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30 October 1964

MEMORANDUM FOR: Jerome Forrest, A/SRD
Agency for International Development

SUBJECT: A Note on the Operation of Communist Counterpart
Fund Schemes in Tropical Africa

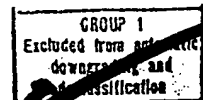
1. This memorandum is in response to your request of 26 October for information on Communist counterpart funds. We understand that your office plans to question the field for additional information. Should any responses not receive general distribution we would appreciate direct copies.

2. Thus far in tropical Africa the USSR has set up counterpart programs in the Somali Republic, Ghana, and Mali. Czechoslovakia also has a counterpart fund agreement with Ghana. Our information is detailed only on the Soviet counterpart program in Somalia and to a lesser extent in Ghana and Mali. These countries are considered in attachments to this memorandum.

Attachments:

1. "A"
2. "B"
3. "C"

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ATTACHMENT "A"

SOMALI REPUBLIC - USSR

In February 1962 the Somali Republic received a \$7.7 million line of credit to purchase Soviet goods. Proceeds from the sale of those goods were to be applied against local currency costs of Soviet financed development projects.

By the end of 1963 some \$4 million had been drawn. During the first half of 1964 Somalia used \$1.5 million, bringing total drawings on this line of credit to \$5.5 million. Goods delivered by the USSR included cement, sugar, wheat flour, vehicles, tractors, and other equipment. There have been problems, however; in particular, the USSR failed to deliver promised shipments of sugar on schedule. Somalia also has complained that the quality of Russian flour has been poor and that tractors, bulldozers, and other equipment are ill-suited for the Somali climate and terrain.

In January 1964 Somalia requested postponement of the first installment due. In July 1964, the USSR responded by making a gift of about \$750,000 worth of the commodities and equipment already delivered.

Repayment provisions of the contract are summarized below:

- (1) Provision is made for a one-year grace period, following which payment is to be made in equal installments within 5 years of delivery of the goods.
- (2) Payment on principal and interest to be in Somali goods, including cotton, oil-bearing seeds, and raw hides. The part not paid in goods to be paid in convertible currency. Within three months before the beginning of each year the parties are to determine the types and quantities of Somali goods to be delivered for the calendar year ahead. The prices are to be based on world market prices.
- (3) The Somali National Bank and the Soviet State Bank or its delegate, the USSR Foreign Commerce Bank, are to open special credit accounts and set up jointly the means to administer the credit and its repayment.
- (4) Interest from the day and for the amount drawn.

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ATTACHMENT "B"

GHANA - USSR

A \$22.2 million counterpart fund has been established under a 4 March 1963 protocol to the Soviet-Ghana Economic and Technical Cooperation Agreement. This protocol was designed to overcome one of the principal handicaps of implementing Soviet aid projects -- inadequate funds to meet local costs. The protocol provides for delivery of Soviet consumer goods, building materials, and other items during the 4-year period, 1963-66. Proceeds from the sale of these goods are to be used by the Ghanaian government exclusively for meeting local costs connected with the construction of specific projects carried out with the assistance of the Soviet Union. Despite difficulties, including consumer resistance to Soviet goods, substantial local funds have been generated. By mid-1964 perhaps \$5 million worth of Soviet goods had been imported under this program.

Although full details of the repayment procedures are not available, provisions probably are similar to those for the Somalia credit. We do know, however, that Ghana must repay the credits within six years after drawings are made and that an interest rate of 2.5% per annum is to be applied.

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ATTACHMENT "C"

MALI - USSR

An agreement to generate local currency from the sale of \$6 million worth of Soviet consumer goods was concluded in February 1963. We believe that most of the credit has been drawn, but at present details of drawings and repayment provisions are not available.

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