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PAYMENTS ARRANGEMENTS BETWEEN AFRICAN COUNTRIES AND THE SOCIALIST COUNTRIES OF EASTERN EUROPE

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I. INTRODUCTION

1. The Lagos Plan of Action, adopted by the Heads of State and Government of the Organization of African Unity, who met at Lagos (Nigeria) on 28 and 29 April 1980, recommends the systematic promotion and expansion of trade and economic cooperation potentials with the developed countries having centrally planned economies, with a view to diversifying, both geographically and structurally, Africa's trade patterns.

2. At its last session held in Addis Ababa from 1 - 3 February 1982, the Conference of African Ministers of Trade again stressed the need to develop trade and economic relations between the two groups of countries.

3. The aim of this document is to consider how the trade and economic relations between the two groups of countries may be intensified by improving the legal basis underlying these relations. It includes the information now available on the payments arrangements made between the African countries and the Socialist countries of Eastern Europe; highlights the problems arising from the implementation of existing payments agreements; and identifies the role played by these agreements in the promotion of trade between the two groups of countries. Part of the study examines the prospects of improving these arrangements.

II. ANALYSIS OF THE GENERAL PAYMENTS SITUATION AND POSSIBLE PAYMENTS ARRANGEMENTS BETWEEN THE AFRICAN COUNTRIES AND THE SOCIALIST COUNTRIES OF EASTERN EUROPE

A. Trade payments

1. General trade situation

4. The Socialist countries of Eastern Europe usually conclude with their trading partners bilateral commercial agreements which form the legal basis for trade and which stipulate that commercial relations will be based on the most-favoured nation clause. The establishment of commercial and economic relations on this legal basis depends on the requirements of the planned economies of the Socialist countries whose external trade conforms rigidly to the general plan. Such agreements are effective instruments for this planning because they give the trading partners an indication of the products or articles which may be traded. This is obviously an important point for the centrally planned economies in the preparation of their foreign trade plans. From the African viewpoint, these agreements are also important because they let traders know that the governments of their countries approve the principle of trading with the countries of Eastern Europe. But, generally, these trade agreements, while including in annexes lists of exportable products, do not require any of the two parties to trade in the goods listed or to refrain from trading in goods not listed.

5. Of course, the Socialist countries of Eastern Europe and the African countries have engaged in trade operations without any kind of bilateral legal regulations but they have been slight or sporadic. Experience has shown that mere commercial agreements are not likely to help the two groups to develop mutually beneficial co-operation. For this reason, the agreements they conclude usually deal also with economic co-operation.

2. General trends and trade in groups of products

6. Between 1970 and 1980 the value of the African countries' trade with the Socialist countries of Eastern Europe increased at an annual average rate of 9.6 per cent, from $27,76 million in 1970 to $72.83 million in 1980. During the period 1970-1980 for which data are available, African exports to the Socialist countries of Eastern Europe increased in value at an annual average rate of 14.8 per cent, from $17.79 million in 1970 to $31.19 million in 1980. During this period, imports into the African region from the Socialist countries of Eastern Europe rose from $9.97 million in 1970 to $41.64 million in 1980, an average annual increase of 15.3 per cent.

7. The product breakdown of African trade with the Socialist countries of Eastern Europe did not change much during the period covered by the study. The bulk of African exports to the European centrally planned economies consisted of primary commodities, a quarter of them agricultural products and three-quarters mining products and metals. The main food products were coffee, cocoa beans, fruits, vegetables and cereals; raw materials (excluding fuels), oils and fats have come to include inter alia : grains, oleaginous nuts and almonds, animal or vegetable oils and fats, textile fibres, bulk fertilizers and minerals, ores and metal waste. The share of these products in African exports to the Socialist countries of Eastern Europe is relatively high : 34 per cent in 1970 and 44 per cent in 1978. African exports of manufactured goods to the Socialist countries represented only 16 per cent in 1970 and 18 per cent in 1978. The bulk of African imports from the Socialist countries of Eastern Europe consists of manufactured goods, of which a third is in the form of transport machines and equipment.

8. From this brief analysis, it is clear that the bilateral trade agreements between the two groups of countries are mainly concerned with primary commodities, on the one hand, and maufactured goods, on the other. This trade pattern can be profitable for the African countries only to the extent to which the overall terms of trade are in their favour. However, during recent years, there have been sharp fluctuations in the going rates for raw materials, on which the Socialist countries of Eastern Europe base the prices to be paid by the African countries. The export trade of the African countries with the Socialist countries of Eastern Europe will be profitable to them only if new machinery can be established for avoiding sudden declines in the terms of trade of African products.

9. If the socialist countries do not take practical steps to increase their purchases of manufactured goods from the African countries, the existing pattern of trade between the two countries will continue and will be unlikely to favour the economic development of the African region. It seems necessary among other things, to find ways of transferring technology from the developed countries of

Eastern Europe to Africa, so that Africa can export finished goods to the Socialist countries of Eastern Europe.

3. Trade balance

10. The paragraphs which follow illustrate the magnitude of and trends in the payments which the African countries have had to make as a result of their commercial transactions with the Socialist countries of Eastern Europe. Except for the year 1975, the last decade has seen a continually positive trade balance in favour of the centrally planned economies. Moreover, as table 1 shows, this negative balance for the African countries has decreased only slightly, from $1,259 million in 1978 to $1,045 million in 1980, an annual average drop of 9.3 per cent.

Table 1. African trade with the socialist countries of Eastern Europe (Value in millions of dollars) 1/

	EXPORTS			IMPORTS			Trade Balance
Year	World trade	Socialist countries	% share in world trade	World trade	Socialist countries	% share in world trade	
1970	12 164	779	6.4	11 977	977	8.3	-218
1975	33 960	2 032	6.0	41 022	1 957	4.8	75
1978	44 753	1 654	3.7	57 401	2 913	5.1	-1 290
1979	66 576	2 017	3.0	64 095	3 234	5.0	-1 217
1980	90 209	3 119	3.4	85 156	4 164	4.9	-1 045

1/ Source: Monthly Bulletin of Statistics, Vol. XXXV, No. 7, July 1981.

11. The persistent trade imbalance with the Socialist countries of Eastern Europe has not only affected the African countries as a whole but has also affected most of them individually, including some of Eastern Europe's major trading partners (see table 2).

12. Most African countries depend on commodity exports for their foreign exchange. The fluctuations in world commodity prices have severely handicapped them. They continue to export primary commodities to the Socialist countries but their earnings from such commodities do not cover the costs of their purchases from these countries. By initiating trade with the Socialist countries of Eastern Europe, the African countries hope to increase their export revenue. Moreover, the credit extended by the Socialist countries for the purchase of capital goods tends to inflate import prices.

B. Payment made within the framework of economic and financial relations

13. This section deals with the financial payments made by the African countries in connection with assistance received from the Socialist countries of Eastern Europe.

1. Official bilateral aide

14. The expansion of trade between the two groups of countries depends partly on the acceleration of their economic development. To sustain such development. the African countries have often had recourse to assistance from a large number of developed countries and, since their political independence, they have received aid from the Socialist countries of Eastern Europe. For the purposes of official development assistance (ODA), the Socialist countries of Eastern Europe make loans rather than grants. There have been some exceptions: for example, 7.1 per cent of USSR expenses on projects completed in 1969 in Somalia took the form of grants.

15. The Socialist countries extend two kinds of bilateral credits. Firstly, governmental credits granted under economic and technical agreements are used to purchase complete factories and related services, to finance the technical assistance needed to carry out the project in question and to train local manpower. Most assistance to Africa takes the form of bilateral loans bearing interest of 2-3 per cent, with a repayment period scheduled between 10 and 15 years. By comparison, ODA loans from the developed market-economy countries bear interest of 2-4 per cent. Secondly, the Socialist countries provide bilateral loans in the form of supplier credits. These are usually for 5-10 years, must conform to the conditions prevailing on the world money markets, and are subject to an advance of 20-40 per cent of the total value of the goods and services purchased in the lending countries. The foreign trade organizations of the Socialist countries which often specialize in the export of complete factories, are responsible for the implementation of the loan agreements.

Table 2. Trade balance of certain African countries with the Socialist countries of Eastern Europe (Value in millions of dollars) 1/

Year	1965	1965		1970	1970		1975	1975		1978	1978	
Country	Exp.	Imp.	Balance	Exp.	Imp.	Balance	Exp.	Imp.	Balance	Exp.	Imp.	Balance
Algeria	9	22	-13	82	96	-14	330	284	46	188	434	-246
Egypt	216	326	-110	468	589	-121	988	700	288	474	571	-97
Guinea	12	13	-1	9	12	-3	31	39	-8	54	35	19
Libyan Arab Jamahiriya	0	13	-13	1	57	-56	105	456	-351	446	746	-300
Nigeria	22	14	8	28	36	-8	121	136	-15	96	257	-161

1/ Source: Montly Bulletin of Statistics, Vol. XXXV, No. 7, July 1981.

16. Apparently, the cost of aid granted by the Socialist countries is fairly cheap. This is because they must keep within the "World price" and cannot sell their goods at prices which depart substantially from the general prices charged on the world market for similar goods. However, the favourable terms governing the aid granted by the Socialist countries - interest rates and repayment period - are only one aspect of its real value. The following criteria are also important for an evaluation of such aid: volume of the aid, quality and price of the goods supplied and the recipient country's contribution in terms of labour and equipment costs of the constructions planned and the impact of these projects on the national economy.

17. However, unblocking the assistance involves a number of problems. The conclusion of a co-operation agreement takes effect only when viable projects have been accepted by the contracting parties. In other words, the economic and technical co-operation agreement does not require the Socialist country concerned to provide anything, since the funds pledged under the agreement are not fully available until the receipient country has presented mutually acceptable projects and has provided an amount to cover the local expenses for the implementation of the projects selected by the two parties.

18. The disbursements of these official loans for development are accounted for either gross (i.e. the amounts actually disbursed) or net (i.e. the amounts to be disbursed less the reimbursement of the capital from former loans). The annual gross disbursements by the socialist countries to the African countries are shown in table 3. It is clear from this table that the disbursements by the member countries of CMEA in terms of gross ODA to Africa rose from $161.9 in 1977 to $170.6 in 1980, an annual average increase of only 1.7 per cent. These capital contributions remain fairly limited and are concentrated on a small number of recipient countries. In order of magnitude of the the assistance given, these countries were: Algeria, Egypt, Ethiopia, Morocco and Tunisia. In 1980 these countries alone received $147.1 million or 86 per cent of the total disbursements by the Socialist countries to the African countries. With regard to the annual net official disbursements from the socialist countries, the data available concern only the least developed African countries for the period 1968-1978. As may be seen from table 4, the net total of resources from the Socialist countries steadily declined during this period. Many of these countries even showed "negative" contributions.

Table 3. Inflow of capital from the Socialist countries as official development assistance to the African countries (gross disbursements in millions of dollars) 1/

	Year / Country	1977	1978	1979	1980
1.	Algeria	55.3	64.4	65.8	68.2
2.	Angola	3.0	3.5	4.1	4.5
3.	Benin	0.5	-	-	-
4.	Central African Republic	0.4	0.2	-	-
5.	Congo	2.2	0.8	0.5	0.2
6.	Egypt	58.0	54.5	45.2	36.6
7.	Ethiopia	6.7	12.3	10.5	17.7
8.	Ghana	2.3	0.2	0.1	0.1
9.	Guinea	5.2	4.7	0.3	0.3
10.	Kenya	0.1	0.1	0.1	-
11.	Madagascar	0.7	0.6	2.9	2.0
12.	Mali	1.2	2.0	1.0	1.0
13.	Mauritania	1.0	0.6	-	-
14.	Morocco	3.8	7.5	10.8	12.8
15.	Mozambique	3.3	1.8	1.9	4.3
16.	Nigeria	0.4	0.2	-	-
17.	Sierra Leone	0.2	0.1	-	0.1
18.	Somalia	6.6	-	-	-
19.	Sudan	2.6	3.6	3.9	10.6
20.	Tanzania	2.5	3.5	1.2	0.2
21.	Tunisia	4.1	4.8	13.3	11.8
22.	Uganda	0.6	0.5	0.5	0.1
23.	Zambia	1.2	0.6	3.3	0.1
	Total	161.9	166.5	165.4	170.6

Source: Geographical distribution of financial flows to less developed countries, OECD, 1981

Table 4: Loans by the Socialist countries to the least developed African countries (Net disbursements in the form of official development assistance loans) (Value in millions of dollars) 1/

Country / Year	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1. Central African Republic	-	-	-	-	1.9	0.3	1.4	0.5	4.4	-	0.0
2. Chad	-	0.4	0.6	0.4	0.9	0.1	-	-	-	0.4	0.4
3. Ethiopia	0.6	-0.3	0.8	0.5	0.0	-1.1	-1.7	-2.1	-2.0	-2.2	-1.2
4. Guinea	13.9	6.7	38.5	38.3	29.8	15.3	30.9	31.6	6.7	-40.0	-21.6
5. Mali	14.5	5.2	1.9	1.2	1.8	3.6	1.3	8.5	5.0	1.1	2.8
6. Somalia	1.8	2.3	0.9	1.3	3.2	7.7	4.9	8.6	21.0	20.2	4.2
7. Sudan	6.7	1.1	13.2	9.7	4.1	8.8	10.9	-2.0	-6.2	-6.1	-.3
8. Uganda	0.4	0.7	0.5	2.1	5.7	0.5	7.1	0.0	18.7	-0.8	-1.0
9. United Republic of Tanzania	0.0	0.2	1.2	0.3	-0.5	0.3	0.2	1.2	0.8	2.0	-0.4
Total	37.9	16.3	57.6	53.8	46.9	35.5	55.0	55.3	48.4	-26.2	-20.9

1/ Source: United Nations, A/CONF.104/PC/3, 1980 table 37.

19. The data given in the following paragraphs provide a picture of the recent bilateral indebtedness of 30 African countries to the Socialist countries of Eastern Europe. The figures in table 5 below relate to the disbursed debt outstanding and debt service (principal and interest payments combined of the African countries for which data are available between 1977 and 1979.

20. For the 30 African countries on which data are available, the total outstanding bilateral debt to the Socialist countries of Eastern Europe rose from $3,199.7 million in 1977 to $3,565.6 million in 1979, an average annual rate of increase of 5.5 per cent. Relatively large loans were contracted between 1977 and 1979 only by Etypt, Algeria, Guinea, Tanzania, Zambia, Mali, Somalia and the Sudan, whose outstanding debts in 1979 represented 79 per cent of the total owed by these 30 African countries to the Socialist countries of Eastern Europe. Table 5 also shows that African countries make only limited use of loans from Socialist countries and their public external deby cannot, therefore, be described as extensive since in 1979 the debts of these 30 African countries to the Socialist countries amounted in total to only 5.4 per cent of their total debt. As credit awarded by the Socialist countries has to be used for imports, the African countries most in debt to the members of CMEA, such as Egypt and Algeria, showed a sizable trading deficit with this group of countries in 1978.

21. Between 1977 and 1979 bilateral-debt-servicing payments grew at a mean annual rate of 18 per cent, from $190.3 million in 1977 to $269.2 million in 1979. Debt-servicing payments in 1979 grew faster than the export income that largely serves to meet them, showing a rate of increase of 32 per cent as opposed to 21 per cent for export income.

2. Multilateral debt

22. The Special Fund set up within the International Investment Bank of the member countries of CMEA can finance industrial projects in developing countries under a technical credit scheme. The registered capital of the Fund is $1 billion, with 95 per cent of that sum in transferable roubles and 5 per cent in convertible currency. The Special Fund extends credit under the following terms and conditions: The loan period varies between 5 and 15 years and the interest rate between 3 and 5 per cent when credit is given in transferable roubles; the rate of interest may be raised as of when it is tied to the rate in force on the international capital market. Central banks, State organizations, co-operatives and, in exceptional cases, private firms are eligible for loans. Such loans, however, must be guaranteed by the borrowing countries' central banks. It is hard to analyse the extent of the African countries' indebtedness to the Special Fund since the relevant data are not available.

Table 5: Indebtedness of African countries to the Socialist countries of Eastern Europe 1/

		Total debt disbursed, Owing to members of CEME (Millions of dollars)			Debt services, total paid (Millions of dollars)		
		1977	1978	1979	1977	1978	1979
1.	Algeria	405.5	440.4	532.3	37.3	43.5	61.1
2.	Benin	6.7	9.9	12.2	0.2	0.4	0.0
3.	Burundi	12.5	14.1	22.3	-	0.3	0.3
4.	Cameroon	40.9	64.1	84.1	0.4	0.4	0.4
5.	Central African Republic	10.5	10.9	11.1	-	0.0	-
6.	Chad	3.0	3.3	4.0	0.5	0.4	0.4
7.	Congo	119.4	163.9	184.8	2.1	0.7	3.9
8.	Egypt	641.8	626.1	571.2	76.1	89.3	86.9
9.	Ethiopia	20.2	23.4	31.8	2.6	2.4	2.4
10.	Gambia	-	-	4.1	-	-	-
11.	Ghana	59.2	24.1	13.2	2.4	0.5	0.4
12.	Guinea	452.7	442.3	422.2	48.6	43.4	55.1
13.	Kenya	0.1	0.1	-	0.1	0.0	0.0
14.	Madagascar	9.9	11.3	12.3	0.9	0.9	1.0
15.	Mali	245.4	263.1	269.3	0.1	0.1	0.6
16.	Mauritania	8.6	9.0	18.0	-	-	-
17.	Morocco	23.6	19.9	15.6	2.4	4.5	4.8
18.	Niger	5.9	8.0	28.7	-	-	-
19.	Nigeria	2.7	7.6	69.6	0.4	1.7	5.1
20.	Rwanda	10.6	12.1	22.9	-	-	-
21.	Senegal	8.2	9.8	10.3	0.6	0.6	0.6
22.	Sierra Leone	15.5	20.4	24.1	0.4	0.5	0.9
23.	Somalia	177.7	203.1	203.1	1.0	1.0	0.5
24.	Sudan	158.5	160.3	141.6	7.5	4.1	24.0
25.	Tanzania	314.3	317.3	320.1	0.9	0.9	1.2
26.	Tunisia	9.4	9.4	26.8	2.1	5.3	2.1
27.	Uganda	46.7	45.7	35.0	2.9	2.0	10.4
28.	Upper Volta	6.1	6.1	9.4	-	-	-
29.	Zaire	108.2	108.2	108.2	-	-	-
30.	Zambia	275.9	275.4	357.3	0.8	1.0	7.0
	Total	3 199.7	3309.4	3565.6	190.3	203.9	269.2

1/ Source: Geographical distribution of financial flows to less developed countries OECD, 1981.

C. Current payments arrangements between developing countries and the Socialist countries of Eastern Europe

1. Commercial transactions

(a) Bilateral clearing system

23. Theoretically, commercial exchanges between any developing country and any Socialist country in Eastern Europe should be settled bilaterally. The chief means of settlement is bilateral clearing accounts. The repayment agreement, which is often an integral part of the trade agreement between two trading countries, provides for the opening of clearing accounts with each contracting party's financial institutions. All trade payments by the parties to the agreement are made to these accounts. Among other things, the repayment agreement, which specifies the accounting units to be used, will state that clearing operations should take place at fixed intervals or upon expiry of the period covered by the agreement. There are generally balancing provisions, such as clauses on the extension of technical credit.

(b) Payment in converitlbe currency

24. Developing countries and the Socialist countries of Eastern Europe nromally conclude trade agreements without special bilateral payment arrangements. In this case the traditional channels are used to settle commercial transactions between the trading partners. The transactions are invoiced and itemized in freely convertible currency and payments are made in foreign currency in accordance with the monetary regulations in force in each of the parties to the trade agreement.

(c) Payment in transferable roubles

25. In October 1976 the Board of the Socialist countries' International Bank for Economic Co-operation (IBEC) decided to allow countries not belonging to the Bank to join the system of multilateral settlements in the "communal currency" of the members of CMEA, i.e. the transferable, or exchange, rouble. This decision is of interest for countries not belonging to CMEA in that it would "multilaterize" their commercial exchanges with the Socialist countries of Eastern Europe and, hence, expand their trade and economic relations with the region. Under the IBEC decision the machinery for settlement in transferable roubles with non-members works by allowing exchange roubles paid to an exporter in a developing country to be used in payment for imports from any member of CMEA. This, therefore, serves as a multilateral clearing system between the two groups of countries.

2. Financial transactions

26. There are various means of repaying economic loans by the Socialist countries of Eastern Europe to developing countries. The method currently in use under the economic co-operation agreements between the two groups of countries is <u>repayment in the currency of the receiving country or in kind</u>. Capital and

interest payments to the Socialist countries of Eastern Europe take the form of consignments of goods from the developing country that has signed the economic co-operation agreement. In other words, a debtor developing country can pay off its debt to an Eastern European Socialist country with goods produced with the ehlp of the loan. Some agreements also provide for the repayment of economic loans in the form of traditional products. These arrangements for payment as part of the economic co-operation between the two groups of countries have the advantage of alleviating the developing countries' debt-servicing burden and increasing their export to the Socialist countries of Eastern Europe. In the case of loans in kind, capital and interest payments generally begin not when credit is granted but on the date of the first consignment of goods from the planned economies, or upon final delivery of the wherewithal to carry out the project financed by the loan.

III. APPRAISAL OF PAYMENTS ARRANGEMENTS BETWEEN AFRICAN COUNTRIES AND SOCIALIST COUNTRIES OF EASTERN EUROPE

27. The four sections of this chapter will be devoted mainly to a detailed analysis of payments arrangements existing between African countries and the Socialist countries of Eastern Europe. An attempt will first be made to review the various types of existing payments agreements and to point out their similarities or differences. An attempt will then be made to appraise their impact on African economies and finally to see what effects they have on trade between the two groups of countries.

A. Inventory of existing trade and payments agreements

28. To date, there have been only two catogries of payments arrangements between African countries and the Socialist countries of Eastern Europe. These are: (i) Clearing agreements or trade agreements stipulating that payments should made in a convertible currency and (ii) loan payment arrangements. Bilateral trade agreements often incorporate a payments agreement when the currency of one or both parties is not convertible. Depending on the type of payments agreement, trade agreements can be divided into bilateral clearing agreements and convertible currency settlements. As indicated in the annex I table, bilateral clearing was largely used by the two groups of countries in the 1960s while in the 1970s, a trend to replace clearing account payments with convertible currency payments was recorded. Some of the socialist countries' credit grant agreements to be found in the Annex II table are illustrative of the loan payment arrangements concluded between the two groups of countries.

B. Main features of trade and payments agreements and loan agreements

1. Trade agreement

29. Parties to a trade agreement undertake to buy the products listed in the annex(es) to the agreement. The list is generally agreed on annually. In other words, the trade agreement is implemented by means of annual protocols with a view to providing a degree of flexibility in trade rleations between two

countries. The trade agreement indicates the value of export and import quotas without however, fixing prices. Prices are fixed by annual negotiations. A number of trade agreements are concluded for one year but are extended for several years by the annual renewal clause or tacit extension. In this way, annually concluded agreements have turned out to apply over a longer term than those concluded for a fixed term of four or five years. Furthermore, the contracting parties undertake to grant each other most-favoured-nation treatment. Some trade agreements concluded by African countries during the years immediately following independence contain a non-reexportation clause. From annex I it can be seen that a few trade agreements granted supplier credits to African countries.

2. Clearing agreement

30. Clearing agreements form an integral part of trade agreements. They usually cover the same period and are renewed by the same procedure. Bilateral clearing agreements are inteded to facilitate the automatic settlement of debts and loans resulting from trade transactions carried out between trading partner countries. All trade transactions are recorded on a central open clearing account in the central banks of the trading countries. The agreement specifies the currency of account which is often denominated in foreign exchange or in national currency. After an agreed period, the contracting parties balance the accounts. It often happens that the trade between two countries is unbalanced. In order to facilitate the smooth conduct of trade, partner countries grant each other a trade facility known as technical credit. The agreement therefore is not aimed at crediting the account of participating countries but instead at opening them a line of credit for agreed trade transactions. In other words, the surplus country grants credit to the deficit country in order to enable it to buy under the system. Such credit is granted at a comparatively low rate of interest up to a certain amount for an agreed period. Any over draft of the credit margins granted should be settled immediately in accordance with a mutually acceptable formula. In addition to such technical credit, there are in principle, four other methods of settling accounts. Firstly, a debit account can be settled through a transfer of convertible currency. Secondly, the export surplus country may reduce its deliveries while its partner speeds up the delivery of its goods. The third method is a triangular settlement of accounts and the fourth is to settle debit accounts through reexportation. On analysing some of the clearing agreements concluded in the 1960s between African countries and the Socialist countries of Eastern Europe, the following observations can be made:

i) All the trade and payments agreements made no provision for the granting of technical credit;

ii) The volumes of technical credit facilities were obviously low;

iii) Any overdraft of technical credit carried a three per cent interest and had to be settled in convertible currency;

iv) the provisions of certain trade and payments agreements forbade the reexport of trade goods;

v) Clearing accounts were settled particularly in conver ible currency, the only exception being the agreement concluded in 1961 between Ghana and Hungary, which provided for the settlement of accounts through deliveries.

31. It is interesting to note the difference between clearing agreements and barter agreements. Trading and payments agreements do not involve the mere exchange of goods. The indicative product lists annexed to trading agreements are optional while the prices negotiated annually constitute a determining factor in decisions to purchase. Furthermore export and import transactions are not necessarily linked since bilateral equilibrium must be achieved only after an agreed period of one year in general. Finally, the payments are made in money, contrary to the provisions of barter agreements which involve a mere exchange of products.

3. Convertible currency payments agreement

32. Trade agreements involving convertible currency payments outside of a special account contain but few provisions. The most salient features are described below:

Two partner countries undertake to grant each other export or import licenses for products on the indicative list. The agreement specifies the payment currency in addition to indicating that trade transactions should be settled in accordance with the exchange regime of each of the partner countries. Most agreements signed or renewed in recent years between African countries and the Socialist countries of Eastern Europe stipulate that payments should be made in convertible currency. Some indications of this are given in annex I of the present study.

4. Loan agreement

33. This paragraph deals mainly with loan payment arrangements. Loans granted under co-operation agreements are repaid either in money or in the form of products from the borrowing country. The loan agreement providing for the in-kind settlement of accounts is sometimes called a clearing agreement. Such agreements provide that concessional loans granted by the Socialist countries to African countries should be repaid through products manufactured with such assistance. One feature of such clearing agreements is the magnitude of their scope. Good examples of such clearing agreements are those concluded between the USSR and Guinea on the one hand, and the USSR and Morocco on the other hand. In return for the Soviet loan to exploit the bauxite complex at Kindia, Guinea is bound to deliver to the USSR for 30 years bauxite extracted from the mining complex. Annual deliveries from 1974 onward were expected to amount to 2.2 million tons of bauxite. Under a similar clearing agreement concluded in the phosphate sector between the USSR and Morocco, the USSR was to construct and equip a new major phosphate mine and a concentration factory at Meskala. The factory would have a peak capacity of ten million tons per year of phosphate which will be exported to the USSR. Most clearing arrangements cover the extractive and allied industries. Some clearing agreements however, cover manufacturing industries and provide for repayment through the delivery of diversified goods. For instance, to pay back loans secured from the USSR from 1968 to 1970, Guinea had to supply the USSR with industrial products and with such traditional products as bananas, pineapples, coconuts and coffee. Annex II illustrates the conditions under which loans were granted by the Socialist countries to African countries.

C. Problems encountered in implementing such agreements

34. In implementing trade and payments agreements, African countries had to cope with some problems the major ones of which are described below. First of all, African countries have recorded persistent deficits with the Socialist countries of Eastern Europe. Obviously, their need to industrialize drives the African countries to acquire machinery and other capital goods from the Socialist countries. They have inadequate savings and foreign exchange reserves. The technical credits available under trade and payments agreements have not been sufficient to offset the trade imbalances with the Socialist countries. What is more clearing accounts were settled in convertible currencies such as the United States dollar and the pound sterling. Prices are another problem. In Africa's relation with the Socialist countries of eastern Europe, prices for every product are negotiated annually. This means fixing the level of prices in advance, for a relatively long period, Obviously, the principle of trade between developing countries and the Socialist countries of Eastern Europe is to keep the prices of traded goods on a par with world market prices. Commodity prices have been notoriously unstable on the world market. It is therefore obvious that the price fixing procedure used by the Socialist countries does not help commodity exporters to earn fair and remunerative export revenue. Commodity exporters should be able to fix export prices without necessarily having to conform to the price levels prevailing on the world market. Furthermore, it should be stressed that even if two partner countries have the goods mutually desired, they can only trade bilaterally if the prices quoted are mutually acceptable. Regarding imports from Socialist countries, appropriate bilateral measures should be instituted to ensure that differences in the price and quality of import products do not offset the earnings deriving from African exports. As to arrangements for the repayment of loans granted by socialist countries, the in-kind repayment arrangements have been encouraging. Nonetheless the view is held that repayment schedules should be longer than they have been and all loan agreements should include a grace period clause.

D. Impact of such payments arrangements on African economies

1. Impact on foreign exchange reserves

35. The settlement of trade accounts by bilateral clearing has some advantages. For the partner countries, clearing agreements only aim, among other things, at minimizing foreign exchange transactions. Some agreements allowed African countries to settle their debit account through goods delivery should they excessivley over-draw or should the payments agreement expire. In practice, only a few countries have benefited from this arrangement one of whose effects is to restore the payments balance of African countries vis-a-vis their partners. The bilateral clearing system has nevertheless some adverse effects on African economies. Indeed, most trade transactions between certain African countries and the Socialist countries of eastern Europe were settled in foreign currency because most of the clearing agreements specified that clearing accounts should be settled in a convertible currency. The convertible currency payments system is more flexible in terms of payment modalities but tends to weigh heavily on the exchange reserves of African countries that record an unfavourable trade balance with European countries members of CMEA.

2. Effects on the expansion of trade between the two groups of countries

36. For lack of adequate data, it is difficult to establish a direct link between the various payments arrangements and the expansion of trade among the groups of countries. The few observations made below derive from certain payments agreements described above. It should be pointed out that clearing agreements include provisions for promoting trade between the two economic zones. The granting of technical credit on concessional terms is one way of promoting trade. Such an arrangement makes for the smooth conduct of business. Under the clearing agreements of the 1960s, the partner countries accepted to raise the value of mutual trade to regularly higher levels ranging from 20 to 100 per cent. The bilateral clearing system does however contain some provisions that hinder the expansion of trade between the two economic zones. It does not allow for multilateral settlement of trade balances. It should be indicated here that triangular exchange would be one way of promoting trade between countries of the two economic zones. Furthermore, clearing agreements only strengthen bilateral trade since the creditor country is obliged to import products from the debtor country.

37. When compounded by in convertible currencies, bilateral trade also tends to freeze the production and trade structures of African countries seeking to diversity their export products and markets and their sources of supply. It might be helpful to emphasise that by their very nature, payments agreements cannot be considered a panacea for solving the problems posed by the development and expansion of African trade. Those arrangements, however, are some of the various means to which African countries might resort to solve the payments problems raised by trade between the two groups of countries.

38. The two groups of countries realized that they could no longer expand trade without taking other measures at the same time. It was for this reason that many economic co-operation agreements came to be concluded gradually in order to attain objectives beyond the mere expansion of trade.

IV. PROPOSALS FOR IMPROVING PAYMENTS ARRANGEMENTS

39. It follows from the foregoing that there are gaps in the payments arrangements of the two groups of countries. This chapter contains some proposals for improvement.

A. Making bilateral payments agreements more flexible

40. Bilateral clearing agreements need to be made more flexible specifically by allowing African countries which so desire to transfer their credit balances to any third creditor party that is a member of CMEA and to settle their debit balances in national currencies and/or in the form of processed goods. It should be recalled that the payment in convertible currencies of credit balances has benefited only the socialist countries who have regularly achieved positive balances in their trade with African countries. Technical credit facilities to be provided for clearing agreements should be substantially increased while the settlement schedule of clearing accounts should be extended over time. As to

in-kind repayment of loans granted by the socialist countries, it is important for African countries to make sure that at the time of delivery, the value of their export goods matches the amount of credit granted. The Socialist countries should endeavour to make their economic co-operation with African countries multilateral. They should accordingly increase the convertible currency allocation of the International Investment Bank's special fund. Loan terms and conditions imposed by the bank should also be softened. The socialist countries should plan to grant increased financial assistance to African countries through such multilateral agencies as the African Development Bank and such United Nations agencies as UNDP.

B. Prospects for making multilateral payments between African countries and the Socialist countries of Eastern Europe by the use of transferable roubles

41. Among the payments arrangements between developing countries and the Socialist countries of Eastern Europe mentioned in chapter I of the present study is the use of transferable roubles. However, for countries not members of CMEA who plan to use transferable roubles in such payments, account should be taken of several factors relating to this mode of settlement. The most important of these factors is the role of planning and the modalities of price fixing. Obviously, the rules established by the IBEC council do not compel trade partners to plan payments in advance. And yet planning in the socialist countries covers trade or long-term delivery contracts. Trade within CMEA is transacted on the basis of calculated world prices yearly using the mean for the five preceding years and subsequently converted into transferable roubles. But then, the Socialist countries do not have the same price levels and the corrected world price structure expressed in transferable roubles differs from country to country. It therefore becomes difficult for a third country to know exactly what price to quote in transferable rouble transactions. Such technical difficulties should not, however, be insurmountable, particularly for countries seeking to make their trade with CMEA countries of Europe multilateral.

V. CONCLUSION

42. African countries maintain ever growing economic relations with the socialist countries of eastern Europe. The payments arrangements concluded between the two groups of countries have mainly involved trade and payments as well as credit agreements.

43. The use of such payments arrangements is intended in principle to promote trade between the two groups of countries. Although the trade and payments agreements concluded between Africa and eastern Europe are intended to stimulate African exports, other measures should be taken to improve trade and payments mechanisms between the two groups of countries. Mention could be made among other things of the need to establish mechanisms for the stabilization of raw materials prices since the majority of African countries export raw materials to the socialist countries of eastern Europe. Such price stabilization should be effected within the general framework of multilateral co-operation between Africa and eastern Europe.

Some trade and payments agreements signed between African countries and the socialist countries of eastern Europe

Partner countries	Type of agreement	Date and validity	Information on trade and payments arrangements
Bulgaria			
1. Guinea	Trade and payment agreement	10 Oct. 1959	Clearing agreement
"	" " " "	1976	Payment in convertible currency
2. Morocco	Trade agreement	August 1960	Total value : $2,381,000 an increase of 100 per cent over the previous year
"	" "	1974	Payment in convertible currency
3. Egypt	Trade agreement	1962	The annual value of trade was fixed at $11.5 million for each of the contracting parties
L "	Long-term trade agreement	1976	Payment in convertible currency
4. Mali	Trade and payment agreement	June 1961	-
5. Sudan	Trade and payment agreement	-	Bulgaria and Sudan agreed to open a reciprocal credit line of 200,000 Sudanese pounds at 3 per cent interest. The surplus technical credit was to be settled in pounds sterling or in any other convertible currency agreed upon by the two parties concerned.
6. Tunisia	Trade agreement	Sept. 1960	-
7. Algeria	Long-term trade agreement	1978	Payment in convertible currency
			"

Partner countries	Type of agreement	Date and validity	Information on trade and payments agreements
<u>Bulgaria</u>			
8. Ethiopia	Trade agreement	1977	Payment in convertible currency
9. Nigeria	Long-term trade agreement	1975	"
<u>Czechoslovakia</u>			
1. Guinea	Trade agreement Protocol to the 1959 trade agreement	3 July 1959 June 1961	20 per cent increase in the value of trade in 1961 as compared to 1960.
2. Somalia	Trade and payment agreement	27 June 1960	-
3. Ghana	Trade and payment agreement	Oct. 1961	Five-year agreement automatically renewable with provision for a credit margin of 500,000 Ghanaian pounds; settlement of balance by mutual agreement.
4. Tunisia	Trade agreement	18 April 1961	-
5. Egypt	Trade and payment agreement	16 June 1960	Egypt and Czechoslovakia agreed to settle their balance of payments in pounds sterling and to grant each other a credit margin of 2 million Egyptian pounds.
6. Sudan	Trade and payment agreement	June 1962	Agreement renewable annually by tacit agreement. Balances of bilateral compensation accounts worth more than 200,000 Sudanese pounds have to be settled in pounds sterling or in any other hard currency agreed upon by both governments.

Partner countries	Type of agreement	Date and validity	Information on trade and payments agreements
Czechoslovakia			
7. Guinea Bissau	Trade agreement	1972	Settlement in convertible currency.
8. Madagascar	Trade co-operation agreement	1980	Payment in convertible currency.
German Democratic Republic			
1. Guinea	Trade protocol	April 1961	The total value will increase 30 per cent over 1960.
2. Mali	Trade and payment agreement	17 April 1961	The value of trade will climb to 10.1 million dollars.
3. Ghana	Trade agreement	19 July 1961	-
4. Morocco	Trade agreement	9 August 1960 for a year	Total value of trade is 41.2 million dollars - an increase of 10 per cent over the previous year.
5. Egypt	Trade protocol	28 November 1960	1961 value: 90 million dollars - an increase of 40 per cent over 1960.
6. Sao Tome and Principe	Trade agreement	1979	-

Partner countries	Type of agreement	Date and validity	Information on trade and Payments agreements
<u>Hungary</u>			
1. Egypt	Trade payment agreement	27 March 1959 for three years	Annual value of 20 million dollars
2. Guinea	" " "	June 1959	-
3. Ghana	" " "	April 1961	Settlement of balances in kind; credit margin, 200,000 Ghanaian pounds.
4. Morocco	" " "	2 Sept. 1960	--
5. Sudan	" " "	January 1959	--
6. Tunisia	" " "	March 1960	--
7. Angola	Trade agreement	1979	--
8. Benin	" "	1979	--
9. Burundi	" "	1978	--
10. Mozambique	" "	1977	--

Partner countries	Type of agreement	Date and validity	Information on trade and payments agreements
Poland			
1. Ghana	Trade and payment agreement for five years	1961	The two countries grant each other most favoured nation treatment.
2. Guinea	Trade and payment agreement	20 June 1960	Agreement extended for three years from 1971.
3. Egypt	Trade and payment agreement	2 Nov. 1960 for three years	Total value of 5.7 million dollars.
4. Sudan	Trade and payment agreement	1963	Renewal of agreement by tacit agreement, forbidden to re-export products traded in, coverage of a mutual credit of 200,000 pounds sterling with a 3 per cent interest on compensation accounts and prices of products traded in brought in line with world prices for identical products.
5. Tunisia	Trade and payment agreement	1960	Total value of trade should increase by 40 per cent over the previous year.
6. Algeria	Trade agreement	1978	Payment in convertible currency
7. Angola	" "	1977	" " " "
8. Benin	" "	1978	" " " "

Partner countries	Type of agreement	Date and validity	Information on trade and payments agreement
Poland			
9. Ethiopia	Trade agreement	1977	Payment in convertible currency
10. Egypt	" "	1975	" " " "
11. Nigeria	" "	1976	" " " "
Rumania			
1. Egypt	Trade and payment agreement	1958	Total value about 18 million dollars.
2. Sudan	Trade agreement	1961	--
3. Cameroon	" "		
4. Upper Volta	" "	1979	Payment in convertible currency
5. Ethiopia	" "	1977	" " " "
6. Mauritius	" "	1979	" " " "

Partner countries	Type of agreement	Date and validity	Information on trade and payment agreements
USSR			
1. Guinea	Trade agreement		Reciprocal granting of most favoured nation treatment for trade and shipping.
2. Sudan	" "	16 March 1959	Reciprocal granting of most favoured nation treatment for trade and shipping.
3. Ghana	" "	4 August 1960	Reciprocal granting of most favoured nation treatment for trade and shipping.
4. Morocco	Trade and payment agreement	19 April 1958	Reciprocal granting of most favoured nation treatment for trade and shipping.
5. Ethiopia	Long-term trade agreement	11 July 1959	Reciprocal granting of the most favoured nation treatment.

Some loans granted by the Socialist countries of Eastern Europe

Lender country	Borrower Country	Date of the agreement	Amount (in millions of dollars	TERMS
Soviet Union	Egypt	27 January 1958	175	2.5 per cent interest repayable in 12 years
	"	27 December 1958	100	
	"	27 August 1960	235	2.5 per cent interest repayable in 12 years
	Ethiopia	July 1959	100	Long-term
	Guinea	24 August 1959	100	2.5 per cent interest repayable in 12 years
	Ghana	4 August 1960	40	2.5 per cent interest repayable in 12 years
	Tunisia	4 August 1961	28	2.5 per cent interest repayable in 12 years
	Sudan	July 1961	22	2.5 per cent interest repayable in 12 years
	Somalia	June 1961	44	2.5 per cent interest repayable in 12 years
	Mali	20 March 1961	44	2.5 per cent interest repayable in 12 years
	Algeria	1971	170 (roubles)	Duration of loan : 15 years interest 2.5 per cent
	Egypt	1971	280 (roubles)	-
	Madagascar	1977	10 (roubles)	Duration of loan :10 years Interest :2.5 per cent Grace period : 2 years

Lender country	Borrower Country	Date of the agreement	Amount (in millions of dollars)	TERMS
Bulgaria	Somalia	1972	1 - 5	2.5 per cent interest
	Tanzania	April 1972	21.5 (Shillings)	---
	Ethiopia	1975	5.0 (Birr)	---
Czechoslovakia	Tanzania	1975	28.5 (Shillings)	---
	Tunisia	1976	75 (Swiss francs)	---
	Ethiopia	1975	93 (Birr)	5 per cent of the loan was a gift; 95 per cent of the loan reimbursable in 15 years at 2.5 per cent interest with a grace period of three years.
Hungary	Guinea	1974	3	Loan repayable in kind
Rumania	Algeria	1972	100	Loan repayable in 10 years at 2 per cent interest
	Angola	1977	75	---
	Egypt	1977	20	Long-term loan