

• PO - CH/NL/0549

PART A

Part A.

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Begins : 27/6/89.
Ends : 7/7/89.

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PO - CH | NL | 0549.
Pt.A.

Chancellor's (Lawson) Papers:
Support Group For Somalia.

DD's: 25 Years



17/4/96

PO - CH | NL | 0549.
Pt.A.

FROM: H G WALSH (IF1)
 DATE: 27 June 1989
 EXT: 4680

CHANCELLOR

cc: Economic Secretary
 Mr Wicks
 Mr Evans
 Mr Mountfield
 Mr Davis
 Mr Lazar
 Mr Tarkowski
 Mr Barr

Ch. content with line?

OK 27/6

SOMALIA SUPPORT GROUP

You will see from the attached telegram 194 from Washington that Camdessus is asking for our early agreement to participate in a Support Group (SG) for Somalia. The Italians have agreed to Chair such a group and the US and Saudi Arabia have already indicated that they will participate. The Somali Fund-monitored programme will be discussed in the Board on 5 July and we are asked for a steer on this proposal by close of play on Thursday, 29 June.

2. We cannot at this stage agree to any financial contribution to a Somali Support Group because we have suspended aid disbursements on human rights grounds. But UKDEL believe we can join nonetheless.

3. We support the intensified collaborative approach to arrears cases at the IMF. Given that this is a relatively small case (arrears of \$76 million to the Fund), prospects for success in meeting the financing target are reasonably satisfactory. Somalia has agreed a programme with the Fund staff. The participation of the UK and other G5 is viewed as critical to the success of any SG. We, the French, the Germans, and the Japanese are all being approached in parallel.

4. We have discussed Somalia with the Bank of England, ODA and the FCO. The Bank agree that UK participation would be justified and ODA officials are content provided that:-

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- i. We make clear at the outset that there is no prospect of providing any more finance than the £5 million already offered (and in the Aid Budget) to co-finance a World Bank programme.
- ii. We make it known to the SG that we are unable, at this stage, to give any indication as to timing of disbursements and that this would depend on satisfactory performance on human rights, which will be reviewed by us later this year.
- iii. In any case there could be no disbursements this financial year.

5. We think that there is every justification for making our participation conditional not only on the points above, but also on the participation of others. We propose to say that we would agree to participate only on the basis that France, Germany and Japan participate as well. (But point 4(i) above may be hard to sustain in practice).

6. Are you content with this line? If so, we shall draft an instructing telegram accordingly provided Mr Patten is also content.

H.W.

H G WALSH

CONFIDENTIAL

FM UKDEL IMF/IBRD WASHINGTON
TO IMMEDIATE FCO
TELNO 194

OF 262300Z JUNE 89

AND TO PRIORITY MOGADISHU, BDDEA NAIROBI, ROME, PARIS, BONN
AND TO PRIORITY TOKYO, OTTAWA, STOCKHOLM, THE HAGUE, BRUSSELS
AND TO PRIORITY RIYADH

IMF: SOMALIA - SUPPORT GROUP

SUMMARY

1. CAMDESSUS CALLS FOR EARLY AGREEMENT TO PARTICIPATE IN SOMALI SG. SAUDI ARABIA ANNOUNCES PARTICIPATION.

DETAIL

2. CAMDESSUS (FUND MD) CALLED A MEETING OF FUND EDS ON FRIDAY TO URGE PARTICIPATION IN THE SOMALI SG. HE STRESSED THE IMPORTANCE OF SUCCESS WITH SOMALIA FOR THE FUTURE OF THE FUND'S COOPERATIVE STRATEGY ON ARREARS. HE EMPHASISED ALSO THAT SOMALIA NEEDED, AND DESERVED, AN EARLY RESPONSE FROM THE FUND ON WHETHER THE SG PROCESS WOULD BE TAKEN FORWARD.

3. CAMDESSUS' COMMENTS WERE ECHOED BY FINAISH (LIBYA, REPRESENTING SOMALIA) AND FILOSA (ITALY, CHAIRMAN OF SOMALI SG). FINAISH RECALLED THAT SOMALIA HAD BEEN COOPERATING WITH THE FUND IN ADOPTING APPROPRIATE POLICIES SINCE LATE 1988. HE FELT THAT THE RESPONSE FROM THE INTERNATIONAL COMMUNITY SO FAR WAS NOT COMMENSURATE WITH THE EFFORTS THE SOMALIS HAD BEEN MAKING. FILOSA SUMMARISED THE PAPER HE HAD CIRCULATED BEFOREHAND (SENT SEPARATELY BY BAG TO LONDON). HE WOULD BE READY TO DISCUSS ALTERNATIVE FINANCING SCENARIOS SOON.

4. AL-ASSAF (SAUDI) ANNOUNCED THAT HIS AUTHORITIES HAD AGREED TO JOIN THE SG, THROUGH THE SAUDI FUND FOR DEVELOPMENT. HE URGED OTHERS TO COME FORWARD. WARNER (US) RE-STATED HIS AUTHORITIES' COMMITMENT TO THE SG. HE REPORTED THAT THE US WAS RE-EXAMINING THE BALANCE OF ITS CONTRIBUTIONS TO SOMALIA BETWEEN CONTINUED BILATERAL SUPPORT AND MULTILATERAL SUPPORT THROUGH THE SG.

5. CAMDESSUS ASKED SERRE (FRANCE) AND FINAISH, IN RESPECT OF OTHER MEMBERS OF HIS CONSTITUENCY (WHICH INCLUDES KUWAIT, UAE, OMAN AS WELL AS LIBYA) WHETHER ANY ADDITIONAL PARTICIPATION WAS IN PROSPECT. NEITHER WAS ABLE TO GIVE ANY COMMITMENT.

6. GOOS (GERMANY), STRESSING THAT HE WAS SPEAKING IN A

PERSONAL CAPACITY, SUGGESTED THAT A FIRM DATE SHOULD BE SET BY WHICH COMMITMENTS TO PARTICIPATE IN THE SG SHOULD BE SOUGHT: WITHOUT SUCH A DEADLINE THERE WAS NO PRESSURE TO REACH DECISIONS. HE SUGGESTED ALSO THAT IT WOULD BE COUNTERPRODUCTIVE TO INTERMINGLE THE ISSUE OF WHETHER COUNTRIES WERE WILLING TO PARTICIPATE WITH THAT OF HOW MUCH CONTRIBUTION THEY MIGHT MAKE. HE ADDED THAT THERE WAS SO FAR NO CHANGE IN THE GERMAN POSITION.

7. NO OTHER DIRECTOR SPOKE.

8. AFTER SOME DISCUSSION BETWEEN CAMDESSUS, ERB (FUND DEPUTY MD) AND FILOSA, IT WAS AGREED THAT THEY WOULD HAVE TO RESPOND TO THE SOMALIS BY THE END OF JULY AT THE VERY LATEST WHETHER AN SG WAS FEASIBLE. TO THAT END THEY URGED DIRECTORS TO BE IN A POSITION TO MAKE A COMMITMENT BY THE TIME OF THE FORTHCOMING DISCUSSION ON SOMALIA'S ARREARS AND PROSPECTIVE FUND-MONITORED PROGRAMME, SCHEDULED FOR 5 JULY.

COMMENT

9. THIS WAS AGAIN A SOMEWHAT AWKWARD MEETING, WITH CAMDESSUS WAITING FOR RESPONSES FROM DIRECTORS TO HIS EXHORTATIONS, WITH APPARENT DIFFERENCES EVEN WITHIN FUND MANAGEMENT ON TIMINGS OF DECISIONS, AND WITH NO CLEAR FEELING OF FORWARD MOMENTUM. IN PART THIS REFLECTS THE CHAIRMANSHIP OF FILOSA, WHO DOES NOT HAVE THE CHARISMA AND DRIVE WHICH MASSE BROUGHT TO THE GUYANA SG. IN PART, HOWEVER, THIS REFLECTS THE FACT THAT FILOSA SO FAR HAS VERY LITTLE AUTHORITY FOR ANY DECISIONS, WITH ONLY THE US OF THE G7 YET COMMITTED TO THE SG. THE UK IS CLEARLY CENTRAL TO THIS, AS INDEED WE WERE TO GUYANA, IN ESTABLISHING THE GROUP AS GENUINELY MULTILATERAL. AFTER THE MEETING BOTH MASSE (CANADA) AND YOSHIKUNI (JAPAN) SPOKE TO ENOCH ASKING WHAT THE UK POSITION ON SOMALIA WAS. LATER, AT AN INFORMAL FUNCTION, CAMDESSUS TOOK THE OPPORTUNITY TO SAY TO ENOCH THAT HE HAD BEEN DISAPPOINTED THAT THE UK HAD NOT BEEN ABLE TO COMMIT ITSELF YET TO THE SG, AND THAT HE HOPED VERY MUCH FOR A COMMITMENT SOON. (ALL THREE RECEIVED NON-COMMITTAL ANSWERS: ONLY FILOSA HAS BEEN INFORMED OF THE UK'S HUMAN RIGHTS CONCERNS.)

10. THESE APPROACHES BY FUND STAFF AND OTHER EXECUTIVE DIRECTORS CONFIRM OUR SUSPICION THAT UK (AND ALSO CANADIAN) PARTICIPATION IN INDIVIDUAL SGS IS CRUCIAL TO THEIR SUCCESS. STRONG INTELLECTUAL PARTICIPATION DOES NOT NECESSARILY MEAN COMMENSURATE FINANCIAL CONTRIBUTIONS, PARTICULARLY AT A TIME WHEN THE SURVIVAL OF THE GENERAL ARREARS STRATEGY, RATHER THAN THE DETAILS OF ANY PARTICULAR FINANCING PACKAGE, IS

UPPERMOST IN THE MINDS OF IMF MANAGEMENT AND OTHER EDS. IN THE CASE OF SOMALIA, FILOSA IS, OF COURSE, WELL AWARE OF OUR HUMAN RIGHTS CONCERNS AND THAT WE CANNOT MAKE ANY FINANCIAL CONTRIBUTION TO THE SG UNTIL THE RESULTS OF THE AMNESTY MISSION (DUE IN JUNE?) HAVE BEEN STUDIED IN LONDON. GIVEN THESE REALITIES, WE FEEL CONFIDENT THAT AN INFORMAL ARRANGEMENT COULD BE REACHED WITH FILOSA WHEREBY WE JOIN HIS SG ON THE UNDERSTANDING THAT: (A) HE DOES NOT PRESS THE UK FOR A FINANCIAL CONTRIBUTION UNTIL WE SIGNAL WE ARE READY TO MAKE ONE (ALTHOUGH HE IS, OF COURSE, AT LIBERTY TO USE THE BRITISH LINKAGE BETWEEN AID AND HUMAN RIGHTS TO PRESSURE THE BARRE REGIME TO SOFTEN THEIR JACKBOOT IMAGE) AND (B) IF AND WHEN WE ARE READY TO CONTRIBUTE, HE DOES NOT PRESS THE UK FOR MUCH MORE THAN THE AMOUNTS WE INITIALLY OFFER (E.G. OUR PROPOSED COFINANCING OF THE WORLD BANK'S ASAP II). IF WE COULD REACH SUCH AN UNDERSTANDING, WE BELIEVE THAT JOINING THE SOMALIA SG BY JULY 5, WHEN THE FUND-MONITORED PROGRAMME IS DISCUSSED BY THE BOARD, WOULD BE VERY HELPFUL IN RAISING THE UK PROFILE AND SHAPING THE RULES OF THE GAME FOR FUTURE SGS WITHOUT INVOLVING DIPLOMATIC EMBARRASSMENT OR HEAVY FINANCIAL COST. GRATEFUL FOR A STEER ON THIS PROPOSAL BY C.O.P. ON THURSDAY, 29 JUNE.

11. FCO PLEASE PASS TO EVANS AND WALSH (HMT), WARE (BOE), RICHARDSON (ERD), AINSCOW, HUDSON AND POWER (ODA).

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YYYY.

DISTRIBUTION

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NNNN



FROM: J M G TAYLOR

DATE: 28 June 1989

A handwritten signature in black ink, appearing to be 'JMG'.

MR H G WALSH (IF1)

cc PS/Economic Secretary
Mr Wicks
Mr H P Evans
Mr Mountfield
Mr Davis
Mr Lazar
Mr Tarkowski
Mr Barr**SOMALIA SUPPORT GROUP**

The Chancellor was grateful for your note of 27 June. He is content for UKDEL to take the line which you propose.

A handwritten signature in black ink, appearing to be 'JMG'.

J M G TAYLOR

The Ambassador

Italian Embassy,
4. Grosvenor Square,
London, W.1.

b.f. ~~11/7~~ 11/7

30th June 1989

7366

Dear Chancellor,

I have the pleasure of enclosing herewith a message addressed to you received by Fax from the Italian Minister for the Treasury, Giuliano Amato, regarding the initiative of the Support Group for Somalia.

I would like to stress the importance of this initiative launched by the International Monetary Fund who has offered to Italy the Chairmanship.

The Italian Authorities hope that your Government will play an active role in contributing to the success of this action aimed at easing major problems that Somalia is facing.

I avail myself of this opportunity to send you my best regards.

Yours sincerely

Boris Biancheri

Boris Biancheri

Enc.

The Rt Hon Nigel Lawson, MP
Chancellor of the Exchequer
Treasury
London SW1

3/7

CH/EXCHEQUER	
REG:	03 JUL 1989
ACTION	MR WALSH
COPIES TO	PS EST. MR WICKS MR H.P. EVANS, MR MOUNTFIELD, MR DAVIS, MR LAZAR, MR TARKOWSKI, MR BARR.



Il Ministro del Tesoro

June 24, 1989

Dear Colleague,

As you know, the Managing Director of the Fund has informed the Board of his intention to request the formation of a Support Group for Somalia to favor the clearance of arrears and the economic recovery of this country, thus laying the basis for the medium-term viability of its balance of payments. It has also been indicated that Italy should chair the Support Group.

Such an international function does involve a number of risks and heavy responsibilities. Nonetheless - though not without concern - my country is ready to accept the leadership of the Support Group for Somalia to give increasingly more meaning to the spirit of the "Cooperative Approach" we all endorsed in the Interim Committee, and offer this country the benefit of the much needed international support in the effort to adjust its economy. Besides, we consider it one of the G-10's duties to contribute actively towards fostering international cooperation. Finally, to address successfully the case of Somalia would help to indicate clearly that a workable solution of the issues affecting the use of Fund's resources and its income position has been found.

Rt. Hon. Nigel LAWSON
Chancellor of the Exchequer
H.M. Treasury
Parliament Street
LONDON SW1P 3AG



Al Ministro del Tesoro

However, although we are prepared to stretch our efforts, we do not think to be able to start this operation to a favourable outcome without prior commitment in principle and substantial support on the part of all major industrial countries. It is my Government's firm belief that those who inevitably share a larger portion of responsibilities in the international context and have the utmost interest in its stability and orderly functioning, should avoid sending a wrong signal to the international community by excluding themselves from, or limiting their, participation in this initiative. Following the success of the Support Group for Guyana, a positive outcome in the case of Somalia would reinforce international confidence and have an important catalytic effect on future similar operations. I am sure you will concur with me that what is at stake here is not only the future of Somalia, but the present strategy to tackle the most difficult cases of poor, indebted countries and to preserve the Fund's liquidity.

It is clear that any effort on our part will be vain without the support of some relevant parties like your country. I therefore sincerely hope you will be willing to join Italy in the effort to solve the problems of Somalia and that you will, accordingly, instruct your representative in the IMF to inform the Italian Executive Director, Mr. Filosa, - who will be appointed Chairman of the Support Group - of your country's intention to support this operation and the likely size of your country's contribution. My Government is prepared to

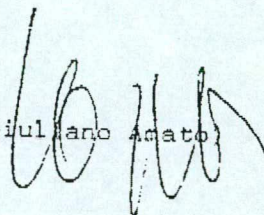


Il Ministro del Tesoro

commit 15 million U.S. dollars for this exercise in international solidarity.

With many thanks for the attention to one of the most dramatic African situation, I remain

Sincerely yours


(Giuliano Arato)

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pps. p1 (in ltr for ? 11/7)

FROM : D A BARR (IF1)
Ext 5566
DATE : 6 JULY 1989

- 1. MR WALSH
- 2. CHANCELLOR

u.w.
6/7

Ch... content with
draft reply to Amato
(behind) ?
OK - dr
6/7

- cc Economic Secretary
- Mr Wicks
- Mr H P Evans
- Mr Mountfield
- Mr Davis
- Mr Lazar
- Mr Tarkowski
- Mr Cassell, UKDEL

SOMALIA SUPPORT GROUP

Mr Taylor's minute of 28 June recorded your agreement that the UK could participate in a Support Group for Somalia.

2. Mr Amato, the Italian Finance Minister, has now written to you formally requesting UK's participation. I attach a draft reply.

David Barr

D A BARR

CONFIDENTIAL

HE Sig.

Boris Biancheri Esq
Ambassador
Italian Embassy
4 Grosvenor Square
LONDON SW1

Pse type this from me
& letter
behind from the

SOMALIA SUPPORT GROUP

Thank you for your letter of 30 June, enclosing a letter from Mr Amato to the Chancellor.

I should be most grateful if you could forward the Chancellor's reply, which is enclosed.

J M G TAYLOR
Private Secretary

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DRAFT REPLY FOR THE CHANCELLOR TO SEND IN RESPONSE TO MR AMATO'S
LETTER OF 24 JUNE

SUPPORT GROUP FOR SOMALIA

Thank you for your letter of 24 June conveyed by your Ambassador
in London.

We of course support the Fund's collaborative approach to
countries in arrears and, like Italy, we made a contribution to
the Guyana Support Group chaired by the Canadians. We have
already indicated to Mr Filosa and the IMF staff, through our
Executive Director in Washington, our willingness to participate
in the Somalia Group. But I should like to make three points
clear from the outset.

First, our contribution to the financing package designed to meet
Somalia's foreign exchange requirements would be strictly limited
to the £5 million which we have already offered to co-finance a
World Bank programme for Somalia.

Second, we remain very concerned about human rights abuses in
Somalia (as is well known to the Somali Government), and this
precludes disbursement of this aid unless and until we have
evidence that the situation is satisfactory. Release of our £5
million pledge will therefore be dependent on the outcome of our
review of the situation later this year.

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Third, we believe that it is of utmost importance that support groups should have a wide representation among donors, consistent with the approach endorsed at the Interim committee. We are only prepared to participate on the basis that other G7 countries take part. We therefore expect that others will come forward quickly to support this initiative.

It is also vital that the Somalis themselves undertake the comprehensive set of prior actions envisaged in the Fund monitored programme. Somali commitment to Fund programmes in the past has been weak and as a result economic recovery has not been sustained. It is essential for the Somalis to break out of this cycle by taking strong prior actions to improve both donor and private sector confidence.

NIGEL LAWSON



A large, stylized handwritten signature in the top right corner of the page.

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

7 July 1989

Sig Giuliano Amato
Il Ministro del Tesoro
ROME

cc PS/Economic Secretary
Mr Wicks
Mr H P Evans
Mr Mountfield
Mr Davis
Mr Lazar
Mr Tarkowski

Mr Cassell - UKDEL

A handwritten signature in the bottom left corner, appearing to read 'Giuliano Amato'.

SUPPORT GROUP FOR SOMALIA

Thank you for your letter of 24 June conveyed by your Ambassador in London.

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A handwritten signature in black ink, appearing to read "Nigel Lawson". The signature is stylized and includes a long horizontal stroke at the end.

NIGEL LAWSON