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Central Intelligence Agency



Washington, D.C. 20505

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MEMORANDUM FOR: See Distribution

SUBJECT: Soviet Grant Military Aid: A Major Tool for Gaining Influence In The Third World

1. The attached memorandum responds to a request for information on the scope of Soviet grant military aid to the Third World. The USSR sends \$6-7 billion dollars in arms to LDCs each year on an outright grant basis--over 40 percent of its total deliveries--and also provides a number of other financial concessions to many of its arms clients. Moscow's willingness to use grant aid widely highlights its use of arms transfers as a lever to gain political influence in the Third World and gives it an advantage in developing arms relationships with LDCs.

2. This paper was prepared by Office of Global Issues.

3. Your comments and suggestions are welcome and may be addressed to Chief, Office of Global Issues

Director of Global Issues

Attachment: GIM 87-20141

CIA HISTORICAL REVIEW PROGRAM
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SOVIET GRANT MILITARY AID:

A MAJOR TOOL FOR GAINING INFLUENCE IN THE THIRD WORLD

Summary

We estimate that over 40 percent of the \$13-16 billion in arms that Moscow sends to LDCs each year are provided on an outright grant basis. In addition to these outright grants--which amount to some \$6-7 billion a year--Moscow provides a variety of other financial concessions on arms sales to many countries, including terms which amount to de facto grants. Moscow's grants are concentrated among its Communist and Marxist clients, but the USSR provides at least some grant aid to most of its arms clients, underscoring the Soviets' use of military aid as a lever to gain political influence in the Third World. We believe the value of Moscow's outright grant military aid to the Third World will remain high and may rise because several major recipients of Soviet military aid need large amounts of arms to fight wars or insurgencies and have little ability to pay.

This paper was prepared by _____ Information
available as of 10 August 1987 was used in its preparation. Comments and
queries are welcome and may be addressed to
Office of Global Issues

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Soviet Grant Military Aid: A Major Tool For Gaining Influence In The Third World

Moscow provides large amounts of military equipment and materiel to Third World countries on an outright grant basis*. Our analysis indicates that during the last five years over 40 percent of Moscow's \$78 billion in arms deliveries to LDCs were made on a grant basis. This equates to \$6-7 billion in grant aid each year. In comparison, US extensions of grant military aid to LDCs from 1982-86 averaged \$2.1 billion a year.** The estimate of the value of Moscow's grant aid in this paper is three times previous estimates and reflects both a recent upward revision in the estimate of the value of Soviet arms transfers and a careful review of a broad range of reliable reporting on Soviet grants.*** The annex details the method by which we have estimated the value of grant.

Recipients of Grant Soviet Military Aid

The USSR offers varying amounts of grant aid to its arms clients, with most receiving at least some grants. We are not sure how Moscow determines how much grant aid to provide each country, but in general, countries which are ideologically tied to Moscow or poor receive more grant aid, while other recipients receive little or no arms on a grant basis:

- o Several Communist and Marxist-Leninist LDCs--Cambodia, Cuba, Laos, Mongolia, Vietnam, and probably Nicaragua and South Yemen--receive almost all their military goods free of charge. [
- o Grenada also received all of its Soviet arms on a grant basis. In the last five years we estimate that these countries have received \$3 to \$3.5 billion a year in grant military aid. In our view, the USSR provides extensive grant aid to these countries because of their strong ideological ties to Moscow despite their inability to pay much for arms. We believe that these clients probably are obligated to pay for at least some dual-use items. Laos, for example, is paying in timber for some transport helicopters [

* In this paper the terms "grant aid" and "grants" refer only to outright grants.

**US figures include FMS credits to Israel and Egypt on which payment is forgiven, and MAP and MAP merger funds, the traditional US grant aid program.

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- o Other Marxist-Leninist LDCs also receive large amounts of their arms on a grant basis, reflecting Moscow's readiness to support allies despite their inability to pay for all the arms they need. []
[] Afghanistan and Ethiopia receive half or more of their arms on a grant basis. We believe that Angola and Mozambique receive similar amounts of grant aid. We estimate that the value of Moscow's grant military aid to these Marxist clients since 1981 has ranged from \$1 to \$2.5 billion a year.
- o [] Almost all minor African recipients of Soviet arms, such as Congo and Burundi, receive 30-45 percent of their arms on a grant basis. In the 1980s, the total value of military aid to minor African recipients has been close to \$100 million a year.
- o Even a few major customers in the Middle East probably receive grant military aid from the Soviet Union. []
[] Iraq has received 25-30 percent--currently about \$1 billion a year--of its Soviet arms on a grant basis since the early 1960s and that Syria received a large quantity of free arms to rebuild its forces in 1982-83 following its clashes with Israel. Algeria still receives token numbers of free arms from Moscow despite converting its acquisitions mainly to a cash basis in the 1970s, []
- o [] India and Peru receive no outright grant aid. We believe that some other Soviet arms clients such as Libya, Kuwait, and possibly North Korea and Jordan also do not receive any grants

Other Soviet Financial Concessions

In addition to the \$6-7 billion a year in outright grant aid, the USSR provides a number of other financial concessions to many of its arms clients:

- o Moscow provides low interest, long-term credits to many countries to finance arms purchases. Terms vary, but interest rates can be as low as 2 percent, and repayment periods can extend up to 20 years with grace periods up to four years. We estimate that, on average, credits are for 10 years, at 4 percent interest, with a one or two year grace period--well below market rates.
- o India--the USSR's second leading arms customer over the last five years--is allowed to pay in soft currency. []
[] New Delhi pays for arms in rupees through

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a bilateral clearing account in which Indo-Soviet trade is balanced over time. This sets up a de facto barter arrangement which helps India market low quality manufactures. In addition, the rupee-ruble exchange rate has been favorable to New Delhi in the 1980s, which further cuts the actual cost of Soviet arms.

- o Several countries make at least some payments in goods, thereby reducing the hard currency cost of payments. Afghanistan, for example, pays in part in natural gas. Zambia has provided cobalt, [] Peru also pays at least part of its arms debt with goods. []
- o Moscow often reschedules or forgives its arms clients' unpaid debts rather than accept default, a practice that turns some credits into de facto grants. [] for example, [] Moscow has postponed payments on Ethiopia's debt until 1990. The debt is now approximately \$4 billion--far more than Addis Ababa can ever pay. []

Implications and Outlook

Moscow's widespread use of grant aid bespeaks its reliance on arms transfers as a lever to gain political influence in the Third World. The USSR's infusions of free arms help prop up its Marxist-Leninist clients which are beset by insurgencies. Rapid resupply of free arms to Syria in 1982-83 probably helped restore Moscow's image as a reliable and useful ally after the defeat of the Syrian air force by Israel. In our view, the high percentage of Soviet arms transfers made on a grant basis to Iraq into the early 1980s reflects Moscow's need to patch up relations with Baghdad following its 1975-76 and 1980-81 arms embargos of Iraq.

Soviet willingness to extend grant aid rather than seek as much payment as possible gives Moscow an advantage in developing and maintaining arms relationships with poor LDCs. Even a partial grant cuts the cost to the client of Soviet arms to levels well below the costs of buying other suppliers' weaponry. Grant aid can give Moscow an added advantage in winning arms agreements even when other potential suppliers also offer concessions such as cut-rate loans and offsets. Grants also help Moscow keep its arms clients from diversifying their arms sources even when they are dissatisfied with Soviet aid. For example, [] Angola would like to diversify its arms sources. Although Luanda has bought such equipment as trucks--which are sold by Soviet export organizations that do not provide grants--from Brazil,

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France, Spain, and Romania, Angola relies almost totally on Moscow for clearly military goods. Moscow's subsidy on these goods, in our view, makes the financial penalty of buying these items elsewhere prohibitive.

We believe that the value of grant Soviet military aid to the Third World will remain at least at current levels over the next several years and may even increase. Our analysis

indicates that recipients are receiving the same percentage of grant as in earlier deals. We believe it unlikely that Moscow will change these terms given its clients' lack of money. Most major recipients of Soviet grant military aid also are fighting wars or insurgencies and will need large amounts of arms to pursue their war efforts. We believe that Moscow will largely supply these needs. In some cases, the demand for Soviet arms may rise. Iraq's financial problems, for example, may force it to cut back on arms purchases from non-Soviet suppliers and increase purchases from Moscow. This would also increase the total amount of grant aid unless the Soviets dramatically tightened the terms of sales--a move we believe is unlikely.

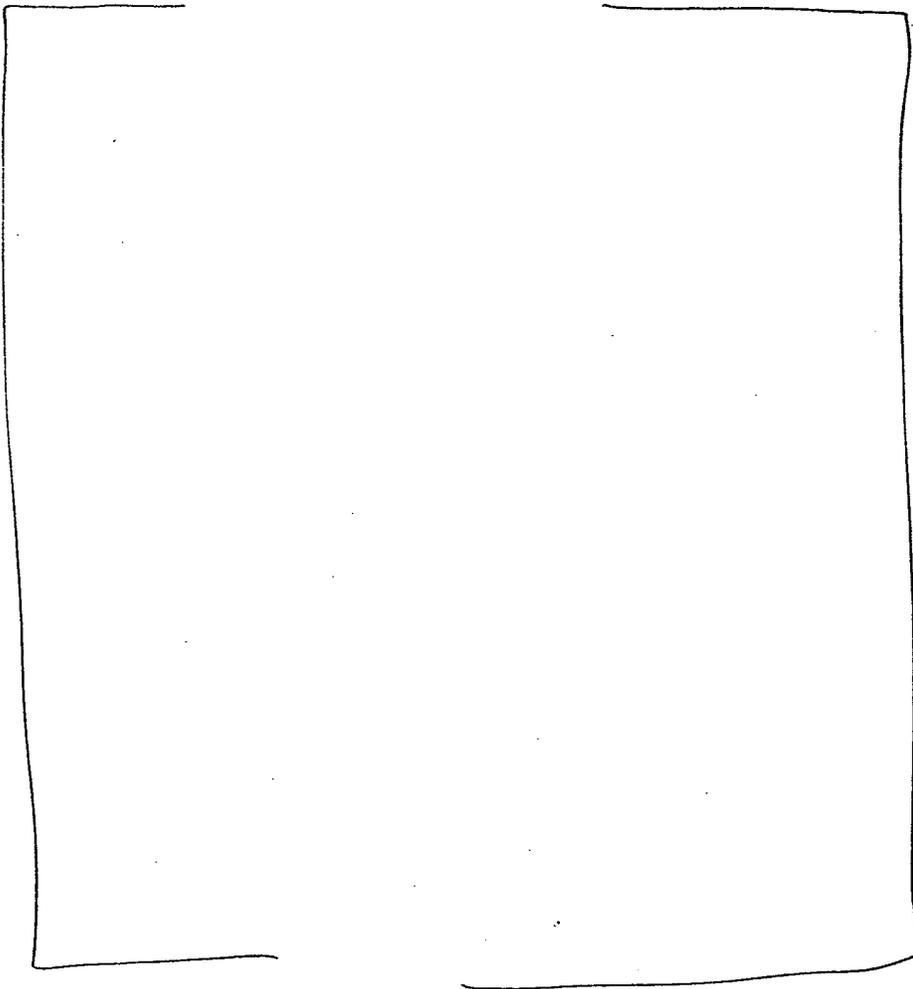
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ANNEX

Estimating the Value of Grant Aid

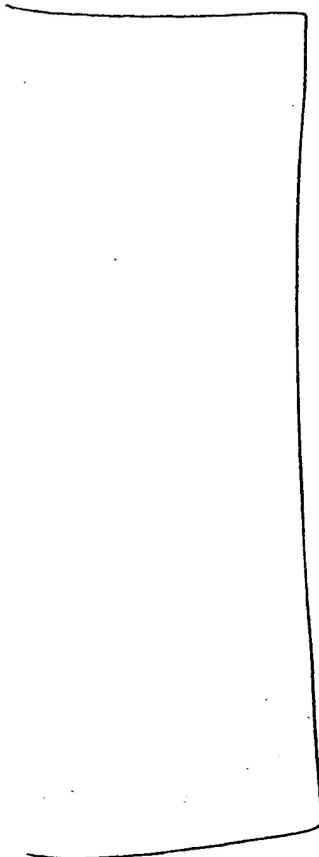
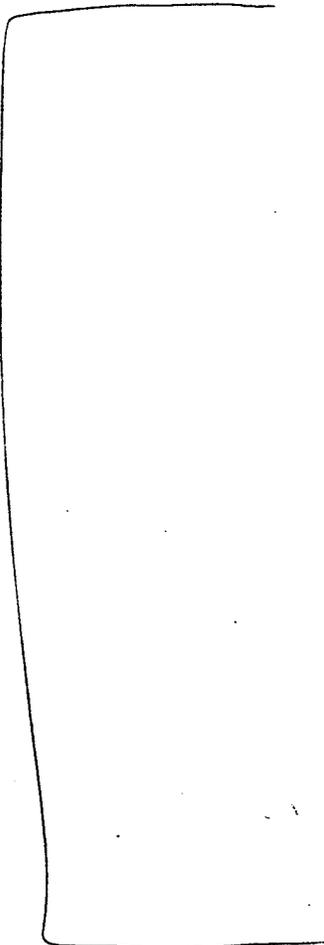


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Table 1

Estimated Value of Soviet Grant Military Deliveries to the Third World: 1982-86

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>TOTAL</u>
TOTAL DELIVERIES	\$16.0	16.6	16.0	13.7	15.6	77.9
TOTAL GRANT	6.0	7.0	6.5	6.0	6.5	32.0
PERCENT GRANT	38	42	41	44	42	41

--Values in US \$B (current)

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Table 2

Leading Recipients of Soviet Grant
Military Deliveries: 1982-86

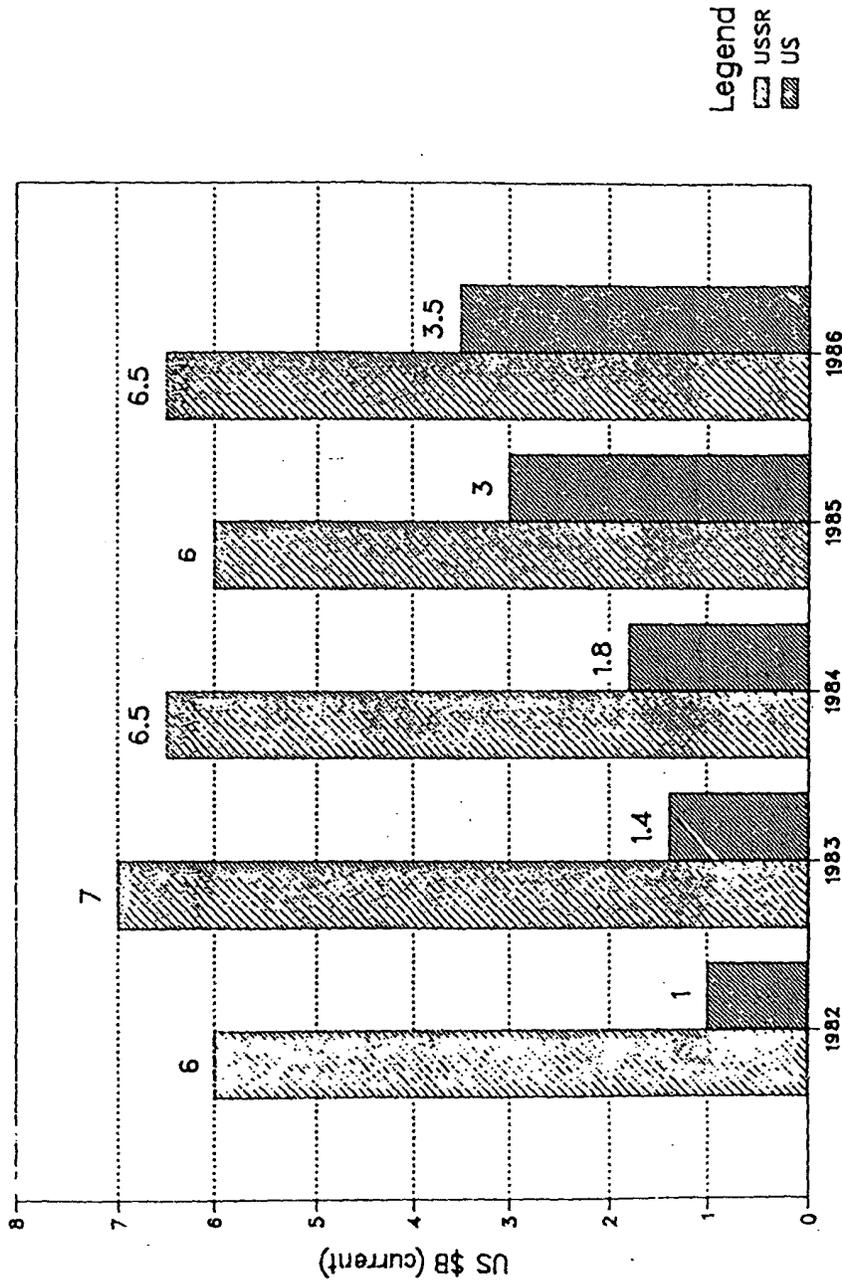
<u>Recipient</u>	<u>Value of Grant</u>
1. Vietnam	\$6700
2. Cuba	5800
3. Iraq	4500
4. Afghanistan	2800
5. Angola	2200
6. Ethiopia	1800
7. South Yemen	1700
8. Nicaragua	1200
9. Syria	1000
10. Cambodia	750
TOTAL TOP 10	\$28,450

--Values in US \$M (current)

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Figure One
USSR AND US: GRANT MILITARY AID TO LDCS: 1982-86



Legend
USSR
US

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