



PM/80/47

PRIME MINISTER

agreed to appear in the letter - before the 23rd

1. Mr Mugabe wrote to you on 4 June to introduce a team of three Zimbabwean Ministers, headed by the Minister of Finance, who came over to London for talks about financial problems.

The team sought:

- (a) help with the cost of commuted pensions of white civil servants who leave the country, payable in accordance with guarantees in the Constitution;
- (b) a large contribution to the programme for land resettlement, in particular for paying compensation in accordance with the Constitution to the owners of land taken over for this purpose;
- (c) a contribution to a 'supersession' scheme designed to reward white civil servants who stay on despite being superseded as a result of Africanisation policies (a scheme of this kind was suggested by our advisory team on the public service);
- (d) help in carrying out certain training recommendations put forward by our advisory team on the public service.

2. We made it clear throughout the talks that there was no question of increasing the £75 million aid which I had announced in the House. We pointed out that the allocation of the £75 million was currently under discussion in Salisbury by our Aid Mission and that we expected to allocate a substantial part of it for land resettlement. We would also consider any firm proposals for help with civil service training or with a supersession scheme. However, we said we would not wish to make a direct contribution to payments under the 'incentive' scheme. We concluded by saying that you would reply to Mr Mugabe's letter in due course, when we had considered further the representations they made.

/3. Since then

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I agree with the F.C.S. I doubt whether the negotiators advised the full extent of the burden they agreed to.

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is the suggestion Prime Minister

As you will see there is a divergence of view between the F.C.S. & the Chancellor. (The Chancellor's minute is at Page C.)

Since the F.C.S. mainly wants to implement a 'full back' arrangement to which the Chancellor had already agreed, the issue is one of judgement (e.g. as to the effect the concession would have on the

position of Mr David Smith.) Unless you form a clear view on the basis of the papers, you may like to discuss on the phone to Venice.

Print 19/6



3. Since then a second round of talks has taken place with Zimbabwean officials on the pre-1965 debt to the UK amounting to over £100 million, of which about half represents foreign debt and the other half debt to private holders of Rhodesian stocks. The outcome of these talks is reported in the Chancellor's minute to you of 13 June.

4. As the Chancellor points out, the terms agreed on the government debt are much more favourable to HMG than those for which we should have been prepared to settle. Indeed the Chancellor and I had agreed in advance of the negotiations that we would, if necessary, be prepared to write off some £20 million of the official debt in addition to the small claims which were abandoned in the course of the negotiations. While this outcome is in a sense satisfactory, as the Chancellor has pointed out, I am seriously concerned about the effect which it has produced on the overall balance of our financial dealings with Zimbabwe and would myself have preferred to make a more generous resolution of the government debt problem. My fear is that Mr Mugabe and his Ministers will come to feel that the balance between the debt settlement and our aid programme does not represent a particularly generous legacy by us to Zimbabwe. Worse than this there could be a suspicion that the white Permanent Secretary of the Ministry of Finance (Mr David Young) had failed to get the best deal available for the new African-led government.

5. They would have some grounds for such a feeling. Under the terms negotiated with HMG and the bondholders they will repay some £64 million of debt over the period up to the end of 1983/84 during which our £75 million aid will be spent and nearly £20 million a year for the five years thereafter, as well as servicing the substantial part of our aid which will take the form of loans.

6. Such feelings of dissatisfaction may lead them sooner or later to press for a reopening of the debt settlement, or for further aid which we shall be unable to concede. They may also see the

/demands



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demands which the sterling debt settlement makes on their foreign exchange resources as a justification for action on public service pensions, land acquisition or remittability of blocked accounts, which could be destabilising and could damage our interests - by driving whites out of the country in greater numbers or by affecting Zimbabwe's ability to keep the bargain struck with us on the debt.

7. Notwithstanding the line taken by his officials in the talks, I therefore believe that there is a serious case for offering Mr Mugabe a more generous settlement of the debt to HMG, in the hope of encouraging him to remain on a moderate course and to help immediately to fend off requests for more aid. An offer of further write-offs of capital sums due would be relatively inexpensive to us in view of the timescale over which repayments are to be made in any case, though it would have a very useful psychological effect, in my view, on the Zimbabwe Government. I am confirmed in this by the advice of our High Commissioner in his telegram No 1654 of 13 June (copy enclosed).

[A.] / 8. I acknowledge that there is a difficulty in offering concessions to the Zimbabweans for which they did not press during the negotiations. But I do not believe we should allow this to stand in the way of a solution which will be better for them and, equally important, better in the long run for our interests. I therefore enclose a draft reply to Mr Mugabe's letter to you, which incorporates an offer of further write-offs of government debt.

[B] / 9. If such an offer must be ruled out now, I hope at least that you and the Chancellor will agree that we should not close our minds to the possibility of making a further conciliatory gesture to the Zimbabwe Government on government debt at some time in the future if it appears to offer a prospect of staving off developments of the kind I have described. But it would be of far greater value to make such an offer now than to have it dragged out of us at some time in the future - as I fear may well be the case.

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/10. I am



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10. I am sending a copy of this minute to the Chancellor of the Exchequer, the Lord President, the Secretary of State for Defence, the Secretary of State for Trade and Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office

18 June 1980

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B

D8 11 (Revised)

DRAFT: ~~memo~~/letter/~~statement~~/~~dispatch~~/~~note~~

TYPE: Draft/Final 1+

FROM:
Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:
Mr Robert Mugabe

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

You wrote to me on 4 June to introduce the delegation headed by your Minister of Finance which visited London to discuss financial assistance.

CAVEAT.....

I am grateful to you for sending such a high level delegation to explain your problems to us. I am well aware of the many pressing problems which your government is facing, including the financial problems which you mentioned in your letter and which the delegation explained to us. May I say how much I admire the way in which you are tackling your problems and assure you of my very sincere best wishes for your success?

The delegation explained to us the costs which could arise as a result of the "incentive" scheme for public servants. They also gave us an indication of the resources which they thought might be required for your land resettlement programme and they discussed the proposals made by our advisory team on your public service, including the proposal for a "supersession" scheme. I fully appreciate the extent of these and other calls on your foreign exchange resources and I am very concerned that your government should be given all possible help and assistance by aid donors so as to enable you to repair the damages caused by the war and set your country on the path to economic progress. I am sure you will understand that this assistance cannot come from Britain alone. My Government has had

Enclosures—flag(s).....

/to impose

to impose stringent cuts on public spending in this country and, has had to make severe reductions in the funds available for overseas aid. As you know, we have despite these problems promised Zimbabwe £75 million over the next three years. This is one of our largest commitments in Africa, and it is of course right that it should be so in the circumstances.

When we last met in May, you emphasised that your primary concern was the problem of military integration and training. Our High Commissioner will have told you that, in response to your request and following the recommendations made by General Fursdon and your Military Advisers, we are more than doubling the size of our military training team and making £3 million available for this programme. This sum is, of course, separate from the £75 million aid figure. The spending of the £75 million is a matter for discussion between us and our Aid Mission has recently been considering this with your officials. I cannot hold out any hope that we could increase the total, but we are and will remain willing to consider making provision within it for a supersession scheme for public servants if that is your wish.

I realise that our inability to increase our aid programme will be a disappointment to you. There are, however, other ways in which we can and will continue to help. I hope you will agree that the discussions on sterling debt last week concluded in a way which was intended to take proper account of your foreign exchange problems, and will release substantial funds which would otherwise have been allocated to debt repayment. It should also help you to secure funds in international markets.

On further reflection, however, and in the light of your letter, I have decided that we could do more to assist you in this direction. Subject to your agreement, therefore, I propose that we should write down the outstanding capital debt to HMG for which you have accepted responsibility to ~~some~~ ^{from some £65m} ~~some~~ ^{£33 million} (ie the sums due in respect of the two CAPCO loans) and should adjust the repayment schedule accordingly. Finally, I hope that my Government can be of assistance to yours in seeking aid from other international /donors

donors and that you will let us know if there is anything you would like us to do to support your efforts, for example over the organisation of a donor conference.

May I say in conclusion how glad I am that you have felt able to discuss these problems with us. I very much hope that we can keep in close touch and that you will let me know quickly of any further problems which arise in the future, where you think we might be able to help.