

Prime Minister.

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cc ECON POL: Independence:

Pt 3

Original in: Commonwealth:

CHOGM: Pt 7.



I think you only said to President Nyerere that you would look into the matter on your return. Do you wish to write to him?

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

A.F.C. 9/12.

8 December 1983

John Coles Esq.
10 Downing Street
LONDON
SW1

He has devalued twice and is prepared to do so again if it will save

Dear John,

TANZANIA: IMF

the loan from the I.M.F. Can we agree?

Thank you for your letter of 29 November about the Prime Minister's discussions with President Nyerere of Tanzania in the margins of CHOGM.

Tanzania has been courting the IMF, on and off, for four or five years. The last Fund mission was in the summer, but negotiations now seem to be stalled. The main difficulty is indeed exchange rate policy. The Fund do firmly believe that further substantial devaluation is necessary in order to enable local producer prices to rise to levels giving realistic incentives to farmers. We have no reason to believe that the Fund are intransigent on the details of their prescription: as with Ghana and Uganda, they should be prepared to consider phased devaluation, fiscal proxies, or a temporary multi-tier exchange rate arrangement, so long as Tanzania is committed to credible medium term objectives offering some prospect of international viability. As with most Fund programmes, however, they are insisting on substantial initial adjustment measures both as a gesture of good faith and to get the programme off to a good start.

Tanzania suffers from the familiar African problems of an extensive parallel market, leading to corruption, coupled with sensitivity about surrendering a degree of autonomy to the IMF. The Fund may be losing patience with the protracted negotiation process, and have certainly encountered difficulty in obtaining the necessary statistical information, with recent letters to the President and Economic Minister going unanswered. And I imagine that the Tanzanians are reluctant to lose face by compromising.

In the meantime, Tanzania has accumulated substantial payments arrears, approaching \$½ billion. As a significant proportion of these are owed to UK companies, it would be in our interest to persuade Tanzania to reach an understanding with the Fund. But it would set a bad precedent for us to argue that conditionality should be watered down in order to secure it. It would be obvious that the Fund had been forced to compromise because of Tanzanian intransigence, and other Fund clients - both developing countries and sovereign debtors - would not be slow to demand similarly lax terms. Moreover a poorly based programme would mean that Tanzania's need for supplementary Aid - to which we would be expected to contribute - would be that much higher. In any case, the Fund prescription for Tanzania seems broadly right.

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Partly for this reason, the Chancellor is reluctant to lobby the IMF on behalf of President Nyerere. He is also conscious that such advocacy could undermine our credibility as objective and responsible members of the Fund. In any case, he is doubtful whether we would succeed.

If the Prime Minister agrees with this assessment, the Chancellor believes that it would be better for her not to write to President Nyerere just at the moment. . . . But in case she would prefer to write, I attach a draft.

I am copying this letter to Peter Ricketts at the FCO.

Yours ever,

J. O. Kerr

J O KERR

Principal Private Secretary

DRAFT LETTER TO PRESIDENT NYERERE OF TANZANIA

You told me in New Delhi of your difficulties in negotiating a standby arrangement with the IMF

I am sure you are right to think in terms of a Fund programme, and the amount and pace of devaluation of the shilling will be crucial to its success. Clearly the right policies are those which make sense in the market place: if one's goods and commodities find ready export markets, that in turn makes it possible to raise domestic returns and thus enhance incentives for private producers.

Details such as these clearly need to be settled bilaterally with the Fund. But I am sure that the successful conclusion of your discussions would greatly benefit Tanzania, both in terms of direct balance of payments support and indirectly as a signal of confidence to potential investors and creditors. I shall ensure that the UK Executive Director at the IMF will consider your programme with the utmost care and sympathy when it comes before the Board.