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## OPEC AID

In recent years OPEC has provided a quarter of all official development assistance (oda) received by 'non-oil' developing countries (ldcs) – which we shall define to include all non-OPEC ldcs. Over the last twelve months, increased oil revenues have greatly enhanced the potential importance of OPEC aid. Substantial oil price increases will create an OPEC current account surplus of $120bn or more in 1980 and a large deficit by non-oil ldcs, probably $70bn in 1980, rising subsequently. Many non-oil ldcs, which were able to rely on external borrowing to cover additional imported oil costs after 1974, are now approaching or have passed the limits of what the banks perceive as prudent commercial borrowing. Many of those too poor, or otherwise disadvantaged, to be able to borrow substantially need additional concessional flows of capital more than ever. There is a high expectation amongst these countries, especially in the latter group, that more OPEC aid will be forthcoming. There have also been expressions of resentment by non-oil ldcs at the effects of OPEC oil price increases. In order to meet some of their needs and to try to head off a serious split between them and OPEC, steps have been taken since the Caracas summit of OPEC (December 1979) to create a more substantial aid programme based on the OPEC Special Fund.

This paper takes a narrow view of OPEC assistance to non-oil ldcs. Aid (oda) is only one way in which the OPEC surplus can be recycled. Official OPEC flows on commercial terms, OPEC direct investment and private transfers are also important parts of this mechanism, and recycling through Western banks is even more so. In addition, non-oil ldcs are expanding their own exports of goods and services to OPEC countries and some OPEC states discriminate, as a matter of policy, in favour of 'third world' bidders for large-scale contract work. Some of the less populous states have absorbed large numbers of immigrant workers whose remittances help finance the balance of payments of the labour-exporting countries. But the purpose of this paper is to focus specifically on OPEC's *aid* performance, and it does not therefore attempt to quantify or discuss other aspects of re-cycling.

### Magnitude of OPEC aid flows

OPEC aid dates from well before the 1973/74 oil price explosion. Kuwait has operated a programme since 1961 (through the Kuwait Fund for Arab Economic Development). Several Arab countries, notably Saudi Arabia, the Gulf States and Libya, gave grants to Egypt, Syria and Jordan after the 1967 Arab-Israeli War. But until 1973 total concessional aid from OPEC members was no more than 5% of all oda to ldcs and was entirely channelled to the Arab World. Then, within three years, OPEC was providing 25% of all oda (see Table 1). There is evidence since of a levelling out in aid expressed in current prices and a decline in real terms. The 1978 figure for oda disbursed is particularly low, and in real terms is just over 50% of the 1975 aid volume. In the absence of final 1979 returns it is not clear whether there has been a sharp decline or merely a discontinuity caused by longer lags between commitments and disbursements (in 1978 $7.25bn was committed and only $3.7bn spent; in 1977 $6.8bn was committed and $5.85bn spent).[1] Aid flows were undoubtedly disrupted in 1978 by the decision of Arab states to cease assisting Egypt, hitherto the largest recipient.

A broader definition of aid than oda would incorporate some of OPEC's non-concessional official flows. As can be seen from comparing Tables 1 and 2, this increases the total flow by a factor of roughly 50% (OECD estimates). But there is also a considerable difference between OECD and UNCTAD treatment of OPEC official flows. UNCTAD places them considerably higher than OECD. The difference lies mainly in the treatment of payments to the IMF oil facility. OPEC contends that the oil facility was conceived, by them, as a form of balance of payments support to other developing countries although loans were in practice directed predominantly to developed countries (including Britain).

One way of measuring the overall contribution made by OPEC aid, however defined, is to assess the balance of payments financing requirements of non-oil ldcs. The growth in the non-oil ldcs' current account deficits which has taken place in the 1970s can be very largely attributed to terms of trade deterioration in favour of OPEC. The precise relationship is, of course, impossibly difficult to measure. The direct effects of OPEC price increases on non-oil ldcs' import bills are inflated by the effects of increased shipping and insurance charges and oil company profits. They are, on the other hand, understated to the extent that there are important indirect effects of oil price increases, when OECD exporters pass on high oil costs in higher prices. One rough approxima-

1 Addendum. Preliminary estimates produced by the OECD in June 1980 suggested that OPEC aid (net disbursements of oda) rose from $4.3bn (a revised figure) in 1978 to $4.7bn in 1979. This represented a fall in the share of OPEC GNP from 1.35% to 1.28%. Disbursements by Saudi Arabia rose $0.5bn to $2bn in 1979 and Iraq's importance increased considerably; net disbursements rose from $0.2bn to $0.9bn.

tion is that a $1 increase in the price of a barrel of oil currently imposes directly a $1.2bn cost on the non-oil ldc balance of payments and $0.8bn indirectly. There are, however, many anomalies when discussing the balance of payments of individual countries. Some of the main non-oil ldcs have so far had little or no balance of payments problem (India for example). Some of the ldcs with major current account deficits, on the other hand, are those which import little or no oil (Mexico, Peru, Colombia and even some OPEC members – Venezuela, Algeria, Indonesia). Looking at the overall picture, however, OPEC aid (oda) contributed $22bn in the five-year period 1974-78 towards paying for a cumulative non-oil ldc current account deficit of $146bn and other OPEC official flows contributed $35bn (calculated from the more conservative OECD figures). Most of the balance was accounted for by commercial bank lending, using recycled OPEC financial surpluses.

### OPEC and OECD donor performance

Contrasts between OECD and OPEC aid donor performers involve value judgements as much as statistical problems of measurement (see Box). Nonetheless, some comparisons can be made. Table 3 expresses aid (oda) as a percentage of donor GNP in 1977 and 1978 for each OPEC donor, for the UK and for the OECD (DAC) as a whole. By this yardstick and for these years OPEC as a group is considerably more generous than OECD (DAC) donors. Some OPEC donors (Saudi Arabia, Kuwait, UAE) have a ratio of net oda disbursement to GNP many times the DAC average. Iraq, which has a per capita income well below that of any DAC donor has an aid performance better than most of them, while Algeria and Venezuela compare not unfavourably with major DAC donors such as the US, Japan or Switzerland. If the whole period 1973-78 were to be taken the comparison would be even more favourable to OPEC. As far as *terms* are concerned the grant content of OECD (DAC) aid in 1978 was 94.5% and of OPEC aid 84.4% (respectively 89.3% and 67.5% in 1977). OPEC aid is clearly less generous in terms though the grant content approached DAC levels in two of the last six years (1973 and 1978).

On the other hand there are few of the costs (or benefits to the donor) associated with aid tying. OPEC aid does not lead to the distortions of priorities, the extra costs and delays which are entailed when a recipient has to try to match its needs to the export capacity and interests of particular DAC donors. OPEC aid has the additional attraction to recipients of being predominantly untied to particular projects so that it can be used for general balance of payments and budgetary support. However, as we shall see below, some OPEC aid agencies are now trying to exercise greater control over aid through project tying.

### Beneficiaries of OPEC aid

OPEC concessional resource flows are very unevenly distributed. Table 5 tries in a rudimentary way to indicate the share of aid allocated to the Arab World, other Islamic countries and the remainder of ldcs. Two-thirds of all bilateral aid over a three-year period went to Arab countries. Moreover, their share of OPEC aid is now increasing (it had fallen to 60% in 1976 from close to 100% pre-1974). This is explained by the declining relative importance within OPEC (as aid-givers) of some states with a substantial non-Arab aid programme (Iran, Venezuela, Algeria). The share of non-Arab beneficiaries of OPEC multilateral aid is also low.

Some non-Arab Islamic countries do not appear to have benefitted from their religious links with the main Arab aid donors to the extent which one might have expected. The relationship between OPEC aid to Muslim South Asia (Pakistan and Bangladesh) versus predominantly non-Muslim India is about 3:2 over the 1975-78 period, no different from DAC (see Table 4). Bangladesh still relies overwhelmingly on DAC, not OPEC, aid. Other Muslim states (eg Malaysia, Turkey) have received little in relation to what they take from DAC. On the other hand, some Arab Muslim states (eg Sudan, North Yemen) receive a much higher proportion of their oda from OPEC sources than others in similar income categories.

Over two-thirds of OPEC aid – higher than for DAC – does go to countries most seriously affected by oil price increases (msas) and a rising share to the 'least developed' (lldcs). The high share for msas is very largely accounted for by Egypt and, as 1978 commitments begin to show, the switch of aid from Egypt is resulting in a much higher share for middle income ldcs such as Syria and Jordan. Moreover, the most generous terms of OPEC aid are enjoyed by middle and high income ldcs and the least generous by the least developed. The grant content of aid to Bangladesh, India, Sudan, Somalia is particularly low, while a large part of committed transfers to Pakistan are non-concessional. This inversion of the expected pattern of generosity of aid terms is striking and is further evidence of the main OPEC donors' wish to help Arab countries rather than other, poorer ldcs, even if these are Islamic.

A large number of ldcs have so far received very little OPEC aid in relation to their needs or in relation to DAC aid: predominantly non-Arab, African, Caribbean, Latin American and Oceanic countries. To a limited extent they benefit from OPEC loans of limited concessionality, from Venezuela to the Caribbean for example. There is also some evidence, based on 1978 aid commitments, of a redirection of OPEC aid effort towards sub-Saharan Africa in particular, but the possibilities of OPEC aid achieving a better geographical balance are constrained by one crucial political factor. Those OPEC members which have large resources to spend on aid comprise a few states, notably Saudi Arabia, whose interests in the 'third world' are largely limited to the Middle East. Those members, non-Arab and radical Arab, which might be expected to favour a reorientation of aid have much more limited resources.

### OPEC donor countries

We have discussed OPEC aid so far in general terms. In fact, over 80% comes from rich, low population, Arab states: Saudi Arabia, Kuwait, and the UAE (Abu Dhabi predominating). *Saudi Arabia* is the largest OPEC aid donor, accounting for 40% of all oda disbursed in the last four years. In 1976 and 1977 it was the world's second largest aid donor. Published statistics are not entirely reliable but they suggest a steady increase in aid commitments, the bulk of which is bilateral aid in the form of general balance of payments assistance to other Arab

**Table 1: Receipts of oda by developing countries ($bn disbursed)**

| | | 1970 | 1975 | 1976 | 1977 | 1978 |
|---|---|---|---|---|---|---|
| (1) | OPEC aid | 0.35 | 5.11 | 4.95 | 5.12 | 3.51 |
| (2) | *of which* bilateral (amount) | 0.35 | 4.95 | 4.53 | 3.89 | 2.52 |
| | –as % of OPEC aid | 100.00 | 97.00 | 92.00 | 76.00 | 72.00 |
| (3) | Total oda | 7.89 | 19.51 | 18.81 | 19.80 | 22.47 |
| | –OPEC aid as % of total oda | 4.40 | 26.20 | 26.30 | 25.90 | 15.60 |

*Source*: DAC, *Review of Development Cooperation*, 1979.

**Table 2: OPEC aid and non-concessional transfers in relation to balance of payments aggregates (bn)**

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|---|---|
| *Current account balance* ($bn)[a] | | | | | | | |
| OPEC | 6 | 68 | 35 | 40 | 32 | 6 | 63 |
| other ldc | -11 | -30 | -38 | -26 | -21 | -31 | -38 |
| all industrial countries | 19 | -13 | 14 | -3 | -7 | 20 | -38 |
| *Selected financial flows* | | | | | | | |
| OPEC aid and non-concessional official flows to ldcs[b] | | | | | | | |
| (DAC estimate) | 1.75 | 5.89 | 8.17 | 8.15 | 7.60 | 5.29 | |
| (UNCTAD estimate) | 1.59 | 7.56 | 11.44 | 8.98 | na | na | |
| Bank lending | 9.70 | 10.00 | 12.00 | 15.00 | 15.50 | 22.20 | |
| Private direct investment | 4.72 | 1.12 | 10.49 | 7.82 | 8.79 | 11.44 | |

*Source*: IMF, *Annual Reports, DAC Review of Development Cooperation* and UNCTAD statistics. 1979 estimates from Bank for International Settlements.

Notes: [a] The current account balance excludes official transfers.
[b] The difference between DAC and UNCTAD derives mainly from UNCTAD's more complex recognition of OPEC contributions to the IMF oil facility.

**Table 3: Oda by OPEC members (net disbursements)**

| | 1978 $m | % of Donor GNP | % of OPEC Total | Donor per capita income $ GNP (1978) | Adjusted GNP per capita |
|---|---|---|---|---|---|
| Algeria | 43.1 | 0.18 | 1.2 | 1110 | 2109 |
| Iran | 213.2 | 0.26 | 5.8 | 2180 | 3183 |
| Iraq | 144.2 | 0.66 | 3.9 | 1530 | 2632 |
| Kuwait* | 856.4 | 4.54 | 23.1 | 12710 | 11566 |
| Libya | 141.5 | 0.77 | 3.8 | 6680 | 7081 |
| Nigeria | 38.0 | 0.08 | 1.0 | 420 | na |
| Qatar* | 100.8 | 3.48 | 2.7 | na | na |
| Saudi Arabia* | 1455.3 | 2.32 | 39.3 | 4980 | 7470 |
| AE* | 616.5 | 5.37 | 16.6 | 14710 | na |
| Venezuela | 94.6 | 0.23 | 2.5 | 2660 | 3777 |
| TOTAL | 3703.6 | 1.11 | 100.0 | | |
| (* 4 Arabian states % of total) | | | 81.7 | | |
| 11 DAC | 1820.0 | 0.32 | - | - | - |
| UK | 1212.0 | 0.39 | - | 4430 | 1.20 |

*Source*: Based on OECD (DAC), *Review of Development Cooperation*. Per capita income from World Bank Atlas.

Note: Adjusted GNP is derived from an index of purchasing power parity calculated from 1974 relative prices.

## A note on the problems of comparing OPEC and OECD aid performance

It is useful to recall in making comparisons that the conventional measure of donor performance and ability to pay (in terms of a target percentage of GNP) may be misleading for several reasons:

* GNP and population estimates are hazy for some OPEC countries, notably Saudi Arabia. GNP is, anyway, a notoriously flawed basis for contrasts unless corrected to allow for true comparisons of purchasing power (see Table 3).

* GNP is, in economic terms, a flow rather than a stock concept. It measures income, not wealth. It does not distinguish between income derived from selling off non-renewable assets and from a more productive use of given assets, or from renewable assets. OPEC countries claim that their high GNP is misleading, achieved as it is by sale of a non-renewable natural resource. The President of the World Bank has suggested a 'depletion factor' of 30% when measuring GNP for the purpose of assessing aid effort.

* OPEC countries also argue that while OPEC's oda/GNP ratio will fall in the long run, as the richer OPEC countries run down their presently large financial assets, non-oil ldcs benefit from high levels of aid given now rather than the same amount spread over a longer period of time. Since we normally discount future streams of income, we could say that, other things being equal, OPEC aid is more valuable since it provides aid today rather than aid tomorrow.

Not all the OPEC arguments are, however, wholly convincing. OPEC countries can reasonably be assumed to be motivated by self-interest when establishing their oil depletion rate. A rapid depletion rate equips the exporter with the means to obtain other forms of assets as well as to meet other economic, strategic and political objectives which may include acquiring an aid-giving capacity. Nor should we lose sight of the fact that OPEC oil wealth is not fortuitous but is derived almost entirely from turning the terms of trade against oil importers rich and poor, by charging monopoly rent through oil prices which are greatly in excess of marginal OPEC (ie Saudi) costs of production.

**Table 4: Distribution of aid and terms: oda (bilateral only)**

| | OPEC $m | | DAC $m | |
|---|---|---|---|---|
| | Total oda 1975-78 net receipts | Oda committed 1978 | Total oda 1975-78 net receipts | Oda committed 1978 |
| Least developed *of which* | | 856 | | 3426 |
| Yemen (N) | 672 | 318 | 35 | 47 |
| Sudan | 548 | 323 | 283 | 283 |
| Bangladesh | 266 | 61 | 2074 | 1007 |
| Somalia | 314 | 15 | 176 | 58 |
| Other low income *of which* | | 1094 | | 5739 |
| Egypt | 4485 | 456 | 2155 | 1271 |
| India | 1051 | 34 | 2697 | 1154 |
| Pakistan | 1369 | 381 | 1429 | 646 |
| Mauritania | 364 | 129 | 95 | 36 |
| Kenya | 0 | 26 | 551 | 283 |
| Senegal | 22 | 49 | 376 | 138 |
| Low middle income *of which* | | 4031 | | 3701 |
| Jordan | 1176 | 1570 | 453 | 186 |
| Syria | 1883 | 2259 | 142 | 155 |
| Malaysia | 19 | 5 | 272 | 81 |
| Morocco | 260 | 80 | 657 | 206 |
| Liberia | 0 | 29 | 76 | 31 |
| Upper middle income *of which* | | 228 | | 2298 |
| Turkey | 30 | - | 234 | 191 |
| Jamaica | 0 | - | 156 | 106 |
| Malta | 5 | 73 | 158 | 11 |
| High income | | 140 | | 1672 |
| TOTAL | 15891 | 6562 | 42526 | 18730 |

*Source*: Statistical Annexes to DAC *Review of Development Cooperation.*

**Table 5: Distribution of OPEC aid (oda) by group of receipts: net disbursements ($m)**

| | 1976 | | | | 1978 | | | |
|---|---|---|---|---|---|---|---|---|
| | Bilateral | Multi | Total | % | Bilateral | Multi | Total | % |
| Arab | 2641 | 327 | 2968 | 60 | 1686 | 806 | 2492 | 71 |
| Other Islamic | 1034 | 33 | 1067 | 21 | 421 | 94 | 515 | 15 |
| Others (including bilateral unspecified) | 858 | 58 | 916 | 19 | 414 | 91 | 508 | 14 |
| TOTAL | 4533 | 418 | 4951 | 100 | 2524 | 991 | 3515 | 100 |

*Source*: Calculated from Tables in OECD Secretariat Working Document DCD/179.31.

Notes:
1. The definitions of 'Arab' and 'other Islamic' are necessarily arbitrary but the following division was made:
   *Arab*: Egypt, Syria, Jordan, Morocco, Tunisia, Oman, Bahrain, Yemen.
   *Other Islamic*: Bangladesh, Comoros, Djibouti, Maldives, Mali, Mauritania, Niger, Pakistan, Somalia, Uganda (up to 1979).
2. Under the heading 'unspecified' may be included some bilateral assistance to non-Arab Islamic states.
3. Since the figures are on a 'net disbursement' basis there are some repayments to OPEC members. There are also inter-OPEC transfers which are allocated on the geographical basis as above.

countries. There is, however, a Saudi Fund for Development for financing projects in all ldcs. Despite having a large authorised capital ($2.8bn in 1978) it has not so far managed to spend more than $200m per annum, but it appears to be Saudi government policy to give the Fund a larger share of the aid budget.

Kuwait is the second largest OPEC donor. Kuwait's aid programme closely resembles Saudi Arabia's in its general orientation and priorities. But there is one major difference. A large part of Kuwaiti aid (45% of 1977 commitments) is channelled through a specialised development financing institution, the *Kuwait Fund for Arab Development*. This is the doyen of Arab Funds and has a long lending experience going back to 1961. Its total authorised capital ($3.6bn) is the largest of any Arab fund and it has – unlike the Saudi Fund – potential borrowing powers to build upon its equity base so as to provide up to $12bn in capital. The *Abu Dhabi Fund for Arab Economic Development* (ADFAED) is, by OPEC standards, also a body of long-standing (dating from 1971) and is modelled on the Kuwaiti Fund, though its scale is much smaller. Like the Saudi and Kuwaiti Funds its expansion has been constrained by the lack of suitable projects, and (like the Saudi Fund) by insufficient numbers of experienced staff. Saudi Arabia and the Gulf States provide the large majority of OPEC aid and their aid priorities are very similar (with the qualification that Kuwaiti assistance is based to a much greater extent on a development finance agency with relatively rigorous standards of project identification).

Of the remainder, *Algeria, Nigeria and Venezuela* channel their assistance mainly through multilateral institutions or in non-concessional form. *Iraq*'s bilateral programme is expanding rapidly, much of it to the non-Arab world: India is the largest beneficiary of net disbursements ($135m out of $330m spent in the years 1976 to 1978). One potentially important development is Iraq's agreement to compensate, by means of aid, non-oil ldcs for terms of trade losses. *Iran's* aid programme was once substantial and was distributed overwhelmingly to India and Pakistan as part of a programme of economic cooperation developed under the Shah's regime. All aid has now stopped, including that to the OPEC Special Fund. The only other donor of consequence is *Libya*. Most of its disbursed aid so far has been multilateral, particularly to the Islamic Development Bank.

### Multilateral OPEC institutions

Multilateral OPEC aid covers a wide variety and large number of outlets, but its contribution to OPEC aid in total is not large. 24% of OPEC aid oda disbursed in the 1975-78 period was multilateral but 70% of that was accounted for by GODE (the Gulf Organisation for Egyptian Development) which has now been disbanded. The main channels can be classified as follows:

(a) established multinational institutions – the IMF, the World Bank, the UN, the African Development Bank. These include some multilateral donor activities which owe a good deal to OPEC initiative: the United Nations IFAD (International Fund for Agricultural Development), 40% of whose funds come from OPEC, and (though their paternity, and concessionality, might be disputed) the now defunct IMF Oil Facility and the proposed Common Fund. In other cases established multilateral institutions act in a trusteeship capacity for an OPEC donor (eg the Inter-American Bank Trust Fund for Venezuela).

(b) pan-OPEC aid: notably the OPEC Special Fund (OSF) The OSF currently has several functions. One is as a coordinator of general OPEC aid policy, monitoring (and to an extent yet undefined, coordinating) national agencies. The OSF has orchestrated OPEC's participation in the Common Fund. This is to receive $100m to cover OPEC's participation, that of the 30 least developed countries, a portion of the contribution of other ldcs, and a balance for the 'second window'. The OSF also contributed $435m to the £1bn International Fund for Agricultural Development (IFAD) which is designed to promote small farm development in low income countries. The second role is as a provider of assistance. One form is 'soft' balance of payments assistance loans. By mid-1979 it had committed $1bn for this purpose and had disbursed half of that sum. To ensure that loans are used for development purposes, borrowers are required to set aside local counterpart funds to be used for development projects over a reasonable period of time. The other form of assistance is project finance; $600m have been lent for 146 projects in 70 countries (up to December 1979). To speed disbursement the Fund actively seeks out projects already appraised by other agencies and in which it can play a subsidiary bridging or co-financing role.

(c) pan-Arab aid has dominated OPEC multilateral aid hitherto (accounting for half of the multilateral total in 1978). The growing importance of OSF and the growing self-confidence of Arab national programmes has, however, removed some of its rationale and most of the pan-Arab institutions are floundering at present. The most substantial agency (apart from the defunct GODE, which spent $1.85bn) is *AFESD* (based in Kuwait) which has an authorised capital (1978) of $1.45bn. AFESD (the Arab Fund for Economic and Social Development) makes available grants and soft loans to Arab countries only. After a period of rapid expansion it has run up against the limits of its authorised capital and disbursed nothing in 1978. Its offshoot, *AAAID*, (Arab Fund for Agricultural Development in Africa) as a body designed to make the Sudan a major agricultural producer, has failed to make much progress due to implementation problems. The *IDB* (Islamic Development Bank) has laboured under the difficulty of finding suitable projects. One of its distinctive features is its observance of Koranic percepts on usury which affect interest payments and have inclined the bank towards equity investment inste: *BADEA* (Bank for Arab Development in Africa) has run close to the limit of its subscribed capital, circa $600m, and lending has had to slow down as a result. The continuing interest in pan-Arab aid in general is, however, indicated by a proposed $1bn Kuwait-Libya aid fund.

(d) non-concessional official transfers; in addition to loans to the IMF and IBRD, this category includes the lending activities of several Arab institutions; for example, APIC (Arab Petroleum Investment Corporation) and AIC (Arab Investment Company).

## The future of OPEC aid

In the months following the Caracas summit there have been important developments affecting OPEC aid. One is the plea for immediate large-scale assistance from non-oil ldcs whose external financing position has deteriorated in the face of substantial oil price increases. This has coincided with the efforts of OPEC, channelled through its Committee on Long Term Strategy, to evolve a coherent aid policy which goes beyond ad hoc improvisation. The governing principles in drawing up future policy appear to have been the need to be sufficiently generous to non-oil ldcs to mitigate at least the direct effects of higher oil prices and to maintain solidarity between developing countries on a political level, while at the same time offering nothing (such as dual pricing) which could weaken OPEC's control over the supply of traded oil. Some OPEC members – Iraq and (to a lesser extent) Libya – have gone further in acknowledging a responsibility to compensate, fully, non-oil ldcs for higher oil prices and have promised to do so unilaterally pending a multilateral arrangement. The main steps taken by OPEC as a whole are:

*to agree to increase the resources of OSF from \$1.6bn to \$4bn as a short-term measure.

*to set up a fully fledged OPEC aid agency, incorporating OSF and capitalised at \$20bn. It is expected that formal approval to the agency will be given in October and that it will commence operations in January 1981. Subscriptions to the Fund will be made in \$1.5bn annual instalments, which with OSF's resources will create subscribed capital of \$10bn by January 1984. The intention is to have graduated lending terms depending on the income of the recipient, ranging from grants for the poorest to soft loans for middle income countries. The agency will service a variety of needs: emergency payments support; energy development; economic integration between ldcs; credit guarantees for inter-ldc trade; schemes and projects to raise the value of raw material exports.

*to set up a meeting between OPEC and a small group of important non-oil ldcs to ensure that 'south-south' relations in general are kept on an amicable footing.

The full significance of the new agency will not be clear for some years but a few general comments can be made. First, even if funds are fully subscribed and rapidly disbursed, their contribution, in relation to the needs of non-oil ldcs will be modest. Even if the agency provides additional aid rather than redirects it, the likely scale of new aid disbursements will not greatly exceed \$1bn in the next few years and will be set against the balance of payments cost of \$2bn to ldcs from a \$1 rise in the price of oil. Thus, the agency cannot be seen as a substitute for, but as a complement to, considerably expanded bilateral aid programmes. Second, there will be a choice to be made within the new agency between concentrating upon large scale, emergency, balance of payments assistance and project finance. Recipients are seeking the former, though programme aid is less popular with donors since it is less politically visible than project aid. Project aid is generally slower to disburse. Even before the intensified pressures for more programme aid in the wake of oil price increases there were difficulties in most OPEC agencies in identifying projects and then disbursing project finance with sufficient speed. This has in turn given an impetus to seeking out collaborative arrangements with partners from developed countries – development financing institutions and private consultants – which can identify, evaluate and organise projects. But this 'triangular' approach, using Western skills and OPEC money cuts to some extent against OPEC ambitions to have institutions with a strong 'third world' identity and control.

In conclusion, while a modestly expanded OPEC aid programme is likely to be useful, it is merely one part of a larger exercise of recycling OPEC surpluses to non-oil ldcs. The task is likely to be considerably more difficult than in the mid-1970s. The main OPEC balance of payments surplus economies are unlikely to be able to absorb a large increase in the volume of 'third world', or other, goods. Their absorptive capacity for further immigrant workers is very limited. The main mechanism of secondary recycling, through the Western commercial banking system, is unlikely to work so well as hitherto given the anxieties of most banks about their exposure in the 'third world'. Many ldcs will as a consequence be forced to reduce their import requirements by reducing growth. With the full implications of recent oil price increases and the modest nature of offsetting OPEC aid becoming clearer, there is considerable potential for tension between OPEC and non-oil ldcs, especially those ldcs which receive little or no OPEC aid. What, so far, is keeping this tension latent is a reluctance of ldcs to break ranks at a time when the main developed countries are running down their aid programmes and are showing little evidence of concern for more than their own immediate problems.



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