE OFFERING FULL COVER FOR THE MOMENT, EXCEPT THAT THEY HAVE NOW RESTRICTED TO 180 DAYS COVER FOR BUSINESS FOR SPARES. (LAST YEAR THEY WERE PREPARED TO OFFER 3 YEARS COVER FOR THESE). FOR THE MOMENT WEST GERMAN BANKS ARE NOT OPENING ANY FURTHER COMMERCIAL LINES OF CREDIT. WE HAVE HEARD THAT THE ALGERIANS HAVE SAID THAT THE GERMANS WOULD HAVE TO AGREE TO THE (BILATERAL) RESHEDULING OF DEBT OF DM 1,000 MILLION IF THE ALGERIANS ARE TO BE ABLE TO HONOUR ALL THEIR CONTRACTS.

ITALY

4. SAC ARE OPERATING NORMALLY. IN VIEW OF ALGERIA'S PRESENT FINANCIAL DIFFICULTY, THE ITALIANS HAVE RAISED THEM TO THE TOP LEVEL OF PRIORITY, ALONG WITH EGYPT AND TUNISIA, FOR ELIGIBILITY FOR MIXED CREDIT. IN ADDITION THE ITALIANS HAVE JUST OPENED A NEW COMMERCIAL LINE OF CREDIT FOR US DOLLARS 300 MILLION.

SPAIN

5. SPANISH EXPOSURE IS QUITE HIGH IN THE MARKET, ALGERIA COMING AFTER MEXICO AND EGYPT IN THEIR LEAGUE TABLE OF RISK. WE ARE FERRETING FOR MORE INFORMATION ON THEIR POLICIES.

JAPAN

6. JAPANESE BANKS WHO HAVE SHORT TERM (ONE YEAR) TRADE CREDITS WHICH ARE NOT COVERED BY MITI INSURANCE ARE BECOMING INCREASINGLY CONCERNED FOR THEIR MONEY. BUT THE JAPANESE GOVERNMENT HAS

PAGE 1

CONFIDENTIAL

CONFIDENTIAL

140242  
MDLIAN 3601

SIGNED UP A MIXTURE OF NAKASONE AND OTHER CREDITS FOR 1989, TO THE TUNE OF Y55 BILLION WITH A FURTHER SUM TO COME BY WAY OF UNTIED CO-FINANCING ALONGSIDE WORLD BANK LOANS. THE JAPANESE POINT OUT THAT THE RECYCLING OF NAKASONE'S US DOLLARS 20 BILLION FINISHES AT THE END OF 1989 BUT IT WOULD APPEAR THAT POLICY DISCUSSIONS ARE ALREADY GOING ON IN TOKYO ABOUT CONTINUING THE INITIATIVE.

UNITED STATES

7. THE AMERICANS HAVE LENT US DOLLARS 750 MILLION THIS YEAR FOR FOOD PURCHASES AS AGAINST US DOLLARS 650 MILLION LAST YEAR. THEY WOULD EXPECT TO CONTINUE AT THESE LEVELS. EXIMBANK RATE ALGERIA VRY HIGH FOR PROJECT BUSINESS ON THE GROUNDS THAT ALGERIA HAS NEITHER RESCHEDULED OR HINTED AT DOING SO. EXIMBANK HAVE JUST TOLD THE US EMBASSY THAT THEY ARE PREPARED TO EXPAND COVER IN THE MARKET.

8. PAYMENT DELAYS

MOST COUNTRIES ARE REPORTING LENGTHENING DELAYS OF UP TO 10 MONTHS IN THE PAYMENT OF TRADE DEBT. DECEMBER 31 ST IS THE END OF ALGERIA'S FISCAL YEAR. IN THE LAST SIX WEEKS OF LAST YEAR THEY CLEARED A FAIR AMOUNT OF SHORT TERM DEBT FROM THEIR BOOKS WHEN THEY COULD BE SURE HOW MUCH CASH THEY HAD LEFT. IT MAY BE THE ALGERIANS WILL DO THE SAME AGAIN.

EYERS

YYYY

DISTRIBUTION

133

MAIN 132

.MONETARY

NENAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

PAGE 2  
CONFIDENTIAL

RESTRICTED

142050  
MDHIAN 1512

RESTRICTED

FM LUSAKA

TO IMMEDIATE FCO

TELNO 319

OF 141230Z NOVEMBER 88

AND TO IMMEDIATE ODA

AND TO PRIORITY BDDSA LILONGWE, UKDEL IMF/IBRD WASHINGTON

SAVING TO HARARE

MIPT: ZAMBIA ECONOMIC: REFORM PROPOSALS

SUMMARY

1. ON 12 NOVEMBER KAUNDA PUT FORWARD PROPOSALS FOR THE GRADUAL ELIMINATION OF SUBSIDIES, COUPLED WITH A COUPON (SUBSIDY-SUBSTITUTE) SYSTEM FOR THE POOR. HE ALSO SUGGESTED A REVIEW OF THE FOREX EXPORT RETENTION SCHEME. KAUNDA LEFT THE DOOR OPEN FOR THE IMF AND WORLD BANK. HE MADE DISOBLIGING REMARKS ABOUT AN 'UNNAMED' COUNTRY SAID TO BE DISUADING OTHERS FROM HELPING ZAMBIA.

DETAIL

2. THE NATIONAL COUNCIL OF THE UNITED NATIONAL INDEPENDENCE PARTY (UNIP) WAS OPEN BY PRESIDENT KAUNDA ON 12 NOVEMBER. COMPRISING NATIONAL LEADERS AND PARTY OFFICIALS REPRESENTING EACH PROVINCE, IT IS BEING ASKED TO APPROVE A PACKAGE OF ECONOMIC REFORM MEASURES. KAUNDA REVEALED SOME OF THESE IN HIS OPENING SPEECH OF THE ECONOMIC WOES ZAMBIA FACES AND HOW THESE MIGHT BEST BE TACKLED. REVERTING TO A THEME IN HIS PRESS CONFERENCE OF 3 NOVEMBER (OUR TELNO 303 OF 3 NOVEMBER) ON THE NEED TO REDUCE THE BUDGET DEFICIT, THE PRESIDENT SAID THAT UNLESS SUBSIDIES ON FOOD STAPLES WERE ELIMINATED THE GOVERNMENT WOULD ACHIEVE ONLY A SMALL REDUCTION IN THE DEFICIT. HE SAID THE REMOVAL OF THE FOOD SUBSIDIES ON THE TEN ITEMS STILL COVERED SHOULD BE DONE GRADUALLY TO AVERT SUFFERING. MOREOVER, THE POOR (UNDEFINED) IN THE URBAN AND PERI-URBAN AREAS SHOULD HAVE THEIR STAPLE MEALIE MEAL FLOUR SUBSIDISED BY THE PROVISION TO THEM OF COUPONS TO OFFSET THE ECONOMIC (ACROSS THE COUNTER) PRICE. KAUNDA SAID HE WISED TO ENSURE THAT BLACK MARKETEERS AND SMUGGLERS WOULD HAVE TO PAY ECONOMIC PRICES FOR THE ITEMS THEY BOUGHT. KAUNDA CHARGED THE COUNCIL WITH EDAMING HIS PROPOSALS AND COMING UP WITH A 'SUITABLE SOLUTION'.

3. AMONGST OTHER PROPOSALS KAUNDA MENTIONED WAS FOR A REVIEW

RESTRICTED

142050  
MDHIAN 1512

OF THE SCHEME UNDER WHICH EXPORTERS ARE GENERALLY ALLOWED TO RETAIN FIFTY PERCENT OF THEIR FOREIGN EARNINGS (HE WANTS A TIGHTENING OF THE CONDITIONS. THIS WILL DISCOURAGE EXPORTERS), A CURB ON THE EXPORT OF UNCUT EMERALDS, AND INCENTIVES FOR URBAN DWELLERS TO RETURN TO THE LAND.

4. KAUNDA SAID THAT THE IMF AND WORLD BANK WERE "FREE TO COME AND LOOK AT OUR OWN PROGRAMME" AFTER THE BUDGET AND "IF THEY ARE SATISFIED WITH THE MEASURES WE HAVE TAKEN, WE WILL WORK WITH THEM". AS USUAL, THE BALL IS LEFT IN THEIR COURT.

5. IN AN EXTEMPE PART OF HIS SPEECH, KAUNDA, APPARENTLY QUITE HEATED, ACCUSED "SOME HIGH PLACED OFFICIALS AT THE IMF" AND AN "UNNAMED COUNTRY" OF A SMEAR CAMPAIGN AGAINST ZAMBIA. HE SAID THAT ONE COUNTRY "HAS EVEN GONE TO THE EXTENT OF DISCURAGING FRIENDLY COUNTRIES FROM ASSISTING US" AND WARNED THAT HE WOULD "EXPOSE" IT. KAUNDA ADDED THAT "WE CANNOT CHANGE OUR POLICIES SIMPLY BECAUSE SOME BIG COUNTRIES ARE TELLING US TO DO SO..... IF THEY DO NOT WANT TO HELP US, WELL AND GOOD BUT LET THEM STOP THAT STUPID CAMPAIGN AGAINST US".

COMMENT

6. THE NATIONAL COUNCIL IS DUE TO FINISH ITS MEETING TODAY 14 NOVEMBER. NO WORD HAS YET EMERGED ABOUT ITS CONCLUSIONS. BUT WHEN I SPOKE TO A CLOSE ASSOCIATE WHO IS A MEMBER OF THE CENTRAL COMMITTEE AND THE NATIONAL COUNCIL ON 13 NOVEMBER HE SAID THAT COUNCIL MEMBERS WERE NOT AT ALL HAPPY WITH THE PRESIDENT'S PROPOSALS AND THE MANNER IN WHICH THEY HAD BEEN PRESENTED. THE TARGETTED SUBSIDY COUPON SYSTEM TO ASSIST THE POOR WAS WIDELY SEEN AS UNWORKABLE. COUNCIL MEMBERS WERE CONSCIOUS THAT THEIR NAMES WOULD, WILLY NELLY, BE ASSOCIATED WITH WHATEVER POLICIES THE PRESIDENT STEAM ROLLERED THROUGH.

7. I ASKED MY CONTACT ABOUT THE PRESIDENT'S ATTACK ON THE "UNNAMED COUNTRY", NOTING THAT SEVERAL OF MY DIPLOMATIC COLLEAGUES AT GATHERINGS ON 13 NOVEMBER HAD SAID TO ME THAT THEY ASSUMED KAUNDA HAD BEEN AIMING AT BRITAIN. I TOLD HIM THAT I TRUSTED THIS WAS NOT SO. IF WE WERE THE TARGET THE CRITICISM WAS BADELESS AND LAY UNEASILY WITH THE FINANCE MINISTER'S RECENT APPEAL TO US FOR AID (MIPT). SOME INFORMAL ENQUIRIES ARE NOW IN TRAIN, BUT MY CONTACT TOLD ME THAT HE HAD NOT HEARD OF ANYONE IN THE NATIONAL COUNCIL POINTING A FINGER AT BRITAIN. SEVERAL HAD SPECULATED IT WAS THE NETHERLANDS, THE AMBASSADOR HAVING APPARENTLY WALKED OUT SHORTLY AFTER KAUNDA MADE THE REMARKS. I

CONFIDENTIAL

FM ALGIERS

TO PRIORITY FCO

TELNO 305

OF 101300Z NOVEMBER 88

INFO PRIORITY CABINET OFFICE, ECGD, BANK OF ENGLAND, TREASURY  
INFO ROUTINE WASHINGTON, PARIS, RABAT, TUNISALGERIAN ECONOMY  
SUMMARY

1. MERBAH'S NEW GOVERNMENT CONFRONTED WITH SERIOUS DEBT PROBLEM BUT AN EARLY DEBT CRISIS UNLIKELY. POLICIES EXPECTED TO STAY LARGELY UNCHANGED. ECONOMIC REFORMS AND RESTRUCTURING OF INDUSTRY SHOULD PLAY A POSITIVE ROLE OVER NEXT THREE YEARS.
2. THE GENERAL LINES OF THE PRESIDENT'S POLITICAL APPROACH ARE NOW BECOMING CLEAR. WE EXPECT HIM AND MERBAH TO HOLD THE LINE IF THEY CAN MAINTAIN THE SENSE OF MOVEMENT. BUT ALGERIA'S ECONOMIC AND ESPECIALLY DEBT PROBLEMS REMAIN AS ACUTE AS EVER. SINCE MERBAH'S POLICIES FOR DEALING WITH THEM WILL FORM A MAJOR PART OF THE PROGRAMME HE PUTS TO THE ANP, IT MAY BE USEFUL TO REVIEW THESE PROBLEMS, AND INDICATE HIS LIKELY APPROACH.
3. THE BANK OF ENGLAND IS IN A BETTER POSITION THAN ARE WE TO JUDGE THE CURRENT ABSOLUTE LEVEL OF DEBT - MUCH DEPENDS ON DEFINITION. THE FIGURE GENERALLY ACCEPTED BY MY COLLEAGUES IS AROUND DOLLARS 23 BILLION. THE ALGERIAN PRESS, NOW RELATIVELY FREE AND FRANK, HAS QUOTED DOLLARS 21.5 BILLION. WE BELIEVE THAT SINCE THE RIOTS THE ALGERIANS HAVE OBTAINED A LOAN FROM THE SAUDIS OF DOLLARS 600 MILLION. WE HAVE HEARD A STRONG RUMOUR OF A LOAN OF DOLLARS 4 BILLION ELSEWHERE. THE FRENCH APPEAR TO WISH TO SETTLE THEIR DISPUTE OVER GAS PRICING, AND HAVE A LINE OF CREDIT AVAILABLE TO SWEETEN THE GAS DEAL (SEE MIFT). MY FRENCH COLLEAGUE INSISTS THAT FRANCE WILL NOT RESCHEDULE EXCEPT IN THE CONTEXT OF THE LONDON AND PARIS CLUBS, BUT I HAVE NO DOUBT THAT PARIS WILL BE HELPFUL IN OTHER WAYS. OTHERS ALSO SEEM READY TO LEND, EXCEPT PERHAPS THE GERMANS. AGAINST THAT BACKGROUND THERE SEEMS NO REASON TO EXPECT A CRISIS IN THE NEXT FEW MONTHS. THE NEW GOVERNMENT SHOULD ACCORDINGLY HAVE A BREATHING SPACE IN WHICH TO WORK UP ITS POLICIES.
- 3.
4. I WOULD EXPECT THE NEW GOVERNMENT TO LOOK AGAIN AT THE POSSIBILITY OF RECOURSE TO THE IMF. THERE MUST BE A TEMPTATION TO GO FOR THIS OPTION AT A MOMENT WHEN THEIR PREDECESSORS CAN BE BLAMED FOR THE POLICIES WHICH HAVE LED TO THE NEED FOR IT. BUT I DOUBT THAT THEY WILL DO SO UNLESS THERE IS A FURTHER DETERIORATION IN THEIR

POSITION. CERTAINLY THERE IS NO CURRENT INDICATION OF A CHANGE IN POLICY -

EL MOU POLICY - EL MOUJAHID OF 8 NOVEMBER CARRIED AN ARTICLE REHEARSING THE USUAL

ARGUMENTS AGAINST: THAT DEBT AS A PROPORTION OF GNP IS NOT WORRYING, THAT THE BANKERS ARE STILL READY TO LEND TO ALGERIA, THAT ALGERIA'S PRUDENT POLICIES IN THE PAST ARE WIDELY RECOGNISED, AND ABOVE ALL THAT TO RESCHEDULE WOULD INVOLVE AN UNACCEPTABLE LOSS OF SOVEREIGNTY.

5. AGAINST THAT BACKGROUND, WE EXPECT THE PRESIDENT AND MERBAH TO PURSUE CAUTIOUSLY THE EXISTING POLICIES ON DEBT, WHILE PUSHING AHEAD WITH THE PRESIDENTS POLICIES FOR THE RESTRUCTURING OF INDUSTRY IN THE INTEREST OF GREATER EFFICIENCY. THIS WILL BE AN EASY PATH. EFFICIENCY MUST INVOLVE A REDEPLOYMENT OF THE WORK FORCE, INVOLVING INITIALLY SACKINGS WHICH ARE LIKELY TO EXACERBATE THE CLIMATE IN INDUSTRY. THIS IS ALREADY TENSE, WITH FREQUENT STRIKES. THE SITUATION IS NOT MADE EASIER BY THE ALGERIANS' DEEP HOSTILITY TO THE ENTREPRENEURS THE COUNTRY NEEDS, WHO ARE USUALLY CONSIDERED PROFITEERS. BUT WITH LUCK (IE RAIN AND A HARDENING OIL PRICE) AND IF THE POLITICAL PROBLEMS CAN BE CONTROLLED, THE PROGRAMME OF RESTRUCTURING SHOULD MAKE A POSITIVE CONTRIBUTION IN THE CRITICAL THREE YEARS AHEAD.

EYERS

YYYY

DISTRIBUTION

133

MAIN 132

.MONETARY

NENAD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

RESTRICTED

142066  
MDHIAN 1513

RESTRICTED

FM LUSAKA

TO IMMEDIATE FCO

TELNO 318

OF 140900Z NOVEMBER 88

AND TO IMMEDIATE ODA

AND TO PRIORITY BDDSA LILONGWE, UKDEL IMF/IBRD WASHINGTON

TELECON CARTER/JARROLD: ZAMBIA ECONOMIC: CALL ON FINANCE MINISTER

SUMMARY

1. I CALLED ON CHIGAGA, MINISTER OF FINANCE AND NATIONAL COMMISSION FOR DEVELOPMENT PLANNING, AT HIS REQUEST, ON 11 NOVEMBER. HE ASKED FOR PROGRAMME AID FOR COMMODITIES AND RAW MATERIALS SO THAT CURRENT SHORTAGES AFFECTING THE PEOPLE WOULD BE RELIEVED AT A TIME WHEN HE WAS PROPOSING A NUMBER OF ECONOMIC MEASURES WHICH WOULD CAUSE HARDSHIP. I REPLIED AS BRIEFED (FCO TELNO 287), REHEARSING OUR CONDITIONALITY.

DETAIL

2. AT OUR MEETING CHIGAGA ASKED FOR PROGRAMME AID OF BETWEEN #20 AND #30 MILLION FOR COMMODITIES LIKE SOAP, SALT AND COOKING OIL, AVAILABLE FROM NEIGHBOURING COUNTRIES SUCH AS ZIMBABWE, AND RAW MATERIAL TO BOOST LOCAL PRODUCTION OF THE SAME ITEMS (AND PRESUMABLY STEM UNEMPLOYMENT). I SPOKE AS BRIEFED, EXCEPT ON TUR PARAS 3 AND 4 WHICH WERE NOT RAISED, AND UNDERTOOK TO REPORT CHIGAGA'S REQUEST AT ONCE TO LONDON.

3. AS REPORTED (OUR TELNO 312), CHIGAGA ANNOUNCED A DEVALUATION AND A RISE IN INTEREST RATES ON 9 NOVEMBER. CHIGAGA SAID THESE WERE THE PRECURSORS TO A SERIES OF MEASURES (THE DETAILS OF WHICH HE WOULD NOT REVEAL, BUT SEE MIFT), WHICH, IF APPROVED BY THE CENTRAL COMMITTEE OF THE PARTY (UNIP), WOULD BE ANNOUNCED BEFORE, DURING AND AFTER THE BUDGET. HE CONFIRMED THAT THE LATTER WAS DUE ON 25 NOVEMBER. CHIGAGA SAID THAT THERE WAS CONCERN THAT THE PROPOSED MEASURES WOULD PLACE A BURDEN ON THE PEOPLE, AGAINST A BACKGROUND OF EXISTING SHORTAGES OF ESSENTIAL COMMODITIES. HENCE HIS REQUEST TO US FOR URGENT ASSISTANCE.

4. I ASKED IF THE ZAMBIANS WERE CURRENTLY ENGAGED IN TALKS WITH THE IFIS. CHIGAGA SAID THAT HE HAD SPOKEN TO IMF REPRESENTATIVES IN BERLIN WHO WERE HAPPY WITH ZAMBIA'S ECONOMIC PERFORMANCE. BUT THE MEASURES HE WAS PROPOSING HAD NOT BEEN DISCUSSED WITH THE

RESTRICTED

142066  
MDHIAN 1513

IMF IN CASE THEY BECAME PUBLIC: 'THE ZAMBIAN PEOPLE WERE AFRAID OF THE IMF'. ZAMBIA HAD SUFFERED IN THE PAST FROM IMF PROGRAMMES AND WAS EXPERIENCING 'STRUCTURAL ADJUSTMENT FATIGUE'. CHIGAGA SAID HE HAD MADE THIS POINT BOTH TO MR PATTEN AND TO MR CAINES AND HAD SAID THAT ZAMBIA MERITED SPECIAL CONSIDERATION.

COMMENT

5. IT IS TEMPTING TO DISMISS THE REQUEST AS A TRY ON, NOT TO BE TAKEN SERIOUSLY. CHIGAGA GAVE ME NO PIECE OF PAPER WITH COSTINGS FOR HIS DEQUEST FOR PROGRAMME AID OR IMPRESSION THAT THE BID HAD BEEN PROPERLY PREPARED. A CLOSE EXAMINATION OF ZAMBIA'S FOREX EARNINGS AND WHERE THEY ARE ENDING UP WOULD HAVE LED THE FINANCE MINISTER TO DOMESTIC SOURCES OF THE EXTRA FUNDS HE NEEDS TO FLOOD THE SHOPS WITH ESSENTIALS, IN THE SHORT RUN, AT LEAST. THE NATIONAL LEADERSHIP MAY WELL BE RUNNING SCARED OF THE POTENTIAL SOCIAL IMPLICATIONS OF THE MOOTED REFORMS SEEING NOTHIN TO LOSE BY A FRESH APPEAL TO KEY DONORS. THEY MAY HOPE THAT THE INITIAL REFORM MEASURES ANNOUNCED ON 9 NOVEMBER WILL HAVE SOFTENED AT LEAST SOME OF OUR HEARTS ON THE PROVISION OF FRESH GROGRAMME AID. THEY COULD, OF COURSE, HAVE STRENGTHENED THEIR CASE BY TAKING US - AND THE OTHERS SO FAR APPROACHED, THE DUTCH AND THE SWEDES - INTO THEIR CONFIDENCE ON PRECISELY WHAT FURTHER REFORM MAEASURES ARE ENVISAGED AND WHEN. BUT CHIGAGA CHOSE NOT TO IN HIS CONVERSATION WITH ME. AS USUAL, THE ZAMBIANS WANT TO HAVE THEIR CAKE AND EAT IT9 MAKING SPECIAL PLEADING. IF THE DONOR COMMUNITY DOES NOT RESPOND POSITIVELY TO THESE LATEST APPROACHES, DOUBTLESS WE SHALL BE CASTIGATED FOR FAILING TO ASSIST IN ZAMBIA'S HOUR OF NEED AND HENCE TO BLAME FOR WHATEVER MESS ENSUES.

6. AS SEEN FROM HERE, CHIGAGA IS ASKING US FOR THE MOON, THE MORE SO AS HE WELL KNOWS OUR POSITION ON PROGRAMME AID AND THE IMF. AT THE SAME TIME, THE ZAMBIANS WILL CLEARLY HAVE A PROBLEM IN BEGINNING TO IMPLEMENT A COMPREHENSIVE ECONOMIC REFORM PACKAGE ON THE BACKS OF AN ALREADY DISGRUNTLED POPULACE. THE NATIONAL LEADERSHIP ITSELF WILL BE FAR FROM UNITED ON THE AUSTERITY PROPOSALS NOW BEGINNING TO EMERGE (SEE MIFT). IF WE AND OTHER KEY DONORS SIMPLY SIT TIGHT, CONFINING OURSELVES TO BLAND EXPRESSIONS OF GOODWILL THE PRESENT TENTATIVE MOVES TOWARDS REFORM MAY SIMPLY GRIND TO A HALT AND FURTHER VALUABLE MONTHS BE WASTED. THE TIME IS FAST APPROACHING WHEN WE, AS A LEADING DONOR WITH A UNIQUE STANDING HERE, SHOLD BEGIN TO PLACE SOME OR OUR CARDS ON THE TABLE IN PRIVATE IF NOT IN PUBLIC. THE VISIT HERE OF MR HUDSON (ODA) IN EARLY DECEMBER, IMMEDIATELY AFTER THE BUDGET, MAY AFFORD A TIMELY OPPORTUNITY TO DO SO. WE NEED TO BE ABLE TO GIVE THE ZAMBIANS

RESTRICTED

142050  
MDHIAN 1512

FIND THIS LATTER SUGGESTION DIFFICULT TO BELIEVE. THE AMERICANS HAVE BEEN LET OFF THE BOOK: THE FOREIGN MINISTER SPECIFICALLY SAID TO THE US AMBASSADOR THAT IT WAS NOT THEY. THE FRG IS ANOTHER OBVIOUS TARGET. THEIR REPRESENTATIVE, LIKE ME, WERE NOT INVITED TO THE OPENING OF THE NATIONAL COUNCIL, THOUGH THIS COULD WELL HAVE BEEN A BUREAUCRATIC OVERSIGHT. KAUNDA'S REMARKS MAY SIMPLY HAVE BEEN FOR EFFECT TO TRY TO BLAME THE COUNTRY'S ILLS ON EXTERNAL ELEMENTS, AS HE IS WANT TO DO, AND MAY BE INDICATIVE OF THE STRAIN UNDER WHICH HE IS PRESENTLY OPERATING. THIS LATEST CRITICISM IS ONE OF A SERIES AGAINST WESTERN INTERESTS (SEE MY ROUND UP LETTER OF TODAY, 14 NOVEMBER, TO MS SMITH, CAFD, FCO). THESE CAN SCARCELY ENCOURAGE DONOR COUNTRIES AND IFIS TO TAKE EARLY ACTION TO HELP ZAMBIA IN ITS PRESENT PLIGHT. WE SHOULD SAY SO INFORMALLY TO THE ZAMBIANS, BUT STILL LOOK FOR WAYS OF HELPING THEM OUT OF THEIR PRESENT MESS (MIPT PARA 6).

8. PLEASE GIVE MONETARY DISTRIBUTION.

CARTER

YYYY

DISTRIBUTION

135

MAIN 134

.MONETARY

CAFD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

CONFIDENTIAL  
FM LUSAKA  
TO PRIORITY FCO  
TELNO 322  
OF 171340Z NOVEMBER 88  
AND TO PRIORITY ODA

OUR TELNO 319: ZAMBIA ECONOMIC

SUMMARY

1. BRITAIN APPEARS TO BE THE 'UNNAMED COUNTRY' CRITICISED BY PRESIDENT KAUNDA FOR DISCOURAGING OTHER COUNTRIES FROM ASSISTING ZAMBIA.

DETAIL

2. THERE HAVE BEEN NO FURTHER PUBLIC REFERENCES BY KANUDA OR ANYONE ELSE TO THESE ALLEGATIONS. BUT YESTERDAY, 16 NOVEMBER, WILTED PHIRI, ZAMBIA'S HIGH COMMISSIONER TO LONDON WITH WHOM I HAD LUNCH (MY TELELETTER OF TODAY, 17 NOVEMBER, TO JARROLD) LEFT ME WITH THE CLEAR IMPRESSION THAT BRITAIN WAS THE COUNTRY IN QUESTION. LATER THE SAME DAY, I HAD A PERSONAL MESSAGE (PLEASE PROTECT) FROM SONDASHI (UNIP CENTRAL COMMITTEE) CONFIRMING THAT 'THE COUNTRY REFERRED TO WAS YOUR COUNTRY'.

3. IT MAY BE THAT THE MATTER WILL NOW DROP FROM PUBLIC VIEW AND IT COULD BE A CASE OF THE LESS SAID ON OUR PART THE QUICKER MENDED. BUT I THINK THE SORE WILL BE LIABLE TO FESTER AND THAT WE SHOULD TAKE AN EARLY OPPORTUNITY, IN A CALL EITHER ON THE MINISTER OF FINANCE OR FOREIGN AFFAIRS TO SET THE RECORD STRAIGHT, IN A LOW BUT FIRM KEY WE WOULD MAKE CLEAR THAT WHILE WE TRUSTED THE COMMENTS WERE NOT DIRECTED AT BRITAIN IN CASE ANYONE THOUGHT THEY WERE WE WOULD WISH TO REASSURE THE ZAMBIAN AUTHORITIES THAT WE WERE NOT ENGAGED IN ANY LOBBYING AGAINST ZAMBIA. INTER ALIA, WE COULD SAY THAT WE CONTINUED TO VALUE OUR RELATIONS WITH ZAMBIA AND, IN THAT SPIRIT, MAINTAINED A SUBSTANTIAL COOPERATION PROGRAMME HERE. OUR POSITION ON PROGRAMMED AID WAS KNOWN TO ALL. WHAT OTHERS DID WAS THEIR BUSINESS. CONSENSUS AMONGST ZAMBIA'S PARTNERS ON THE NEED FOR SUBSTANTIAL ECONOMIC REFORM AS THE ESSENTIAL PRECURSOR FOR MAJOR INFLOWS OF NEW FOREIGN RESOURCES AROSE FROM INDIVIDUAL NATIONAL DECISIONS NOT PRESSURE FROM ANY ONE COUNTRY.

CONFIDENTIAL

155603  
MDLIAN 5014

CARTER

YYYY

DISTRIBUTION

135

MAIN

134

.MONETARY

CAFD

ADDITIONAL

1

MR WICKS NO 10 DOWNING ST

NNNN

RESTRICTED

142066  
MDHIAN 1513

AN INDICATION OF THE ORDER OF MAGNITUDE OF PROGRAMME AID WE WOULD EXPECT TO BE ABLE TO MAKE AVAILABLE FOLLOWING AN UNDERSTANDING BETWEEN ZAMBIA AND THE IMF AND IN WHAT POSSIBLE TIMESCALES. IT COULD ALSO BE BELPFUL TO THE PROCESS OF REFORM HER TO EXPRESS A WILLINGNESS TO ENTER INTO EARLY DISCUSSIONS ABOUT A FRESH PROJECT AID FRAMEWORK, AHEAD OF A SETTLEMENT WITH THE IFIS. (THE SIGNING OF SUCH COULD, IN PRACTICE BE GEARED TO PROGRESS ON AN AGREED REFORM PACKAGE WITH THE IFI'S.) THIS , OF COURSE, ASSUMES THAT A WAY CAN BE FOUND TO DEAL WITH PROBLEMS ARISING FROM ZAMBIA'S PRESENT ARREARS TO US ON PROJECT LOANS.

7. IN SUM, WITHOUT UNDERMINING OUR FUNDAMENTAL POSITION ON ASSISTANCE TO ZAMBIA WHILE IT HAS NO AGREEMENT WITH THE IFIS AND IS IN DEFAULT TO ALL AND SUNDRY, WE NEED TO SEE IF WE (AND OTHERS CAN PASS THE ZAMBIANS A ''LIFE LINE'' IN THE COMING WEEKS CONTAINING FAIRLY SPECIFIC TENTATIVE OUTLINE PROPOSALS FOR ASSISTANCE, CONDITIONAL ON ZAMBIA REACHING AGREEMENTS WITH THE IFI'S. THIS MAY, HOPEFULLY, BE TAKEN UP BY THE MORE REFORM MINDED HERE TO HELP BRING THE BOAT NEARER THE SHORE.

8. PLEASE GIVE MONETARY DISTRIBUTION.

CARTER

YYYY

DISTRIBUTION

140

MAIN 139

.MONETARY  
ERD

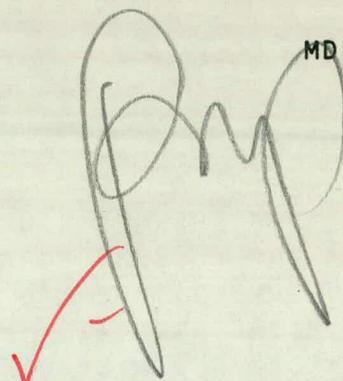
CAFD

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

CONFIDENTIAL  
FM FREETOWN  
TO PRIORITY FCO  
TELNO 250  
OF 221316Z NOVEMBER 88  
INFO ROUTINE UKDEL IMF/IBRD WASHINGTON



## SIERRA LEONE GOVERNMENT CHANGES

### SUMMARY

1. IN A GOVERNMENT RESHUFFLE, 4 CABINET MINISTERS HAVE BEEN DROPPED AND 7 NEW MEMBERS APPOINTED TO AN ENLARGED CABINET. DEPARTMENTAL RESPONSIBILITIES HAVE BEEN TAKEN AWAY FROM THE TWO VICE-PRESIDENTS. THESE MOVES ARE BEING PRESENTED LOCALLY AS SHOWING A DETERMINATION BY THE PRESIDENT TO REINVIGORATE HIS GOVERNMENT. IN FACT, HOWEVER, THEY ARE A MORE MODEST RESPONSE TO PRESSURES ON THE PRESIDENT TO CLEAN UP HIS ADMINISTRATION AND TACKLE THE COUNTRY'S INTERNAL ECONOMIC PROBLEMS.

### DETAIL

2. A GOVERNMENT RESHUFFLE WAS ANNOUNCED ON 21 NOVEMBER. 4 CABINET MINISTERS, THE MINISTER OF TRADE AND INDUSTRY, J AMARA BANGALI, THE MINISTER OF TRANSPORT AND COMMUNICATIONS, MICHAEL ABDULAI, THE MINISTER OF INFORMATION, EYA MBAYO AND THE LEADER OF THE HOUSE, HARRY T T WILLIAMS HAVE BEEN DROPPED FROM THE GOVERNMENT. SEVEN NEW CABINET MINISTERS ARE J B DAUDA AS MINISTER OF TRADE, BEN KANU AS MINISTER OF INDUSTRY AND STATE ENTERPRISES, J LAVERSE AS MINISTER OF WORKS, AHMED SESAY AS MINISTER OF INTERNAL AFFAIRS, M O BASH TAQI AS MINISTER OF AGRICULTURE AND NATURAL RESOURCES, DOMINIQUE MUSA AS MINISTER OF LANDS AND HOUSING AND E NDOMAHINA AS LEADER OF THE HOUSE. PHILLIPSON KAMARA (FORMERLY AGRICULTURE) BECOMES MINISTER OF TRANSPORT AND COMMUNICATIONS, M L SIDIQUE (FORMERLY INTERNAL AFFAIRS) BECOMES MINISTER OF LABOUR, V J V MAMBU (FORMERLY WORKS AND LABOUR) BECOMES MINISTER OF INFORMATION. THE FORMER MINISTRY OF TRADE AND INDUSTRY IS DIVIDED WITH INDUSTRY INCORPORATING STATE ENTERPRISES, FORMERLY THE RESPONSIBILITY OF THE SECOND VICE-PRESIDENT. WORKS AND LABOUR HAS ALSO BEEN DIVIDED. LANDS AND HOUSING, FORMERLY THE RESPONSIBILITY OF THE FIRST VICE-PRESIDENT NOW HAVE A SEPARATE DEPARTMENTAL MINISTER. IN ADDITION TO THE TWO BACK BENCHERS WHO HAVE MOVED INTO THE CABINET, 6 OTHER BACK BENCHERS COME INTO THE GOVERNMENT FOR THE FIRST TIME AS MINISTERS OF STATE. A FULL LIST OF THE RECONSTITUTED GOVERNMENT IS BEING SENT TO THE DEPARTMENT BY BAG.

## COMMENTS

3. THE CHANGES CAN BE WELCOMED INSOFAR AS THEY GO. J AMARA BANGALI WAS THE CLOSEST FORMER ASSOCIATE OF STEVENS AND JAMIL TO REMAIN IN GOVERNMENT. WE HAD LONG HOPED FOR THE REMOVAL OF THE ARROGANT AND INIMICAL ABDULAI. MBAYO WAS INVOLVED IN A RECENT FINANCIAL SCANDAL AND WAS LUCKY NOT TO BE CHARGED. THE REPLACEMENT OF WILLIAMS BY NDOMAHINA IS CONSEQUENCE OF THE LATTER HAVING DEFEATED THE FORMER FOR THE LOCAL PARTY CHAIRMANSHIP AT MOYAMBA. MOST OF THE NEW MINISTERS ARE FORCEFUL PERSONALITIES, PARTICULARLY BASH TAQI WHO WAS LEADER OF THE BACK BENCHERS AND LAVERSE. SOME PROMISING YOUNG BACK BENCHERS HAVE BEEN BROUGHT IN AS MINISTERS OF STATE. THE CHAMBER OF COMMERCE IS PLEASED THAT ITS NOMINEE, TOMMY TAYLOR-MORGAN, IS THE NEW MINISTER OF STATE FOR TRADE. BUT SOME NOTABLY CORRUPT AND ILLINTENTIONED MINISTERS REMAIN SUCH AS GBASSAY KANU AT FINANCE, MOSES DUMBUYA AT EDUCATION, BIRCH CONTEH AT MINES AND SHEKOU SESAY AT ENERGY. THE AMERICANS, WHO HAD CONFIDENTLY EXPECTED HIS REPLACEMENT BY ABDULAI CONTEH, WILL BE DISAPPOINTED THAT A K KOROMA REMAINS AS FOREIGN MINISTER. WE TOO WOULD HAVE WELCOMED THIS ANTICIPATED CHANGE.

4. THE TWO VICE-PRESIDENTS REMAIN IN OFFICE BUT THEY HAVE BOTH LOST ALL DEPARTMENTAL RESPONSIBILITIES AND THEIR MINISTERS OF STATE. THIS MAY BE A PRECURSOR TO THE ANTICIPATED ABOLITION OF THE VICE-PRESIDENCIES AFTER THE NATIONAL DELEGATES CONFERENCE NEXT JANUARY, WHICH WILL REQUIRE A CONSTITUTIONAL AMENDMENT. JUSU-SHERIFF WILL ALSO BE CHAGRINED TO HAVE THE LEADER OF THE FACTION OPPOSED TO HIM IN KENEMA, J B DAUDA, PROMOTED TO THE CABINET AS WELL AS BEN KANU (A SUPPORTOR OF DAUDA) TAKE STATE ENTERPRIZES FROM HIM.

5. THE CHANGES WILL BE PRESENTED LOCALLY - AND ALSO TO OVERSEAS AID DONORS - AS EVIDENCE OF THE PRESIDENT'S DETERMINATION TO REVITALISE HIS GOVERNMENT TO DEAL WITH THE COUNTRY'S ECONOMIC PROBLEMS. A LOCAL STRINGER OF THE BBC HAS DESCRIBED THE PRESIDENT AS QUOTE WAVING A MAGIC WAND UNQUOTE. THIS IS NOT SO. THE PRESIDENT HAD TO BE SEEN TO BE MAKING A RESPONSE TO DOMESTIC DISCONTENT AND PRESSURES ON HIM TO MAKE POLITICAL CHANGES (SEE MY LETTER TO CUMMINS OF 8 NOVEMBER). THESE CHANGES REPRESENT A MEASURE OF SUCCESS FOR THE BACK BENCHERS WHO UNDER BASH-TAQI'S LEADERSHIP WERE A VOCIFEROUS GROUP. SOME NOTABLY UNPOPULAR MINISTERS WHO HAVE GONE OR BEEN MOVED SIDWAYS HAVE BEEN REPLACED IN HIGH PROFILE MINISTRIES BY MORE FORCEFUL PERSONALITIES. BUT THE PRESIDENT HAS STILL RETAINED HIS CLOSEST COLLABORATORS IN MISGOVERNMENT. LOCAL OBSERVERS THEREFORE HAVE LIMITED EXPECTATIONS OF IMPROVEMENT

ALTHOUGH THIS ACTION MAY ENABLE THE PRESIDENT TO STEM CRITICISM FOR A TIME. THIS HAS BEEN DESCRIBED AS A SHUFFLE RATHER THAN A RESHUFFLE. IT IS BEING PUT ABOUT THAT THERE ARE STILL MORE CHANGES TO COME.

PARTRIDGE

YYYY

DISTRIBUTION

424

MAIN

424

FCO (PALACE)/WHITEHALL  
WAD

NNNN

*pdf*  
CONFIDENTIAL

FROM: P G F DAVIS  
DATE: 12 AUGUST 1988

PS/CHIEF SECRETARY

cc PS/Chancellor  
Sir P Middleton (or)  
Sir G Littler (or)  
Mr Lankester (or)  
Mr Mountfield (or)  
Mr Robson  
Mr Turnbull  
Mr Richardson  
Mr May  
1. Mr Fairservice  
2. Mr Denison (or)  
Mr Call

**ANGOLA/NAMIBIA**

The letter from the Foreign Secretary's office, dated 10 August, brings No 10 up-to-date on the peace negotiations on Angola/Namibia. There is no need for a Treasury Minister to respond.

2. But the letter also serves as a warning that the UK is likely to have to contribute to an international force for monitoring the implementation of Security Council Resolution 435. This would be a major military operation costing hundreds of millions of dollars. The UK contribution could be some £20 or £30 million. I foresee a request for a discretionary call on the Reserve in, possibly, a month or two, but this is still speculative. We will advise further as the prospect clears.

*P G F Davis*  
P G F DAVIS



CHIEF SECRETARY	
REC.	10 AUG 1988
ACTION	Mr P. Davis
COPIES TO	C, Sir P Middleton Sir G. Little, Mr Lancaster Mr Mountfield Mr Turnbull, Mr Call

Foreign and Commonwealth Office

London SW1A 2AH

10 August 1988

Dear Charles,

Angola/Namibia

On your return you may welcome an update on the quadripartite negotiations on Angola/Namibia.

The joint statement agreed ad referendum last week at the Geneva round of talks has now issued. In it the parties recommend to the United Nations Secretary General the date of 1 November 1988 for the beginning of the implementation of the UN SCR 435 and agree an immediate cease-fire. There will be a cease-fire between SWAPO and South Africa on 1 September.

Agreement was also reached at Geneva on a secret protocol designed to reduce the risk of military confrontation on the Angolan/Namibian border and to ensure that the cease-fire holds. The protocol does not cover UNITA, who were not represented at Geneva and who have said they will continue their operations. Crocker has told us however that he is satisfied that the Cubans will not mount an offensive against UNITA from their positions in South West Angola so long as the cease-fire lasts.

The time-table for Cuban troop withdrawal, the most difficult issue in the negotiations, was not discussed in Geneva. Crocker deliberately left this to last. It will be dealt with at the next round which will take place in the week beginning 22 August at a place to be decided. The distance separating the two sides on CTW is considerable, though we know there is negotiating fat in the Cuban/Angolan position. The SAG might be brought to compromise if a prize such as the dismantling of ANC bases in Angola (a demand recently introduced into the negotiations by Pik Botha) was in their grasp. The negotiations could yet break down on this issue, or perhaps on internal reconciliation, which was not discussed formally in Geneva. But if a compromise can be reached on CTW, there is clearly a chance that the South African Government will decide that the advantages of an agreement justify their leaving Namibia and outweigh the political costs of their doing so.

/There



There is therefore a real prospect that the UN may soon be called upon to implement a complex and expensive operation in Namibia to monitor the implementation of SCR 435 at a time when many UN member states, most importantly the US, face difficulties in meeting the financial needs of the organisation and its resources are stretched to deal with peace-keeping in the Gulf. We shall keep in close touch with the Secretariat to monitor their thinking as the situation develops and in particular to urge the most cost effective solution, without of course unpicking 435.

There would be practical implications for the UK if quadripartite agreement is reached on CTW. We shall be writing in due course to set out the case for a forthcoming UK response if this happens by the end of the month (the parties have given themselves until 1 September).

Copies of this letter go to Alex Allan (Treasury) and Brian Hawtin (MOD).

*Yours ever,*

A handwritten signature in cursive script, appearing to read 'L Parker'.

(L Parker)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street