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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

5373

10 February 1972

MEMORANDUM FOR: Mr. Elmer Glaser
Statistics and Reports Division
Agency for International Development

SUBJECT : Repayment Terms of Communist Aid

Attached is the information you requested concerning repayment terms of Communist aid to the Less Developed Countries.

Office of Economic Research

Attachment
As stated above

(S-4141)

CIA HISTORICAL REVIEW PROGRAM
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Repayment Terms of Communist Aid
to the Less Developed Countries

Economic Aid

1. During 1954-71, the Communist countries extended some \$13 billion of economic aid to less developed countries (LDCs). Almost all of this aid has been provided as credits with fixed terms of repayment. ^{1/} Less than 5%, or about \$600 million, was in grant aid. The People's Republic of China (PRC) provided about \$355 million, more than three-fourths of which was allocated to Cambodia, Nepal, and Pakistan. ^{2/} The USSR provided \$245 million of grant aid, largely to Afghanistan in 1959 for road construction. East European countries have provided only negligible amounts of grant aid to the LDCs.

2. The terms of repayment of Communist economic credits to the LDCs have changed little during the 18 years of the program. Chinese repayment terms always have been more liberal than those of other Communist donors. Its aid is interest-free and usually requires repayment over 10 years, after 5-10 year grace periods. In a few cases, however, China has permitted longer repayment periods. On the \$400 million credit extended in 1970 for the Tan-Zam Railroad, China allowed 30 years for repayment after a 10 year grace period; a \$110 million credit extended to Somalia in 1971 may carry 20 year terms as does the Chinese credit of \$28 million provided to Afghanistan in 1965.

3. Soviet aid is provided under less favorable terms. Most Soviet credits call for repayment over 12 years at 2.5% beginning one year after project completion. These terms usually are applied to project-type aid administered by the Soviet State Committee on Foreign Economic Relations. More than 68% of the \$7.6 billion of Soviet aid extended since 1954 has carried these terms.

4. Moscow has allowed longer repayment periods on about \$1.2 billion of its aid. Nearly \$400 million of aid to Afghanistan involve repayment periods ranging between 19 and 25 years with grace periods of 8-25 years. Algeria, Turkey, and Yemen (San'a) received more than \$685 million of credits calling for repayment over 15 years.

1. Includes credits with amortization periods of five years or more.

2. Includes \$107 million extended to Pakistan during 1964-68 as credits but converted to grants in 1972.

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5. About 15% of total Soviet economic aid consists of supplier-type credits provided by the Soviet Ministry of Foreign Trade. These credits, which Moscow calls "commercial credits," often are allocated by recipient governments to private companies. They allow 5-10 years for repayment, carry interest of 3-3.5%, and require downpayments of up to 25%. Almost all Soviet aid to Latin America has consisted of such credits. The first major Soviet credit of this type was a \$100 million credit to Argentina in 1958. ^{3/} During 1964-67, the USSR extended some \$775 million of these credits, more than two-thirds of which went to Egypt, India, and Pakistan. During the past four years, Latin American countries have received about \$115 million of these 5-10 year credits; Iraq, approximately \$140 million; and Egypt, about \$95 million. Nevertheless, this type of aid has not directly reduced Soviet project assistance, as is sometimes assumed, nor has it continued to grow as a percent of total aid extended. These credits, which accounted for almost 30% of total Soviet aid extended during 1964-67, were less than 15% of the aid provided in 1968-69 and 10% of 1970-71 extensions.

6. Aid extended by East European countries almost always carries harder terms than that provided by the USSR or China. Downpayments often are required, repayments usually are made over 5-8 years and interest normally is set at 3-3.5% although it has ranged up to 7%. Occasionally, they have allowed 12 years, 2.5-3% terms. In 1971, about 45% of their aid to Latin American countries carried 12 year repayment periods.

7. Most Communist credits allow repayment in the local currency or goods of the aid recipient. The exceptions to this rule generally apply to countries, such as Indonesia, that do not have clearing agreements with Communist countries. The goods used for repayment often are the output of Communist-assisted plants. Some repayment arrangements are highly advantageous to the donor country, such as Iran's and Afghanistan's repayments in natural gas and Iraq's repayments in crude oil. They contrast with previous agreements with these LDCs that called for repayments in other commodities.

Military Aid

8. Communist military aid to the LDCs totaled about \$9 billion at the end of 1971. Soviet assistance accounts for more than 85% of the total

3. This credit was reduced to the amount drawn (\$29 million) when it expired in 1961.