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Pt.C.

Chancellor's (Lawson) Papers:
African and Sub-Saharan Debt Relief Initiatives.

DD's: 25 Years

[Signature]
9/2/96 .

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Pt.C.

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FM WASHINGTON
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INFO PRIORITY ODA, HMT, LAGOS

a
we have commissioned
note on outcome of
today's meeting
[I want. Clear that
how we have bigger amount.]

OUR TELNO 34
US/NIGERIA: PROPOSED AID PACKAGE
1 WE HAVE BEEN TOLD TODAY BY THE NIGERIA DESK IN STATE
THAT THE US HAVE NOW DECIDED TO PLEDGE DOLLARS 25 MILLION TO
THE PACKAGE FOR NIGERIA. THEY WILL ANNOUNCE THEIR CONTRIBUTION
AT THE LONDON MEETING ON 9 JANUARY. STATE SAID THAT THEY
REALISED THAT THEIR PLEDGE WAS NOT IN THE DOLLARS 30-50
MILLION RANGE BUT THEY CONSIDERED THAT THE SUM WAS NEVERTHELESS
SUBSTANTIAL. IT WAS IN ANY CASE THE BEST THEY COULD DO AT
SHORT NOTICE IN THE LIGHT OF BOTH EXISTING COMMITMENTS
AND THE RECENT DEMANDS FOR THE UP-FRONT FINANCING OF UNTAG.

ACLAND

YYYY

DISTRIBUTION

134

MAIN

134

.MONETARY

WAD

NNNN

From: T P Lankester
Date: 9 January 1989

CHANCELLOR

cc

- Chief Secretary
- Economic Secretary
- Sir P Middleton
- Mr Wicks
- Mr Odling-Smee
- Mrs Lomax
- Mr Mountfield
- Mr Evans
- Mr Walsh
- Mr Bottrill
- Mr Tyrie

Ch
Mr L has done well.

Well done.
(The) staggered unbalanced!

AID DONORS MEETING

	Japan	225
	UK	100
	ABZ	100
	Rest of world	75
		<u>500</u>

with 100 posts for Japan/ABZ

Today's meeting of the Aid Donor Group went satisfactorily.

2. We spent the morning discussing the Nigerian reform programme for 1989 as agreed with the IMF and as reflected now in the Nigerian budget. We also discussed the setting up of a formal consultative group for later in the year.

3. We had standard presentations from Minister Alhaji Abubakar, supported by Governor Ahmed, and from the World Bank and IMF. This was followed by a question and answer period, with all the donors expressing support for Nigeria's efforts. **I made a longish intervention expressing our support for the budget and other policy reform measures, but making it clear that we are expecting Nigeria now to deliver and that if the programme starts going off track, we expect the authorities to react speedily.**

4. **In the afternoon, it was agreed that Nigeria will in all probability need exceptional financing for several years to come and that, accordingly, the World Bank should set in motion a formal consultative group machinery - the first meeting of the group will probably be next October. There was no discussion of possible numbers for 1990 and beyond.**

5. We then turned to the financing gap for 1989. You will, I think, recall that the IMF were forecasting a residual gap of \$300 million for 1989 to which we of course are contributing \$100 million provided it could be filled. (Though for internal purposes we agreed that there would have to be additional contributions of \$150 million.) The \$300 million gap, however, already assumed \$200 million from Japan and \$100 million from the African Development Bank.

6. Late last week the Japanese took umbrage at the fact that the IMF were assuming \$200 million from them when it was not already committed. To sooth their sensitivities, we and the World Bank decided not to count the \$200 million from them as already in; and there was also some uncertainty prior to today's meeting about the \$100 million from the African Development Bank. Hence, we started the day with a residual gap of \$600 million rather than \$300 million.

7. We concluded with firm pledges of \$500 million in total, and private indications to the chairman of the meeting of approximately \$200 million in addition. The bulk of these latter additions come from Japan and the African Development Bank, but there are also smaller amounts from Canada, Germany and the EC and even something from Italy (though we are not sure that the Italian contribution will be fully disbursed in 1989). The attached table gives the details.

8. Most of the other contributions will be untied. This will enable me to argue strongly with DTI that our contribution should be untied as well. (With your agreement, I tried to persuade them that we should untie anyway, but they said their Ministers would not be prepared to consider this unless others untied first.)

9. Finally, I should mention that the Foreign Secretary has spoken to King Fahd and Sheik Zahid in the last few days, and there seems to be quite a good prospect of contributions from both Saudi Arabia and the UAE as well.

10. Today's result means that the gap is effectively filled, so that Camdessus can now present the programme to the Fund Board; and I think it well satisfies our condition that there should be adequate contributions from other donors.

12

T P LANKESTER

NIGERIA: AID AND BOP SUPPORT

	<u>Firm</u>	<u>Indicative</u>
Germany	40	+30 (1)
France	10	-
Italy	-	+15? (2)
European Community	-	+15
UK	100	-
African Development Bank	100	60 (3)
Japan	225 (4)	+100
Canada	-	+10 -15
US	25	-
Total	<u>500</u>	<u>+230 -235</u>

Footnotes

- (1) Includes possible future co-financing with the IBRD
- (2) Restricted to project financing
- (3) Assumes Nigerians sign Export Stimulation Loan of \$160 million quickly to be disbursed in two tranches in 1989.
- (4) Includes \$25 million disbursed by Japan in 1988 but not used.

LETTER FROM
BEREGOVY

AMBASSADE DE FRANCE

LONDRES

[Handwritten signature]

L'AMBASSADEUR

CH/EXCHEQUER	
REC.	12 JAN 1989
ACTION	Mr BOTTRILL
COPIES TO	CST EST
	Sir P. MIDDLETON
	Mr NICKS, Mr LANKESTER,
	Mr MOUNTFIELD,
	Mr EVANS, Mr DAVIS,
	Mr WALSH,
	Mr THOMPSON,
	Mr TYRIE.

12th January, 1989

De la barre

I have just received through the diplomatic bag a letter addressed to The Rt. Hon. Nigel Lawson MP, Chancellor of the Exchequer, by Monsieur Pierre Beregovoy, Ministre d'Etat, Ministre de l'Economie, des Finances et du Budget.

I enclose it herewith.

*you may
lum ->*

Luc de La Barre de Nanteuil

A.C. Allan, Esq.,
Principal Private Secretary to
The Chancellor of the Exchequer,
Departmental Treasury,
Parliament Street,
London, SW1P 3AG

*Le Ministre d'Etat,
Ministre de l'Economie, des Finances
et du Budget*

Paris, le 3 janvier 1989

Monsieur le Ministre, *Cher Nigel,*

C'est avec le plus grand intérêt que j'ai pris connaissance de la lettre du 20 décembre 1988 que vous avez bien voulu m'adresser à propos du Nigéria.

Je partage votre sentiment sur l'influence que l'attitude du Nigéria ne manquera pas d'exercer sur les autres Etats africains engagés sur la voie des réformes économiques et je me félicite à cet égard des progrès enregistrés par cet Etat sur la voie d'un accord avec le Fonds Monétaire International.

La conclusion définitive d'un tel accord, que devrait permettre, semble-t-il, la mise en oeuvre de mesures supplémentaires d'ajustement, faciliterait sans aucun doute la mobilisation des bailleurs bilatéraux et la recherche du montant minimum de 300 millions de dollars nécessaire à la couverture du déficit de l'exercice 1989.

Deux difficultés me paraissent toutefois subsister.

Tout d'abord, vous avez bien voulu m'indiquer que le Gouvernement nigérian n'entendait pas, sauf en cas d'absolue nécessité tenant notamment à une éventuelle baisse importante des cours du pétrole, utiliser les ressources qui seraient mises à sa disposition par le FMI dans le cadre d'un accord de confirmation. Cette position n'a pas rencontré l'adhésion des représentants de la République Fédérale d'Allemagne et de l'Australie lors du Conseil d'Administration de la Banque Mondiale tenu le 22 décembre dernier, qui se sont interrogés sur la crédibilité d'un accord réalisé sur ces bases.

Par ailleurs, il m'a été indiqué que le représentant de la Belgique, lors du même Conseil d'Administration de la Banque Mondiale, n'avait pas considéré l'exécution des accords passés entre le Nigéria et le Club de Paris comme entièrement satisfaisante et qu'il avait insisté sur la nécessité de garantir une égalité de traitement entre les créanciers. Je crois en effet cette question tout à fait fondamentale.

The Right Honourable
Nigel LAWSON MP
Chancellor of the Exchequer
London

UNITED KINGDOM

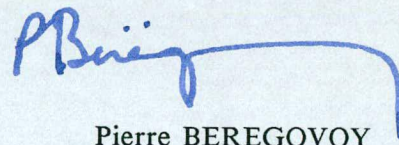
Cependant, pour tenir compte de l'ensemble des éléments dont vous m'avez fait part, le Gouvernement français serait prêt à consentir au Nigéria, un don d'au moins 60 millions de francs, dès lors que des réponses seraient trouvées aux préoccupations que je viens de rappeler. Ce don serait mis en place dès la signature et la mise en oeuvre de l'accord bilatéral de consolidation des créances françaises qui doit intervenir après la réunion du Club de Paris.

Je comprends toutefois qu'un tel effort de la part de la France en faveur d'un pays africain comme le Nigéria pourra être, en temps utile, accompagné d'un effort comparable du Royaume-Uni et d'autres bailleurs de fonds en faveur de pays africains tels que la Côte d'Ivoire, le Cameroun ou le Congo.

C'est sur la base de ces orientations qu'une délégation française se rendra à la réunion organisée à propos du Nigéria, le 9 janvier prochain à Londres, par la Banque Mondiale.

Je vous prie d'agréer, Monsieur le Ministre, l'expression de ma haute considération.

Avec sincères vœux,



Pierre BEREGOVY

Pr 3
1/19/89

FROM: A R H BOTTRILL
DATE: 12 JANUARY 1989

CHANCELLOR

cc Sir P Middleton
Mr Wicks
Mr Lankester
Mr Mountfield
Mr P G F Davis
Mr Walsh
Mrs Thomson

OK - 1st
8/1/89
1st/2nd
Chir content to write
no proposal?
5/19/89

NIGERIA: RESPONSES TO THE CHANCELLOR'S MESSAGE OF 19 DECEMBER

Three finance ministers responded by personal letter to your message of 19 December to the G7, Saudi Arabia, Netherlands, Belgium and Spain.

2. Beregovoy tied his offer of 60 million francs to similar help from the UK should France mount a support operation for Cote d'Ivoire, Congo or Cameroon. You will not wish to accept that these three countries will automatically deserve or get our support. All three countries have GDP per capita levels at least twice as high as Nigeria so an aid effort would not be appropriate.

3. Signor Amato felt unable to contribute, pleading budgetary problems. Nonetheless, Italy did indicate a possible \$15 million project financing on 9 January and we should encourage them to attend the donors' group meeting later this year. We should also encourage the Dutch to come to the Consultative Group, despite the negative terms of Ruding's reply.

4. I attach draft replies. They have been cleared with the FCO. The Foreign Secretary is writing separately to Genscher acknowledging Germany's help at the donors' meeting.

ARH

A R H BOTTRILL

ENCS

DRAFT REPLY TO M BEREGOVY

France would do

M. Pierre Bérégovoy
Le Ministre d'Etat, Ministre
de l'Economie, ~~Finances~~ ^{des Finances}
et du Budget
Paris
France

Thank you for your letter of 6 January about Nigeria. I was very glad to learn that ~~you were~~ contributing to the financial support operation for Nigeria's economic adjustment programme. ~~France and~~ ^{as France} the UK are Nigeria's two largest commercial creditors and have a strong joint interest in enabling Nigeria to implement these policies. The success of this tough programme will also be an important example to other West African states, for some of which you mention in your letter you might in the future be seeking support. Any case would of course need to be considered carefully on its merits in the light of each country's policies and relationship with the IMF and World Bank, the degree of our involvement with it and its relative income level and size.

NL

M-L-

Sr. Giuliano Amato
Il Ministro del Tesoro
Rome
Italy

DRAFT REPLY TO SIGNOR AMATO

Thank you for your letter of 29 December about Nigeria. I appreciate your expression of understanding of the importance of the success of the Nigerian adjustment programme for the region as a whole. I very much hope that you will keep the possibility of fast-disbursing aid to Nigeria in mind and that Italy will feel able to attend the World Bank's Consultative Group meeting later this year and contribute to the next stages of the group's efforts.

N - C -

Mr. H. O. Ruding
Minister Van Financien
The Hague
Netherlands

DRAFT REPLY TO H O RUDING

Thank you for your letter of 28 December, from which I was sorry to learn that you did not feel able to join the present international support operation for Nigeria or send a representative to the meeting arranged by the World Bank in London on 9 January.

We were pleased with the outcome of the meeting. The Nigerian representatives expressed their firm commitment to the economic adjustment programme, which was commended by the IMF and IBRD. I share your wish that we should encourage the Nigerians to implement the programme. We and others also stressed to them the importance of being ready to draw on IMF resources if necessary.

I understand that in the light of the pledges and indications given by donors at the London meeting the IMF Managing Director is now prepared to put the programme to the Executive Board. I trust that if the programme is approved this will open the way for a new Paris Club rescheduling which is essential for the financing of the programme.

Nigeria, however, seems likely to need exceptional support for some years to come, and a World Bank Consultative Group meeting will be held later this year. I hope that when the time comes you will feel able to send a representative to that meeting and contribute to the next stages of the donor group's efforts.

N-L-



PM/89/002

PRIME MINISTER

ch. J. N. H. W.
It would have been desirable for us to see this in draft, given 'X' in para 8. But it is, effectively, true that the gap has been filled.

CHEQUER	
17 JAN 1989	
TO	Mr BOTTRILL
COPIES TO	CST. EST. Sir P. MIDDLETON, Mr ANSON, Mr NICKS, Mr LANKESTER, Mr SCHOLAR, Mr TOMAX, Mr ODLING-SMEE, Mr MOUNTFIELD, Mr H. EVANS, Mr P. F. DAVIS, Mr WALSH, Mr THOMPSON, Mr TYRRE.

Nigeria

16/1/89.

1. I wrote to you on 18 November about the critical situation reached in Nigeria's negotiations with the IMF. I proposed an international aid package to bridge part of the financing gap, provided Nigeria itself took further adjustment measures to bridge the rest. You agreed that in view of Nigeria's importance for Africa as a whole the stakes were too high for us just to give up.
2. I subsequently agreed with Nigel Lawson and John Major that the UK should offer \$100 million grant aid in 1989, to be financed largely by additions to the planned aid programme from the reserve, subject to the IMF Board approving Nigeria's programme and a substantial contribution from other donors to help fill the estimated financing gap. We also agreed that similar contributions would probably be necessary in the subsequent two years.
3. Our indication to the Nigerians and the IMF that we were prepared to mobilise international support helped to ensure that Nigeria took further measures on the budget deficit and exchange rate. The new exchange rate system was implemented on 9 January, and led immediately to a further 28% devaluation of the official rate.
4. We have also made considerable progress in assembling the international aid package. After a major lobbying effort, by Nigel Lawson and myself, we hosted an informal donors'

/meeting,



meeting, chaired by the World Bank, on 9 January. All G7 countries were represented. The World Bank and IMF explained that even assuming a very generous Paris Club rescheduling, there remained a gap for 1989 of \$1.1 billion. The World Bank was prepared to disburse \$500 million of balance of payments assistance this year. So \$600 million of fast-disbursing aid was needed from other donors.

5. The Nigerians convinced donors that they were committed to a continuing process of economic reform. They singled out reform of the tax system, diversification into non-oil exports, and encouragement of foreign direct investment. Donors agreed that Nigeria was likely to require external assistance for the next few years at least. The World Bank is setting up a donor consultative group in which all G7 countries have already agreed to participate; other potential donors will also be invited.

6. For 1989, to help close the foreign exchange gap, the following firm pledges were received:

	\$
Japan	225
UK	100
African Development Bank	100
FRG	40
US	25
France	10

7. The World Bank also received informal indications of further contributions from the EC (now confirmed at \$12 million) FRG, Japan, Canada and the African Development Bank. Following my recent visit to the Gulf, I am hopeful of contributions from the Saudis and perhaps the UAE.



X | 8. The World Bank judged that the firm pledges or private indications received were sufficient to fill the 1989 financing gap. Nigel and I have therefore concluded that we now have the substantial contribution from other donors necessary for the UK grant aid contribution to be made available once the IMF Executive Board has approved Nigeria's adjustment programme, probably on 3 February.

9. We are not completely out of the woods. Nigeria's unequal repayments to individual creditors in 1988 may make for difficult negotiations in the Paris Club next month, and indeed some creditors may raise the problem at the Fund Board meeting. A generous Paris Club rescheduling is certainly essential to the financing of the programme. A sustained fall in the oil price could also jeopardize the programme's viability. But the Nigerians implied at the donors' meeting that they might be willing to draw from the Fund in such circumstances. We have urged them to do so if it becomes necessary.

10. The Nigerians were warm both privately and publicly in their expression of appreciation for the UK's role and your own interest. This is a good prelude for the State Visit in May. We have also gained considerable credit with other donors for being prepared to take the lead.

11. I am copying this letter to Nigel Lawson, John Major and David Young.

(GEOFFREY HOWE)

CH/EXCHEQUER	
REC.	27 JAN 1989
ACTION	MR Bottrill
COPIES TO	CST, EST, SIR P. Middleton, MR ANDERSON, MR NICKS, MR Lankester, MR Scholar, MRS Loman, MR Odling-Smee, MR Mountfield, MR H. P. EVANS, MR P. G. F. DAVIS

27/1 BF 3/2

DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND
Baron Hermann von Richthofen

London, 26 January 1989

(25 to open Bottrill) Done

1 bot (Mr G up) (copy) ASH

MR Walsh, Mrs Thompson, MR Tyrie

Dear Chancellor,

I have pleasure in transmitting to you the text of a letter dated 23 January 1989 from the Federal Minister of Finance, Dr. Gerhard Stoltenberg, concerning the aid package for Nigeria. The original letter will be transmitted later.

I am, dear Chancellor,

Yours sincerely
Hermann Richthofen

The Rt. Hon. Nigel Lawson, MP
Chancellor of the Exchequer
11 Downing Street
London S.W.1

Letter

from Herr Dr. Gerhard Stoltenberg, Minister of Finance
of the Federal Republic of Germany

to The Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer

Dear Nigel,

Thank you for the message, transmitted through the British Embassy on 20 December 1988, in which you asked for a contribution to the aid package for Nigeria.

I share your concern about developments in Nigeria. The situation is so critical as to require extraordinary adjustment efforts to aid the recovery of Nigeria's economy. In view of this I am pleased to note that the Nigerian Government has signed a letter of intent for a new IMF standby arrangement. This will provide a basis for additional support by creditor governments.

You will by now have received the report on the inofficial meeting of donors in London on 9 January. The Federal Government's representative at this meeting was able to give assurance of a significant financial contribution by Germany. Furthermore, the Federal Government is prepared to participate in a new rescheduling agreement within the framework of the Paris Club on the basis of a standby arrangement agreed with the IMF, with the aim of regulating Nigeria's financial relations with its official creditors.

Yours sincerely,

sgd. Gerhard Stoltenberg

DR. GERHARD STOLTENBERG
BUNDESMINISTER DER FINANZEN

5300 Bonn 1, 23. Januar 1989

Graurheindorfer Straße 108
Postfach 1308
Telefon: (0228) 682-4240

Dear Nigel,

Thank you for your message, transmitted through the British Embassy on 20 December 1988, in which you asked for a contribution to the aid package for Nigeria.

I share your concern about developments in Nigeria. The situation is so critical as to require extraordinary adjustment efforts to aid the recovery of Nigeria's economy. In view of this I am pleased to note that the Nigerian Government has signed a letter of intent for a new IMF standby arrangement. This will provide a basis for additional support by creditor governments.

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Yours sincerely,

Gerhard Stoltenberg

*pp 11
(over 4/1)*

FROM: A R H BOTTRILL
DATE: 30 January 1989

CHANCELLOR

12/2

cc Chief Secretary
Economic Secretary
Sir P Middleton
Mr Anson
Mr Wicks
Mr Lankester
Mr Scholar
Mrs Lomax
Mr Odling-Smee
Mr Mountfield
Mr H P Evans
Mr P G F Davis
Mr Walsh
Mrs Thomson
Mr Tyrie

*Ch Contact?
3/1
OK ✓*

NIGERIA : REPLY TO DR STOLTENBERG

Dr Stoltenberg wrote to you on 23 January welcoming Nigeria's agreement to an IMF programme. He drew attention to Germany's financial contribution (\$40 million) to the donors' package and confirmed that the FRG was prepared to participate in a new Paris Club rescheduling.

2. As you know, this last is likely to prove difficult since Nigeria paid some of its Paris Club creditors unequally in 1988. Germany however, was among those that received payments and we do not expect the German representative at the Paris Club to block an agreement. Nevertheless, in thanking Stoltenberg for Germany's help at the donors' group, it may be helpful to seek his support for a flexible approach in the Paris Club.

3. I attach a draft.

ABM

A R H BOTTRILL

**DRAFT REPLY TO DR STOLTENBERG
NIGERIA**

PSC type final

Thank you for your letter of 23 January and your support in putting together an aid package for Nigeria. I am **very** grateful for Germany's generous contribution. I also welcome your assurance about Germany's readiness to participate in a rescheduling of Nigeria's debt in the Paris Club.

As you know, the programme submitted by IMF Staff to the Executive Board assumes that this debt will be rescheduled on generous (but not concessional) terms. This would cover 100 per cent of principal maturities and interest falling due in 1988 and 1989, as well as interest on previously rescheduled debt.

The Fund has also assumed that it would cover all the arrears built up by Nigeria in 1988. If these are not included, the Fund estimates that the financing gap would open again, undoing the good work of the donors' group. Regrettable though it is, I see no alternative to this rescheduling which will affect the United Kingdom (as a major creditor) particularly seriously.

I recognise the reluctance of some creditors to contemplate rescheduling on these terms but I fear it is unavoidable. I very much hope therefore that Germany's representatives at the Paris Club will be instructed to adopt a flexible position, to allow the rescheduling to go ahead on the basis already assumed by the IMF.



MINISTER
OF
FINANCE

The Hague, February 2, 1989

The Right Honourable Nigel Lawson PC MP,
Chancellor of the Exchequer,
Treasury Chambers, Parliament Street,
LONDON SW 1 P 3 AG,
United Kingdom.

EXCHEQUER	
09 FEB 1989	
TO	MR BOTTRILL
TO	CST. EST. SRP MIDDLETON
TO	MR ANSON, MR WICKS, MR LAWESTER, MRS SCHOLAR MRS LOMAX, MR COLLINGSWEE MR MOUNTFIELD, MR EVANS MR PGF DAVIS, MR WALSH, MRS THOMPSON, MR TYRRE

Ref: EKI 89/94.

Subject: Nigeria.

Dear Nigel,

Thank you for your letter of January, 17 in which you explained the latest developments in the restructuring of the economy of Nigeria. Although we could not participate in the donor meeting, I am of course very interested in these developments, especially because we are heavily involved in the restructuring of the Nigerian external debt in the context of the Paris Club. In this respect we learned with regret from the Secretariat of the Paris Club that Nigeria is very selective in its execution of the previous rescheduling arrangements. Where some of the countries received all or a large part of the payments due, other countries - like the Netherlands - received only very small amounts or no payments at all. This situation is of course quite unacceptable, as in terms of the debts outstanding, we are one of the large creditor countries.

I certainly share your opinion that the rescheduling of the Nigerian debt is essential for the financing of the programme. However, I feel that equal treatment of the creditor countries by the Nigerian authorities is also an essential element in this exercise. Therefore, although we are certainly ready to do our share in the new debt arrangement for Nigeria, we will not be able to do so before the present payment situation has been rectified and Nigeria respects the rule of equal treatment of the creditor countries. In view of your active role in solving the problems of Nigeria, I think it important that you should know our position in this respect. I have also taken up contact with the Presidency of the Paris Club. The Nigerian Ambassador in The Hague will be received by my colleague of Foreign Affairs.

With personal regards,
Hans Ruding
(dr H.O. Ruding.)

DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND

Baron Hermann von Richthofen

London, 6 February 1989

Prof

CH/EXCHEQUER	
REC.	10 FEB 1989
ACTION	Mr BOTTRILL
COPIES TO	CST, EST, Sir P. MIDDLETON, Mr ANSON, Mr WICKS, Mr LANKESTER, Mr SCHOLAR, Mrs LOMAX, Mr ODLING-SMEE, Mr MOUNTFIELD, Mr EVANS, Mr PEE DAVIS, Mr WALSH, Mrs THOMPSON, Mr TYRIE.

✓
10/2

Dear Chancellor,

With reference to my letter dated 26 January 1989 I have now pleasure in transmitting to you the original letter from the Federal Minister of Finance, Dr. Gerhard Stoltenberg, dated 23 January 1989, concerning the aid package for Nigeria.

I am, dear Chancellor,

*Yours sincerely
Hermann Richthofen*

The Rt. Hon. Nigel Lawson, MP
Chancellor of the Exchequer
11 Downing Street
London S.W.1

DR. GERHARD STOLTENBERG
BUNDESMINISTER DER FINANZEN

5300 Bonn 1, 23. Januar 1989

Graurheindorfer Straße 108
Postfach 1308
Telefon: (0228) 682-4240

Dear Nigel,

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I share your concern about developments in Nigeria. The situation is so critical as to require extraordinary adjustment efforts to aid the recovery of Nigeria's economy. In view of this I am pleased to note that the Nigerian Government has signed a letter of intent for a new IMF standby arrangement. This will provide a basis for additional support by creditor governments.

You will by now have received the report on the inofficial meeting of donors in London on 9 January. The Federal Government's representative at this meeting was able to give assurance of a significant financial contribution by Germany. Furthermore, the Federal Government is prepared to participate in a new re-scheduling agreement within the framework of the Paris Club on the basis of a standby arrangement agreed with the IMF, with the aim of regulating Nigeria's financial relations with its official creditors.

Yours sincerely,

Gerhard Stoltenberg

RESTRICTED

From: T P Lankester
Date: 9 February 1989

CHANCELLOR

cc

- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Wicks
- Mr Mountfield
- Mr Evans
- Mr Walsh
- Mr P Davis
- Mr Bottrill
- Mr Tyrrie

Ch. Do you want to take this up with Ed. Young?

2/9/89

OK. Use arguments that have already been used to help with Nigeria, for work reasons, not for a capital ship of war - a warship

NIGERIA: SHOULD OUR AID BE TIED?

With your agreement, I wrote to DTI before Christmas proposing that our \$100 million grant to Nigeria should be untied. DTI sent me a holding reply, indicating that their answer would depend partly upon whether contributions from other countries were untied. At the donor meeting on 9 January, Japan, the US and of course the African Development Bank said their aid would be untied. The Germans said their \$40 million would probably be and the French said their \$10 million might be.

2. DTI have now written again saying that their Ministers have considered the question: they are not convinced that untying is justified, but are prepared to agree to untying half of our contribution if doing this will "encourage the French and Germans to untie their smaller contributions".

3. This is intensely irritating and, I believe, wrong headed. The bulk of the donor package - ie the \$350 million plus to be provided by the Japanese, the US and the ADB - will definitely be untied. We cannot credibly tell the French and the Germans that we will untie half of our aid if they will untie all of theirs - their contributions are of course smaller than ours, but they have less of an interest in Nigeria. Furthermore, there are good reasons in favour of our providing untied aid whether or not all other donor contributions are untied.

RESTRICTED

4. I will not repeat here the general case for making all UK aid untied that I set out in my note to you of 17 November. The arguments for untying our \$100 million for Nigeria are briefly:

- i. Tying will be administratively a good deal more cumbersome for the Nigerians - as you know, their administrative capacity is extremely poor;
- ii. Partly because of this, and partly because of the need to match the aid to British goods, it will be slower to disburse at a time when Nigeria desperately needs the foreign exchange;
- iii. Whether or not our aid is tied, a good deal of it will come back to the UK anyway because of our traditional trading links;
- iv. To the extent that untied aid is not spent on British goods, that is not necessarily to our economic disadvantage - on the contrary, selling goods into Nigeria that are not fully competitive probably harms us except in the very short term (though DTI Ministers obviously do not accept this).

5 In your response to my earlier note on untying in general, you said that we should wait for the current account deficit to start coming down before launching this proposal on other colleagues. I certainly recognise the force of that argument, but I would have thought you could press for untying our Nigerian contribution as a one off - all the more so since most of the \$100 million is from the Reserve and is therefore a "bonus" on top of the existing (tied) aid programme.

RESTRICTED

6. On the other hand, I cannot pretend that tying or untying our \$100 million will make an enormous difference to the Nigerians or to ourselves.

7. Would you like to take this up with Lord Young? If so, I will let you have a draft minute (I would suggest not bringing in the Prime Minister; if Lord Young still refuses, then we should leave it at that).

T.P.

T P LANKESTER

pm

FROM: P MOUNTFIELD

DATE: 10 FEBRUARY 1989

CHANCELLOR

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Wicks
Mr Lankester
Mr Evans
Mr Walsh
Mr Davis
Mr Bottrill
Mr Tyrie

Ch. OK?
OK
10/2

NIGERIA: SHOULD OUR AID BE TIED?

Mr Lankester has asked me to submit a draft letter for you to send to Lord Young, with a copy to the Foreign Secretary, on the lines suggested in his minute of 9 February, which you approved. (Mr Taylor's note of 10 February.)

R1

P MOUNTFIELD

Pse type print

DRAFT LETTER FROM CHANCELLOR TO SECRETARY OF STATE FOR TRADE AND
INDUSTRY

cc: Foreign Secretary

NIGERIA: PROGRAMME AID

We agreed collectively in correspondence in December that the UK should offer \$100 million of programme aid for Nigeria in 1989, subject to the IMF Board approving Nigeria's stand-by arrangement, and to a sufficient contribution from other donors.

The Nigerian stand-by agreement was approved by the IMF Board on 3 February.

At the informal donor meeting on 10 January, sufficient pledges were assembled for Geoffrey Howe and I to agree that the second condition had been met. (His minute to the Prime Minister of 16 January.)

We now have to arrange fairly quickly the terms on which this aid should be provided. The main question is whether it should be untied. I understand that this issue has already been submitted to DTI Ministers, and that your provisional conclusion is that it should not. May I ask you to reconsider this question, in the special circumstances of Nigeria, and quite without prejudice to the general issue of tied versus untied aid?

The bulk of the donor package (the \$350 million or more, which will be provided by the Japanese, the US, and the African Development Bank) will definitely be untied. The French, who are

providing a token sum of \$10 million, and the Germans, who are putting in a more substantial \$40 million, have not specified the terms, although we understand that the German contribution will probably be untied and the French one may be. (Admittedly they have a smaller interest in Nigeria but we are likely to get a good bit of the business which they will finance.)

As I believe you know from earlier correspondence, this wholly-exceptional grant has been made available (partly out of the existing aid programme, but mainly by a special call on the Reserve) in order to protect the British interests in Nigerian economic recovery - the most important of which are ECGD's very large claims on Nigeria. The whole object of the grant was to provide early free foreign exchange resources to Nigeria, as quickly as possible after the agreement was reached, in order to help Nigeria meet some of its immediate obligations (to the UK and to other creditors) and thus unlock the Paris Club rescheduling which is a condition of the IMF programme, and which will help to secure eventual repayment of ECGD's claims. Nigeria is living from hand to mouth at present, and it is essential to get quick-disbursing aid into place as quickly as possible.

If the aid is subject to normal tying rules, it will inevitably take several months to disburse: partly because of the inevitable administrative processes to be gone through at this end, but mainly because of equally unavoidable Nigerian bureaucratic delays (their machine is notably inefficient). ODA officials, on a recent visit to Lagos, were convinced that untying this package would lead to the quickest possible disbursement without damage to

other British interests. (Lagos tel no MODEV 4.) Whether or not the aid is tied, a great deal of it will come back to the UK anyway, because of our traditional trading links with Nigeria; our offer has already stimulated the much larger Japanese contribution, from which we shall certainly benefit.

Geoffrey Howe and I have both invested a good deal of personal negotiating capital in lobbying other governments for contributions to the aid package, for support at the IMF, and now for a reasonable Paris Club agreement. We have also, as I described above, made wholly-exceptional financial resources available. Tying would reduce the effectiveness of these resources and detract from the credit that we have gained from taking the initiative. It would be a pity to spoil the ship for a ha'porth of tar at this late stage. I do hope, therefore, that you will reconsider your department's attitude to aid-tying, and agree that in this case the whole of the \$100 million should be disbursed forthwith.

I am sending a copy of this letter to Geoffrey Howe.



FCS/89/029

CH/EXCHEQUER	
REC.	20 FEB 1989
ACTION	MR LANKESTER ✓ 20/2
COPIES TO	EST
	SIR P MIDDLETON, SIR T BURW
	MR WICKS
	MR MOUNTFIELD
	MR BUASS
	MR WALSH
	MR P DAVIS, MR BOTTRILL
	MR TYRRE

SECRETARY OF STATE FOR TRADE AND INDUSTRY

John

19/2/89.

Nigeria: Programme Aid

1. Nigel Lawson copied to me his letter of 13 February to you. I agree that we should now decide to untie our \$100 million programme aid grant in full.
2. The purpose of the grant was to provide early foreign exchange resources to Nigeria to meet its financing gap in 1989. Chris Patten sent an ODA team to Lagos immediately after the donor conference on 9 January to explore the best mechanism for disbursing our aid on priority imports within the very tight timescale required. The team concluded that the only way of being confident of achieving our objective was to have the funds untied and then make them available to the Central Bank for release into the Interbank Foreign Exchange Market. This mechanism allows market forces to select which imports gain access to funds. Tying the funds would mean significantly slower disbursement, because of the need to establish special procedures for Nigerian importers and banks. The World Bank have asked donors to provide their aid in untied form. They are disbursing their own \$500 million loan through the foreign exchange market. The donor conference was six weeks ago now, and we should settle quickly on the disbursement mechanism if we are to provide this money within 1989 as we have pledged.
3. Much of the other countries' balance of payments aid which has now been pledged is untied, and we stand to do well commercially out of these flows. A decision by us to

/untie



untie could help to persuade others such as the US and Germans to move in the same direction. (Our share of the Nigerian market has been at over 20% throughout the 1980s, and is currently 22%. Our nearest rival the FRG has a 15% share.)

4. Britain has taken the lead in urging Nigeria to take economic reform measures, in assembling contributions from other donors and in lobbying for support in the IMF and the Paris Club. An important part of the reforms is to allow the market more and more to determine the allocation of resources and to move away from an administrative system. We have a continuing responsibility for seeing that Nigeria sticks to the programme, for encouraging other donors to disburse their pledges within 1989 and for setting the longer term donor consultative group process off to a good start. We should therefore try and set the model in terms of the speed and efficiency of our own disbursement.

5. I am copying this minute to Nigel Lawson.

(GEOFFREY HOWE)

FROM: P MOUNTFIELD

DATE: 21 FEBRUARY 1989

CHANCELLOR OF THE EXCHEQUER

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Wicks
Mr Byatt
Mr Lankester
Mr Evans
Mr R I G Allen
Mr Bottrill
Mr Walsh
Mr Tarkowski
Mrs Thomson
Mr Tyrie

*Plan Parquets.
So far, so good (just).*

INTERNATIONAL ISSUES: NIGERIA

We put this on the agenda for your Wednesday meeting, so that you could take note of recent developments.

2. The Paris Club stage of the operation is programmed for 2 and 3 March. We still do not have the exact terms of the Nigerian request, and I shall submit the "line to take" for your approval when we receive it.

3. However, we have a pretty good idea. There was a preliminary meeting in Paris last Thursday, which I attended. Before then, I had a working session with Usman, the Deputy Governor of the Central Bank. We then had a session among creditors only on Thursday morning. It was tough. You may remember that some of them were only persuaded with difficulty to attend: notably the Dutch. In the end, everyone turned up or was indirectly represented. Following that, the Chairman had a private session with the Nigerians (which I also attended) to warn them of the creditors' likely attitude.

4. There are two main problems:

- (a) the arrears which built up during 1988 (to the UK and others). These are very patchy. On previously-rescheduled debt, the UK has only received about 50 per cent of what is due: this is approximately the average. But some smaller creditors have received nothing (Netherlands, Belgium, Spain) and others have been paid in full (Japan, Sweden, Austria). Feeling among the smaller creditors is running very high, and because we proceed by consensus, they have got to be brought on board. To pay them off, either in cash or spread over the next few months, is going to make a further hole in Nigerian cash-flow, and we know they are living from hand to mouth already. However, the French, the IMF and we (working closely together) think we can find a solution;
- (b) terms of rescheduling. The Nigerians seem likely to table a quite-unacceptable request: several years' maturities together (ie, a MYRA); to be rescheduled over at least 20 years; and at concessional interest rates, going even beyond the Toronto terms. I tried hard to persuade Usman that it was counter-productive even to talk in these terms. Following the creditor meeting, the French Chairman did the same. I think Usman now recognises the realities; he will end up with a fairly standard package, but he will probably start the bidding higher, to satisfy the bazaar instinct of his compatriots. Eventually we shall get a deal which we can accept (though the return to the UK in 1989 will be very small indeed). We should be able to avoid a formal default, which would have terminated the IMF programme and brought the whole process to an end again;
- (c) there is a further small problem concerning the banking package, due for signature in mid-March. Usman assures me that he has set aside enough money to

pay off some arrears which have built up to smaller American banks. I know Barclays and Standard Chartered are reasonably happy that this eventually be paid.

5. So we should have a deal which will stick throughout 1989, giving Nigeria just about enough room to avoid a default, and to finance a reasonable level of imports. The gap opens up very wide again in 1990 and beyond. But there is no need to address that problem just yet.

RM

P MOUNTFIELD

FROM: P MOUNTFIELD
DATE: 27 FEBRUARY 1989

CHANCELLOR

cc: Economic Secretary
Sir P Middleton
Mr Wicks
Mr Lankester
Mr Evans
Mr Bottrill
Mr Walsh
Mrs Thomson

Ch.
contact for
M.M. to proceed as proposed?
PP
27/2
[Red signature]

NIGERIA: PARIS CLUB

This note seeks your confirmation of the line I should take in the Paris Club meeting on Thursday and Friday.

2. In my minute of 21 February, I reported the likely approach. You commented "so far, so good (just)".

3. The "just" was fair comment. The Nigerian request has now been received. As I forecast, they have asked for everything under the sun: specifically:

- (a) rescheduling of several years' maturities together (period unspecified);
- (b) over 20 years, including 10 years grace;
- (c) at a concessional rate of interest;
- (d) a badly-drafted suggestion that they may want to move the "cut-off date", so as to reschedule debt incurred since 1985;
- (e) and to include all maturities of previously-rescheduled debt, both principal and interest;

- (f) without making any concessions as to existing arrears, on which they have been asked to make at least a small cash down-payment.

4. I still think, on balance, this is likely to be a negotiating gambit, and that the ultimate solution will be much more realistic. If the Nigerian side is not prepared to accept a conventional solution, then negotiations will break down. There is no chance of persuading other creditors to agree to such a package, even if the UK were prepared to do so. Following earlier efforts to keep the Dutch engaged, we and FCO have had to fight hard last week to keep the Belgians involved.

5. I have discussed this with the other departments concerned. The line we propose is:

- (a) be prepared to reschedule 100 per cent of all new maturities on pre-cut-off debt, and of payments falling due under previous rescheduling agreements;
- (b) the terms should be 10 years (including 5 or 6 years grace) at commercial rates of interest; fallback position 12 or 14 years;
- (c) there should be a "goodwill clause" (though my own is largely exhausted) undertaking to repeat the operation for Nigeria in future years as part of any future IMF-approved package;
- (d) in order to accommodate the smaller creditors, there should be improved cash payments (within the limits of Nigerian cash-flow) to level everybody up to approximately the same level of misery; some further part of the arrears (probably, the balance falling due during 1988) should be spread out over 2 or 3 years, rather than rescheduled over 10;
- (e) current maturities of short-term debt, and all post cut-off date debt should be excluded from rescheduling.

6. We may need to agree to some minor variations of this package in the course of negotiations, but the sticking points should be the refusal to give concessional interest rates, or to go beyond 14 years on terms (that being the starting point of the Toronto package).

7. This is an expensive operation. The total ECGD debt affected by such a package would be approximately \$1.8 billion - the biggest single rescheduling operation (Poland apart) which we have ever engaged in. But there is, as you know, no realistic alternative. The choice is between rescheduling on something like these terms, and unstitching the IMF package with consequent defaults all round.

8. May I go ahead on this basis, please?

RM

P MOUNTFIELD

FROM: P MOUNTFIELD

DATE: 6 MARCH 1989

CHANCELLOR OF THE EXCHEQUER

cc: Economic Secretary
Sir P Middleton
Mr Wicks
Mr Lankester
Mr Evans
Mr Bottrill
Mr P Davies
Mrs Thomson
Mr Cassell, UKDEL IMF

Handwritten signature in red ink, possibly "M. Wicks".

NIGERIA: PARIS CLUB

We reached agreement on Friday, within the limits you approved last week.

2. The agreement reschedules, over ten years (the period of the SBA), 100 per cent of all new maturities falling between January 1988 and April 1990; and 100 per cent of maturities under previous rescheduling agreements (PRD) falling due in 1989. Nigeria undertakes to level up all creditors to 40 per cent of arrears on PRD accumulated in 1988; the remaining 60 per cent has to be paid off by 1992. To bring the grand total up to the necessary figure, we also rescheduled some arrears of short-term debt built up since 1986, and some 'late interest' (ie interest payable on arrears) accumulated in 1988.

3. Nigeria dropped its excessive demands (Toronto terms, a MYRA, 20-year repayments) very early on; the Central Bank governor told me they had done so as a result of the advice Mr Lankester and I (and later, the French) have consistently given them. This made the whole operation easier, and we soon reached agreement on the main lines of the package. However, there were three difficult problems.

- (a) To get the talks started at all, Nigeria had to pay off some of the arrears built up to smaller creditors (Netherlands, Belgium, Denmark, Spain, Switzerland and Ireland). We have been doing extensive lobbying over the last couple of weeks to achieve this. It seems to have been a Nigerian administrative shambles, rather than deliberate discrimination. Now resolved, but it has left deep suspicions behind, and affected the terms of the deal.
- (b) Nigeria also had to undertake to bring payments to all creditors up to the average level of 40 per cent of end-1988 arrears no later than 31 January 1990. UK was already at about this level. Japan and a few others had received more. Creditors also insisted that the remaining 60 per cent of arrears should be paid off by mid-1992. These two requirements make a big hole in the Nigerian cash-flow in 1990, adding about \$0.5 billion to debt-repayment in that year. In effect, Nigeria has bought a deal this year at the price of a bigger problem next year.
- (c) During the negotiations, Nigeria realised that its 1989 debt obligations were some \$300 million bigger than expected; the total claims notified by the creditors just did not line up with their own. They blame the creditors for not tabling the figures earlier; we suspect their Warburg advisers are not providing a very good service. But this widening gap meant that the creditors had to throw in some last-minute concessions in order to achieve a deal.

4. In total, over the two years 1988 and 1989, Nigeria has been relieved of about \$5.7 billion of debt service obligations; the UK share is just about \$2 billion (higher than the \$1.8 billion I reported earlier, because of the last-minute concessions).

5. The prospects for 1989 are therefore reasonably bright. The banking package should be signed at the end of this month (Nigeria has had to find \$85 million to pay off arrears here, too). The IMF is fairly confident that the first review of the programme, due in April, will pass without problems. The oil price is, for the moment, well above the plan figure of \$14.50. Politically, the situation is reasonably stable. (Babangida will be in UK on a State visit in May.)

6. The outlook for 1990 is much more cloudy. Even if the oil price remains high, the financing position will be much tighter. Nigeria cannot expect a repeat of this year's wholly-exceptional aid package. The banks will probably have to reopen their agreement in 1990, and provide either new money or debt-reduction. The Paris Club will once again be asked for Toronto terms, though I do not see the other creditors being prepared to accept that, unless the banks also take a knock. But one cannot really start planning for Nigeria in 1990 until the general debt picture for 1989 (starting with Mexico) is a lot clearer. All one can say now is that Nigeria's problems will continue for at least six years; given the present debt service profile.

R1

P MOUNTFIELD

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

*Ch. V. unhelpful, + completely
misses the point.*

*9/3
also*

CH/E	R
REC.	6 MAR 1989
ACTION	MR LANCASTER
COPIES TO	EST, SIR P MIDDLETON SIR T BURNS, MR WICKS MR MONTFIELD, MR H EVANS, MR WALSH MR DAVIS MR BOTTRILL MR TYRRE

Direct line 215 5422
Our ref MMLACD
Your ref
Date 9 March 1989

Nigel

*Perhaps we should
ask
Share + tip the
on the annual
of the
Growth
So, but
no more.*

NIGERIA: PROGRAMME AID

Thank you for your letter of 13 February inviting reconsideration of the question of whether our \$100 million programme aid to Nigeria should be tied or untied. I have also seen Geoffrey Howe's minute of 19 February in support of your letter.

I fully accept the considerable work which Geoffrey Howe and you have undertaken to get the international aid package put together. It is clearly in our interests (political and commercial) that we now do all we reasonably can to ensure that the package is utilised quickly and effectively. Nevertheless, I remain unconvinced over the arguments for untying the British contribution. Were we to do so, then there seems little doubt that British companies would obtain less business than if our aid were, as normal, to be tied. It would be particularly ironic if we were to untie only to see the French and Germans refuse to do so. And, while I appreciate the need to make disbursement procedures as simple as possible for the Nigerians, there has been no suggestion, for example in the advice from our High Commission, that tying our aid would result in an unworkable situation. Indeed, given the extent of British involvement in Nigeria in the past, I would have thought there should be no problem in the Nigerians utilising our \$100 million on the procurement of British goods and services urgently needed for that country's economic rehabilitation.

*German
publication
which
is
minuscule.*



the department for Enterprise

Consequently, especially while the terms and conditions of some of the other, smaller contributions remain uncertain, I am unwilling to agree that any of our \$100 million should be untied.

I am copying this letter to Geoffrey Howe.

*J. C.
Daid*

CONFIDENTIAL

FM UKDEL IMF/IBRD WASHINGTON
TO IMMEDIATE FCO
TELNO 74
OF 142000Z MARCH 89
AND TO IMMEDIATE LAGOS, ABIDJAN

ABIDJAN FOR SUTHERLAND, AFDB

NIGERIA: DONOR INDICATIONS

1. IJICHI (WORLD BANK COFINANCING ADVISER) TELEPHONED WITH AN UPDATE ON SOME OF THE MORE UNCERTAIN DONOR COMMITMENTS TOWARDS FILLING NIGERIA'S 1989 FINANCING GAP. PARA. 3 OF OUR TELNO 27 (26 JANUARY) REFERS TO THESE COMMITMENTS, SOME OF WHICH WERE INDICATED AT 9 JANUARY MEETING IN LONDON.

2. IJICHI'S COMMENTS WERE:

(I) EEC: DOLLARS 12 MILLION CONFIRMED. DISBURSEMENTS WILL BEGIN END-JUNE/EARLY JULY.

(II) CANADA: DECISION STILL TO BE TAKEN BUT CLAIMING BUDGETARY DIFFICULTIES. WILL NEED 4-5 WEEKS BEFORE ARRIVING AT A DECISION.

(III) FRG: DOLLARS 40 MILLION CONFIRMED. EXTRA DOLLARS 30 MILLION THAT HAD BEEN HOPED FOR HAS BEEN PLEDGED IN THE FORM OF PROJECT AID AND SHOULD NOT BE COUNTED TOWARDS REDUCTION IN THE FINANCING GAP.

(IV) JAPAN: DOLLARS 25 MILLION GRANT LEFT OVER FROM 1988 PLEDGE NOW DISBURSED. DOLLARS 200 MILLION COFINANCING FOR TIPL CONFIRMED. PLEDGE NOTE FOR THIS AMOUNT WAS SIGNED ON 10 MARCH, NEGOTIATIONS SHOULD BE COMPLETED BY END-MARCH AND DISBURSEMENTS SHOULD BEGIN BY END-APRIL. AS FOR EXTRA DOLLARS 100 MILLION EXPECTED IN NEW JAPANESE FY, IJICHI REPORTED THAT THIS WAS BECOMING VERY DIFFICULT TO SECURE. JAPANESE ARE SAID TO WANT OTHERS TO PROVIDE

~~BE~~ MORE BEFORE COMMITTING THEMSELVES TO AN EXTRA ALLOCATION. THEY HAVE BEEN ENCOURAGED IN TAKING THIS BARGAINING POSITION BY BABANGIDA'S SURPRISING FAILURE TO ASK FOR MORE BOP SUPPORT FOR NIGERIA WHILE IN TOKYO FOR EMPEROR HIROHITO'S FUNERAL.

(V) SAUDI ARABIA: BANK HAVE NO NEWS OF ANY SAUDI COOMITMENT. THEY HAVE LEFT AAA AND HIS ASSOCIATES TO LOBBY SAUDIS USING THEIR OWN PERSONAL AND RELIGIOUS TIES.

(VI) SWITZERLAND: NO POSITIVE REACTION AS YET BUT A PLEDGE

MIGHT BE MADE AT THE CONSULTATIVE GROUP LATER THIS YEAR.

3. PARIS CLUB RESCHEDULING AND MOVEMENTS IN OIL PRICE HAVE CLEARLY AFFECTED SIZE OF RESIDUAL FINANCING GAP. LEAVING THIS ASIDE FOR THE PRESENT, ON OUR CALCULATIONS, IJICHI'S INFORMATION SUGGESTS THAT DONOR CONTRIBUTIONS TOWARDS FILLING THE GAP HAVE NOT RISEN SINCE OUR TELNO 27. INDEED, THEY MAY FALL BY DOLLARS 30 MILLION ON OUR PREVIOUS EXPECTATIONS IF THE CANADIANS DO NOT MAKE A CONTRIBUTION.

4. FCO PLEASE ADVANCE TO LANKESTER, MOUNTFIELD (HMT), AINSCOW, HUDSON, SANDERSLEY AND POWER (ODA), RICHARDSON (ERD) AND WARE (BOFE).

CASSELL

YYYY

DISTRIBUTION

138

MAIN

138

. MONETARY
ERD

NAD

NNNN

PPF

*(with the substance)
I agree but have
re-drafted the letter.*

FROM: P MOUNTFIELD
DATE: 15 MARCH 1989

- 1. MR LANKESTER
- 2. CHANCELLOR OF THE EXCHEQUER *T*

- cc Mr Evans
- Mr Walsh
- Mr P Davies
- Mr Bottrill
- Mr Tyrie

15/3

Copies attached for:

- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Wicks

Ch. content to write as proposal?

*(This Mr M which
includes...
suggests...
to tie the same...
amount...
No Grants...
with the same...
proportion...)*

OK

15/3

NIGERIA: PROGRAMME AID

Lord Young's letter of 9 March refuses to untie the \$100 million programme aid to Nigeria. It adds nothing to the earlier argument, and contains 2 errors of fact.

2. However, it is unlikely that, if we were to appeal to No.10, we would gain any support from the Prime Minister. So the best course seems to be to seek a compromise with DTI. I have discussed this with ODA and FCO who concur. The attached draft letter, in terms broadly agreed with them, contains the compromise solution invented by Mr Lankester.

3. We have also looked into the Chancellor's suggestion that we should tie the same amount of our programme aid as the French and Germans do, but no more. ODA have spoken to both Aid Ministries. The Germans have not yet decided exactly how much Aid to offer, or

16/3

on what terms; they are unlikely to do so before May. The French, who are any case only contributing a small amount, are almost certain to tie it. ODA advise that we should not press them further: we should probably get the wrong reply.

4. We could, if the Chancellor wishes, discuss this problem at his meeting on "International Issues" on 21 March. But if he is content, the letter could - and preferably should, go out before then, because of the Prime Minister's visit to Nigeria on 28 March. I have arranged that when the letter is sent, it will be followed up rapidly by a supporting note from Sir G Howe.

R1

P MOUNTFIELD

Mar.m.7

DRAFT LETTER

Be type final

FROM CHANCELLOR OF THE EXCHEQUER TO:

Secretary of State for Trade and Industry

Copy to: Foreign Secretary

NIGERIA: PROGRAMME AID

Thank you for your letter of 9 March about the question of tying the \$100 million of UK aid for Nigeria.

2. You argue that British companies will obtain less business if the aid is untied than if it is tied. I would have thought myself that, in view of their strong trading links with Nigeria, our companies ought to be able to pick up much of the extra business whether the aid is tied or not. But in any case I believe that, having decided to orchestrate and contribute on a major scale to the Nigerian rescue plan, it is now of paramount importance for us to do all we can to ensure that it succeeds. If it fails, we will be back where we started - with the prospect of a major default to ECGD and UK banks and reduced prospects for British exports. The overall financing for this year is barely adequate, and therefore I think it is extremely important that as much of the aid as possible that is being provided by donors should be capable of being disbursed rapidly with a minimum of bureaucratic intervention, and that it should give the Nigerians the best value for money. That is why I continue to believe that our \$100 million should be untied. The latest telegram, Modev 36 from Lagos, further / *supports the case.*

[behind]

supports the case on operational grounds. It also emphasises that the Japanese (with a contribution more than twice our own) and the Americans will both be untying their support, as of course will the World Bank and the African Development Bank.

3. However, in order to secure an early resolution of this problem, I suggest a compromise. The part of the package which is being funded from ODA's existing resources (amounting to £10 million) should be tied in accordance with the normal procedures. In that way, you can be satisfied that at least the same amount of tied bilateral aid will be available as was contemplated when Cabinet endorsed the public expenditure programmes in October. But the balance, of between £45 and £50 million, which the Chief Secretary will find from the Reserve (and which was not in contemplation when the planning totals were agreed), should be untied.

4. I very much hope that you can agree to this proposal.

5. I am sending a copy of this letter to Geoffrey Howe.

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt. Hon. Nigel Lawson, QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Square
LONDON
SW1P 3AG

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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CH/EXCHEQUER	
REC.	22 MAR 1989
ACTION	MR LANKESTER
COPIES TO	EST
	SIR P MIDDLETON
	SIR T BURNS
	MR WICKS
	MR MOUNTFIELD
	MR HE EVANS
	MR PGF DAVIS
	MR BOTTRILL
	MR TYRIE

✓ 2213

[I know who of the ODA paper]

Direct line
Our ref
Your ref
Date

215 5422
MM4AFG

22 March 1989

See Chancellor

NIGERIA: PROGRAMME AID

Thank you for your letter of 17 March.

At present, 22% of Nigeria's imports from OECD countries come from the UK. I think, therefore, that it is evident we stand to gain far more commercially if our \$100 million contribution is tied than if it were to be untied. There is nothing between us on the need for the international effort to be successful and for the aid to be disbursed during 1989.

However, I believe that a solution which meets both our wishes may lie in the ODA paper which has been recently circulated on the proposed UK contribution and in correspondence between ODA and Treasury officials. These suggest that by tying the aid; disbursing it through procurement agents; but relaxing the requirement for 90% UK content, disbursement by the end of 1989 could be achieved.

I suggest this is the route we should follow. It avoids arbitrary divisions of the \$100 million between tied and untied, and has clearly already been given considerable and careful thought by those involved. In such circumstances, exceptionally, I should be willing for goods bought from our companies to be categorised as British, though I would not want this to be taken as a precedent for anything which might

be done in future years. Also, I would not expect such arrangements to result in the trans-shipment of wholly foreign goods via British intermediaries and trust that everything reasonable will be done to maximise the UK content. Otherwise we do not get value for money.

I have requested my officials to pursue this option with the ODA as soon as practicable. I hope it will provide a generally acceptable solution.

I am copying this letter to Sir Geoffrey Howe.

Yours sincerely

Ben Storer.

(Approved by the Secretary of State
and signed on his behalf)

[Handwritten signature]

FROM: J C MAY (AEF1)
DATE: 31 MARCH 1989
x4902

MR GIEVE (IDT)

cc PS/Chancellor ^{14/2}
Mr Mountfield (AEF) or
Mr Davis (AEF1)
Mr Walsh (IF1)
Mrs Thomson (AEF2)
Mr Segal (IDT)

UK AID TO SUB SAHARAN AFRICA

As requested, I attach a note covering UK aid to Sub Saharan Africa for possible inclusion in the briefing for the Spring meetings of the IMF/IBRD. This follows the statement by John Smith, the Shadow Chancellor, on Wednesday that UK aid to the region had fallen by 26 per cent in real terms since 1979.

[Handwritten signature]

J C MAY

[Handwritten notes in red ink: "John Smith's speech to Parliament"]

[Large handwritten scribble]

[Large handwritten scribble]

UK AID TO SUB SAHARAN AFRICA

Gross UK bilateral aid to region fell from £386 million in 1979 to £284 million in 1987 at constant 1987 prices, a fall of 26 per cent. Figures given by Mr Patten in PQ on 10 January and used extensively by participants in the debate on overseas development on 17 March.

Line to take

Figures provide only partial picture - UK contributes via multilateral aid contributions, which increased substantially since 1980. Overall, proportion of aid programme spent in region increased between 1980 and 1987, now 38 per cent of total. Other UK initiatives important: debt initiative has already benefited 7 countries with Toronto terms rescheduling, and UK has written off over £270 million aid loans. Played major role, major contribution to ESAF. Quality also important: UK aid highly concessional, concentrated on poorer countries.

[If pressed: value of UK aid to region fell by 8 per cent 1980-1987 but this far less than overall decline. Aid programme not exempt from need to get to grips with public spending - costs required to bring economy round - success now apparent. Aid programme growing in real terms. Sub Saharan Africa a priority within it.]

Background

1. Gross aid programme fell by 13 per cent in real terms between 1980 and 1987. The fall happened early on, when public expenditure generally was cut back. Since 1982-83 has been broadly maintained in real terms, and is now planned to grow. Given nature of multilateral commitments, cuts fell most heavily on bilateral programme - declined from 73 to 60 per cent of total aid programme between 1980 and 1987, a 30 per cent fall. Multilateral aid increased by 31 per cent over same period.

2. Bilateral aid to Sub Saharan Africa not immune, but fall of 23 per cent over period less than overall decline, reflecting priority attached to region. Decline in bilateral aid partly compensated for by increase in UK share of multilateral aid to region, up 27 per cent, Now estimated at £205 million in 1987 out of total expenditure of £489 million. Overall, aid to region fell by 8 per cent compared with total decline of 13 per cent.

3. Write off of aid loans to region totals £274 million, of which £96 million since 1980, £205 million since 1979.

£ million 1987 prices

	1980	1987	% change
Gross aid programme	1463	1271	- 13
of which			
bilateral	1064	748	- 30
multilateral	400	523	+ 31
Sub Saharan Africa	530	489	- 8
of which			
bilateral	370	284	- 23
multilateral	160	205	+ 27



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 April 1989

Dear Alex,

THIRD WORLD DEBT PROPOSALS

As I mentioned to you, Alan Walters has been anxious to express his doubts about the Brady plan. The note he promised me has at last arrived this afternoon. It does not I think include any major new points, but the Chancellor may wish to be aware of it and I am therefore enclosing a copy with this letter.

*Yours,
Paul*

PAUL GRAY

Alex Allan, Esq.,
H.M. Treasury.

PLEASE PASS TO MRS. ANN CLACK, NO. 10 DOWNING STREET FOR THE ATTENTION OF
MR. PAUL GRAY.

203/02

Confidential

Mr. Gray,

Brady's Proposals for Third World Debt

Brady's plan for the third world debt is becoming clear in principle if not yet specific in terms of burdens and benefits. In essence, it converts LDC government debt to Western commercial banks into debt guaranteed by Western governments with either lower interest or forgiveness of principal or some combination of the two. The sharing of the burden of forgiveness has yet to be settled, but undoubtedly the banks will be required to shoulder much of the loss while the remainder is loaded onto the Western taxpayers.

At a stroke this will nationalise most international capital movements, with contingent burdens on governments, or their surrogates in the IMF and World Bank. It is most unlikely that any commercial bank or any other major lender will supply any new money at market rates except in so far as he receives a government underwriting of both interest and principal. The borrowers will claim that (a) they need and can usefully employ new money (they can), and (b) the banks will supply it at reasonable interest rates only if they get government (IMF or Bank) guarantees (true). I believe that then we are only one step away from Harold Lever's grand scheme for government control of all capital movements.

*summary
not final!*

This is a shame. The Baker "plan", for all its vagueness and wishful thinking, was working. Debt as a fraction of GNP has declined in many countries and the marketing of debt, together with debt/equity swaps, was easing the situation for both lenders and borrowers. Some countries which had adopted appropriate policies (e.g. Korea and Chile) have reduced the dollar value of their debt and are out of the wood. Others (Argentina is the most obvious culprit) have continued business as usual, firm in the belief that they would be relieved by the commercial banks and taxpayers. The Brady plan will clearly discourage government taking the hard decisions of reform.

The political problem is contained in the various threats, as in Venezuela recently and simmering always in Mexico, of social unrest and political turmoil. It may well be considered wise politically to give Mexico and Venezuela some financial relief. But it would be much better to do this with straightforward cash subsidies, honestly recorded by the western governments as public expenditures, rather than the Brady measures which will distort and discourage capital markets for a long time ahead, and will contain contingent liabilities on Western taxpayers of unknown extent and timing.

I do not know how far we are committed to Brady's (really Mulford's) plan. When I talked to the Chancellor just after the budget, I did sketch out some of my fears. As more of Brady is revealed, however, these fears have been confirmed and heightened.

AAW Washington 27 March 1989

FROM: P MOUNTFIELD (AEF)

DATE: 4 MAY 1989

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Economic Secretary
Sir P Middleton
Mr Wicks
Mr Lankester
Mr Evans
Mr Davis
Mr Bottrill
Mrs Thomson
Mrs Chaplin
Mr Tyrie
Mr Call

** plus Mr Shinkiyé
a Minister at the
Nigerian High Commission

Mr Cassell-UKDEL

NIGERIA: VISIT OF FINANCE MINISTER

You have agreed to see Dr Chu Okongwu, Nigerian Finance Minister, at 5.20 pm on Tuesday, 9 May. He will bring with him Alhaji Abukakar Alhaji (AAA), Minister of Budget and Planning, and Alhaji A Ahmed, Governor of the Nigerian Central Bank. The Economic Secretary intends to come if Parliamentary duties permit. Mr Wicks and Mr Lankester will also be there. As far as we can judge the balance of power between Okongwu and AAA remains tilted towards the latter who has instituted tight budgetary disciplines over his Cabinet colleagues. However, Okongwu survived Babangida's reshuffle in February against our expectations and there are reports that Okongwu may be staging a comeback so there may well be tensions between the two. I attach the briefing for the Prime Minister's meeting with Babangida on 10 May, which includes personality notes.

2. Line to take

- (i) Essential to stick to the IMF Programme terms. Welcome indications that domestic economy is growing strongly.
- (ii) Concerned at dangers of inflation. Welcome tighter liquidity requirements for banks. Will these be sufficient to restrain domestic credit or should interest rates be higher?

NOTIFIED
TO
CHEX
4 MAY

CONFIDENTIAL

- (iii) Welcome narrowing of differential between official exchange rate and black market rate. When do you expect to achieve single rate (as specified in programme)?
- (iv) Higher oil prices must have eased financing needs for 1989. Understand difficulties of keeping tight rein on public expenditure when revenues are buoyant. What are your plans for the extra oil revenue? Why not use some of them for debt reduction? (IMF programme provided that part of any increase over \$14.50 would go to reserves, the rest to finance additional imports. But the IMF suspect that some of the recent proceeds are being siphoned off elsewhere.)
- (v) Glad UK was able to help in arranging donor group and assist at Paris Club rescheduling. \$100 million contribution exceptional given the usual character of our aid budget but underlined our support for Nigerian adjustment efforts.
- (vi) Not able to resume medium-term export credit cover. However, some cover will be available to finance OSO project provided ECGD's conditions are met. (It would be helpful to set these out clearly for the record - see below.)
- (vii) Essential to start planning soon on 1990. Even if oil price remains high, there will still be a financing gap. But you cannot expect a similar level of international support next year. Keep us in touch with your plans.
- (viii) [Defensive, if raised, on Debt reduction] Details are being worked out by IMF/IBRD. Strong IMF programme and back record of adjustment will be conditions of eligibility. Will not be applied retrospectively, so no point in delaying signature of recent agreement with banks.

- (ix) [Defensive, if raised, on Toronto terms] Paris Club has not reached consensus - will have to consider well before next rescheduling. Eligibility not automatic - depends on proven need.

3. Background

The IMF programme remained on course up to end December 1988. Latest indications are that the economy is growing strongly, but that some food shortages have developed and inflation is running at 40-50%. However, Fund staff who have just concluded a mid-term programme review were concerned at the continued expansion in domestic credit and at the 30% gap between the official dollar/Naira exchange rate and black market rate. AAA has so far kept tight control on public spending but the pressures on him will grow as the oil price remains high. The IMF programme assumes a price of \$14.50 in 1989 and the average price of Bonny light has been about \$2 higher than this since January. This would produce an extra \$800 million gross revenues if continued over the year. The World Bank have said this will largely be absorbed by higher interest payments.

4. The Paris Club rescheduled on conventional terms \$6 billion due to official creditors over the IMF programme period in March. Effectiveness of the commercial banks' agreement has been postponed for two months - the Nigerians say because of a technical dispute over the precise figures owed. We have however heard that they are hoping to benefit from a Brady debt reduction scheme, and may even be willing to make an IMF drawing if the money is used for debt reduction purposes. We would not discourage this, but the additional nil revenues could also be used for debt reduction schemes.

5. Bechtel (UK)'s bid for part of the OSO project (development of an offshore condensate field) will be eligible for upto \$100 million ECGD cover but only if these conditions are met:

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- the revenues can be genuinely segregated offshore in an escrow account and thus not score as Nigerian risk;
- the Paris Club (or at least, the three or four participants in the joint bid) agree that the OSO project will be excluded from future reschedulings - ie the 'cut-off date' would not be moved; Nigeria will have to accept that it will not be able to reschedule this new loan;
- the OSO product scores as condensate and is thus excluded from the OPEC quota (otherwise it does not increase Nigeria's total exports but the debt still has to be serviced);
- the IMF endorses the project;
- other export credit agencies and banks take a proportionate share in the risks.

6. The Prime Minister has been briefed to spell out these conditions to Babangida, but it is important not to leave Okongwu in any doubt about them.

PR

P MOUNTFIELD

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MODEV TELNO (UNNUMBERED) OF 3 MAY (NOT TO FCO)
NIGERIA: PROGRAMME AID

SUMMARY

1. NO AGREEMENTS EXCHANGED. PROSPECTS GOOD UNTIL LAST MINUTE INTERVENTION BY MINISTER OF FINANCE. MAIN DIFFICULTIES ARE APPOINTMENT BY GON OF CROWN AGENTS AND THE EXTENT OF THEIR PSI CHECKS. PRESSURE SHOULD BE PUT ON NIGERIANS DURING THE STATE VISIT.

DETAIL

2. DESPITE HEROIC EFFORTS BY COMMERCIAL COUNSELLOR AND HIS STAFF TO REACH AGREEMENT ON BOTH TEXTS WITH OFFICIALS OF MINISTRY OF FINANCE, WE HAVE REGRETTABLY RUN OUT OF TIME HERE WITHOUT AN EOL FOR EITHER THE UNITED OR TIED GRANT.

3. WITH HINDSIGHT THE PROBLEM HAS BEEN THAT THE EARLIER NEGOTIATIONS WERE LED BY THE MINISTRY OF BUDGET AND PLANNING (WHOSE MINISTER WE HAD ORIGINALLY BEEN LED TO BELIEVE WOULD SIGN) AND THAT THE MINISTER OF FINANCE, WAS UNSIGHTED ON THE TEXTS UNTIL YESTERDAY. EVEN SO THERE SEEMED A GOOD CHANCE OF SIGNING UNTIL OKONGWU HIMSELF RAISED WITH ME LAST MINUTE OBJECTIONS. UNFORTUNATELY BY THIS TIME HIS SENIOR OFFICIALS, WHO MIGHT HAVE ADVISED HIM TO PROCEED, HAD LEFT AND HIS LEGAL ADVISER DID NOT FEEL ABLE TO GIVE THE GO-AHEAD.

4. TEXTUAL DIFFERENCES WERE NARROWED IN ACCORDANCE WITH INSTRUCTIONS IN YOUR TUR SO THAT THE MINISTER WAS PREPARED TO ACCEPT OUR WORDING FOR PARA 8 (RELATING TO SHIPPING FOR GRANT NO. 2) AFTER I HAD EXPLAINED THAT IN PRACTICE 80 PER CENT OF GOODS FROM UK ARE NORMALLY SHIPPED BY CONFERENCE VESSELS WHICH WOULD ENSURE REASONABLE BUSINESS FOR THE NIGERIAN LINE. I STRESSED THAT

WE DID NOT DISCRIMINATE IN FAVOUR OF UK SHIPS.

5. THE REMAINING DIFFERENCE WAS OVER CLAUSE 14 (PRE-SHIPMENT INSPECTION BY CROWN AGENTS) OF GRANT NO. 2. OKONGWU INSISTED THAT GON'S OWN AGENTS SHOULD CONTINUE TO HAVE THE RIGHT TO CARRY OUT THEIR FULL NORMAL CHECKS INCLUDING PRICE VERIFICATION. I POINTED TO THE BENEFITS THAT CROWN AGENTS HOPED TO OBTAIN BY WAY OF ADDITIONAL DISCOUNTS IF THE NIGERIAN AGENTS WERE EXCLUDED FROM PRICE VERIFICATION - THOUGH THEY WOULD STILL BE FREE TO CHECK ON QUALITY AND QUANTITY. OKONGWU AND HIS OFFICIALS ARGUED THAT THE IMPORT DUTY WAS NORMALLY DETERMINED DURING PSI AND THAT IN ANY CASE THE EVENTUAL INVOICE PRICE WOULD BE RECORDED IN LAGOS AND SO WOULD BE KNOWN BY THEIR AGENTS. WE DISCUSSED THE POSSIBILITY OF A FORM OF WORDS THAT WOULD PERMIT BOTH GOVERNMENTS SUCH PSI CHECKS AS THEY WISHED. AT THIS POINT OKONGWU, APARENTLY FOR THE FIRST TIME, REALISED THAT OUR TEXTS REQUIRED HIS GOVERNMENT FORMALLY TO APPOINT THE CROWN AGENTS TO UNDERTAKE DUTIES STIPULATED UNDER THE AGREEMENTS AND THAT THEIR CHARGES WOULD BE PAYABLE BY GON OUT OF THE TOTAL GRANT. HE IMMEDIATELY ANNOUNCED THAT THIS WAS TOTALLY UNACCEPTABLE AND THAT HE HAD INSISTED ON THE EXCLUSION OF SIMILAR ARRANGEMENTS FROM THE JAPANESE GRANT. CROWN AGENTS REPRESENTATIVE HERE CONFIRMED THAT THIS WAS SO AND THAT EVENTUALLY THEY HAD ENTERED INTO A SEPARATE AGREEMENT WITH THE NIGERIANS OUTSIDE THE GOVERNMENT TO GOVERNMENT EXCHANGE.

6. BELIEVING AT THIS STAGE THAT FURTHER DISCUSSION MIGHT THROW UP NEW DIFFICULTIES, I CONCLUDED THAT WE SHOULD CALL IT A DAY. THE MINISTER, WHO I BELIEVE WAS FEELING INCREASINGLY OUT OF HIS DEPTH, READILY AGREED. I PROMISED TO REPORT ANY REACTIONS FROM LONDON AND HE INSTRUCTED HIS LEGAL ADVISER TO TRY TO OBTAIN THE VIEWS OF A SENIOR OFFICIAL WHO IS OUT OF LAGOS OVER THE HOLIDAY WEEKEND. IT IS THEREFORE MOST UNLIKELY THAT I WILL HEAR ANYTHING FURTHER FROM OKONGWU BEFORE HE LEAVES FOR LONDON.

7. THIS IS MOST UNFORTUNATE AND FRUSTRATING. OKONGWU WAS CLEARLY AWARE OF HIS PRESIDENT'S WISH THAT THE AGREEMENT SHOULD BE IN PLACE BEFORE THE STATE VISIT BUT THROUGHOUT OUR DISCUSSIONS HE WAS SUSPICIOUS AND RELUCTANT TO ACCEPT OUR ASSURANCES THAT THE TERMS OF OUR GRANT AGREEMENT ARE IN STANDARD FORM. I ALSO ATTRIBUTE HIS ATTITUDE TO HIS POWER-PLAY WITH AAA WHO HAS GAINED KUDOS FROM HIS EFFORTS TO

SECURE EXTERNAL SUPPORT FOR NIGERIA.

8. I RECOMMEND THAT IF AT ALL POSSIBLE PRESSURE SHOULD BE EXERTED ON THE NIGERIANS IN LONDON AND THAT WE SHOULD NOT BE TOO HESITANT IN ATTRIBUTING RESPONSIBILITY FOR THE DELAY TO OKONGWU AND HIS MINISTRY. AS IT IS EITHER OKONGWU WILL HAVE TO BE PERSUADED TO AGREE TO APPOINT THE CROWN AGENTS AND ACCEPT THEIR VERIFICATION PROCEDURES OR WE WILL HAVE TO THINK OF SOME NEW FORMULA. INEVITABLY THIS WOULD INVOLVE FAIRLY EXTENSIVE RE-DRAFTING AND AN ARRANGEMENT FOR WITHOLDING THE CROWN AGENTS FEES FROM THE GRANT, I.E. WE WOULD PAY THESE CHARGES AND THE NIGERIANS WOULD RECEIVE THE GRANT NETT OF THESE.

VARCOE

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FROM: P MOUNTFIELD

DATE: 9 MAY 1989

EXT : 4479

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
Economic Secretary
Sir P Middleton
Mr Wicks
Mr Lankester
Mr Evans
Mr Davis
Mr Bottrill
Mrs Thomson
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Cassell, UKDEL

NIGERIA: SUPPLEMENTARY BRIEF

PRIME MINISTER'S LUNCH WEDNESDAY: MEETING WITH OKONGWU &c FRIDAY

behind
This brief updates my note of 4 May. You should also see the FCO letter of *5* May to No.10, containing further supplementary briefing.

AAA

2. Today's meeting was postponed because AAA missed the plane. FCO advice, after a private talk between our High Commissioner and Governor Ahmed, was that a meeting with Okongwu but without AAA would be worse than useless. But you are also likely to meet them at the Prime Minister's lunch tomorrow.

MOUNTFIELD
TO
CHECK
9 MAY

Aid agreement

3. ODA have now heard by telephone from the High Commission in Lagos that both the programme aid agreements (tied and untied) have been signed. This followed instructions on Monday from Babangida, first to Okongwu and then to AAA, to sign the agreements. Signature had been held up on Thursday by last-minute queries from Okongwu about references to the Crown Agents, who are to be involved in the tied aid procurement. FCO suspect that these were wrecking moves, and that Okongwu has been overruled.

Banks

4. As the main brief explains, the agreement with the banks was held up for two months. It is now due to be completed in June. The Nigerian side blame Barclays for this (for adding at the last minute some further claims which has not been reconciled). Barclays blame the Nigerians, and there is some evidence that, once again, Okongwu is deliberately trying to sabotage the agreement reached by AAA and the Governor. We are pursuing this separately through the Bank of England. If raised, you should merely say that it is most important to complete the agreement in June, because the whole package will begin to unravel thereafter. Nigeria should therefore put a lot of effort into completing the reconciliation process.

Biwater

5. Once again, Okongwu seems to have been at work. You will recall that the Biwater project for a £22 million water scheme in President Babangida's home state was (at the Prime Minister's insistence) the only new ECGD credit on offer. The loan was signed in December but has not yet become effective because the Nigerian Ministry of Finance has not provided the necessary guarantee or made the £4 million down-payment. Okongwu has demanded that a cross default clause to Nigeria's performance under its bilateral rescheduling agreement with the UK should be deleted, the interest rate should be pegged at 8.75 per cent and

Biwaters should complete the contract at the original price. If this subject is raised, you might say:

- understand ECGD does not intend to declare loan in default in view of agreement with IMF and anticipated early signing of bilateral rescheduling agreement but ECGD would have to reconsider if Nigeria's relationship with the IMF deteriorated, or delays/problems arose over bilateral agreement or if payment performance under the agreement was unsatisfactory;
- the 8.75 per cent fixed interest rate can be held as long as the loan becomes effective shortly;
- the price is a commercial matter for Biwaters.

(You should be aware that Adrian White, Chairman of Biwaters will be at the No.10 lunch.)

IBRD

6. ^{behind.} The latest telegrams from Washington suggest that the IBRD is prepared to hold up disbursement of the second Trade Investment Policy Loan, unless Nigeria ceases to tamper with the foreign exchange auction. Your main brief advises you to ask when Nigeria intends to achieve a single exchange rate, as specified in the programme. You could reinforce this by saying that it is most important not to risk delay in disbursement of the TIPL, which will have an important demonstration effect to other donors/lenders.

RM

P MOUNTFIELD

FROM: P MOUNTFIELD

DATE: 11 MAY 1989

EXT : 4479

CHANCELLOR

cc: Chief Secretary
Economic Secretary
Sir P Middleton
Mr Wicks
Mr Lankester
Mr Evans
Mr Davis
Mr Bottrill
Mrs Thomson
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Cassell, UKDEL

NIGERIA: VISIT OF FINANCE MINISTER

SECOND SUPPLEMENTARY BRIEF

You asked for a note on four further points which the Nigerians mentioned at the Prime Minister's lunch yesterday.

Toronto terms?

2. (Background). The Paris Club has very carefully not defined precise criteria. By analogy with other cases, Nigeria would probably now qualify. Per capita income is \$370 (and the normal practice has been to apply the IDA-only level of \$580 (in 1987 prices) - see below). By any standards, it is "heavily indebted". It is embarked on an adjustment programme which has the support of the IMF. And, despite some serious shortcomings earlier in the year, it is now trying to treat all its creditors equally and

honour its obligations (when Okongwu lets it). And it is in Africa: so the German Parliamentary restriction on non-African beneficiaries would not bite. The problem is that to extend Toronto terms would be horrendously expensive to all the creditors. While you have always privately accepted that we would probably have to give Nigeria Toronto terms eventually, other countries have certainly not accepted this position. So:

(Line to take)

3. Certainly recognise Nigeria's relative poverty and heavy debt. You rightly agreed not to press the issue of Toronto terms in the 1988 rescheduling at the Paris Club. Too early to say yet whether creditors would be prepared to agree; and UK cannot dictate terms to them. Nigeria qualifies on most counts, but the sheer size of the operation will make it very expensive to other governments, not just the UK. Premature to raise the issue now: suggest you return to it later in the year, when making initial preparations for 1990.

ESAF

4. (Line to take). We understand that Nigeria has not applied. An ESAF programme is only available to countries with a good track record of compliance with earlier Fund programme. So early days. ESAF funds limited, and must remember that both India and China have a self-denying ordinance not to apply for ESAF funds. [If pressed, consider Nigeria's case sympathetically, at later date, for very limited access.]

IDA

5. (Line to take). Nigeria was declared eligible for IDA credits on 15 September 1988. Three projects (population, essential drugs and agriculture) totalling \$269 million are under consideration. Nigeria will continue to benefit under IDA 9, now being negotiated. We hope for a substantial replenishment, with priority for Africa as in IDA 8. [Note for use: the real problem is availability of funds, not eligibility. Nigeria is so big it

could squeeze out many other IDA beneficiaries we want to help. Continued eligibility depends on per capita income staying below \$580. This depends on future oil prices.

Brady

6. (Background). The original Brady proposals certainly included Nigeria on the list of potential candidates. But Brady is mainly about middle-income debtors, and Nigeria is now asking for "poorest debtor" status in the Paris Club. Slight inconsistency here. In any case, Nigeria has just completed an agreement with the banks (yet to become effective: see main brief). It would be a tactical mistake for Nigeria to go back to the banks now and ask for Brady terms to be applied to that agreement. The banks will not want to give any indication until they see how the Brady plan is developing, and the first (Mexican) case is included. I have confirmed this with the Chairman of the banks' negotiating committee.

(Line to take)

7. Understand your anxiety. Brady proposals still at formative stage. Unclear which way they will develop. As you know, UK has supported idea of allocating some portion of Fund and Bank resources to debt reduction; much more doubtful about using them for interest support, but this is still under study. First case will probably be Mexico. Believe we should wait and see how that evolves before considering extensions. Meanwhile, do not think you should delay finalising existing agreement with banks. That will fall apart unless it becomes effective in July. Banks themselves still very ambivalent about Brady proposals, and likely to react badly to any suggestion that you renegotiate existing package. Strongly advise you to save this one for next year.

P.P. T. Potter
P MOUNTFIELD

15/5/89.

Mr Mountford

Okungwa ~~sent~~ stalks up the
at No Nigerian land on Friday
to matter with Biwater. Said ~~to~~

(a) he was prepared to sign some kind of
sole-letter & (b) he had discussed this
with you.

I said that it was much unlikely that
I could add anything to what ^{you} had told
him, but we look at it without
commitment.

Grateful for a reply etc.

XL



FROM: P MOUNTFIELD
DATE: 19 MAY 1989
EXT : 4479

PS/CHANCELLOR

cc: Mr Lankester
Mr Bottrill
Mr P Davis
Mrs Thomson

NIGERIA: BIWATER

I have delayed a reply to your note of 15 May until I was sure of the position.

2. I attach ECGD's outward telegram to Lagos, EXCED 027 of 17 May, which was agreed with me.

3. There have been no further approaches by the Nigerians, here or (as of yesterday) in Lagos. But Morgan Grenfell have spoken to Adrian White of Biwater, who said that Okongwu was very pleased with his meeting with the Chancellor, and would now go back and issue the guarantee and release the down-payment.

4. I hope this means that Okongwu has now dropped his opposition to the cross-default clause. His alternative, of a "side letter", would not be acceptable to ECGD, for the reasons set out in the telegram.

5. I am sure ECGD is right in requiring this further security, given Nigeria's track-record. They and we only agreed to cover the Biwater contract because of the Prime Minister's wish to make a political gesture of some kind during her visit to Nigeria. If Nigeria wants British money for this contract (which is not of particularly high priority) it will have to meet our conditions.

I do not see any case for further relaxation. I think this is all really part of the in-fighting between Okongwu and AAA. HMG, and in particular the Treasury, should keep out of this. I see no further need for the Chancellor to get involved.

RM

P MOUNTFIELD

RESTRICTED
FM ECGD
TO IMMEDIATE LAGOS
TELNO EXCED 027
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AND TO PRIORITY FCO, HMT, DTI

FCO (SCHOLLES, WAD)
TREASURY (MOUNTFIELD)
DTI (GARROD, OT4)

FROM FISHER, PD5 (L. Hurry - 7753)

YOUR TELNO 447 : BIWATER

1. NIGER STATE WATER CONTRACT WAS NOT DISCUSSED BETWEEN MINISTERS DURING STATE VISIT. OKONGWU TRIED TO RAISE IT WITH OFFICIALS IN MARGINS OF (AFTER) MEETING WITH CHANCELLOR. HE SAID HE HAD MADE PROPOSALS TO RESOLVE THE PROBLEM (WE THINK HE WAS REFERRING TO THE SUGGESTION OF A SIDE LETTER) BUT HE WAS NOT PREPARED TO ACCEPT A CROSS DEFAULT CLAUSE. TREASURY REFUSED TO GET DRAWN INTO DETAIL IT WAS AN ECGD ISSUE. HE DID NOT CONTACT ECGD DESPITE BEING GIVEN A CONTACT POINT AND TELEPHONE NUMBER. OKONGWU SUBSEQUENTLY TOLD CHANCELLOR AT LUNCH THAT HE WAS PREPARED TO SIGN A SIDE LETTER TO RESOLVE MATTERS. CHANCELLOR TOLD HIM HE COULD NOT ADD TO WHAT OFFICIALS HAD SAID, BUT THAT HE WOULD LOOK AT IT WITHOUT COMMITMENT. TREASURY ~~AND~~ NOW REPORTING THE POSITION TO THE CHANCELLOR.
ARE

2. WE INTERPRET REFERENCE TO SIDE LETTER TO BE TO SUGGESTION THAT OKONGWU COULD GIVE UNDERTAKING THAT LOAN WOULD BE PROTECTED FROM ANY FUTURE PARIS CLUB RESCHEDULING. THIS WOULD NOT BE ACCEPTABLE. IT COULD NOT BE RELIED ON TO PROTECT THE LOAN FROM FUTURE RESCHEDULING WITHOUT THE PRIOR AGREEMENT OF OTHER CREDITORS. PAST EXPERIENCE ON ANOTHER CASE IN UGANDA SUGGESTS THIS IS UNLIKELY. NOR WOULD IT SERVE THE PURPOSE OF THE CROSS DEFAULT CLAUSE IE TO ALLOW US TO STOP DRAWINGS FROM NIGER STATE LOAN IF NIGERIA FALLS DOWN ON PERFORMANCE UNDER RESCHEDULING AGREEMENTS. WE MUST RETAIN OUR INSISTENCE ON CROSS DEFAULT CLAUSE. THERE IS NO ROOM FOR MANOEUVRE ON THIS.

3. BARDER'S LETTER OF 13 MAY TO YOU SUMMARISES HIS DISCUSSIONS WITH OKONGWU AND WHITE OF BIWATERS DURING STATE VISIT. THIS ESSENTIALLY ACCORDS WITH OUR UNDERSTANDING OF EVENTS, ALTHOUGH IT IS NOT TRUE THAT OKONGWU RAISED THE MATTER WITH THE CHANCELLOR AT THE MEETING ON 12 MAY. PARA 1 ABOVE SETS OUT THE DETAIL OF WHAT WAS SAID. THE

CHANCELLOR DID NOT PROMISE TO CONSIDER FURTHER WITH ECGD. AS REPORTED ABOVE OKONGWU WAS ADVISED TO TAKE IT UP WITH ECGD.

4. IF OKONGWU'S STATEMENT TO YOU ON RETURN THAT THE BALL IS IN UK COURT MEANS HE IS UNDER IMPRESSION THAT WE ARE CONSIDERING OR ARE WILLING TO ACCEPT AMENDMENT TO LOAN AGREEMENT HE IS MISTAKEN.

5. BIWATER UNDERSTAND THAT OKONGWU INTENDED TO RETURN TO NIGERIA AND TAKE NECESSARY STEPS TO ACHIEVE LOAN EFFECTIVENESS. IF HE IS WILLING TO ISSUE FEDERAL GUARANTEE AND DOWNPAYMENTS ARE TO BE MADE THE BALL IS IN NIGERIAN COURT.

6. NO FURTHER CONCESSIONS ARE AVAILABLE. INTEREST RATE WILL BE HELD AT 8.75 PER CENT PROVIDING EFFECTIVENESS IS ACHIEVED SHORTLY. (OUR EXCED 24 OF 5 MAY SUGGESTED 60 DAY DEADLINE FOR EFFECTIVENESS. THIS SHOULD BE ACHIEVED BY END OF JUNE OR VERY EARLY JULY AT LATEST).

7. GRATEFUL IF YOU MAKE OUR POSITION CLEAR TO OKONGWU. THIS MAY WELL MEAN, IN BARDER'S WORDS, TELLING THE NIGERIANS THAT WE CANNOT VARY OUR TERMS RETROSPECTIVELY AND THEY MUST DECIDE WHETHER THEY WANT THE PROJECT OR NOT. IT IS DIFFICULT TO SEE SCOPE FOR ANY FACE-SAVING BY WAY OF FURTHER ASSURANCES OVER OUR INTENTION NOT TO INVOKE THE CROSS DEFAULT CLAUSE BUT, IF IT HELPS, YOU COULD REITERATE THE ASSURANCE ALREADY GIVEN (COOPER'S EXCED 021 OF 21 APRIL TO BARDER).

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