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FCS/80/97

CHANCELLOR OF THE EXCHEQUER

NBPA yet

(Meeting 3 June)

(FCD + ChEx
are meeting
on 3 June)

Print. 2/6

Zimbabwe Debt

1. Thank you for your letter of 27 May enclosing a note about the latest stage of the negotiations with Zimbabwe on the repayment of their debt to the UK.
2. Your note, for reasons which I understand, concentrates on the issues immediately connected with the debts. I should like to set them in a wider context. In the first place, we should bear in mind that whatever debt repayments the Zimbabwe Government make either to the Exchequer or to the bondholders are something of a windfall. They are a by-product of the political settlement which had eluded previous governments for 15 years and which might well have eluded us too if we had been less fortunate. That settlement has already brought us very substantial dividends, not least in removing pressure on valuable British interests in Nigeria and elsewhere in black Africa. Moreover it has reopened to us a potentially worthwhile export market in Zimbabwe itself.
3. For the Zimbabwe Government, on the other hand, the prospect of a return to international financial respectability and a normal role in the world economic community is not an unmixed blessing. Many of its members and supporters have yet to be persuaded that they did right to conclude and implement the Lancaster House agreement and would not have got a better deal by going for military victory. We must do what we can to strengthen the forces of moderation in the Government and restrain the revolutionary instincts of some of its members.

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4. We are expecting a delegation of Zimbabwe Ministers to come to London next week and to represent to us that the foreign exchange costs of honouring the pensions commitments protected by their constitution will impose a crippling burden on their economy, which is already facing heavy post-war reconstruction costs. If we can do anything at all to alleviate or postpone the burden, it will probably have to be done within our aid ceiling of £75 million, and at the expense of other proposals for the expenditure of our aid to Zimbabwe. Your officials are in any case, as paragraph 14 of your note indicates, at present insisting that our aid should be offered on repayment terms, although at very modest rates of interest, and not as a grant. This is likely to come as a considerable shock to the Zimbabwe Government, especially against the background of the meagre offers they have so far had from other major donors.

5. The major objective of our policy in relation to Zimbabwe now that we have secured a political settlement must be to see the country stand on its own feet and for moderate policies to prevail. We want both Zimbabwe and the international community to cease to see the country as primarily a British problem and a British responsibility. But we are not out of the wood yet. Our interests and our standing will suffer if the new government is not encouraged to feel that it has more to gain by following the advice of its sensible white officials than by listening to the radicals in its midst. There are still many thousands of UK citizens in Zimbabwe whose welfare could become a charge on us if irresponsibility wins the upper hand there and there is a collapse of white confidence.

6. I believe therefore that there is a powerful case for going further than the recommendations in paragraph 20 and 21 of your note in the following respects:-

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- a) we should write off all the debt to HMG except that in respect of the two CAPCO loans;
- b) we should waive interest during the grace period; and
- c) we should concede a 10 year repayment period in addition to the grace period and, if possible, offer a concessionary rate of interest.

There are strong grounds for arguing that Zimbabwe is a unique case, should there be any attempt to quote the settlement as a precedent in future negotiations with other countries. And if we are not prepared to agree to a settlement on these lines, we should be that much worse placed both to resist pleas for helping the Zimbabwe Government bear the cost of remittability of pensions and to maintain our offer of aid on loan rather than grant terms.

7. In the light of the observations above I hope that our colleagues in OD would agree that we should proceed on the basis of your note, amended as proposed in the preceding paragraph.

8. I am copying this minute to the Prime Minister, other members of OD Committee and to Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office
29 May 1980

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