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19 September 1978

MEMORANDUM FOR: Deputy Director of Central
Intelligence

VIA : Director, NFAC

FROM : Director of Economic Research

SUBJECT : African Dissatisfaction with
the Cost of Soviet Economic Aid

1. Action Requested: None, for your information
only.

2. Background: Attached is the background
memorandum you requested on the above subject []
[] on 5 September. The []
paper focuses particularly on the costs to host countries
of Soviet technical assistance -- the main area of
dissatisfaction -- and compares them with the costs
of Western donor programs.

Attachment:
as stated

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AFRICA: Dissatisfaction With Cost of Soviet Economic Aid

The Guinean case [] is only one of several known instances of African dissatisfaction with Soviet economic and technical assistance. A number of other unhappy recipients can be cited, including Angola, Congo, Ethiopia, Mali, and Tanzania. Among the recurrent complaints: too much red tape, insufficient amount of aid, inferior quality of Soviet equipment and technical advice, and exorbitant Soviet demands for special privileges, which remind Africans of colonialist practices. A grievance that has recently gained prominence is the excessive financial cost of Soviet-sponsored programs.

Claims, such as those reportedly made by the Guinea government, that the costs of Soviet technical economic assistance are substantially higher than those of Western programs are probably justified in most cases. Because of the scarcity of firm information on the costs of Soviet technical assistance, particularly in Africa, however, we cannot substantiate the validity of these claims across the board.

Salary and Living Costs

In recent years, Moscow has parlayed its technical assistance program into a profitable adjunct of its equipment sales program in the Third World. In 1977, nearly 23,000 Soviet economic technicians -- including project technicians, physicians, teachers, and

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administrative personnel -- were stationed in the LDCs. Most of them were in Middle Eastern countries that have been major aid clients (and who now can afford to pay cash); about 7,500 were posted to Africa. [redacted] indicate that the salaries of Soviet technicians -- in contrast to the practice under Western technical assistance -- are generally paid by host LDC governments, except for occasional free technical assistance to grant aid projects and for training and medical services. Third World reimbursement rates for technicians' salaries vary widely among Third World countries, from \$5,800 annually in the poorer countries to \$20,000 in the higher income LDCs. In addition to the salaries, the host countries must provide living accommodations for Soviet technicians. Thus, instead of being "aid", Soviet technical assistance most often is actually a technical service rendered for some form of compensation, often hard currency. (Guinea, for example, reimburses the USSR for technicians' salaries of \$500-650 a month in hard currency.)

Before 1970, Soviet technical assistance had been much less of a burden to LDC host countries. At that time, most of Moscow's technical services were financed under project aid agreements and carried the same repayment terms, i.e., repayments in goods over 12 years at 2.5 percent annual interest. By the early 1970s concessional deferred payments for technical assistance had become rare, Moscow increasingly demanding cash down in the form of hard currency or equivalent goods.

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Cost of Western Technicians

Western technical aid to the Third World is not only much greater in size but far more concessionary than the Soviet program. In 1976, Western countries gave nearly \$2 billion in grant aid to finance the services of an estimated 75,000 government-sponsored technicians. France, with over \$400 million in technical aid in 1976 was the largest Western donor, followed at a distance by the United States (\$185 million), [] and Belgium (\$97 million). Africa received nearly half of Western technical assistance grants in 1976 as a result of France's allocation of about two-thirds of its aid funds to former African colonies and overseas territories. Most of the Western technical assistance is used to pay salaries of technical personnel, which range from \$10,000 to \$30,000 annually depending on the donor countries and levels of technical expertise. Like the Soviets, the United States, and probably most other major Western donors, requires host LDCs to pay local costs such as housing and local transportation.

Although Western countries until now have provided nearly all of their technical aid as grants, they plan gradually to expand the cost-recoverable portions of their technical assistance programs. Wealthier LDCs, especially, will be expected to pay an increasing share of costs, including salaries. This development is not likely to cut into the grant aid made available to needy countries.

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Soviets Still in Demand

Despite the many complaints expressed by host countries about the costs and quality of Soviet technical assistance, LDCs are employing greater numbers of Soviet specialists than ever, many on commercial contracts. [] indicated that Communist project technicians are well-trained and perform their jobs effectively, although teachers and doctors are decidedly less qualified than their Western counterparts. A number of LDCs in Africa, as elsewhere, desperately in need of technical expertise, from any source, continue to employ Soviet personnel because of lack of available alternative assistance and/or political reasons. (An Annex gives several examples of the costliness of Soviet aid.)

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ANNEX

AFRICA: PROBLEMS WITH SOVIET ECONOMIC AID

Angola

Urban Angolans are resentful about waiting in long lines for consumer items while "special stores" are well stocked for foreign personnel.

Guinea

Until 1976 the Soviets paid well under international market prices for Guinean bauxite (produced from a Soviet-aid project) and did not pay any export taxes, causing a substantial strain in Guinean-USSR relations.

Mali

The Malian government was dissatisfied with the quality of Soviet technology at Mali's Kalana Gold Mine, under development by the USSR.

Soviet medical personnel are generally considered to be poorly qualified and are compared unfavorably with French and Chinese doctors by the Malians.

Mozambique

Moscow is demanding hard currency for technical services (up to \$2,500 a month per technician) in spite of Mozambique's shaky balance of payments position.

Nigeria

Soviet insistence on (1) dictating the terms of project construction, and (2) hiring Soviet personnel over Nigerian labor, along with the high price of Soviet equipment and raw materials, induced the Nigerians to open bidding to Western firms for the large Nigerian steel mill project. Soviet involvement is now limited to an ill-defined supervisory role.

Sierra Leone

Sierra Leone claimsthat Soviet fishing activities under the fisheries aid agreement costs Sierra Leone \$4 million annually in revenues. At the same time, the Soviets have not fulfilled their commitments to improve fishing ports construct processing facilities, and to train local personnel.

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Somalia

In December 1975, the Soviets tried to force Somalia to handle all of its foreign trade transactions through Soviet banks rather than through correspondents of the Somali national bank. Thus, net earnings from exports to non-Communist countries could be credited against Somalia's debts to the USSR. Moscow also wanted to absorb all of Somalia's exports not already covered by current marketing agreements with other customers.

Tanzania

Tanzanian enterprises are reluctant to contract for machinery from the USSR because of the poor experiences of other countries in obtaining spares and after-sales service

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