Development
The Unresolved Issues

Selected statements by

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THE OPEC FUND FOR INTERNATIONAL DEVELOPMENT

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Dr. Y. Seyyid Abdulai, a national of Nigeria, is a graduate of McGill University, Montreal. He taught economics in Canada before proceeding to the World Bank in 1971 where he rose to the position of executive director (Africa Group I). He was responsible for representing the interests of 19 sub-Saharan African countries as well as Trinidad and Tobago. Dr. Abdulai also served at the World Bank in several other capacities, including the chairmanship of the Joint Secretariat of the African Executive Directors of the World Bank and the IMF and the vice chairmanship of the Joint Audit Committee of the World Bank. He came to the OPEC Fund from the Nigerian Federal Mortgage Bank, the largest institution of its kind in Nigeria, where he was managing director and chief executive officer. Dr. Abdulai is married and has four children. He has been director-general and chief executive officer of the OPEC Fund since August, 1983.

The OPEC Fund at a glance

The OPEC Fund for International Development is an inter-governmental development finance institution established in 1976 by member states of OPEC (the Organization of the Petroleum Exporting Countries) to pursue South-South solidarity and promote cooperation between OPEC states and other developing countries. Its headquarters are in Vienna, Austria. In its 14 years of operation, the Fund has supported development efforts in more than 90 countries of Africa, Asia, Latin America, the Caribbean and the Middle East, financing development projects and programs, extending balance of payments support, and supporting technical assistance and research activities.

The resources of the Fund which, by December 1989 stood at $3.5 billion, consist mainly of voluntary contributions by member countries and accumulated income from the Fund's investments and loans. All developing countries, with the exception of OPEC countries themselves, are in principle eligible for Fund assistance. The least developed and most seriously affected of developing countries are accorded high priority. Also eligible for Fund assistance are international organizations whose activities benefit the developing countries. Member states of the Fund are Algeria, Ecuador, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, SP Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. The Fund's highest authority is its Ministerial Council on which each member country is represented. The Fund's Governing Board is responsible for the conduct of the Fund's general operations.

CONTENTS

Foreword

This publication comprises a selection of statements, speeches and papers by the Director-General of the OPEC Fund for International Development, Dr. Y. Seyyid Abdulai. It offers, in book form, an overview of the Fund's positions, as represented by Dr. Abdulai to international bodies, forums and gatherings.

The purpose of the publication is to provide a picture of the evolution of the Fund's operations and thinking, and the environment in which it has worked. Dr. Abdulai took up his duties as Director-General of the OPEC Fund in August, 1983, and was reappointed for a second five-year term in 1988. As the earlier speeches include retrospective elements, the book thus effectively spans the decade of the 1980s. This was the first decade of the Fund's existence as a permanent international agency with its own legal personality. It was also a decade of great turbulence in the world economy and the oil market, to which the destinies of the Fund's member states are closely tied.

As a distillation of ideas and information covering a number of years, the book provides an opportunity to examine the common threads, changes of emphasis and new developments in the Fund's approach. The strong continuity evident throughout stems partly from the fact that the Fund remained true to its aims as a development institution extending highly concessional assistance, with a strong emphasis on delivery to the poorest sections of the populations of the less privileged countries in the developing world.

The issues addressed provide another element of continuity. This results from the fact that the same problems affecting the developing world remained on the agenda because they were not solved, and indeed, tended to be further aggravated.

I am happy that Dr. Abdulai has been able to present his views on various issues of international cooperation for development in book form. I can only hope that such views will receive wider acceptance for establishing concrete cooperation and understanding among those who design policies to promote development efforts in the developing world.

Kuwait, March 1990

Jassim Mohamed Al-Kharafi

Minister of Finance of The State of Kuwait

Chairman of the Ministerial Council of the OPEC Fund

Introduction

In the early years of Dr. Abdulai's tenure, the economies of the industrialized West were tentatively moving out of the worst recession since World War II. OPEC was often blamed for these difficulties, and it was still necessary to correct the misapprehensions from which such accusations stemmed. Thereafter, the OECD region witnessed steady economic growth – yet for much of the developing world, including the OPEC countries, themselves, this was to be a decade of continuing pressures. The benefits of recovery were not shared, and it became apparent that many developing economies, especially those of the least-developed countries, were in danger of becoming marginalized. They were being decoupled from world trade, and thus from economic, technological and social advancement.

A lasting consequence of the public expenditure cuts by western nations which were both a cause of, and reaction to the recession of the early 1980s was a decline in the value of official development assistance, to which Dr. Abdulai often had cause to refer. The disappointing trend in assistance from industrialized states – in strong contrast to the continuing effort of OPEC donors in the face of major economic adversity – had severe consequences for those dependent on external assistance. In the face of this trend, the OPEC Fund has sought to achieve ever closer cooperation with other aid institutions, so as to improve the efficiency with which resources are employed.

This problem of falling aid flows was compounded by another, addressed by Dr. Abdulai in his speech to the "Third Loan Market Conference", in 1984: private capital flows to the developing world were also waning. This was partly connected with the debt crisis, which emerged as a serious threat to the world financial system shortly before he took office at the Fund. By the end of the 1980s, the Director-General's warnings that the methods adopted to deal with the crisis were inadequate had been amply borne out by the fact that, far from diminishing, developing countries' debt burden had significantly increased (see Statement to the Conference on External Debt of the Arab and African Countries, 1989.)

As Dr. Abdulai frequently pointed out, developing countries' ability to pay their way was drastically curtailed by an unhelpful economic environment.

Not only did interest rate and currency movements cause the debt load to multiply, but the terms of trade for primary producers deteriorated sharply during the decade.

As an institution with a particular concern for the low-income countries, the OPEC Fund's operations have inevitably assigned a high priority to Africa, where most of these countries are situated. It is thus not surprising that many of the Director-General's contributions have focused on this continent (e.g. Remarks to the UN General Assembly, 1986).

The discussions of development models for Africa particularly highlight the evolution of the Fund's approach, during the 1980s, towards ever greater emphasis on "grass-roots" forms of development, in relation to both agriculture (see Keynote Paper to the Second International Conference on Large Scale Systems in Developing Countries, 1989), and to industrialization (see Statement to the Fourth UNIDO General Conference, 1984). In line with the Fund's priorities, Dr. Abdulai has often stressed the importance of strengthening human resources in Africa, and elsewhere in the developing world, as a vital foundation for development efforts (see Statement to the 24th Session of the General Conference of UNESCO).

The OPEC Fund's determination never to lose sight of the fact that the development process exists to serve people is at the root of a fundamental divergence of approach from that of international financial institutions dominated by the industrialized countries as regards structural adjustment programs. Dr. Abdulai's insistence – documented, *inter alia*, by the statements to the Development Committee – that such programs should pay due regard to human indicators of economic welfare, and to long-term factors in development, has been justified by the very mixed results in Africa.

If the frustrations of a crusader for the cause of justice and humanity in global economic relations are part of the picture that emerges from this book, so too, does the fundamental optimism that underlies the OPEC Fund's efforts. It is thus fitting to conclude by mentioning a major success, due in no small part to the Fund's persistence in broaching the unfashionable issue of North-South relations in general, and primary commodities in particular. It was particularly gratifying to see the long march towards the establishment of a Common Fund for Commodities reach its goal (see Statement to the First Annual Meeting of the Governing Council of the Common Fund for Commodities).

Development policies of aid donors

Statement to the UNESCO General Conference,
Paris, France November 8, 1983

The present strained state of the world economy, the crisis through which it is passing, and the fragile prospects for recovery on which many hopes are now pinned, are consequences of the longest and deepest post-war recession. The indications today are that the recovery has started, but is neither firmly or indisputably established, nor is it more than a restricted one, both economically speaking and in a regional sense.

On the other hand, there are indications that the recovery will peter out if it is not nourished by economic policy decisions that will have the effect of reinforcing recovery where it has actually begun, and re-activating national economies elsewhere.

It should be clear to most people now that the crisis that is still very much with us, in spite of our tenuous hopes, has been bought about in large measure by the short-sighted economic decision of the major economic powers. In an effort to solve domestic economic problems, they neglected to take full account of the repercussions their actions would have on the world economy.

Their monetary policies, for example, have not only helped to fuel the flames of domestic inflation and high interest rates, but have also effectively exported inflation to the Third World. As you know, these high interest rates have placed an extremely onerous burden on all debtor countries.

In order to deal with the unemployment situation, major governments have taken steps which they thought would protect jobs in their countries, paying no regard to the effect such policies would have on their trading partners. The result has been that investments were made in areas that should have been left to many Third World countries which have the comparative advantage. Such investments were, in an economic sense, wasteful. Not only was unemployment not reduced in the investing countries, but it was increased in the Third World.

Perhaps nowhere has this economic blunder been more serious than in the area of agriculture. The protection which continues to be given to this sector, in which the developing world could have been playing a major role in the world economy, has resulted in untold economic waste. It is to be hoped that the major economies would now realize that their unemployment difficulties are structural rather than cyclical in nature. Acceptance of this basic fact would lead to the design of more open economic policies beneficial to the world community at large.

Of immediate significance to us is the drastic reduction in economic assistance of the developed countries to the Third World. This has steadily taken place on grounds that one should not send resources outside when one has not been able to do everything at home. The fallacy in this thinking is becoming increasingly clear. The world cannot be divided into outside and inside. Global interdependence makes nonsense of such a classification.

In any overall view, the world economy tends to be presented in generalized terms that obscure the vital needs of policy in those specific areas most vitally affected. I propose to concentrate on these areas. I refer of course to developing countries, but even more specifically to the poorest countries of the world, those defined by the United Nations as the LLDCs, MSAs, and the food-priority countries.

The countries in these categories have always been able to count on special attention and sympathy from the OPEC Fund. The Fund, from its inception, has devised lending programs that channelled its development assistance commitments especially towards this disadvantaged group, and in our present lending program, the emphasis in this direction has increased.

The OPEC Fund, however, is one small institution among many international and governmental agencies in this field. What we can do directly is limited. But perhaps we can also seek to supplement that direct help by convincing others, who are in a position to provide direct assistance, of the policies and principles that we consider to be vital.

We set out from two fundamental truths. First, the world community is exactly that – a community. Its various regions, countries and peoples may be far apart, and have widely differing lifestyles, yet they are all interdependent. The long-term self interest of each region, country or people, cannot be separated from that of the world community in its entirety. It therefore remains important to reiterate that the accelerated economic development of the disadvantaged countries, mentioned earlier, is a problem of the utmost priority for the economic and political stability, and indeed for the moral well-being, of the world community. Second, it is sadly also a fact of life that the poorer a country is, the less able it is to react effectively to adverse economic trends. The world's poorest countries have no resilience in the face of economic adversity, and little capacity for adjustment to economic storms.

More sadly still, within those countries, the same principle again applies: the poorest among their populations are the most defenceless and always the hardest hit by adverse economic conditions.

It is not my purpose to put before you today the question: "What is the path towards world economic recovery?". There is an ample fund of established wisdom on that topic, of which you could hardly fail to be aware. My question is more specific and is central to the purposes of the development movement. It is:

What policies should be followed by international agencies and governments to ensure that LLDCs and MSAs participate in world economic recovery?

For if such participation can be increased, these countries will begin to create wealth within their own economies and by doing so, positively influence the world economic picture.

I must impress upon you the need for the world community to inject these principles and this emphasis into its deliberations and policies.

The alternative is to accept the "trickle down" theory which states that as the world recovers, so the benefits will seep down to the disadvantaged. The kindest thing one can say about that is to quote a critic, from a former occasion: "Nothing trickled down except Coca Cola".

During the 1970s, economic growth in the LLDCs barely kept pace with their population growth. In the 1980s, even that pace could not be maintained, and per capita income declined.

Exports from LLDCs were stagnant in 1981, and declined in 1982. The cumulative deterioration of the terms of trade of the LLDCs over the five-year period, 1977-82, was almost one-third. Agriculture accounts for roughly half of GDP in these countries.

In the main, the LLDCs are too poor to be creditworthy for commercial loans. The latter factor may have been a blessing in disguise. But one must remember that the LLDCs depend vitally on official development assistance and that the grossly inadequate official development assistance flows have influenced the statistics that I have quoted. The statistics are indeed gloomy;

official development assistance in the immediate years we now face, will be the life-line for this group, and as a central element in an overall policy, will ensure their economic growth or lack of it, to a more stable and self-sufficient level.

As I mentioned, from the beginning, the OPEC Fund has directed its development assistance commitments especially towards the LLDCs and MSAs. The Fund's emphasis has always been on need and it has attempted, as far as practical constraints permit, to reach the poorest segments of the populations within those countries.

This was, perhaps, a natural policy for the OPEC Fund to adopt, when one considers how it came into being. It is a well-known fact that the various OPEC countries have had their national aid-giving institutions, some dating back to the 1960s. When, in 1976, the OPEC member countries decided to join efforts to help the developing countries, it was with the aim of reaching more countries, particularly the most needy ones. This effort has now been institutionalized. One common fallacy is the belief that the OPEC Fund was an institution established to assist countries with their oil imports. An examination of the countries where the OPEC Fund has been active will reveal that these are countries which import very little oil, and that there is no correlation whatever between oil imports and the level of OPEC Fund assistance.

The 13 OPEC members, let me remind you, are all developing countries. They have all experienced, in the past, and indeed are today experiencing, the problems of under-development. With that experience in mind, they established the OPEC Fund with the purpose of expressing the solidarity of one group of developing countries with the rest. If I may say so, this was perhaps the first concrete example of the South-South cooperation that has repeatedly been called for in the recent past.

Today, the OPEC Fund is an international institution with resources of $3.5 billion, most of which has already been committed to development assistance. Commitment has been effected in a number of ways, devised with the needs of the beneficiaries in mind, or in one or two cases of strategic significance, with the needs of the development movement itself as the primary concern. The record shows that the Fund has actually disbursed a total amount approaching $2 billion.

One facet of the OPEC Fund's activities of special interest for this audience even though it involves smaller amounts of finance, relates directly to those subjects with which UNESCO is also most concerned. I refer to the grants extended by the OPEC Fund. The Fund's program of grants includes those for food aid, and in addition, grants of two types. The first of these we call "technical assistance and similar activities", and the second "research and intellectual activities". The Fund has given $25 million in food aid assistance. The commitment for technical assistance has reached $63.9 million and that for research now stands at $1.23 million.

These are very broad, general terms, but there is no doubt that many, if not all, of the activities thus defined also fall within the category, "education, scientific and cultural".

For example, under the Fund's technical assistance grants, research centers of the Consultative Group on International Agricultural Research have been assisted in the amount of $10.2 million. This chain of practice-oriented institutions, all located in the Third World, and all contributing to agricultural productivity, directly assists the dominant economic sector – agriculture – of the low-income countries.

Grants amounting to $32.9 million have also been extended to UNDP-assisted programs and projects of various kinds. In addition, other United Nations agencies have been beneficiaries of OPEC Fund grants, amounting to $9.1 million for purposes such as the promotion of research and training, family welfare, rural water supply, and various energy projects of an innovative nature.

Examples are a grant of $5 million to the Latin American Energy Organization, a $5 million grant to the CEAO Solar Energy Regional Centre, and a $5 million grant to the Agency for the Safety of Aerial Navigation in Africa.

The OPEC Fund has also extended technical assistance grants along with its active support, to ensure the establishment of two new institutions serving the Third World – the International Development Law Institute in Rome ($0.2 million), and the African Fertilizer Development Center in Harare, Zimbabwe ($0.5 million).

Economic development is not a mechanical process. It thrives on intellectual nourishment that feeds the idealism which, ultimately, is its driving force. The OPEC Fund therefore, has contributed to research and other activities of a similar nature that are central to its philosophy, or that investigate or promote the same aims as those the Fund strives to achieve.

This brief outline will give you some idea of the achievements of the OPEC Fund. As things are today, all multilateral development institutions, including the Fund, are going through a very difficult time owing to severe resource constraints. The situation calls for more cooperation between these institutions, so that the limited funds available can be made to go as far as possible.

The real needs of the developing countries are increasing, at a time when development assistance is becoming less generous and less certain. It is my hope that the wisdom of reversing this trend will become apparent to all, and that corrective measures will be taken. Some measures are needed in the immediate future.

There has been much debate in the past few months over the future funding and operations of the major world institutions that are working in this field, notably the IMF, the World Bank, and in particular, IDA.

Can anyone doubt the vital need for these institutions not only to continue their work, but to be strengthened? The case of the poorest and most needy countries of the world is sufficient justification for the appropriate funding of these institutions.

Our first policy objective, therefore, must be to ensure that the IMF's financing role is strengthened and that the negotiations of the seventh replenishment of IDA are concluded early and brought into effect before July 1, 1984.

The objective is, however, simply a starting point. Bilateral donors should be persuaded to inject into their aid commitments the same emphasis that the OPEC Fund has always insisted upon – that of providing assistance where the need is greatest.

All donors – including all the developed countries of the North - should be exhorted, persuaded, cajoled, and bullied to increase their commitments to the levels to which many have agreed in principle, in the shape of the target of 0.7 percent of GNP – that well-known goal that lies ahead for most donors like a mirage that they never seem to reach.

Whatever degree of success we have in stimulating these assistance flows, our efforts will not reach their full fruition if we do not at the same time, use all our experience and skill to ensure that every widow's mite among our contributions is put to work with maximum effect. All the techniques of development are needed – and this is also a field of expertise that is developing, and can develop much further. More effective management of development assistance is needed everywhere; it is needed all the time.

We can press for official flows to be augmented. We can ensure that they are wisely applied. There needs to be more yet. We can devise our development strategy so that flows of private finance are incorporated in it, in a manner that is mutually beneficial to all the parties concerned.

Private debt crises on the one hand, and irresponsible borrowing that does not create economic wealth on the other, can in principle both be avoided. We at the OPEC Fund explored this line of development finance last spring, with development finance institutions and commercial banks both participating in our discussions. Much promise lies here, provided that we proceed with certain principles in mind. If we do so, the resources of private banks may be harnessed for development finance.

Augmented concessional flows, supplementary commercial ones, and heightened efficiency of their application in practice, are not of themselves enough. Other requirements are also vitally necessary. There are two other essential inputs upon which we must now insist.

The response of the developing countries, themselves, is one critical element in the development process. If we exhort donors to contribute more copiously, our calls will not have compelling urgency unless a credible and serious resolve is anchored in the policies of the beneficiary countries. It must be said that the developing countries have often not done enough to help themselves.

And one other response – from the world community generally – is also of critical importance. The developing countries need access to world markets for their exports. Success in exporting, helping to create a healthy balance of payments, is a necessary part of the development process. It can only be achieved if the climate of world trade is favorable. This is an essential part of development strategy.

One would hope that a lesson has been learnt from the prevailing economic situation. In the good times, many developing countries borrowed in order to expand their production and growth. Now that the anticipated markets have been closed, they find that the expected reward from their investments can no longer be realized. Their inability to service their debt should not be a surprise. The industrialized world has as much stake in the solution of this problem as the developing world.

The attack of this great world problem must be mounted with all the resources at our disposal and we must hope for generous response to our arguments.

Within that strategic framework however, and whatever the interplay of events as they unfold, there exist many opportunities at a practical level to achieve the aims of development.

For example, I mentioned to you the significance of rolling back protectionism. That is a primary objective in world trade, but other opportunities also exist. I mention merely one such opportunity that perhaps has not been given the attention that it deserves.

World trading conditions, whether hostile or favorable to the needs of developing countries, are not fixed. One avenue of opportunity for the developing world lies in promoting the growth of South-South trade – trade between developing countries. The full potential for such trade is far from being fully exploited.

The OPEC Fund was able to promote one example of such trade by suitably arranging the terms of its grant to the International Emergency Food Reserve, which is jointly administered by WFP and FAO. The Fund's grant was used to make purchases from food-exporting developing countries – Argentina, Burma and Zimbabwe – that agreed to offer concessional terms.

Allied to this, there is plenty of scope for economic cooperation between and among countries of the South.

Technical cooperation by an exclusively South group was achieved in a recent project financed by the OPEC Fund. The project – Kimbiji – consisted of exploratory drilling for hydrocarbons in Tanzania. Tanzania's own company provided managerial expertise. Algeria provided the specialized expertise for drilling, and the reviewing consultant was an Arab organization.

Another example is provided by a feasibility study for coal mining in Mozambique, in which the OPEC Fund is cooperating with the Brazilian Government, the latter contributing to the financing and providing expert advice and equipment.

The potential for South-South trade and South-South economic cooperation is explicitly recognized and indeed encouraged by the procurement guidelines recently published by the OPEC Fund. The guidelines stipulate that in certain circumstances, preferences can be applied to goods and services procured from developing countries, and also that if a developing country co-finances a project on concessional terms, competitive bidding can - with certain safeguards – be limited to that country. This cause was in fact applied to the project in Mozambique.

The basic idea behind our work is very simple. It is to provide development assistance where it is most needed. It is to devise that development assistance to meet the practical needs of the beneficiaries; and finally, to apply it flexibly in response to those needs, and in a timely manner. That is to essence of the OPEC Fund. We urge others to do likewise.

Funding for African development

Article for Leaders magazine, 1984

Making a plea for an increase in the flow of development finance for sub-Saharan Africa may appear unrealistic at a time when world attention is focused on the inability of some developing countries to service their debts. Indeed, the subject may also appear untimely in view of the general recession which has engulfed the world economy and seems to linger on.

The hard truth is that a whole sub-continent, engulfed in misery, is looking to the rest of the world for help in overcoming economic, social and resulting political problems, not all of which have been of its own making, many of which are insoluble without the understanding and cooperation of the international community.

The dire problems of Africa have been related by many journalists and many more experts. The story is well known. For the journalist, it is a story of natural disasters, political instability and social despair. For the "experts", it is a story of drought and desertification; population outgrowing the little economic progress achieved here and there; drops in production and productivity; small and narrowing economic bases; unfavorable terms of trade; slow progress in adaptation of technology; dependence on external trade, and external finance, etc.

The diagnosis has been made. African governments, the World Bank and the United Nations System have all waded in with their plans for accelerated development. The IMF has moved in with its indiscriminate and time-honored medicine. All these efforts have emphasized the need for adjustment in the economic policies of African countries and an increase in the resource transfers to the region.

Total resources channelled into Africa in 1981 amounted to $19.1 billion, as compared to $20.2 billion in 1980. The continent's share in the total external financing from all sources likewise declined from 25.1 percent in 1980 to 21.8 percent in 1982. In terms of ODA alone, commitments to Africa in 1981 also fell below their 1980 level, by 8 percent in nominal terms, while net disbursements stagnated.

The continent is thus today still in need of an improvement in the flow of financial resources, both in quantitative and in qualitative terms. Africa continues to expect an appropriate response from its traditional sources of assistance, namely, the IMF, the World Bank Group, the African Development Bank Group, the OECD countries and the OPEC/Arab countries.

The response of the IMF has been along its traditional lines. These involve facilities provided at onerous and inappropriate terms, amounts determined not by need but by quotas which themselves result from the poor state of the economies concerned, and unrealistic conditionalities. Thus, while the intentions are good, the side-effects of IMF prescriptions have not been beneficial to the health for its African patients and the social cost has been very great.

A complete review of IMF's response in Africa is called for – a review that understands the special needs of the region and recognizes that certain ailments do not lend themselves to rapid cures, but call for prolonged treatment.

This approach would set the trend for commercial lenders who rush in to make loans at even harsher terms, once countries have reluctantly accepted IMF conditions. The debt of sub-Saharan Africa has risen from about $10 billion to approximately $70 billion during the past decade. Fourteen countries have had their loans rescheduled, and more will do so in the future. Thus, the short-term loans will be converted to longer terms. What is lost are the benefits that would have accrued to the lenders and the borrowers, had the terms been appropriate from the start.

There are now signs that the World Bank Group is finally beginning to understand the problems of sub-Saharan Africa. Perhaps the most important bottleneck in its operations in the region is now a dwindling IDA, even in nominal terms. The first to suffer from this situation will no doubt be the sub-Saharan region, which has recently received about 37 percent of IDA resources. A review of the allocation of IDA resources, based on need, is warranted.

The recent increase in the African Development Bank capital will not substantially benefit the, poorer African countries; the hope for increase in the resources of the African Development Fund may, however, bring some relief, albeit modest considering the needs of the continent.

On the bilateral front, the slight increase in the volume of ODA disbursed by the OECD countries – from 0.34 to 0.35 percent of GNP between 1970 and 1981 – in no way matches the growing needs of the developing countries in general and the sub-Saharan countries in particular. The relief brought about by the substantial increase of OPEC/Arab aid to Africa in the last few years may not be sustained in the future, in view of the economic difficulties faced by this group of countries, along with other developing countries.

Therefore, despite the very few positive development prospects, it is unlikely that the decade of the 1980s will bring any major increase in ODA of the nature and magnitude that the situation of the sub-Saharan region calls for. The nature required is long-term concessional finance; the magnitude is at least double the current projection for 1985. The only sustainable hope the sub-Saharan African countries can have is in the belief that the international community will come to recognize a special responsibility and substantially increase its ODA to all developing countries and Africa in particular. In the meantime, efforts to improve the terms of trade of sub-Saharan Africa may be the sole sustainable solution on which governments may legitimately concentrate their efforts.

Development finance agencies should support these efforts and in parallel, reappraise their own philosophies and policies with a view to effectively discharging their responsibilities towards the poorer countries of the world.

The African continent placed high hopes in the establishment of the African Development Bank; we are dismayed by the tendancy of this institution to harden its lending terms. We are no less dismayed by the reactions of the African member countries of this institution, which seem to have resigned themselves to this tendency and which are now looking elsewhere for more understanding of their specific problems.

The World Bank has rightly decided that most African countries should not be saddled with the hard terms of IBRD. But is has failed to fashion any supplementary facility for IDA, whose replenishment negotiation exercises have become mind-boggling and most uncertain. Have facilities like the "Third Window" of the mid-seventies, for example, fared so badly as to be buried? Intermediate measures which may not satisfy everyone, but which could at least avoid omitting the most needy, would have some merit.

The IMF must be more flexible and must give due weight to factors that are beyond the control of borrowing countries. Poor developing countries, which have suffered most from the worldwide crisis, cannot realistically be expected to adjust to events that are largely beyond their control.

One cannot over-emphasize the fact that the needs of low-income countries (particularly those of sub-Saharan Africa) require special consideration. The most appropriate way to meet these needs fully is for the IMF, the development finance institutions and the aid donors to increase their financial transfers and to make them available on terms and conditions adapted to the circumstances of these countries. This is where the challenge lies and this is where we, the officials of the development finance scene, must play our role as honest brokers.

OPEC Fund lending policy

Statement to the "Third loan Market Conference"
Organized by Business Research International, London
Vienna, Austria, March 13, 1984

I think I should, immediately, draw your attention to the basic purpose that the OPEC Fund has been created to serve. I do this because if our role is understood, then the role that the world of commercial banking is in a position to play in the development movement can also be clearly defined. It will then become evident that the role of commercial finance in development could be larger.

The purpose of development assistance is to help others to help themselves. When finance is provided by a development finance institution to a Third world country, the investment is expected to promote economic growth by creating wealth. In the typical case of a project loan, when the project has been completed, its operation creates wealth which generates income for the continued development of the economic sector concerned. We seek security of the loan through the economic and social benefits that the investment creates.

You will, I am sure, appreciate the distinction between that criterion and the corresponding assessment of risk in a commercial loan. Ability to repay is not directly linked to economic growth in the latter case. Economic growth is, of course, a probable outcome of a commercial investment, but it is not directly and imperatively required as a basic objective of that investment.

There are, naturally, other major differences between our respective philosophies, but the one I have just described is alone a sufficient reason to have caused some confusion in public opinion relating to the current debt crises. Sometimes it has not been appreciated – by the media, for example – that there is a difference between debt resulting from investment in economic development and debt incurred for non-productive activities. The criterion of wealth creation and along with it, economic growth, was never applied to certain of the debts that are now over-extending the resources of debtor countries, but it is always applied to the debts owed to development finance institutions.

This point will become clearer when I explain to you the objectives, operations and record of the OPEC Fund for International Development.

The OPEC countries as a group have a long record of providing official development assistance, and the percentage of the group's aggregate gross national product contributed for that purpose is notably greater than that of other groups of aid donors.

For example during the period 1973-81, OPEC member countries disbursed about $59 billion to other developing countries, a sum equal to over one-quarter of the total world volume of official development assistance during that period. This amount corresponded to 2.17 percent of GNP of the ten OPEC donor countries, compared with 0.34 percent achieved by OECD countries, and 0.12 percent by the member countries of the council for mutual economic assistance.

There are many channels through which the assistance from OPEC member countries flows. Direct government-to-government assistance is one channel. Also about a dozen bilateral and multilateral aid institutions are operating today, through which the OPEC countries provide all, or the bulk of their financial support.

The oldest of these institutions is the Kuwait Fund for Arab Economic Development, which was established in 1961. Multilateral institutions include the Arab Fund for Economic and Social Development, the Islamic Development Bank, and the Arab Bank for Economic Development in Africa.

In 1976, the OPEC countries decided to act collectively to help developing countries. The OPEC Fund was established for this purpose.

The purposes of the OPEC Fund is to express the solidarity of one group of developing countries with the others. This fact is important in appreciating why the policies of the Fund are more flexible than those of other development institutions, and why particular emphasis has been placed on a certain category of countries. The poorest countries of the world are the principal beneficiaries of the OPEC Fund's assistance.

Those countries classified by the United Nations as LLDCs, MSAs, or as Food-priority countries, have received more than three quarters of the total sum committed by the Fund for loans. During 1983, this emphasis increased slightly, and over 80 percent of the loans committed during the year were for the benefit of these categories of countries.

The economies of such countries are very weak. Per capita income is generally less than $500 and dependence on official development assistance for investment is considerable – perhaps to the extent of two-thirds of all investment, or even 90 percent in extreme cases.

To cater to the needs of these countries, the OPEC Fund's loans are typically interest-free, although a service charge is made, which in recent loans has been 1 percent of outstanding amounts.

The Fund's activities are devised to be responsive to the requirements of the beneficiaries, in accordance with their own priorities. It is the beneficiary country that chooses the project. The OPEC Fund operates in a very flexible manner and adapts to the needs of the recipient, while at the same time attempting to stimulate economic activity in the Third World by so doing. For example, the Fund's rules of procurement give certain preferences to procurement in Third World countries and the Fund also encourages economic and financial cooperation between countries of the South.

One notable feature of the Fund's work has been the high degree of cooperation it has achieved with other development finance institutions. A financing plan involving from two to about ten financiers is typically necessary for development projects. Until recently, in the area of project financing, the Fund relied on appraisals carried out by other institutions that were involved in co-financing the projects in question. This practice arose from the belief that unnecessary duplication of effort by development institutions is wasteful, and from the need to devote as much as possible of Fund resources to projects already prepared by competent institutions, thereby profiting from their experience and saving valuable time. Many of the Fund's project loans are administered by other institutions. This has been arranged by simple exchange of letters, and has contributed to avoiding duplication of effort and unnecessary flourishing of bureaucracy. During the past two years, however, the OPEC Fund has carried out its own appraisals of selected projects that no other institution has worked on.

The OPEC Fund is able to offer concessional loans and grants because it depends on contributions from the member countries as its main source of finance. While there is no direct link between the operations of the Fund and oil revenues, it is a fact of life that the Fund's contributions ultimately depend on the income from the sale of oil of OPEC members. With lower revenues, a period of reduced inflow of contributions has to be accepted. Measures have to be taken, to manage the operations of the Fund with this fact in mind. The OPEC Fund is similar in this respect to other development financing institutions that depend on contributions. They, too, are having to adjust their lending programs to the prevailing circumstances.

In the light of these unwelcome trends, close scrutiny has to be given to all possibilities that might contribute to making scarce concessional funds go further. For it is clear that the needs of the least developed countries for essential investment are increasing; and the concessional funds likely to be available to meet those needs will not be adequate.

One possibility of improvement lies in increasing the amounts of finance made available to development projects from commercial sources. How can we, the development finance institutions, and you, the commercial finance houses, assemble financial packages that will permit more projects to be undertaken – packages that will meet our strict requirements for wealth generation, and will also meet your requirements for lending without undue risk?

The problems presented by co-financing with commercial and concessional sources are complex and highly technical. Nevertheless, some promising solutions have been formulated, and actually put into practice in some cases. One can cite, as an example, the World Bank's work.

I would like to draw your attention to a symposium held at the OPEC Fund here in Vienna, last May, when this subject was discussed by an international gathering representing both sides, and in particular representing Arab as well as Western bankers.

I will not now delve into the detail of the various proposals, except to say that if they are applied successfully they will provide genuine increases in the total sums available, and at the same time, improve the economic performance and credit rating of each country that makes use of these techniques.

If these new ideas contributed to the better application of concessional funds for development, then the borrowers and the development finance institutions will have furthered their aims and interests. For the commercial banks, a new market would be opened, and the risk would be reduced by virtue of association with the development finance institutions. Such association would provide security against country risk and also the security inherent in a well-conceived, thoroughly-appraised project of high economic priority.

However, even if one fully appreciates the opportunities offered by cooperation between development finance institutions and commercial banks, the difficulties should not be underestimated. As I pointed out earlier, commercial banks are profit-oriented. Development finance institutions are not, and one important consideration is the interest of their borrowers. To be realistic, it has to be said that commercial banks cannot help the least developed countries, and still expect to make profit on the same scale as when they invest in developed countries or relatively high-income developing countries.

The prospects for them begin to improve when one considers developing countries that are slightly better off, and it is here that more extensive co-financing prospects are to be found, although loans extended to such countries will still, overall, have to carry less than commercial rates of interest. Joint ventures in such countries could achieve this, while minimizing risk to the commercial element in the loan "package", so freeing some concessional finance for use in the least developed countries as well as helping to stretch the concessional funding over a longer period.

It follows that "packages" of concessional and commercial finance embodying the type of safeguards I have indicated would enable some countries to invest at a higher level than would otherwise be possible. The resulting debt would be natural and healthy, because it was channelled into productive investment which generates wealth.

The pressing needs of the world's poorest countries for investment finance have been overshadowed, but at the same time made worse, by the major debt crisis that has hit the headlines, but is limited to a few developing countries with relatively high incomes. Reassessment of lending and retrenchment of commitments by commercial sources have resulted, but these remedies should not be transferred wholesale to other situations where the conditions are different.

Rather, I would stress the opportunities in the developing world for investment, entrepreneurial skill and initiative. Intelligent cooperation between the institutions and the commercial banks is one basis for exploiting such opportunities. By combining such activity with less protectionism in the developing countries and an easing of their inward-looking, restrictive economic policies, a fresh impetus would be given to the world economy; developing countries could begin to contribute to, and participate in, greater prosperity.

Industrial development in low-income countries

Statement to the Fourth UNIDO General Conference, Vienna, Austria, August 8, 1984

This Conference is, during 1984, the only forum for the North-South Dialogue, and so will provide the only opportunity this year for major exchanges between North and South. That is very clearly an important purpose, and I must express every hope that the opportunity will be grasped.

I have always been among those who have stressed the interdependence of the world community. It follows that I place a high value on dialogue and cooperation between groups of widely differing backgrounds and facing notably different problems in their economic lives. Such discussions have an important part to play in stimulating the diverse economic interests and activities of today's world scene.

Among these economic activities, the development of industry in the Third World is particularly vital, and is of direct concern both to UNIDO – whose central task it is – and to my own organization. I would therefore suggest that, along with this conference's discussion of the grand plans of world strategy, some emphasis on the practical aspects of developing the Third World's industrial sector is worthy of our attention.

The OPEC Fund has extended loans for projects classified as *industrial* projects to five countries in Africa and two in Asia. The total value of these loans is about $66 million, and they have financed projects for iron ore mining and the extraction of potash, for industrial rehabilitation and for the chemical industry. However, I think I should also refer to loans classified under other economic sectors that directly relate to industrial development.

For example, among recent co-financing provided by the OPEC Fund, I would mention a major project for the Indian railways, involving unit-exchange maintenance of diesel-electric locomotives and the construction of railway rolling stock. We classify this loan under *transportation*, but there is a substantial manufacturing element in the project. Similarly, our classification, *agriculture and agro-industry*, covers industrial projects, such as the manufacture of fertilizers, and in the energy sector the Fund has financed projects with industrial significance.

Together, these industry-related projects, classified in other economic sectors, account for a considerably higher amount than our operations in the category we usually classify as industrial projects.

One consideration that we never overlook at the OPEC Fund concerns the potential for industrial activity in the least developed and poorest countries. I would like to introduce this subject by referring to one of the background papers of this conference. While discussing the Industrial Development Decade for Africa, the paper notes that among other matters that are important in the first phase of the Decade is the "promotion of the development in indigenous capabilities". In other words, it is important to cultivate what is there already.

My message is that industrial development, especially as it applies to the LLDCs, must start from a practicable level. Industry, in this sense, means providing a useful service at an acceptable price, to local people. The service would probably involve, for example, activities such as making tools for agriculture, or servicing machinery. The key words are *useful* and *practical*! That is why it is so valuable to start by cultivating what is there already.

Recently, when the foreign minister of Burkina Faso, was visiting the OPEC Fund, he discussed the drought in the Sahel, and remarked that last year in the rainy season, a vehicle had taken 10 days to drive less than 300 kilometers, and when it returned, had needed a complete overhaul. Industry in such a context means providing the overhaul – making available a business that has the skill to strip down the vehicle, and put it back together in good shape and at an acceptable price.

In a country where agriculture is the predominant activity, an industrial base that supports and services agriculture is a necessity. That industrial base may be very modest, but its immediate justification is its usefulness. Making this modest but useful little industry flourish completes the first balanced step along the path of economic progress.

How can these useful, grass roots types of industrial activities be promoted? The OPEC Fund makes use of one technique that we believe leads in the right direction. It is the line of credit to national development banks. A typical line of credit may serve either agriculture or industry, so in principle it will respond to local strengths and initiatives.

So far the OPEC Fund has extended loans totalling about $70 million in lines of credit to eight African countries, and also $13.5 million in lines of credit to two countries in the Latin American and Caribbean Region. The financing of small-scale manufacturing is emphasized in the utilization of these lines of credit.

In the typical case of a LLDC, economic development aims first at stimulating agriculture and food production. Some success in this will generate demand for a whole variety of services that I make no apology for classifying as industry. The first and most basic purpose of such industry is to service local needs. As the needs grow, so will the sophistication of the industry that meets them.

I have gone through this description of the infant stages of an industry because it is relevant to the countries and people that most development finance institutions, and certainly the OPEC Fund, wish to assist as a priority. But there exist, of course, other situations and other opportunities. Progress along this road takes one to the point where more ambitious industrial ventures can be considered with some confidence. Established principles of project appraisal are likely to apply in such cases, and there is no reason why the OPEC Fund, together with other development finance institutions, should not respond to the priorities of the beneficiary countries as it does for the other economic sectors, and for project finance generally. In fact, this has already been the case.

But if one takes a narrower definition of manufacturing industry, the record of its growth in the Third World, as UNIDO's statistics clearly show, has been most disappointing. Perhaps the reason for this lies in the priorities of the beneficiary countries, to which we, the development finance institutions, have responded.

This may be a justification for past actions, but surely it is not enough for the future. How can UNIDO, with the help of all of us, replicate the industrial growth of the Republic of Korea, Taiwan, Singapore and Hong Kong? Or at least specify the conditions needed for that process to be repeated in other countries?

The experience of these four countries shows what can be done. Experience also shows that the project-based approach of the development finance institutions is successful and continues to make its contribution.

Returning to a point I have just touched upon, the OPEC Fund's policy is to respond to the priorities of its beneficiaries, and the sectoral mix of its loans is influenced by their requirements. Within the limits of its resources, the OPEC Fund will continue to respond to those requirements, including requests for industrial projects financing, in its efforts to contribute to the economic development and improved wellbeing of the people of the Third World.

Helping people help themselves

Statement to a Joint Meeting of
OECD/DAC-Arab/OPEC aid agencies
Paris, France, October 1-2, 1984

Our paper to this meeting first presents and explains the record of ODA over the past decade or so, in terms of statistics for the main donor groups. It continues by examining critically certain aspects of the use of ODA flows in economic development that are not fully satisfactory. Then it suggests what could be done to improve the effectiveness of ODA. A fresh approach is proposed, in which the needs and interests of the beneficiaries have first priority and in which improvements are made in the technical aspects of development finance. Improved technical methods would include concerted action by groups of donors, who would work together, within a region or country. Other equally important points in this approach are that multilateral ODA is favored rather than bilateral, and low-income countries have pride of place as beneficiaries. These proposals would improve the quality of ODA flows and, hopefully, encourage an increase in their quantity.

As we state at the beginning of the paper, the environment for increased flows of ODA is hostile. How can the environment be influenced, and how can opinions be swayed in favor of increasing flows of ODA?

There is wide, perhaps universal, acceptance of the idea that in the modern world, people should not suffer hunger nor sickness needlessly. It is still a long step to link that idea with the belief that economic development, funded by ODA, helps people to help themselves so that they can progress to self-sufficiency in the immediate needs of their daily lives.

Nevertheless, that long step has been taken by very many people. For example, a recent survey in countries of the European Economic Community revealed positive attitudes to development. About two-thirds of the people questioned considered that development policy was very important, and half were willing to contribute 1% of their income to development aid. The fact that the Brandt Report became a best-seller is also evidence of the serious and positive attitude that is widespread in relation to our activity.

How can we harness these welcome views, and give them expression sufficient to counter the hostile environment in which we operate? Can we create and foster, as has been suggested, a constituency for aid among the political forces at work in each of the donor countries?

If the answer to that question is 'yes', then I would make the following suggestions. First, we must make clear the distinction between three types of assistance:

1. disaster relief, where saving lives or supplying food can well be the whole purpose. The word "aid" applies quite literally to such operations;
2. giving gifts of near-gifts to influence a country's political policies or action; and
3. providing financial help and technical assistance that permit people to become more productive and so create wealth by their own efforts. This is not strictly "aid" even though it is so termed. It is "concessional assistance".

The third type being the one we all believe in, nothing would do more for us than to publicize convincing examples of its success. We need to make widely known examples and case studies where ODA, uncomplicated by involvement with politics, has helped communities towards better, self-sustaining economic standards. We have to show that our contribution to this task is vital; but we have also to show that it is effective, and not only that it achieves progress along the road to tolerable standards of living, but is also the catalyst for reducing population growth. If we can show that we have done this, and can demonstrate that we are able to do it again, then the constituencies of ODA will flourish, and will see to it that the funds are made available to us. The criticisms that you read in our paper have been made with this aim in mind.

If I may refer to the DAC chairman's report for 1984 distributed to participants at this meeting, I would first commend, but also slightly generalize, one of the chairman's recommendations, to the effect that "All concerned with development cooperation should set aside business-as-usual administrative and programming habits and grasp all fresh opportunities to make aid more relevant and effective".

Furthermore, I would commend also the comprehensiveness and thoroughness of the report and confirm that I find a common approach to the problems of development linking our ideas together.

OPEC role in the world economy and its contribution to development assistance

Statement to the FINAFRICA International Conference on "Adjusting to Shocks – A North-South Perspective", Bergamo, Italy, November 21-24, 1984

The theme of this conference is a sombre one. In recent years, we have been living in times of great strains in the world economy. While many countries face serious economic and financial difficulties, it has to be remembered that these are most keenly felt by the countries of the Third World. Developing countries have tried to cope with the situation, but have paid a high price in the process. Some adjustment may have been achieved, but at the expense of a sharp decline in imports and in economic activity in some countries, with an adverse impact on capacity utilization and investment.

The member countries of OPEC are an integral part of the Third World, and of course they have also been seriously affected. Their approach to world problems has been conditioned by this experience. OPEC has confronted the economic difficulties by attempting to stabilize prices, and attempting to bring about more equitable international economic relations.

The increases in oil prices in 1973-74 and 1979-80 were not an arbitrary measure. Essentially, they were a correction that had been grossly overdue for more than half a century. From a figure of $1.20 a barrel at the beginning of the century, the oil price stagnated for some sixty years and was about $1.80 a barrel in the late 1960s. This anomalous price level contrasted with the high and continuously increasing prices of manufactured goods from the industrial countries.

A misconception of the recent years attributes the persistent economic ills experienced during the last decade to the increases in the price of oil that took place in the 1970s. However, the record shows that a recession was already well under way before the oil price rise, owing to contractionary measures initiated in some industrialized countries as a reaction the already rampant inflation, which was itself one of the causes of the OPEC drive towards a higher price for oil. Also, it is now generally admitted that the oil price increase was responsible for only 2-3 percent of the 1974 inflation rate in the OECD countries, estimated at 14.5 percent.

As for the oil price increases between December 1979 and June 1980, they did not cause a resurgence of inflation in industrial countries. It is also no secret that prices have been more stable in countries with the highest share of oil imports – Germany and Japan.

For their part, the OPEC countries have suffered the effects of inflation, further compounded when one takes into account the substantial weakening of the international oil market. The majority of OPEC members have again become deficit countries with regard to their external payments.

While events in the oil market always seem to hit the headlines, very little attention is given to the extent of concessional finance for economic development in the Third World provided by OPEC member countries. OPEC countries have played a significant role in assisting other developing countries to adjust to the present economic situation.

May I, by way of an example of aid given by OPEC countries, explain the work of my own institution, the OPEC Fund for International Development. The OPEC Fund was established by the thirteen member countries of OPEC to reinforce the financial cooperation between OPEC member countries and other developing countries. The founders of the OPEC Fund sought to create an institution which would respond to the priorities of developing countries, while also drawing upon the (often painful) development experience of OPEC member countries. As a result, the OPEC Fund has, since its inception, emphasized flexibility in the extension of its assistance, which can be explained in terms of various techniques:

Through the first technique, the Fund extends balance of payments (BOP) support loans to needy countries. The purpose of these BOP support loans is to respond rapidly to the immediate needs of the beneficiary country for foreign exchange to import essential consumer and capital goods.

The second technique, the project loan, can perhaps be called the backbone of development assistance. It has been extensively used by the Fund in virtually all the major economic sectors, where beneficiary countries have been able to propose well-conceived projects.

The third technique comprises the program loan, which in certain cases is the answer to a clear-cut development need – for example, a requirement for rehabilitation of a particular industry or sector – that lies between the areas covered respectively by project and BOP support loans.

Outright grants comprise the OPEC Fund's fourth technique of providing development assistance. Grants have been made for food aid, and also under the general heading of technical assistance which covers support to newly-initiated technical activities, research, training or welfare institutions, that are significantly active in the Third World. Many of the grants are channelled through United Nations agencies.

The fifth and last technique comprises financial assistance to other development institutions. The OPEC Fund also has a role as coordinator and spokesman of the OPEC countries on certain major development issues.

A notable example was during the negotiations leading to the creation of the International Fund for Agricultural Development (IFAD). The Fund has also played a similar role in the establishment of the proposed Common Fund for Commodities.

The emphasis of the Fund's assistance has been on helping the poorest countries. Those countries classified by the United Nations as LLDCs, MSAs, or as Food-Priority Countries, have received more than three-quarters of the total sum committed by the Fund for loans.

The Fund's work in the future will be attuned to its role as one of the smaller development finance institutions. It will attempt to alleviate pockets of poverty, rather than preoccupying itself with the major issues of structural adjustment.

Turning to future trends, may I submit that the shocks we have been discussing are not the only ones deserving of attention. The potential for further shocks seems considerable if the challenges we now face are not met.

How do shocks of debt and economic adjustment compare with those of unchecked population growth, epidemic disease, poverty and hunger? These are the shocks development institutions must confront.

We are entering a period in which concessional financial flows for development of the Third World are becoming more scarce. Yet the need for them is increasing.

The problems of development have become more severe, but they are better understood than ever before. There is no disagreement in principle on what the remedies and policies should be, and there is an understanding of the levels of assistance that will be needed to achieve an acceptable result in human and economic terms. There is reason for hope in this work. And there is encouraging work in other fields, such as health. But the challenge is very great.

The problems of sub-Saharan Africa and their solutions lie at the centre of this challenge. I would suggest that the solutions actually adopted will be vital trend setters for the economic climate of the next decade.

A great deal of emphasis has to be placed on creating the right macroeconomic policy environment for development, as seems to be generally recognized by sub-Saharan African governments, many of which have begun implementing far-reaching reforms. The difficulties of effecting such reforms are enormous and the needs for external financial and technical assistance are similarly great.

It is not sufficient that reforms alone should be pursued by sub-Saharan African governments. It is also essential that increased levels of development assistance be made available to reverse the declining trend in per capita output in the region and to support the broad policy reforms.

The response of the international community in the past to the needs of this region can be said to have been below expectations. This is true with regard both to bilateral assistance and to the failure to take measures that would enable the multilateral institutions to provide assistance.

At times of serious resource constraints, efficiency considerations become paramount. I must therefore emphasize, in relation to development funding, the importance of coordination among donors to enhance the efficiency with which external finance is allocated. The practical difficulties of such coordination should not be underestimated, however, and the optimal allocation of external finance which it may serve to promote, is no substitute for increased financial flows.

To be successful, coordination among donors has to overcome the hesitancy of multilateral agencies to relax their internal procedures and take precedence over the political and commercial considerations that often influence bilateral assistance. Another prerequisite for successful coordination is an active policy dialogue with recipient governments, to ensure that the donors' efforts are responding to the priorities of the governments concerned. Such coordination implies close understanding between donors from the different groups – OPEC and OECD – and thus closer North-South cooperation.

Another method of augmenting scarce concessional resources for development is to mobilize additional flows of private sector finance, to be used by co-financing with official development assistance, where the two sources can be matched to further economic development.

In addition, one should not lose sight of the importance of trade, and particularly trade in primary commodities, to the economies of the Third World. This trade is often hampered by policies in the industrialized West.

These policies also require review and reform. Among them are protectionist measures and subsidies which, on the one hand, artificially constrain exports by developing countries and, on the other, inhibit investment in developing countries by lowering world commodity prices, thus giving the wrong signals to investors in developing countries.

The achievement of acceptable growth rates in the world's poorest countries in the years ahead presents a challenge that we all have to face.

Proposals to enhance ODA

Statement to the Development Committee,
Washington D.C., U.S.A.
April 18-19, 1985

I am pleased to have the opportunity of addressing this meeting of the Development Committee, particularly as its agenda encompasses issues of crucial importance both to developing countries in general and to OPEC member countries in particular.

We, at the OPEC Fund, approach this meeting from two different and complementary perspectives. First, as a development finance institution engaged in extending concessional assistance to non-OPEC developing countries, our preoccupations are with the promotion of a climate conducive to the economic growth and development of our recipients. In this regard, our concerns have recently focused on the prospects for increasing the volume and enhancing the efficacy of development assistance, on the impact of heavy debt service burdens on developing countries, and on the particularly urgent plight of sub-Saharan African countries. Second, as an institution of OPEC member countries, we are naturally concerned by the aspects of the present economic climate which adversely affect the development prospects of our own members.

Financial flows to developing countries

The trend of growth in ODA experienced in the 1970s has been reversed and real ODA from all sources has fallen from the level attained in 1980. This trend which is, sadly, unlikely to change in the short term, stems in part from the changing attitudes of many traditional donors towards the value of ODA. Aid is no longer generally perceived as an effective mechanism for furthering the development process of poor countries, nor do some major donors seem to give much credence to the view that, in an interdependent world, no group of countries can afford to see another group regress, particularly one that is experiencing extremes of poverty. Although there seems to be wide, if not universal, acceptance of the idea that in the modern world people should not suffer from hunger or sickness, there is still insufficient support for economic development funded by ODA and aimed at helping people to progress to self-sufficiency in the satisfaction of their immediate needs.

A particularly disturbing aspect of the changing attitudes towards ODA is the retreat from a multilateral approach to development assistance. During most of the 1970s mutilateral ODA as a percentage of total ODA grew considerably. Since 1978, however, the share of multilateral ODA has declined and many major donors are emphasizing bilateral assistance. This trend has serious consequences for the effectiveness of ODA. The trend towards bilateralism is, in the first instance, likely to increase the influence of political and commercial considerations on the design and focus of ODA. Multilateral institutions, by contrast, are at least one step removed from such extraneous considerations and are thus better able to tailor their assistance to respond uniquely to development imperatives.

At the same time, the retreat from multilateralism has diminished the resources available to multilateral development finance institutions and, thus, the ability of these institutions to fulfil their important mandates. As a result, the wealth of experience carefully nurtured by these institutions over time is not being put to best use. Particularly serious manifestations of this trend have been the difficulties recently experienced in ensuring the adequate replenishment of the resources of IDA and IFAD, institutions of unquestioned value.

Coupled with the decline in the volume of ODA has been a tendency to tighten the conditions placed on such assistance. This increase in conditionality has arisen at least in part as a result of a genuine concern on the part of donors to maximize the effectiveness of the use of increasingly scarce resources. On occasion, however, the pursuit of domestic policy reforms has been overzealous and countries have been placed in the untenable position of choosing between implementing excessively sweeping or rapid policy reforms or forego sorely needed external assistance.

The fall in ODA is but one element in the decline in financial flows from all sources to developing countries. Private direct investment, which once served as the main vehicle for long-term capital flows to developing countries, has stagnated since 1970. Export credits have actually declined in the same period. At the same time as these various sources of external finance have diminished, the ability of developing countries to generate foreign exchange through export earnings has been curtailed owing to falling commodity prices.

The lack of adequate finance for development, be it as a result of the reduced volume of external financial flows or poor export performance, poses a serious constraint on the prospects for the growth and prosperity of developing countries.

In an attempt to respond to the needs of developing countries for external finance and, in particular, to the needs of low-income countries for concessional assistance, OPEC member countries have extended substantial amounts of development finance. Even in recent years when OPEC member countries have been particularly hard hit by economic and other difficulties, the level of their development assistance has remained over 1 percent of their combined GNP. In addition to this high aid performance, it is significant that OPEC aid has not been encumbered by conditionality or motivated by commercial interests. OPEC donors have consistently emphasized co-financing and have thus sought to coordinate their assistance with that extended by other sources. In so doing, emphasis has been placed on the simplification of lending procedures and on the acceleration of the project cycle.

In view of the evident continued need of developing countries for external financial assistance, it is essential to consider ways in which the volume and beneficial impact of external financial flows can be increased. Some proposals for enhancing the volume and effectiveness of ODA are considered below:

(i) The proposal that net disbursements of ODA from all donors should reach 0.7 percent of GNP was first put forward by the Pearson Report in 1969, and subsequently adopted by the UN. To date only a few countries have met or exceeded this level, among them several OPEC member countries. There is no doubt that the attainment of this ODA/GNP ratio would greatly increase the level of concessional flows to developing countries. In 1983, for example, the fulfilment of this target would have increased net ODA disbursements from $35.9 billion to $69.2 billion.

(ii) The effectiveness of ODA could be enhanced by reversing the trend away from multilateral assistance and efforts should be made to strengthen rather than weaken the agencies that channel such assistance. Multilateral agencies have developed a wealth of experience and have demonstrated their effectiveness, being less able to concentrate on developing considerations. They are uniquely equipped to coordinate aid from various sources and promote policy reform and structural adjustment where needed.

(iii) To be effective, ODA must be well coordinated, coherent and focused. Coordination involves the cooperation of donors and recipients alike to ensure that both these partners in development pursue congruous policies and that the priority needs of beneficiaries are met. To this end, additional emphasis should be placed on round-table consultations and on the improvement and simplification of co-financing arrangements. Recipients could play a central role in this process, through better definition of priorities and improvements in the management of on-going investment projects.

(iv) Donors should adopt flexible procedures to be able to respond more effectively to emergency needs and requirements for financing of local and recurrent costs.

(v) The developmental objective of ODA should be paramount and extraneous considerations such as political or commercial interests should not deflect the developmental impact of ODA.

(vi) ODA lobbies need to be developed so as to reverse the present unfavorable attitude towards the effectiveness and value of development assistance. Although there seems to be increased public support for emergency assistance, it is necessary to ensure that awareness of the long-term needs of developing countries is not swept away in the tide of disaster relief.

(vii) In view of the present poor prospects for increasing the volume of ODA, it is important that other sources of external finance for development countries be tapped. To this end, appropriate mechanisms should be established to make the climate in developing countries more conducive to direct private investment. Increased export earnings would similarly provide an important additional source of development finance.

Sub-Saharan Africa

The needs of sub-Saharan African countries have been of particular concern to OPEC donors in general and the OPEC Fund in particular. We are pleased to observe the international response to the plight of sub-Saharan African countries – two of which are OPEC member countries – and look forward to continued close collaboration with other donors in extending urgently required assistance to the region.

The OPEC Fund has long emphasized the need for donor coordination and the harmonization and simplification of lending procedures, and welcomes the opportunity to participate with other donors in a coherent approach to assistance. In so doing, however, we believe that priority should be accorded to governmental policies, while recognition be given to the serious implications of overly rapid or far-reaching policy reform. Donor collaboration, particularly with bilateral sources, could similarly be enhanced through the reduction of tied procurement and other mechanisms and conditions oriented towards the promotion of the commercial interests of the donor.

In order to respond to the urgent needs of the region, the OPEC Fund has sought to combine short-term emergency assistance with its normal loan and grant operations. The OPEC Fund is also attempting to emphasize small-scale schemes aimed at the rehabilitation of existing industries or the improvement of the health and educational facilities of the countries in the region. The Fund plans to continue to concentrate its project preparation activities on the countries of the region.

Fostering technical cooperation

Statement to the 32nd Session of the Governing Council of the United Nations Development Program, New York, N.Y., U.S.A., June 12, 1985

I feel particularly honored to address this distinguished Council on the occasion of the 35th anniversary of the United Nations Technical Cooperation Activities.

Today, we can reflect on the foresight of those people who assembled in June 1950 at Lake Success, New York, at the first UN Conference for Technical Cooperation. That first recognition by the United Nations of the need for greater technical cooperation among nations and international agencies was reflected in an initial program budget of just $20 million. It was this seminal move that led to the formation of UNDP in 1965, an agency that has become the world's largest institution for channelling technical cooperation. The benefits arising from those efforts are testified in UNDP's record – a service disseminated through field officers in more than 100 countries, operated in conjunction with over 150 governments and 35 international agencies on a budget of some $1,000 million.

Technical assistance is a root from which all other forms of aid can grow. UNDP's commitment to help speed the rate of economic growth and its contribution to raising living standards have been pursued relentlessly throughout its existence. That perspective has been sharpened to focus on fostering technical cooperation among developed and developing countries.

The main planks of UNDP policy, as we understand them, include helping to make the most of human and natural resources and other assets on the road to economic advancement, stimulating capital investment in order to realize such goals, supporting training and research programs and strengthening national and regional development planning.

As you know, it is the aim of the OPEC Fund to reinforce financial cooperation between OPEC member countries and other developing nations. The objective of the OPEC Fund is to provide assistance in order to promote economic and social development, and enhance the ideal of solidarity among members of the Third World. Since many of our views and objectives coincide with those of UNDP, I believe this occasion is an opportune time to remind ourselves of the long and fruitful cooperation our two organizations have enjoyed.

In 1977, the OPEC Fund approved a grant of $20 million for technical assistance projects assisted by UNDP. This organization, which has been instructed by the UN General Assembly to assist in implementing the program of action for a New International Economic Order, was to use the proceeds of the grant for specific regional and global projects chosen jointly with the OPEC Fund. Such projects were designed to promote technical cooperation among developing nations, to encourage and coordinate studies and programs, and to increase technical and scientific knowledge. This was our first joint effort, and four projects were initially financed from this allocation, each project involving benefits to more than one country.

First came a program for coordinating energy policies in seven Central American countries. This was followed by a development plan for the Niger River basin to benefit nine West African countries. The grant also made it possible to finance technical support for offshore mineral prospecting in eight East Asian territories and a regional project to enhance the viability of the fishing industry in the Red Sea and Gulf of Aden. The last project received a further OPEC Fund grant of $3.44 million in 1982.

In 1978, three more projects were added to the above, and these included the Caribbean Regional Food Plan, involving 13 countries in the region, the Development of the Suez Canal Region, and a Labor-Intensive Public Works Program which benefited 25 nations.

Not only did this cooperation between our two organizations in itself benefit the recipient countries, but it also helped raise additional funds from other sources. These encouraging results persuaded the OPEC Fund to allocate a further grant to UNDP in the amount of $20 million in 1979 and, as before, it was agreed to apply it on a regional and global basis.

The proceeds of the grant were spread more widely, to cover several operations that year. The projects implemented included the Emergency Desert Locust Assistance Project, set up to help contain the spread of locusts in Asian and African countries, the River Blindness Control Program, covering seven countries in the Volta River Basin in West Africa and aimed at helping some

15 million rural people affected by the parasitic disease, and the International Center for Diarrhoeal Disease Research in Bangladesh established in order to undertake research, training and dissemination of information about one of the most lethal diseases in the developing world.

In 1980, the OPEC Fund became one of the first donors to announce its support for the UNDP initiative to establish an Energy Fund for Exploration and Pre-Investment Surveys. The Fund pledged a grant of $6 million, which was to represent 10 percent of the $60 million anticipated to cover the Energy Fund's needs for the first three years. It was assumed at the time that other donors would contribute the remaining $54 million. Their response, however, proved disappointing. Even though the original amount set for the Energy Fund could not be obtained, the OPEC Fund did not reduce its contribution. It was anxious that the Energy Fund should succeed and therefore decided to honor its pledge in full.

The Energy Fund aims at helping to finance pre-investment surveys as well as exploration and demonstration projects in the energy sector. The scheme comprises two components – petroleum surveys concentrating on countries with a per capita GNP of less than $500 and pre-investment assessments of non-petroleum energy resources.

In 1984 and 1985, funds were drawn from the OPEC Fund grant to finance four different projects – $1 million for the Djibouti Geothermal Exploration Project, $800,000 for the Kinyetti Small Hydropower Project in the Sudan, $150,000 for a biomass gasifier monitoring program in a number of African countries, and $90,000 for the Lovo mini-hydropower project in Fiji.

Up to last year, the OPEC Fund has made, in conjunction with UNDP and other donors, a number of grants totalling $10.7 million to agricultural research centers, supported by the Consultative Group on International Agricultural Research (CGIAR), which serve the Third World.

In 1984 we also donated, through UNDP, $690,000 for the World Health Organization's Special Program for Research and Training in Tropical Diseases, co-sponsored by UNDP and the World Bank, which aims at strengthening research capability through training and institutional support, in the countries most affected by six tropical diseases that affect several hundred million people.

The OPEC Fund has thus been associated with the work of UNDP from its earliest days. Of its total grant commitment of $66.5 million for technical assistance, it has directly committed almost half to UNDP, for a total of 15 jointly selected regional and global projects.

The OPEC Fund's cooperation with UNDP over the years has been satisfactory, our work has been worthwhile, our joint efforts well-founded in the interests of beneficiary nations and organizations, and the money well-spent.

UNDP's role in mobilizing resources for multilateral development assistance, collaborating with governments and UN agencies in devising programs and projects of technical cooperation, managing project implementation and evaluation, has contributed considerably to the success of our joint projects and programs. UNDP is, I believe, an invaluable partner to non-UN institutions like the OPEC Fund which have drawn from the knowledge and expertise it has accumulated. We are, therefore, looking forward to further cooperation in the future.

At this stage in our efforts, I hardly need to emphasize the gravity of the problems confronting the developing countries. I would only like to say a few words on one of the widely recognized problems, that of serious food shortages in many developing countries. Today, as we all know, the food situation remains precarious in several areas of the Third World. This is particularly true for the continent of Africa, whose tragic scenes are now familiar to every television viewer in the world. More than 450 million throughout the world are close to starvation, while another billion people survive on sub-standard diets. But we know that the world could feed itself.

Throughout Asia, Africa and Latin America, there are vast acres of low-yield land that are perfectly capable of growing more food, generating more jobs and higher earnings, and thereby improving health and the quality of life. The hunger and malnutrition that have plagued people in developing countries are linked with low agricultural productivity. The ravages of pests and diseases, the lack of high-yielding strains and varieties that are resistant to pests, drought and other hazards, can all be dealt with through progress in technical knowledge. A great number of research centers, supported by programs and projects undertaken by UNDP with the assistance of the OPEC Fund and other donors, have contributed to bringing relief and hope.

UNDP's reaction to Africa's dangerous decline in food production is the call for more field staff and greater resources for the continent. This appeal by the UNDP is entirely justified. It is our hope at the OPEC Fund that the response will be immediate and commensurate with the need. We very much appreciate the good work UNDP has done in the past, and we are convinced that, with larger resources, its efforts could make a difference to the African problems.

There is one issue that I feel compelled to raise before this distinguished gathering. This relates to the role of skilled manpower in the development process. Even though there appears to be general acknowledgement that rapid development of the Third World calls for the availability of a large supply of skilled manpower, not much effort has been devoted to resolving this major bottleneck. The proposed establishment of a Human Resources Facility, co-sponsored by UNDP and the Government of Jamaica with the support of the German Foundation for International Development, is therefore a welcome step in the right direction. We at the OPEC Fund stand ready to offer our assistance in the search for adequate solutions.

The problem which all development finance institutions face today is that of dwindling resources in the face of mounting needs of developing countries. It is therefore not uncommon at meetings such as this for the leaders of development finance institutions to appeal for the continued strong support of their donors while recognizing that such donors are themselves experiencing difficult economic circumstances. Amongst other things, UNDP has played a most useful role of coordination among both bilateral and multilateral aid institutions. In times of diminishing resources, coordination of activities among development finance institutions, in order to avoid waste and duplication and increase general efficiency becomes paramount. This is, therefore, the time to ensure that UNDP obtains the resources required to enable it not only to continue to play its useful role of coordination, but to intensify that role in the face of the increasing need for more and better cooperation.

Promoting economic and financial cooperation among developing countries

Statement to the Meeting of Commonwealth Ministers, Malé, Maldives, October 1-2, 1985

During its twenty-five year history, OPEC has often been in the limelight. The financial assistance extended by OPEC member countries to other developing countries, however, has received less attention. It is not generally known, for example, that OPEC as a group constitutes, in terms of net disbursements of concessional assistance, the second largest category of donors in the world, far surpassing the centrally planned economies. Nor are many aware that OPEC member countries have, since their emergence as a major donor group in 1973, consistently allocated a much larger proportion of their national incomes to development assistance than have most other donor countries.

These accomplishments appear all the more remarkable when it is considered that OPEC aid emanates from a group of developing countries sharing many of the basic characteristics and problems of those to whom they extend assistance. No OPEC member country has developed a powerful and diversified industrial base, an advanced agricultural sector or, with one or two possible exceptions, any major non-oil export. All OPEC member countries are reliant on imports to meet their food requirements and some depend almost exclusively on foreign-produced foodstuffs. Their narrow resource base and dependence on a single commodity has made OPEC member countries, like many other developing countries, extremely vulnerable to fluctuations in international markets.

OPEC's essential character as a group of developing countries has important implications for the assistance it extends to other developing countries. Unlike the assistance extended by the industrialized donor countries of both East and West, OPEC aid is unencumbered by such considerations as past colonial ties or the desire to promote geopolitical or commercial interests.

OPEC and the North-South Dialogue

The development finance extended by OPEC to other developing countries is at the same time a concrete manifestation of, and an important impetus to, economic and financial cooperation among developing countries. OPEC member countries, both collectively and individually, have sought to use their assistance to promote the establishment of an international economic environment more responsive to the needs of developing countries.

The success of OPEC Member Countries in wresting control of their main resource from external entities was an important breakthrough for developing countries – a breakthrough which in large part provided the inspiration and impetus for intensified negotiations between North and South. OPEC's success served as an example to other developing countries and provided the means to induce the western industrialized countries to engage in negotiations on the world economy.

OPEC's success has also led to the establishment of new national and international development finance institutions.

Perhaps the single most definitive statement of OPEC's wider aims in improving the position of developing countries in the world economy is contained in the Solemn Declaration issued by the Conference of the Sovereigns and Heads of State of the OPEC member countries held in Algiers on March 4-6, 1975. This Solemn Declaration set forth the strategy OPEC members were to pursue in promoting the solidarity and interests of the Third World. OPEC members sought to promote international cooperation in order to improve the position of developing countries in the world economy.

Stressing the need for "dialogue, cooperation and concrete action", the Sovereigns and Heads of State voiced their support for the holding of an international conference bringing together the developed and developing countries, provided that the agenda of this conference was not limited to energy issues but included the questions of raw materials of the developing countries, the reform of the international monetary system and international cooperation in favor of development.

Shortly after the Algiers Summit, the Conference on International Economic Cooperation (CIEC) began in Paris and continued to meet over the years, 1975-77. The CIEC meetings brought together eight industrialized states and groupings of countries and 19 developing countries, including many OPEC member countries, to discuss a wider range of economic issues of interest to both North and South. Although hopes of fundamental reform of the world economic system were soon disappointed, CIEC did represent a historic landmark in that it brought together developing and developed countries to examine world economic issues.

Some initiatives dating from this period were at least partial successes. These include the establishment of the International Fund for Agricultural Development (IFAD) and moves to establish the Common Fund for Commodities.

OPEC and IFAD

OPEC member countries and the OPEC Fund for International Development played a key role in the establishment of IFAD and have been major contributors to its resources. By constituting themselves as one of the three categories (Category II) of IFAD, and contributing a large share (42 percent) of the resources, OPEC countries brought about the establishment of a very valuable institution that would cater to the agricultural development of the developing countries. In so doing, they also brought into existence the first international development institution in which developing countries as a group hold the majority of votes.

The OPEC Fund and the Common Fund for Commodities

OPEC member countries, through the OPEC Fund, have also extended considerable political and financial support to the establishment of the Common Fund for Commodities. The need for the Common Fund was outlined in the resolution of the U.N. General Assembly's Sixth Special Session (1974). As originally envisaged by the Group of 77, the Common Fund was to be an independent international agency with substantial powers of intervention in international commodity markets through the financing of buffer stocks and other measures, in order to support commodity prices. To accomplish this objective, the Common Fund was seen to require sufficient resources to intervene promptly in commodity markets.

As early as 1979, OPEC countries announced their intention to join the Common Fund and make sizeable contributions to it, over and above the equal share expected from each member. In particular, the OPEC Fund indicated its readiness to finance the contributions of 35 developing countries, including 31 LLDCs, to the direct capital of the Common Fund. The OPEC Fund also announced that it would be willing to make a voluntary contribution to the second window of the Common Fund, thus raising the total financing it made available to the Common Fund in various forms to $100 million. It was hoped that, by acting at an early stage in negotiations, other potential donors to the Common Fund would be encouraged to step forward. Despite this support, the agreement establishing the Common Fund has not yet entered into force, owing to inadequate support from the industrialized countries.

OPEC aid performance

In addition to these efforts to mobilize assistance for the developing countries, OPEC countries have provided direct aid. In assessing the volume and value of this aid, it is important to bear in mind its distinguishing features:

1. It represents assistance from one group of developing countries to others;
2. OPEC member countries are dependent on one primary commodity for the bulk of their export earnings. Because this commodity, petroleum, is a non-renewable resource, the earnings generated by OPEC through their oil exports represent the liquidation of a depletable capital asset. Because much of the so-called income of OPEC represents the draw-down of a finite stock of a depletable resource, the GNP of OPEC countries is overstated by a large factor. OPEC aid as a percentage of GNP, is thus understated; and
3. OPEC aid is not tied. In fact, most of it finally finances imports of goods and services from the industrialized countries.

A common misconception is that aid extended by OPEC to the developing countries started after the 1973 oil price adjustment. It is often said that this aid is a compensation for the latter. In fact, some OPEC member countries – notably Kuwait and Saudi Arabia – started their aid programs as early as the 1950s. Moreover, the countries that are the primary beneficiaries of OPEC aid will also show that they are not major oil importers.

Certainly, after 1974, the number of OPEC countries giving aid, and the geographical coverage of that aid, increased rapidly. In addition to aid directly provided by the Government, many OPEC countries established development financing institutions. Those that did not do so elected to establish special trust funds at their regional development financing institutions.

OPEC members at the same time started to increase their contributions to such institutions as the World Bank and the IMF.

In 1976, all OPEC countries, including traditional aid recipients such as Ecuador, Gabon and Indonesia, became donors through their collective participation in the OPEC Fund.

The Volume of OPEC aid

Over the period, 1973-83, OPEC members contributed 23 percent of total ODA flows to the developing countries. The total amount devoted by OPEC members to such assistance over the 1973-83 period was $70.83 billion with annual net disbursements growing from $2.13 billion in 1973 to a peak of $9.59 billion in 1980. The volume of assistance from OPEC sources has since declined, but OPEC aid performance remains remarkably high when related to the level of the GNP of OPEC donors.

In recent years, the largest OPEC donors have been Saudi Arabia, Kuwait and the United Arab Emirates. In 1981, for example, Saudi Arabia accounted for 66.4 percent of OPEC ODA, while the assistance extended by Kuwait and the United Arab Emirates, respectively, represented 13.5 percent and 9.5 percent of total OPEC development assistance.

OPEC members have, at times, been among the largest donors in the world in absolute terms. In 1981, for example, Saudi Arabia and the United States were the largest donors in the world, each accounting for about 16 percent of total ODA from all sources.

OPEC member countries as a group have consistently exceeded the ODA/GNP target ratio established by the United Nations. At no time during the period 1973-83 has the combined OPEC ODA to GNP ratio fallen below 1 percent and average for the period stands at about 2 percent.

Individual OPEC donors have devoted remarkably high percentages of their GNP to concessional assistance. In 1973, to take the most striking examples, Qatar, Saudi Arabia, the United Arab Emirates and Kuwait had ODA to GNP ratios of 15.62, 14.80, 12.67 and 8.62 percent, respectively.

In 1983 Kuwait and Saudi Arabia continued to lead the world in the percentage of GNP extended as concessional assistance, achieving ODA/GNP ratios of 3.46 and 3.53 percent, respectively.

It is instructive to note that, according to UNCTAD estimates, an average of 22 percent of OPEC countries' identified investible surplus was earmarked for concessional assistance over the years 1974-83.

OPEC ODA is generally highly concessional, and a large percentage of it is accounted for by grants. Over the years, 1973-83, grants accounted for nearly 60 percent of total OPEC ODA commitments. The grant element of OPEC ODA loans over the same period exceeded an average of 45 percent. The overall grant element of total OPEC ODA commitments for the 1973-83 period stood at over 75 percent. The fact that OPEC's aid is not tied to the procurement of goods and services from the donor and therefore permits purchases to be made at the most competitive prices available, enhances its impact.

In short, OPEC financial assistance to other developing countries has, by any standard, been impressive. It is regrettable, therefore, that many have chosen in recent years to focus on the decline in OPEC aid since the peak reached in 1980, rather than on the extraordinary efforts made by OPEC donors. OPEC member countries continue to outperform other donors, despite the impact of reduced oil revenues on these economies. In 1983, for example, the share of OPEC GNP devoted to aid was still three times greater than that of DAC countries and more than six times that of CMEA countries.

Furthering development through aid

Statement to the Development Committee
Seoul, Republic of Korea, October 5, 1985

We are meeting at a time when the economic and financial conditions prevailing in many developing countries are discouraging. Growth rates continue to be low or even negative in many countries, per capita incomes are on the decline, commodity prices are registering a drop, external resources are scarce and the debt service burden is growing heavier. Protectionist pressures have also not abated, but on the contrary, are intensifying. This situation gives cause for serious concern, in particular with regard to the low-income countries.

The future of these countries, as we see it, is highly uncertain. To enable them to cope with their difficulties and improve their economic performance, much external aid is required. We are unfortunately witnessing a period in which capital flows, especially concessional flows, are becoming more scarce. Aid is no longer seen by many as an effective mechanism for furthering the development process. Ways and means have to be found that will help to reverse the slowdown in the supply of concessional assistance. All efforts should be undertaken to achieve this objective. We therefore welcome the recommendation to substantially expand the capital base of the World Bank and the regional development banks. We also support the call for an increase in the resources available to IDA, in view of their importance in promoting economic development in the low-income countries. An early start to the negotiations for the Eighth Replenishment of IDA would certainly be most welcome. The need for IDA is growing and its lack of resources represents the most serious constraint to development in the poorest countries. We consequently strongly back the call for steps to be taken to increase the availability of this assistance in commensurate amounts.

Aid has been effective and if the present adverse environment is to be influenced, and if opinions are to be swayed in favor of increasing flows of ODA, nothing would do more for us than to publicize convincing examples of its success.

Finally, I would like to express my pleasure with the establishment of the Special Facility for sub-Saharan Africa. Donor contributions to this Facility are welcome steps towards increasing flows of resources to this region that has suffered and is still suffering so much. The present level of resources, however, is inadequate in view of the sizeable requirements of the targeted countries.

We hope that more contributions will be forthcoming. We also hope that the World Bank will continue to examine possibilities of channeling without delay the resources of the facility and ensure their equitable distribution through a flexible approach to the problems of the beneficiary countries.

The debt problem

Statement to the Development Committee
Washington D.C., April 10-11, 1986

The issues discussed at this meeting of the Development Committee are of vital importance to the developing countries, and are of great concern to us as a development institution whose constant preoccupation is with the promotion of the economic and social development of the Third World.

One of the issues is concerned with the debt problem. The evolution of the debt of the developing countries over the past decade should have alerted the international community long ago. Note of the debt problem, however, was first taken in 1982, even though the problem has been looming on the horizon for everyone to see during the 1970s. The international community has failed both to acknowledge the problem in its true form and to accept measures that will bring about lasting and equitable solutions.

The first major mistake to point out is the belief that the current debt problem is essentially a Latin American problem. While it is true that the debt situation in Asian countries may not be particularly worrying to the commercial banks and the debtor countries, the same cannot be said of the situation in Africa. The Latin American debt is massive. A widespread default in that region would have a major, if not catastrophic, effect on the banking system of the Western World. However, it should not be forgotten that the major Latin American debtors have basically strong economies. While they might have a liquidity problem now, they are by no means nearly insolvent. Thus a major and widespread default in their debt-service obligations will not happen if the international community is prepared to take those responsible measures that would alleviate the current Latin American difficulties and make it easier for the countries to honor their obligations to creditors.

The African debt problem has not received enough attention. It appears insignificant when one examines the figures and compares them with those of Latin America. Furthermore, attention is repeatedly drawn to the fact that a major part of the African debt is of a concessional nature. What is being minimized is the fact that as official development assistance has declined during the past half decade, the proportion of African debt to commercial lenders and supplier creditors has increased and the debt-service burden has risen sharply. The absolute figures are not as high as those for other regions or countries. What is important is that some African countries may now be facing not liquidity difficulties, but insolvency.

The magnitude of the debt problems in Latin America and Africa can therefore be seen in another light. It could be said that while Latin American debt poses a potential danger to the fortunes or perhaps survival of the western banking system, which is perhaps the reason it receives so much attention, the debt difficulties of many African countries severely affect the very livelihood of their populations and threaten these countries with bankruptcy.

The industrialized countries, which are the primary creditors, must recognize this reality. The developing countries, the primary debtors, must persist in ensuring that this message is received loud and clear.

What would be the appropriate solution to the debt problem? Clearly, this is a question to which no one person can claim to have the final answer. The feasible answer would have to be one that would be worked out through negotiations between all countries, developed and developing. However, we can at least begin to answer the question by eliminating unrealistic solutions.

It has been mistakenly assumed that the debt problem is a problem of the debtor developing countries. The problem is as much that of the developed countries as it is that of the developing countries. The simple fact is that every creditor takes a risk when making a loan, and a default must cause some pain to the creditor. Of greater importance is surely the fact that the developed countries must realize – and I hope sooner rather than later – that the capacity of the debtors to service their debts depends on measures taken by the developed countries that would enable the debtors to earn incomes sufficient to service their debts and to reduce the debt-servicing burden itself. It should be noted that, for some time now, even the IMF has acknowledged that some of the difficulties faced by the debtor countries have been brought on them by factors beyond their control.

The consequence of this false assumption is the widespread belief that the sacrifice or adjustment needed to resolve the debt problem should be the sole concern of the developing countries. According to this argument, the problem is due only to the mismanagement of their economies. There is no doubt that some mismanagement, in some cases gross mismanagement, has taken place in a number of developing countries. This is certainly not, however, the reason why these countries have faced severe deterioration in their terms and volume of trade in the 1980s, why they have witnessed sharp increases in the nominal and real interest burden on their existing debts, and why there has been a continuous decline in official development assistance and commercial bank resource transfers.

There is hardly a single developing country that has not been made to accept that adjustment is advantageous. However, most countries that have accepted the recommended adjustment measures have discovered that, because of those factors that remain beyond their control, the result of their efforts has been increased unemployment, a fall in national output and living standards, higher rates of inflation and a failure to improve their debt-servicing capacity.

The first appropriate and realistic approach to solving the debt problem must start from the position that the cost will have to be shared by both the developed and developing countries. The economies of the developed countries cannot grow for any length of time while the developing countries stagnate or experience continuous decline in their growth rates. The developed countries cannot combat inflation at the expense of the developing countries and not expect repercussions in world economic performance.

The monetary restraints imposed in the major industrial countries in 1979 and the large deficits run by the United States not only brought a slowdown in the growth of these countries, but also led to high interest rates. Thus, at a time when exports of developing countries were falling as a result of worldwide recession, debt-servicing burdens were increasing as a result of higher interest rates and a strong dollar. The developing countries have reacted to this situation by reducing their imports as a result of their lower earnings. Their credit-worthiness deteriorated. Thus, the industrialized countries paid a price through a fall in exports and slower-than-expected debt-service repayments, while the developing countries paid an even higher price in diminished growth and increased suffering of the people.

The next suitable approach would be a recognition that the debt problem is not simply a financial problem. It is essentially a development problem. It cannot be solved simply by rescheduling existing debts. Such a measure only shifts the difficulties and magnifies them for the future. As the history of rescheduling has shown, even this approach has clearly indicated how ad-hoc and simple-mindedly the problem has been addressed. The larger debtors, which it has been assumed, pose the greater threat to the banking establishment, have received better rescheduling terms than the smaller borrowers whose real debt-burden may be much larger.

The fact that the current account deficit of capital-importing developing countries declined from $104 billion in 1982 to $38 billion in 1984 should not be seen as any indication either that the adjustment measures are leading in the right direction or that there may be greater expectation now that these countries would find it easier to service their debts tomorrow. As it has been correctly pointed out by one author, “The rate of adjustment achieved was not the result of deliberate decisions as to the optimum pace of adjustment in each country. Still less did it reflect an agreed distribution of burdens between debtor and creditor countries. It was brought about quite simply by the availability of external finance which was itself severely constrained by the unwillingness of commercial banks to engage in new lending and of the governments to add to the flow of official lending.”

The first realistic line of attack would require that the IMF be enabled to take a longer term view of the debt problem and devise solutions that will make it possible for countries to service their debt from a rising income. This is the so-called adjustment with growth. Presently, IMF programs simply translate expectations of available funds into rates of adjustment according to its established formulae. Unfortunately, the world does not behave in such a mechanical fashion.

The contention that the IMF was not established to cater to economic development, thereby duplicating the work of the World Bank, is unrealistic. Coordination of the efforts of the two institutions in order to ensure consistency of approach should not necessarily imply that one institution is duplicating the work of the other. It should also not imply that the conditionalities of one institution should be the same as those of the other.

The IMF and the World Bank could not be expected to make a major dent in the debt problem without significantly greater resources. A substantial expansion of these resources, therefore, is called for if these institutions are to respond more effectively to the needs of the developing countries. The resources required to restore growth prospects exceed those currently available or envisaged. The industrialized countries, which would ultimately have to provide the bulk of the funds needed or to agree to operational changes in these institutions that could increase their access to resources, must see that it is also in their interest if such a measure were taken.

It is in this regard that the recent Baker initiative should be seen and welcomed. While the initiative is too limited in scope and the amounts involved are too small, it is nevertheless the first indication that the biggest of the industrialized countries is acknowledging that the debt difficulties of the developing countries should not be left to the IMF and the commercial banks alone to resolve. Governments must participate. The hope now is that the other developed countries and all the developing countries will come up with the necessary modifications and will consider further measures to expand the "Baker plan".

It should be obvious that, in addition to actions which governments can take on their own (and these would include domestic economic policies which are not in conflict with world economic revival), other international institutions, like UNCTAD and GATT-institutions which are part custodians of the related policies in development, resource transfer and trade fields – must be brought closely and effectively into the process. The role that increased and remunerative trade will have to play in the growth prospect and debt-servicing capacity of the developing countries cannot be over-emphasized.

In the short run, and particularly in the next few years, the level of resource transfers to the developing countries will have a telling effect on what happens in these countries. Trends in the recent past just cannot be allowed to continue. It should not be expected that Latin America will sustain for very long a situation of negative annual resource transfer of $30 billion which happened in 1983-85. It would not be realistic to expect that the 104 countries for which data is available can long endure a situation, like that in 1983 and 1984, in which their aggregate payments of debt-service on short- and long-term debt could continue to exceed their loan receipts by about $11 billion in 1980 to less than $4 billion in 1984. The economies of sub-Saharan African countries are highly fragile and dependent on the external world. There exists a lack of resources – internal and external – which would enable them to cope with their difficult economic and financial situation. Unless international economic conditions and financial assistance improve significantly, hope for amelioration for most of the countries in the region would be very tenuous indeed.

Contributions to IDA, a major source of funding for these countries, declined from $12 billion under the sixth Replenishment to $9 billion under the seventh Replenishment. At this level, the replenishment represented a major reduction in official development assistance available to the poorest developing countries. It is necessary that IDA be strengthened in view of its important contribution to the development of those low-income countries that depend so much on it resources. It is hoped that the level of IDA VIII will be commensurate with the needs and that the terms and conditions under which financial assistance is extended are not hardened.

The writing is on the wall. Appropriate reaction by the international community could lead the world out of the present difficulties it less time than now appears feasible. Piecemeal approaches or apathy would lead to untold suffering for many.

The Development Committee is one forum that could be utilized by the developed and developing countries to enter into a meaningful dialogue with a view to finding answers to the difficult problems the international community faces. Unfortunately, this has not so far been the case. Deliberations of this Committee have been confined to a series of "demands", presented year in and year out by the developing countries, that are generally ignored by the developed countries. Task forces have occasionally been constituted to examine certain issues, but their recommendations have not resulted in any meaningful action. Let us hope that the time has come when the Development Committee will begin, through its deliberations and actions, to make a real difference to mankind.

Crisis in Africa and the challenges facing the world community

Statement to the Special Session of the UN General Assembly, New York, N.Y., U.S.A., May 27-31,1986

The convening of this special session of the UN General Assembly on Africa is a timely recognition by the world community of the magnitude of Africa's problems. At the same time, it reflects the need for greater involvement of the international community in the efforts undertaken to find lasting solutions to the continent's problems.

Africa is, of all the continents, the one most dependent on the external world for its finance, trade, technical know-how, in short, for its development. No more than one generation ago, most of Africa was ruled by outside powers, which by necessity or design subordinated the continent's development to their own. Over the past decade, African economies have suffered a severe crisis, the cause of which can be traced in large part to measures taken by the industrial countries to check their inflation, restructure their industry and develop their agriculture. It is true that other continents have also suffered from such policies, but none to the degree of severity endured by Africa. These measures resulted in a drop in demand for African commodities, partly due to the use of substitutes for natural and traditional commodities produced by Africa, and worse still, stagnation of the capital flows-aid in particular-on which African countries are so dependent.

Africa has not been able to adjust to the new situation generated by these changes. It may well be that in some cases appropriate adjustment policies have not been adopted. In general, however, it is lack of resources, and the structural rigidities imposed on African economies by past foreign domination, that have thwarted adjustment. In all events, the latter requires a long time-span and adequate resources to bear fruit. There is no questioning the fact that the problems of Africa cannot be solved by itself, alone, and whatever steps the governments of the continent may take, the full and unwavering support of the international community is more than ever needed.

Africans have recognized that they must deal with their own problems. The position that Africa is presenting at this meeting is predicated on the assumption that the bulk of the development resources needed for several years to come will have to be generated by African countries, themselves. Indeed, most African governments have taken the measures required of them; yet the external assistance promised in support of these measures has not always been forthcoming.

Africa has been compelled to lower the standard of living of its populations, to adjust the development of its economies to external factors and to dampen its expectations of social and economic development. The sacrifices are severe at all levels and in every aspect. It may not be realistic to expect further sacrifices without running the risk of serious upheavals, social disorders and human degradation.

The diagnoses of Africa's problems are well known. Attention has been drawn to them by political leaders, international institutions, private organizations and the press. Everyone agrees that the problems are of a deep nature and that they call for measures that go beyond the immediate needs of emergency situations.

Africa has identified its problems in precise terms and has defined a strategy for solving them. These problems are of a social, economic and technological nature. It has acknowledged that the growth of its population has far exceeded its resources and its capacity to provide the employment and other social services required. The reasons for the constant decline of its output in absolute and per capita terms have also been identified, and appropriate policies have been initiated to reverse these developments. The deficiencies of African institutions are likewise being tackled through restructuring and more efficient orientation.

This adjustment of the African economies has been conducted in consultation with, and often under the supervision of, international financial institutions. While it is too early to pass judgement on the results of this process, the indications are that the main problems of Africa, namely trade and finance, are not seriously faced. The continent's trade depends on primary commodities, for which external demand is shrinking, and of which the prices are constantly falling. As a result, Africa has no means of generating external finance to pay for its imports and development.

The constant drop in Africa's external earnings has necessitated the borrowing of funds that could not be generated domestically. In consequence, the continent has accumulated debts, which now exceed $150 billion – an amount which could hardly be repaid under present circumstances.

Much has been said about the largely concessional nature of the African debt. Although some two-thirds of this debt originated from concessional funds, the fact remains that a third of Africa's exports of goods and services is absorbed by debt repayments. The measure of sacrifice this debt burden imposes on Africa can be fully appreciated only when account is taken of the nature of the imports foregone, which can hardly be considered to be of a luxury nature.

For too long, the African debt problem has been generally regarded as minor only because the absolute African debt figures were small in comparison to those of some other regions, and perhaps because the debt was spread over many countries and thus a default by one or two was unlikely to cause serious difficulties to the banking system. These considerations completely disregarded the hardships of individual African countries. When for the first time the world debt problem was addressed in a significant way, in the past twelve months, the African debt problem was treated more or less as a footnote.

The African debt profile is changing. The figures are growing larger, and the debt-service ratios are increasing even faster. The situation calls for immediate attention. There could be no better place to begin to pay the necessary attention to it than at this Assembly. Suggestions have been put forward as to means of lessening the debt burden. In particular, industrialized countries have been called upon to cancel all or the major part of their concessional loans to the poor countries. This would be helpful, but more will have to be done. Commercial lenders have a role to play. African countries have heard a great deal about the virtues of structural adjustment. Multilateral and bilateral aid agencies see it as a panacea and commercial banks now insist on it. An increasing number of African countries is putting programs in place. But there is no doubt that unless structural ajdustment is accompanied by adequate resource transfers to the countries undergoing it, the effort will have little chance of success and the resultant situation could be worse than before.

The resource transfer picture that appears to be emerging at the present time does show that African countries may be heading for this unfortunate situation. Concessional assistance from the major donors has been shrinking for several years now. It appears that it may be further reduced as a result of the on-going public expenditure cuts taking place in some countries. The commercial banks are fleeing from Africa. Meanwhile, the largest of the multilateral development agencies, which appear ready to do more, are very short of resources.

The World Bank's soft window – IDA – on which most of Africa depends for a sizeable part of its resources, has been starved of funds. Its Seventh Replenishment of $9 billion was smaller than the Sixth, which stood at $12 billion. The special African program of $ 1.5 billion, even when added to the Seventh Replenishment, brings the available funds to only $10.5 billion. And during this period, when it is common knowledge that Africa is experiencing unprecedented economic difficulties, it is reported that the currently negotiated Eighth Replenishment may be concluded at a level not exceeding $12 billion. Not more than 30-35 percent of this amount is likely to be committed – not disbursed – to Africa over the relevant three-year replenishment period.

The International Monetary Fund, which lends short term, is now so committed that it could soon become a net resource recipient from the poor African countries.

There is no escaping the fact that the international community must do much, much more, to assist Africa.

But in the long run, Africa should not expect to depend on aid. It must generate its own resources and be self reliant. But it cannot achieve this in the foreseeable future without the cooperation of the industrialized world. African difficulties will continue to exist as long as the industrialized countries attempt to solve their agricultural problems through measures that reduce African exports, fight their unemployment difficulties by discouraging manufactures in Africa, or address their monetary problems in ways that not only reduce Africa's access to funds but also increase the cost of Africa's old and new debt.

If the international community comes out of this Special Session of the UN General Assembly with a full appreciation of the interrelationships, then it will not have been in vain.

OPEC countries and their development finance institutions have allocated a substantial part of their income to ODA. At no time, during the period 1973-83, did the ratio of ODA to GNP of OPEC countries fall below the two percent level. The OPEC countries have emerged as the second largest donor group, surpassed only by the OECD/DAC Group.

The current situation in the oil market could make it difficult, if not impossible, for the OPEC countries and their institutions to maintain their aid effort at past levels. It is clear, however, that the loss of income of OPEC countries represents a substantial gain for oil importing countries. It would therefore be refreshing and commendable if the major oil importers – the principal gainers – would make an explicit commitment to devote a given percentage of their oil savings to providing concessional assistance to the developing countries, particularly those in Africa.

Africa is in need of a new deal. It is calling on the international community to help bridge a development gap that is constantly widening. Africa's special circumstances, both historical and natural, make the reference of its problems to this Assembly a matter of basic solidarity. Africa asks for a fair price for its commodities and a chance to broaden its economic base. In the absence of an immediate response to the problem of its trade, the international community must, to be credible, take immediate measures substantially to increase the volume of its aid and to improve its quality.

A whole continent is today suffering from penury. The resources required to set it on a growth path may well be an investment for those economies which tomorrow will find this continent a viable partner and a useful outlet for their exports.

Development planning

Statement to the Seminar on Development Planning in the Arab World, Kuwait, October 25-29, 1986

The topic being discussed here – development planning – is one of the most debated issues of our time.

When development planning was first practiced in the Third World after the Second World War, great hopes were placed in it. In the thinking of decision makers, national planning came to be viewed as a necessity if development was to be made at all possible. Goals of development were therefore formalized in such documents as five-year plans. In the words of an authority on development, Albert Waterston, "The national plan appears to have joined the national anthem and the national flag as a symbol of sovereignty and modernity."

Planning in the Arab World, as in other regions, has been accepted and pursued. Government now plays a very large role in virtually all Arab countries, and development plans have been adopted in the region. Of course, the importance of planning and the resources made available to implement it vary from country to country.

Indeed, development is a central objective of Arab governments, but if it is to take place, then it should be soundly conceived, planned and directed.

Planning is a complicated notion, which has still to be clearly defined. Often, expectations of development planning are not fulfilled, mainly owing to lack of implementation. The ramifications of planning extend beyond the simple exercises of designing a plan and drawing up a list of goals. The process by which a plan is put into practice is based on a number of requirements. What needs to be done is essentially:

- To compile data on the country's economic and social situation;
- To assess these data at the aggregate and sectoral levels;
- To identify the relationships between economic sectors;
- To identify problem areas and point out alternative ways of dealing with them;

- To determine the requirements of each alternative approach and assess its implications;
- To follow up decisions taken by authorities; and
- To monitor continuously economic and social data and evaluate outcomes.

All these steps are of major importance in the planning process. What I would like to emphasize here is that development planning is the vital prerequisite for any government that wishes to examine the appropriate set of alternatives for its country's future, with a view to establishing the correct priorities.

We at the OPEC Fund are strong believers in the need for planning priorities to be set by governments themselves, independently of any foreign institutions or governments that may be partners in their development process. We think that national governments are best placed to evaluate the relative importance of their country's economic, social, political and cultural demands. We do not show preference for or against any particular sectors. Over the 10 years of our existence, our record indicates that our assistance has been extended across all the main economic sectors in a wide variety of ways, in order to achieve the maximum benefits for the development of beneficiary countries, as perceived by their governments.

It was not until the late sixties that these priorities could be examined effectively in the Arab World, as national development plans began to reflect a broad-based strategic concept, focusing on the main economic sectors that required economic adjustment and on a system of priorities for investment. At the regional level, on the other hand, strategic planning remained totally absent until 1979, when the Strategy of Joint Arab Economic Action was formulated and subsequently approved in 1980. The Strategy called for close coordination among Arab governments as well as mutual accommodation of, and adjustment in, economic strategies, plans and policies.

It can now easily be seen how a narrow concept of national economic interest can lead to unnecessary competition and duplication of effort. The advantages of transnational cooperation – particularly between governments that enjoy a common cultural heritage like those of the Arab World – are seen through the benefits that accrue to all the peoples involved.

In its modest way, the OPEC Fund has tried to foster such links, when invited to do so, and is encouraged by the results it has seen. One of the best examples of what I have in mind is a project to develop the Red Sea and Gulf of Aden fisheries, which the Fund assisted through two grants, channelled through a program under the auspices of UNDP. A regional approach to the marine resources of the area commended itself for a variety of reasons, but the most important was the common nature of the resources. Coordinated development of the fisheries would ensure rational exploitation on a lasting basis for the benefit of all participants.

The countries that have benefited from the project are Jordan, Egypt, the Sudan, Ethiopia, Somalia, the People's Democratic Republic of Yemen, the Yemen Arab Republic and Saudi Arabia. This experience encouraged the OPEC Fund to help regional schemes in other parts of the world.

Altogether, the Fund has been working with 11 Arab countries, covering projects in a variety of economic sectors. None of these countries include our Arab member states since our mandate precludes us from extending assistance to OPEC member countries. We have helped to finance agriculture in Jordan, Mauritania, the Sudan and Tunisia, for example. Industry has received assistance in Egypt and Somalia. We have also helped the energy sector in Djibouti, Jordan, Morocco, the Sudan and the Yemen Arab Republic. Our aid has contributed to better water supplies in Syria and the People's Democratic Republic of Yemen, educational facilities in Mauritania and transportation in the Sudan and Tunisia.

One other way in which we try to spread the benefit of our resources effectively over a number of countries on a longer-term basis is through the grants we extend to research organizations of special benefit to Third World countries. A good example is the International Center for Agricultural Research in the Dry Areas, based in Syria, which has received seven grants from the OPEC Fund.

It is not the policy of the Fund to suggest remedies or lay down courses of action, and it is certainly not my intention today to put before this distinguished assembly of experts concrete proposals on the subject of development planning in a part of the world to which I am a visitor. Nevertheless, the OPEC Fund's accumulated experience of development planning in most parts of the Third World has given us our own view of the challenges of development planning in the Arab World in particular. I would, therefore, like to offer you our observations.

In the context of joint Arab economic action, it seems to us that there is a need for close cooperation among the governments of the region, if effective complementarity is to be achieved. Efforts should be made at harmonizing development strategies embodying an overall vision of the region's economy, taking account of the widely differing needs and resources of individual countries. National and regional development can be designed to promote each other.

My reason for putting this idea to you stems partly from our experience, shared by some of the other organizations represented at this seminar, of working in coordination with other institutions with similar aims. As many of you know, the OPEC Fund is one of a group of 10 Arab/OPEC/Islamic development institutions that meet at regular intervals for consultation and to coordinate activities. These exchanges have resulted in a pool of ideas on development processes – amassed from the time of the inaugural meeting here, in Kuwait, in 1975 – as well as new ways, discovered through working together, of solving development problems. Coordination has proved a key element in increasing the efficiency of our operations and enhancing the benefits of our aid.

Provided that the expectations are realistic, goals that might otherwise be beyond the resources of a single country may become realizable when efforts are synchronized and resources shared on a transnational basis. At a time of severe financial adversity among most Arab states, the motivation to make the most of limited resources in this way must surely be considerable. I would like to conclude by invoking the spirit of the Strategy of Joint Arab Economic Action in the hope that it will take on a new lease of life, a new purpose, and be seen as a further expression of that pan-Arab solidarity to which I know all your countries aspire.

Greater realism and flexibility

Statement to the Development Committee
Washington D.C., U.S.A., September 28, 1987

The wide range of items on the agenda of this meeting testifies to the major differences which still exist between developing countries and the major financial institutions, particularly in their perceptions of the now widely accepted concept of adjustment with growth.

For the developing countries, growth cannot be achieved without (i) adequate markets and appropriate remuneration for export commodities; (ii) some form of debt management, which goes beyond the framework of present obligations; and (iii) a continuous, if not increased, flow of financing, including official development assistance extended on terms and conditions which take into account the circumstances prevailing in these countries.

Adjustment, on the other hand, cannot be undertaken (i) outside an appropriate time frame; (ii) without due consideration of the social costs which invariably follow; and (iii) without recognition of the role of governments in the economies of developing countries.

Beyond the challenge of the process of growth and the difficulties inherent to adjustment measures, there must be an acknowledgement of the strains that necessarily arise from the combination of these two processes. The strains that are brought on the countries' apparatuses require constant dialogue between the developing countries and their financiers, as well as understanding and flexibility from both sides.

Much has been written and said about the collapse of commodity prices and the persistent deterioration in the terms of trade of developing countries. UNCTAD VII recently reminded us of these problems, the solutions to which appear remote. Even the slight hope created by the news that the relatively modest Common Fund for Commodities may become operational has been dampened by the proponents of "free-market at any cost", especially when it applies to the developing countries. At the OPEC Fund, we have sought to provide support to help bring the Common Fund into being, thus somewhat contributing to more stability and strength in international commodity markets. We have committed ourselves to meeting the subscriptions of 35 LLDCs to the directly contributed capital of the proposed new agency and pledged a substantial voluntary contribution to its second account.

Improvements in commodity prices and in terms of trade are the only means of providing developing economies with the required fuel to boost their growth.

It certainly would be wrong to berate the international community as a whole, or a section thereof, on its understanding of these issues. Efforts to deal with them were made here and there, but these have not been enough or timely. No one is in a better position to comprehend these issues than the World Bank and the IMF and yet the role and the activities of these two institutions in this respect is still being questioned.

The burden of external debt servicing has now by all accounts reached a level which is not consistent with the objective of growth. It is common knowledge that many countries are experiencing a net outflow of capital which they can ill afford. Is it still realistic to rely on the Seoul strategy when time and experience have shown its inadequacy to cope with the needs of the middle-income countries and its inappropriateness in dealing with the specific requirements of low-income countries?

The Development Committee has recognized, implicitly at least, the daunting tasks of reconciling the preoccupations of the risk-conscious commercial banks with the needs of developing countries. In view of this, would it be sound to be satisfied with the simple role of catalyst given to the World Bank and the IMF?

This leads us to the issue of increasing financial flows and the appropriateness of the terms and conditions governing these flows. While acknowledging the efforts to increase the resources available to IDA, it has been recognized, by the World Bank in particular, that all mobilized funds will not be sufficient to achieve economic growth in the developing countries at a level commensurate with population growth. If this minimum level of growth is not ensured, it is not difficult to imagine the consequences for the concerned countries, and, to some extent, their partners in development. Thus, we welcome the call for an increase in the World Bank's capital. It must be said, however, that the mere increase in World Bank resources would not be sufficient to address the present problems in developing countries. These resources must be applied on appropriate terms with greater realism and flexibility.

The case of Sub-Saharan Africa has been set aside for specific treatment. It must be noted that in spite of efforts made thus far, the economic situation of the countries of the subregion remains precarious.

Although a wide spectrum of reforms have been undertaken with their attendant heavy social costs, African countries are still to be convinced that the policies suggested to them will eventually lead to success. Witness the many reversals in policies initiated by some of these countries in the context of structural adjustment programs agreed to with the World Bank and the IMF.

One would hope that these difficulties are not inevitable, considering the specially constraining economic and administrative environment in the countries of the region. The OPEC Fund acknowledges these difficulties and pursues a policy of giving priority to subSaharan Africa in its operations. The Fund, however, is not always successful in reconciling the legitimate requirements of the countries it seeks to help and some conditions imposed on them by other financial institutions.

In developing countries, the process of adjustment cannot be divorced from the limited capacity of their national institutions to carry it out without undue disturbances. Too often, financial institutions have imposed upon the countries programs with short-term objectives. Experience shows that a period of gestation is required; moreover, there is a time lag in the response of the economic mechanisms which must also be taken into consideration. The gestation period and the time lag vary from country to country; they are longer when the economy is decentralized and economic decisions are in the hands of numerous economic agents.

Invariably, the adjustment process involves budgetary restraints such as cancellation of subsidies – including those applied to basic commodities – and cuts in social services. These steps affect in the first place the poorest segments of the population, hence the unavoidable association of structural adjustment programs with anti-social measures. There is an awareness of these consequences, but it has not yet been fully expressed in the formulation of the many on-going adjustment programs.

Finally, the role of the government in developing countries as a promoter of development, an important economic agent and a large employer, cannot be overlooked. One must not assume too easily that there are economic agents, especially at the national level, who can easily substitute for the government.

Speaking from the point of view of a development aid institution, I must reaffirm the need for aid coordination and highlight the essential role being played by many other financial institutions, be they specialized, regional or subregional. I would like to call attention to their mission, which is largely complementary to those of the World Bank and the IMF. These institutions have, over the years, demonstrated a solid understanding of development problems in their various areas. They should be encouraged and strengthened.

Education for development

Statement to the 24th session of the General Conference of UNESCO Paris, France, November 2, 1987

The United Nations Educational, Scientific and Cultural Organization (UNESCO) was founded more than 40 years ago, to assist in the maintenance of global peace and security by promoting collaboration among the nations, through education, science, culture and communication. All the nations who voted for, and adopted, the Constitution of UNESCO, did so "believing in full and equal opportunities in education for all, and in the unrestricted pursuit of objective truth (as well as) in the free exchange of ideas and knowledge."

My presentation today is intended to draw your kind attention to an aspect of the work of UNESCO which I fear has come under severe strain of late – namely, the pursuit of education for the greater majority of humanity. To many of the people we represent here, UNESCO today is synonymous with reconstruction, scientific research, cultural exchange and, perhaps most important of all, at least for the developing world, educational advancement.

In the area of education *per se*, the constitution of UNESCO urges, *inter alia*, "collaboration in the work of advancing the mutual knowledge and understanding of peoples"; it calls for a fresh impetus and recommends close collaboration between UNESCO and member states, to develop educational activities.

We are pleased to note, that UNESCO has pursued these noble objectives with determination and resolve and clearly intends to continue to do the same. At the OPEC Fund, we have, over the years, closely cooperated with UNESCO and plan to continue to do so in the future.

I would like to appeal that we spare a minute of thought for the state of education today, particularly in those areas of the world we call developing. This reminder, I believe, is in order, as we are bogged down, almost everywhere else, in endless debate on the problems of the global economy, the debt burden and the merits and demerits of structural adjustment.

When development experts meet today, they seem to talk of nothing else but structural adjustment programs authored by the strong for the weak. Developing countries of Africa, Asia, Latin America and the Caribbean are told, often with pointed fingers, that they must embark on adjustment policies which, only too often, involve cuts in government spending, particularly on education and health, as well as cancellations of subsidies and welfare support, and reductions in personal income, all of which result in protracted hardship for the poorer segments of the society.

Proponents of structural adjustment programs argue – and they manage to convince many – that these short-run, deflationary measures are the best way to achieve more rapid economic growth in the long run. They assert that the need exists for countries undergoing adjustment to tighten their belts further, consume less and, perhaps, export more. At the end of the day, the argument goes, growth will result.

Yet we know this has not been the case. Let us take Africa as example: according to a recently released World Bank study, 25 African countries implementing structural adjustment programs in conformity with conditionalities set by their creditors saw their per capita income decline. Despite record harvests in some of these countries, economic growth actually declined to 0.5 percent from the 2.2 percent recorded in 1985. A recent conference in London, organized by the Institute for African Alternatives with support from various development agencies, heard African experts and researchers report on the disruptions and hopelessness common in countries with structural adjustment programs in place. For many a developing country, it was declared, structural adjustment has meant a rapid rise in unemployment, a spate of retrenchments, economic uncertainty, social unrest and, in some instances, riots, failing health, malnutrition and starvation.

The point deserves repetition: when you ask governments in developing countries to cut public spending, the first casualties are public health, nutrition and education, among others. Government expenditure in education in low-income developing countries dropped from 15.2 percent of GNP in 1972 to 4.7 percent in 1983. Similar declines were registered for other developing countries. While the developed world, despite the infrastructure and teaching capacity it already has in abundance, allocates an average of 6 percent of GNP to education, the developing countries, devote less than 4 percent to that sector.

Structural adjustment policies as currently designed and imposed on developing countries tend to overlook the human dimension of development. As convincingly argued by the North-South Roundtable, the very objective of development is people. The process of development may be measured in economic aggregates or technological and physical achievements, but the human dimension of development is the only dimension of intrinsic value. You must educate a people, keep them in good health and inculcate them with the ability to work hard and research, if they are to achieve the development strides expected of them.

Education is a means of enhancing the productive capacity of a developing country and increasing the profitability of investment. It has been suggested that a significant share of the growth in national income in developing countries is due to the education of the labor force. In countries where less than adequate consideration is given to education, social and economic progress has been impaired.

Investment in education is, therefore, a key element of the development process. It can contribute to economic advancement and raise the incomes of the people just as much as would investment in physical capital such as transportation, communications, power or irrigation. At the OPEC Fund, I am pleased to report, we intend to redouble our efforts in this direction, devoting more resources to projects with education components. Over the years, we have, committed close to $100 million in pursuit of education in developing countries. Despite difficult times within the economies of our own member countries, we propose to continue in this manner.

We would like to hope that in the years ahead, nothing will be done to hamper UNESCO's role in, and its contributions to, education for development. The leading nations of the world today did not get to their exalted positions by staying in ignorance and illiteracy; over the centuries they invested large sums to educate their populations, ensuring that they have, today, an informed society that is easily reached by the written word.

I wish to conclude here by briefly referring to a related problem: it would not do to go to Africa and parts of Asia and enjoin governments to "de-emphasize university education in favor of tertiary and primary education" on cost grounds. This was a recurrent complaint in Africa during a recent tour of mine. Several African governments had been advised – not by UNESCO, of course, but by equally well-placed, international institutions to follow that recommendation – understandably, they were disturbed.

At the OPEC Fund, we would like to see greater commitment to every level of education, whether primary, secondary, higher education or vocational. While we do understand the genuine concern that a disproportionate percentage of the education budget should not be ploughed into university education, particularly in countries where technicians and middle level staff are in very short supply, we still would like to recommend that the bright and hardworking in the developing countries should not end their education at the primary level; there are enough resources within the world community to ensure that such brains are not wasted. A long-running campaign in the United States has it, that and I quote "a mind is a terrible thing to waste." We hardly are in a position to let such resources go to waste.

Development finance in the 1990s and beyond

Statement to the Development Committee
Washington D.C., U.S.A., April 15, 1988

As a regular follower of the work of the Development Committee and a trustee of many a thought expressed by officials in charge of the daily management of economies in developing countries, I am particularly grateful for the opportunity to present some views and observations on the key items on your agenda. More importantly, I wish to convey the grave concern of my interlocutors on the absence of a concerted, coordinated effort to establish a framework for development finance in the 1990s and beyond.

A substantial proportion of development-finance institutions' funding today is absorbed in servicing debt and liquidating debt overhang. Structural adjustment programs and urgent basic social schemes are two other areas of equal priority; their demands for funds may go unmet. Growth, considered a prerequisite for the economic adjustment and the reluctance of private institutions and the commercial banks to ensure a continuous flow of funds adds a further burden to the shoulders of the development-finance institutions.

The progress in increasing the resource base of development-finance institutions comes from the realization that the debt overhang would not be solved without a substantial contribution from these institutions. The additional funds will, in these circumstances, be applied towards solving problems incurred by existing investments; their impact on the economy is essentially short-term. Thus, the decline in the total volume of flows observed today, accounted for mostly by the decline in flows from commercial banks and export-credit agencies, leaves a yawning gap in developing country demand for external financing.

Little progress has been achieved in promoting trade, and commodity prices remain doggedly depressed. More to the point, the much-hoped-for impetus expected from the "engine" of the developed economies is yet to materialize. Of relevance also is the competition in the market for funding continuous budgetary deficits of developed countries. Another issue is the marked slide of "surplus" resources from a group of countries (essentially the OPEC nations) with great demand for development, to developed countries that appear reluctant to release, in whatever way, these resources to boost the world development.

The progress of the international community in expanding the resource base of many development-finance institutions is warmly welcomed. The prospects opened by the general increase in the World Bank capital (IDA VIII), and the enhancement of the IMF Structural Adjustment Facility, together with the increase or expected increase in the capital of regional development banks and other development-finance institutions, is encouraging.

But encouraging as these developments may be, for many countries the future flows will not – to all evidence – compare with those in the last decade. This is particularly true for countries that have depended to a large extent on commercial banks. For the other countries, the least-developed, all that is offered is the prospect for a greater debt – so little are the growth prospects beyond the short-term impact of economic adjustment and the injection of external funds.

Admittedly, the signals from the international community are less negative than they were a couple of years ago. Some progress is being made, albeit belatedly, on many fronts, and yet the future appears, to the planner, as cloudy as ever. What appears to be most lacking is a realistic, shared view of the future for countries emerging from a seemingly endless process of adjustment. Even the most "adjusted" economies have yet to benefit fully from the fruit of their pains. For those yet to embark on this process, the exercise appears more and more like a blindfold-hit-game, which aims at targets moving at random.

This brings me to my grave concern, voiced at the outset, about the near future. The perception of the developing world's economic operators is that there is a de facto strategy that limits itself to the most salient problems of the moment – essentially the debt – and appears to hope that some yet-to-be identified forces will appear at the right time to show the ways of the future. There is a feeling of despair in what the future holds for the majority of the developing countries that have anchored their economy to the world market. The absence of a frame of reference for, say, the 1990s and beyond, is eminently destabilizing.

We voice this concern not only because we believe it is legitimate, but also and above all, because we believe the time is right for a new debate on the future of the world economy as it bears on the prospects of the developing world. More than an academic exercise in prospectives drawing, or a jostling pass in political jockeying, we urge a pragmatic effort to chart the broad outlines of what can reasonably be done by all concerned, to help plan an acceptable medium-term future.

I realize that many a voice of skepticism will be raised at this proposal, for it is neither new nor original. But it is, we believe, needed. Our initiative is only an endorsement of many similar ideas floated in this forum and others. The difference now is that the skeptics have had the time to try out their own views, and, more relevantly, the mood for international consultation is right.

On many fronts, the dialogue between nations has gained momentum; such historical developments as "Perestroika", the "Four Modernizations", and the less visible but real progress in perceiving, if not solving, major economic problems, are new factors that cannot be ignored. Of even greater importance are the thawing winds which seem to lead to political settlements on many fronts, without which no debate on economic matters could be conducted. Finally, I wish to reemphasize that many developing countries have implemented policies prescribed in the recent past; they are today looking at the results. It is most urgent that a perspective be given to them. I believe that the Development Committee is well placed to take the lead. It has the insight and the resources to respond favorably to this call.

A time for decisive action

Statement to the Development Committee
Berlin, Federal Republic of Germany, September 26, 1988

The topics listed in the agenda of the Development Committee give an indication of the scant progress made thus far in addressing the difficulties faced by developing countries since the early 1980s. Today, the outlook for the economic prospects of these countries remains uncertain. Although some satisfaction may be found in the overall performance of the world economy, due mostly to the somewhat improved growth performance of the industrialized countries, the record in the developing world does not give cause for rejoicing.

All the issues before the Development Committee – structural adjustment, trade, debt, and transfer of resources – are more than ever in need of purposeful examination. Indeed, we hope that the ongoing deliberations will finally lead to workable and effective solutions to these major areas of concern to the developing countries.

We are meeting at a time of great challenges and we cannot afford further to delay a comprehensive agreement on the issues before us. What has been lacking is not ideas, rather it is the political will to take decisive action.

Many initiatives, one must note, have been launched by the international community, including the multilateral organizations, to address the problems at hand. However, much remains to be done. The OPEC Fund has made its contribution to past debate on the issues discussed here, and would, in the same spirit, wish to highlight some of the points which we have made before.

Let me begin with structural adjustment programs: it is clear to us that these have not worked the wonders expected of them. Many countries, particularly in Africa, accepted and then abandoned them. In that continent, accelerated economic growth, a primary promise of structural adjustment programs, has not taken place: worse, it has fallen and the lot of the poor has been aggravated. The structural adjustment agreements entered into by African countries involved packages of policy measures, all of them painful and often socially disruptive. While adjustment programs have not been intrinsically bad, they have neglected many factors which ultimately brought about their derailment:

- they have been too short in their time horizon;

- they have been too limited in terms of resource transfers;
- they have not paid sufficient attention to exogenous factors beyond the control of the developing countries;
- they have been designed to solve the problem of external balances rather than deal with the more crucial internal economic problems; and
- they have lost sight of the premise that development is for the people and any program that disregards the suffering and misery in a country is bound to fail in the long run.

All of these shortcomings in the adjustment programs have to be realistically acknowledged and appropriately dealt with in the near future if progress is to be achieved, because we have reached a point where countries undergoing structural adjustment programs have become weary, and are questioning the value of further austerity.

There is no denying that the issues under consideration by the Development Committee are complex. Yet, this should not be an excuse for stalling the search for solutions that would lead to an amelioration of the debt problem, an increase in the export earnings of the developing countries, an improvement in their terms of trade, and an increase in financial flows in their favor.

The external debt of the developing world has now surpassed the $1,200 billion mark. It has assumed enormous dimensions, imposing a heavy toll on the daily lives and future prospects of billions of people. Developing countries worry about the debt problem, not just because of its magnitude, but also because of the deterioration it has brought in its wake. The debt burden, indeed, constitutes a major hindrance to economic growth and seriously affects the social and political stability of nations. The debt issue triggered the interest in structural adjustment in the first place. There was suddenly the fear that the international banking system could collapse, and the interdependence of the world, therefore, was brought to the fore in a dramatic way.

It is now clear that the debt problem will not be solved merely through the simple exercise of talking it to death. Concrete actions are expected and must follow quickly. Pronouncements about debt forgiveness by industrialized countries and debt writing down by commercial banks are welcome. It would also be helpful to see rescheduling of bilateral debt and commercial debt that has not been cancelled.

In the long run, the cancellation and rescheduling of debt, alone, will not solve the problems of the developing countries. The latter must also see improvement in the area of trade. Policies of the developed countries of the North have a critical impact upon the capacity of the countries of the South to earn the resources they need to support economic growth and meet debt service obligations. Although recent trade figures show an increase in the value of imports of the North from the South, we must not be lured into excessive optimism. Policies in the area of trade require thorough review and reform if we are to witness abiding gains from trade.

Many barriers, in various forms, have been erected against the exports of developing countries. In addition, export prices of their products are often insufficiently remunerative. Meanwhile, rather than relying solely on trade to solve their domestic economic difficulties, developed countries must undertake a restructuring of their own economies. It does not make sense, after all, for these countries to pay their producers prices above world levels for commodities that could easily be purchased from developing countries.

The issues of structural adjustment and debt may have tended to divert attention from the issue of transfer of resources. We have been, for a while now, witnessing net resource transfers from the South to the North: some $129 billion was siphoned off in 1987 alone. Sadly, this trend is persisting.

We live in a world in which the largest part of humanity is dependent on external assistance. Yet we see donor countries – those developed countries that are truly rich and able to provide the required financial support – lag behind in providing it. It is important that their assistance be expanded and made more flexible in its modalities. Although there is, today, a general understanding of the levels of assistance needed to give some relief in human and economic terms, we are still a long way from meeting the resource shortfalls of developing countries. Only a few developed countries have so far reached the modest target set by the United Nations more than two decades ago. Corrective action is urgent, for it seems to be forgotten that, even if developing countries had no external debt today, the present resource flows would be insufficient for them to escape from their poverty. It is in the interest of the international community as a whole to take the necessary action to substantially increase the flow of real resources to the developing world.

Concerted efforts should be made to alleviate the crisis facing developing countries – particularly those with low per capita incomes. Development in these countries has been brought to a standstill by economic misfortunes, often enough, beyond their control. For them, the present level of assistance is inadequate to satisfy even the most pressing of needs, let alone to underpin structural changes. These states are regarded by OPEC members as priority countries for the delivery of OPEC assistance. They are especially vulnerable to external and internal shocks. External financial assistance on terms and conditions soft and flexible enough for their needs remains *sine qua non* of development and economic growth which has been lacking in recent years. Clearly, the main responsibility for mobilizing resources for development must be born by low-income countries themselves. However, their capacity to generate domestic savings will be limited unless they intend further to reduce already parsimonious consumption levels. External support, therefore, is crucial.

OPEC member countries are fully aware of the importance of external assistance and have, therefore, continued to extend it, despite the enormous economic and financial difficulties they themselves face, as developing countries. While cutting back on domestic public expenditure and pursuing various economic adjustment programs, they continue to provide impressive aid, though the level is lower than that achieved in the past decade and a half. OPEC member states remain committed to supporting, as an expression of solidarity, the development efforts of other developing countries, notably the poorest, the least developed and most seriously affected countries.

We are convinced that the cause of development and growth in the developing world can be advanced if all concerned jointly faced the tasks that confront us. Delays in decision-making and implementation should be avoided, for they lead to a worsening of the existing situation. We urge, therefore, that every effort be made to promote early and concrete action.

Arab and African debts

Statement to the Conference on
External Debt of Arab and African countries,
Misratah, S.P. Libyan Arab Jamahiriya, March 25-27, 1989,

External debt has taken over the front pages of newspapers around the world. We have recently witnessed the effects that it can have on the societies burdened by it. The upheaval in one of our member countries – Venezuela – was qualified by the country's President, H.E. Carlos Andrés Perez, as "a consequence of the deterioration of the economy, because of a crisis whose name I write in capital letters – FOREIGN DEBT."

Not only in Venezuela but also in many other developing countries, we see increasing economic problems and severe economic instability. These difficulties came to a head in the early 1980s, in the shape of what is known as the debt crisis: a situation in which a number of developing countries, which have contracted large debts, find themselves unable to service them.

We are gathered here to discuss the external debt of two groups of countries very close to us – the Arab and the African countries.

Let me begin with a review of the size and origins of the external debt of Arab and African countries. The second section of my presentation will examine the debt crisis and its causes. The third and final section will look at the possible steps towards a solution to the debt situation.

Size and origins of the debt crisis

The total outstanding and disbursed debt of the developing countries as a whole increased more than sixfold between 1970 and 1980 and trebled between 1980 and 1988, when it approached $1.3 trillion – or a little over one half of their combined GNP. Net resource transfers on this long-term debt, from the developing countries to their creditors, amounted to $74 billion during 1985-87, and were equivalent to three percent of the aggregate GNP of the affected countries.

Let us look at the size of the debt in the Arab and African regions.

In the Arab region, the total external debt of 14 countries (four in the Maghreb and 10 in the Mashreq), with published statistics, doubled in the past eight years to $123 billion. About one- third of this debt is in Egypt and another third in Algeria and Morocco together. Per capita debt stands now at $777 in the Arab lands.

The debt burden differs widely among countries: while the external debt is equivalent to 22 percent of GNP in Syria, it is over 100 percent in Egypt, Mauritania, Morocco, Somalia, the Sudan and the People's Democratic Republic of Yemen. As a percentage of annual exports, the debt is uniformly above 100 percent in all the 14 Arab countries excepting Oman; it is above 1,500 percent for the Sudan and almost 2,000 percent for Somalia.

In Africa, the external debt of 47 countries is internationally reported. It has also doubled between 1980 and 1987, to $220 billion. On average, each person in Africa carries a debt burden of $400.

Sub-Saharan Africa by 1987 had accumulated a total debt of $129 billion – up from $56 billion in 1980. The average income of an African living south of the Sahara is low – even less than $300 per year. The total debt of this region is somewhat higher than its aggregate GNP.

In 1975, the debt of sub-Saharan African countries was equivalent to 58 percent of their combined exports; by 1985, it had escalated to 241 percent, and it again rose sharply to 362 percent by 1987. The combined debt of the 30 poorest countries of Africa is five times their annual exports.

It had been estimated that, if current trends continue, Africa's total debt will, by 1995, reach $313 billion, with annual debt repayments of $31 billion, and the average debt service ratio will attain 48 percent. By the year 2000, the total debt will escalate to $600 billion, with a debt service ratio for some exceeding 100 percent.

Three factors have contributed to the growing indebtedness of Arab and African countries:

- The first factor consists in the new net transfers of resources to the indebted Arab and African countries for which statistics are published. These transfers amounted to $28 billion from 1980-87, or less than one quarter of their $121 billion incremental debt. Over the four-year period, 1985-88, all the countries south of the Sahara received less than $5 billion in new money, the equivalent of 10 percent of their incremental debt.

- The second component is the arrears, on both principal and interest, which were refinanced or rescheduled through the 100 or so agreements between the concerned countries and their creditors. The rescheduled amounts still represent debt liabilities, and it is important to note that reschedulings are useful only if the economy and export earnings of the debtor country pick up in the time gained by the onerous and time consuming rescheduling exercise. Otherwise, as has already happened, the debt quickly escalates to several multiples of the annual exports and outruns the capacity of the borrower to service it.
- The third component is the currency valuation effect associated with the devaluation of the US dollar. Most of the export earnings of the countries concerned are denominated in US dollars, and the stock of debt – specially for those who borrowed in appreciating currencies – has escalated. The World Bank estimates that the currency effect accounted for two-thirds of the increase of the developing countries' debts in 1987.

Who are the creditors?

About 90 percent of the debt of Arab and African countries consists of long-term borrowings, or drawings from the IMF. The remaining 10 percent represents short-term debt.

Over 95 percent of the long-term debts were either publicly contracted or publicly guaranteed, and thus are sovereign debts. These debts are owed to multilateral or bilateral aid agencies, private suppliers or financial markets.

Repayment of IMF credits has become a crucial aspect of the African countries' debt situation. In the mid-1980s, these countries paid to the IMF an amount equal to 18 percent of their exports. The countries in arrears are ineligible for the special assistance programs of international institutions. They are also ineligible for accommodation under the Paris Club and are denied new money or debt restructuring facilities by the commercial banks. Thus, any new flow of development assistance is, for practical purposes, closed to them.

The multilateral agencies are owed $42.3 billion (or 21.6 percent of the guaranteed long-term debt). This group of creditors includes, among others, the International Bank for Reconstruction and Development, the International Development Association, the African Development Bank, the International Fund for Agricultural Development, the OPEC Fund, the Islamic Development Bank, the Arab Bank for Economic Development in Africa and the Arab Fund for Economic and Social Development. Some of these institutions, along with the IMF, are classified as preferred creditors, unable to reschedule or forgive debts.

The official agencies are owed $91 billion, or a little less than one-half of the guaranteed debt of the Arab and African countries. The list includes governments and public aid institutions in the industrialized countries.

The private creditors are owed $95 billion or 40 percent of the total debt. Four countries, namely Algeria, Egypt, Côte d'Ivoire and Nigeria, account for over one-half of the total claims from private creditors.

Causes of the debt crisis

When the debt crisis exploded in August, 1982, it was labelled a crisis of liquidity and, therefore, was expected to be resolved by a combination of improved management of the economies of the debtor countries and growth in the industrialized nations.

It was expected that growth in the industrialized countries would generate demand for primary products and the ensuing trade surpluses would help the indebted nations to service their debts. The industrialized countries are enjoying unprecedented economic growth, and several indebted governments have adopted bold adjustment measures. Yet the debt problem has deepened to a point where the word crisis has virtually lost its meaning.

Furthermore, the issues are at times blurred and confused by innuendos linking the debt problem to changes in the price of oil.

Some critical facts are missed or ignored by the protagonists of this hypothesis, who seem to overlook the facts that:

- The bulk of the developing countries have been minor importers of oil;
- Unlike the bankers of today, the oil exporters have not transferred earned revenues to their home countries;

- OPEC member countries have been generous donors of concessional aid devoting about 8 to 10 times the OECD average of ODA to GDP. Qualitatively, their aid has been of a high order, being totally untied to procurement, bearing no or low interest, and with long maturity and grace periods;
- If the assertion had been correct, the reversal of the oil price trend would have resolved the debt problem, or at least lightened the burden of the indebted. As we all know, the debt issue has assumed crisis proportions instead.
- The external debt of the Arab and African countries multiplied more than twenty times between 1970 and 1987. Four factors appear to have made the servicing of this debt unmanageable:
- miscalculation – by lenders and borrowers alike – of the growth and export potential of the countries concerned and the viability of the projects financed by external borrowings;
- unfavorable markets for the regions' products;
- high interest rates; and
- insufficient resource flows.

Miscalculation: in the 1970s and early 1980s, the countries of Africa received substantial non-concessional loans based on optimistic appraisals of commodity production and export potential. With hindsight, it appears that the borrowed resources were not always applied to investments to increase production or exports. Economic management in several of the countries was weak.

Arab and African countries borrowed $146 billion in the period 1980-87, of which $75 billion (or 51 percent) was from private institutions. The average grant element in the borrowings was only 15 percent for the countries north of the Sahara and in the Middle East, and about 25 percent for the countries south of the Sahara (compared to over 40 percent for South Asia). These terms were inappropriate for most of these economies and there was, apparently, a laxity in application of the principles of sound lending – namely, in appraising the purposes of the loans and the means available to the borrower to service them.

Unfavorable markets: while imprudent borrowings – and lending – initiated the crisis, a trade-related factor precipitated it. The export earnings of sub-Saharan African countries between 1980 and 1987 fell by $24 billion, or nearly by one-half, and the terms of trade worsened by 48 percent. Not only the price of oil but that of other commodities declined: cocoa by 17 percent, sugar 19 percent, wood 28 percent, palm kernels 60 percent, and phosphate 26 percent.

Simultaneously, Africa suffered a reduction in its share of the world market for several commodities.

The African Development Bank and the United Nations Economic Commission for Africa estimate that Africa lost $45 billion of its foreign trade between 1981 and 1987 because of changes in export and import prices.

This combination of factors – loss of export markets, reduced export revenues and declining terms of trade – has dealt a severe blow to the economies of several African countries south of the Sahara. The affected countries have been finding it difficult to finance their essential imports from their export earnings. The burden of servicing a rapidly growing debt, some of which was contracted at high interest and with short maturity, has become impossible for them to manage.

The Arab countries have also faced serious trade losses. The terms of trade for oil exporting Arab countries declined between 1980 and 1986 by 50 percent or more; and for Egypt, Syria, Somalia, the Sudan, Tunisia, the United Arab Emirates and the People's Democratic Republic of Yemen by 20 - 50 percent.

The ratio of debt service to exports of goods and services is a measure of the debt service burden of a country. Sub-Saharan Africa's debt service ratio amounted to 47 percent in 1986, and for several countries, including Guinea, Mozambique and the Sudan, it exceeded 100 percent.

High interest rates: international real interest rates were low-to negative in the 1970s; they rose to unprecedentedly high levels in the 1980s, reaching 8 percent or more.

The countries with short-term debt, or debt owed to private creditors – such as Algeria, the Congo, Côte d'Ivoire, Nigeria and the Sudan – are severely affected by this factor. With substantial private and outstanding short-term debt, they are most burdened by high interest rates.

Nigeria is in a particularly difficult situation. Each dollar drop in oil prices reduces its export earnings by $550 million per year. Each percentage increase in interest rates adds $170 million to its interest payments to private creditors. The irony lies in the fact that, while the Nigerian loans are being offered in the secondary market at discounts of 75 percent or so, the market charges interest on the full historical value of the debt. Thus, Nigeria is, at present, paying about 10 cents a year for an asset priced by the market at 25 cents; this is tantamount to an annual interest charge of 40 percent.

Insufficient resource flows: while the African economies were already in serious difficulties, several grappling with famine in the wake of prolonged droughts, flows of financial assistance diminished dramatically. By the mid-1980s, net public flows – defined as the long-term public and publicly guaranteed loans minus repayments of principal on past loans – declined by 50 percent in current dollars; the contraction in real terms was much greater.

The official sources maintained more or less their level of assistance in nominal terms; in real terms, however, there was a decline.

The private suppliers and the financial markets, which were providing $3.1 billion annually, became by the mid-1980s net recipients of funds from sub-Saharan Africa. In 1985, the reverse flows to the private creditors were $3 billion.

The net public flows to the Arab countries also declined sharply, by as much as 50 percent between 1980 and 1987. These countries also suffered from negative net transfers of resources. Algeria has had negative net transfers every year since 1980. During the same period, Morocco had three years of negative flows, Egypt and Tunisia two each and the Sudan one year.

The combined effect of rising debt service, reduced export earnings and diminished capital flows has been to squeeze the resources for investment and operational imports. In Africa south of the Sahara, per capita investment in real terms declined by half during 1980-87, and imports in constant dollars fell by 35 percent. These trends represent severe constraints on Africa's economic future.

Sub-Saharan African countries are projected to pay to their creditors, in 1989, $15.7 billion on their accumulated long-term debt. If obligations to the IMF are added to this, the countries of the subregion will have to part with about one-half of their export earnings just to keep themselves current with their creditors.

Every dollar paid by way of interest is a dollar less for essential maintenance imports for the economy. In recent years, roads, transport facilities and public utilities have been run down; industrial capacity has remained unutilized because of shortages of raw materials and components. Several critical linkages, such as transmission lines between power generation and consuming centers, or irrigation channels, are in need of completion in order to obtain fuller benefit from the capital already invested.

Key operating inputs (such as pharmaceuticals, for maintaining the health of the population, dyes and chemicals for textile industry and bitumen for rehabilitation of roads) are in short supply in Africa.

Restoration of imports to reasonable levels would require accommodation on old debt as well as new financial support at concessional terms.

Steps towards a solution of the debt problem.

The debt problem faced by Arab and African countries is complex. For the low-income countries, it has already reached a turning point, and there seem to be no simple or ready-made solutions. There are, however, ongoing efforts at the national, regional and international levels and these could be further intensified.

Domestic reforms: African leaders have given much thought to the worsening condition of their continent and its human dimensions. Their 1979 deliberations in Monrovia were followed in 1980 by the Lagos Pan of Action for the Implementation of the Monrovia Strategy for the Economic Development of Africa. In their Addis Ababa meeting of July 1985, they formally recorded that "shortcomings in development policies have contributed to the present crisis", and they committed themselves, at the 1986 United Nations special session on the continent, to assume primary responsibility for their economic recovery.

The reforms that the governments have introduced so far include:

- Depreciation of exchange rates;
- Reduction of trade barriers;
- Elimination of subsidies and other price interventions;

- Reduction of public deficits, in several cases at the cost of added unemployment;
- Privatization or streamlining of state enterprises; and
- Incentives to agricultural producers.

More than 25 African countries are pursuing economic policy reforms, or structural adjustment, in the face of enormous political as well as economic obstacles. Often, there has been little response by way of assistance from external donors. Continuation of domestic reforms is crucial. Otherwise, even assuming complete debt cancellation which is nowhere in sight – the affected countries will not come out of their difficulties and a new debt crisis will occur.

At the OPEC Fund for International Development, we are acutely aware of the problems in the way of all African and Arab governments in their admirable efforts to master the present situation of growing indebtedness. The OPEC Fund, as you are all aware, is a small development finance institution set up by OPEC governments to assist fellow developing countries in their social and economic advancement. The OPEC Fund has thus far been active in some 91 developing countries of Africa, Asia, Latin America, the Caribbean and the Middle East, funding development projects and programs. I need not dwell upon the fact that Fund member countries are, themselves, developing and, in many cases, also indebted. The situation of Venezuela, which I referred to at the beginning of my presentation, is a case in point. Nonetheless, our member states are continuing to provide whatever they could to assist those adjudged equally or more in need.

A good many of our member countries have spoken out in international fora, urging a "more compassionate approach" to the problems of the least developed and most seriously affected and debt-distressed countries.

H.E. Sheikh Mohammed Ab-Alkhail, Minister of Finance and National Economy of the Kingdom of Saudi Arabia, H.E. Mr. Jassim Mohammed Al-Kharafi, Minister of Finance of Kuwait, and H.E. Dr. Hector Hurtado, Minister of Finance of Venezuela, among others, have urged a practical, equitable and fair solution to the crisis. Along with several world leaders, they have not spared efforts to promote a constructive dialogue among the parties concerned to help lighten the debt burden, arguing that account must be taken of the capacity of the borrower in determining the amount for repayment.

At the last General Assembly session of the United Nations, His Highness Sheikh Jaber al-Ahmad al-Sabah, the Emir of Kuwait, called for a meeting of creditor nations to consider writing off the interest due on their loans to debtor countries. He proposed a three-point plan which would lead to alleviation and described external debt as an impediment to, and a severe restriction on, development.

Regional support: Those countries which have not yet equipped themselves with debt monitoring and management mechanisms may wish to do so, and seek regional cooperation in their efforts. Also useful will be Arab and African cooperation in strengthening national capabilities for macroeconomic analysis and management. Regional cooperation in their activity should be considered.

International understanding: The debt problem in general, and that of Africa in particular, has received much attention lately. The consensus reached at UNCTAD VII on resource flows, debt relief and related matters was important. Lomé III has been a reiteration of support from the European Community. UNPAAERD, the United Nations Program of Action for African Economic Recovery and Development, set up in 1986, contains a framework of mutual action by governments in Africa and by the international community. The Economic Summit of the seven leading industrial countries, held in Venice in June 1987, supported expansion of the structural adjustment facility of the IMF. We note these trends.

Since falling export incomes and declining terms of trade have been a major external cause of the present crisis, indebted Arab and African governments could seek understanding from the creditor community to take the trade environment into account while making periodical modifications to ongoing stabilization/adjustment programs, and in determining the repayment capacity of each country.

So far, the adjustment programs which governments have had to accept have shown little sensitivity to the plight of the vulnerable segments of the population. International understanding should be sought to prevent repayment from being at the expense of the basic needs (food, health care and education) of the people.

Debt relief: The African heads of state and government, in their meeting of December 1987, reiterated that external debts are obligations which have to be honored. But in view of the adverse effects on their own economies of developments in the international economic environment, they called on the international community to join Africa in the search for a lasting solution to the continent's indebtedness. The African leaders sought conversion of some official loans into grants and suspension of debt service payments for ten years.

The African Development Bank (AfDB) also made a three-step proposal, involving: (i) conversion of outstanding debt into long-term securities with a fixed rate of interest below market rates; (ii) a redemption fund for such securities into which the countries would make annual payments so that by the maturity date, adequate funds would have accumulated; and (iii) appropriate policy advice and resource flows, to be arranged by the international community. The AfDB is also of the opinion that part of the debt may have to be cancelled.

The summit of Western leaders, held in Toronto in June 1988, agreed on some debt relief: individual creditor countries would, "within a framework of comparability", choose among a menu of rescheduling options. The details of these options were announced in Berlin last September on the occasion of the joint annual meetings of the World Bank and the IMF.

The World Bank estimates that these concessions would reduce the 1988-90 debt service of the eligible debt-distressed countries by less than 5 percent as compared with the recent rescheduling standards.

Allow me to look more closely at the possibilities of debt relief on the part of creditors.

Preferred creditors: About $42 billion (or 27 percent of the total guaranteed Arab and African debt) is owed to the multilateral agencies, many of which are preferred creditors. These institutions, including the OPEC Fund, need the repayments in order to continue with their assistance programs. The importance of this group of creditors will increase as borrowers observe greater prudence and reduce their non-concessional borrowings. The indebted countries and the bilateral and multilateral creditors may jointly devise measures that: (i) facilitate clearance of arrears; and (ii) maintain positive resource flows to Arab and African countries.

Bilateral official creditors: The Paris Club is making slow but steady progress in its efforts to improve rescheduling schemes and terms. Fifteen rescheduling negotiations have been held for Zaire, nine for the Sudan, and eight for Senegal. Between 1985-87, 56 such negotiations have taken place, in relation to the African countries. Sadly, however, none of the countries involved finds itself in any better situation today, and for all, the accumulated debt is now a higher multiple of their annual export earnings. Frequent reschedulings keep the countries on a short leash, tie up their scarce managerial resources and do not permit sustained adjustments.

Bilateral creditors need to be persuaded to consider:

- A cancellation of debt for the poorest – those who cannot pay. This could be done ex ante, or the loans could be written off as they become due for repayment. A cancellation, as recommended by UNCTAD, would improve the prospects for the remaining debt being serviced on time;
- Interest rate concession, since the region's export earnings are stagnant or declining. As long as the rate of interest remains higher than the rate of export growth, the stock of debt will continue to soar;
- The leaders of the industrial countries should also consider elimination, or substantial reduction, of interest charges on their loans.

Private creditors: There should be an understanding on rational accounting of the outstanding debt. Either the full market rate of interest could be charged on the debt as valued by the market (and not on the entire historical value of the debt); or highly reduced interest rates could be applied to the historical value of the debt. Several variations for this group of debts have been proposed by experts, and deserve consideration in the interest of both creditors and debtors. These are:

Debt buy-back: This option (adopted for Bolivia) could be considered for the private debts of Algeria, Nigeria, Gabon and Côte d'Ivoire, among others. Debt buy-back allows countries to repurchase their debt at a discount, using international reserves or foreign exchange obtained from official or private sources. In the case of Bolivia, bank debt was repurchased at a steep discount, using donated funds. About half of the country's bank debt was bought back at a price of 11 cents per dollar of face value;

Debt equity swaps: This includes swapping of old debt claims for securitized new papers. Several other innovative ideas resented by the financial experts also deserve close study. The bottom line is to bring down the stock of debt to servicable proportions;

Payments in local currencies: These should also be considered for a select group of debtors who have the budgetary capacity to pay, but lack the external resources to arrange transfers. Local currencies could be utilized for: (i) ecological conservation, maintenance of schools, hospitals, roads, irrigation canals and work-for-food programs. Management of such local funds should be the prime responsibility of the government after consultation with the creditor. Care must be exercised that an untenable political problem is not superimposed on a severe economic difficulty;

Restructuring of debt: This is important for many of the debtors in the region. The debt service burdens of Algeria and Egypt illustrate the difference the structure of debt can make. Algeria has lower debt/GNP and debt/export ratios, but its annual debt service burden (in terms of exports) is four times that of Egypt. Nigeria and Egypt both have an external debt equivalent to GNP. But Nigeria's debt repayment is four times as high as that of Egypt, owing to the difference in the two countries' debt structures.

For countries with stronger economies – those which are not candidates for large-scale debt cancellation – comprehensive debt restructuring with an assurance of long-term flows of new money would be one way of ensuring that they service their debts while adjusting with growth.

Fresh money: The international financial community has come to accept that strong financial support by way of new credits is essential if adjustment programs are to succeed. The existing capital stock is being depleted in low-income and debt-distressed countries because of inadequate maintenance or lack of resources to complete projects, or an inability to arrange imports of raw materials and spare parts. The lenders should realistically appraise the governments' capacity to finance local costs from their strained budgets and make suitable adjustment, in project funding proposals. The funding requirements for the above activities should be given due attention when assessing the financial needs of the countries.

Debtors' consultations: At present, creditors are insisting on a case-by-case approach. What this really means is that creditors get together and benefit from each other's experience. But debtors are often oblivious to the range of possibilities available to them. Experience shows that precedents are rarely automatically repeated. A well informed debtor is in a better situation to discharge his responsibilities. It is important that debtors combine to establish a clearing house for information and share each other's experience. H.E. Dr. Julius Nyerere, Chairman of the South Commission, made a similar recommendation in a session of the Commission in Kuala Lumpur. That recommendation should be followed up and consultative machinery rapidly established.

The topic of external debt used to be seen as a worrisome issue, mostly for economists and bankers. It is no longer the case today. Debt preoccupations are shared by people in all walks of life – be they political authorities, businessmen, financiers, leaders of organizations, or the average man and woman. Increasingly, ordinary people are becoming aware of the fact that they are bearing the burden of an awesome external debt.

Millions in our countries are trapped in poverty. Life for them is harsh and is growing harsher, as the debt burden drains the energies and resources of nations. The children born in 1982, the year of recognition of the debt crisis, will be the adults ushering in the 21st century. Let us give them the chance to equip themselves for a life with dignity.

Agriculture in Africa

Statement to the United Nations
World Food Council Ministerial Meeting,
Addis Ababa, Ethiopia, June 13, 1989

The food problems of Africa are now very well known. All the nations and organizations present here have in one way or the other given some assistance. Yet the situation is growing worse. The conclusion must be drawn that we must be doing something wrong, and a reassessment of our efforts is in order.

The world community appears to spring into quick action when the food crisis turns into disaster. Food aid has been offered to appease the conscience of the international community, though the drawbacks of this form of assistance in the long run are well documented. When it has come to actions that would provide long-run solutions, there has been a general resort to theories, and reasons have been found why one form of investment or the other is not viable.

To give but one example, many speakers have referred to the need for giving farmers more incentive to produce. No one denies that there is merit in this. But how relevant is this solution to the situation faced in most of Africa?

I am fully aware that most of the delegates here are greater experts on agriculture, on farming, and on how farmers behave then I can ever be. But I feel compelled to point out that farmers do not need any incentive to produce for their own consumption and that of their families. They need incentives to produce a surplus for sale. The situation presently faced in a good part of Africa is that farmers and their families are starving to death because they are unable, as a result of climatic conditions, to grow enough food to feed themselves. We find that, in countries where up to 90 percent of the population is in agriculture, there is mass starvation.

The most important missing single factor has been water. Unless we put our heads together, and devise simple and cost-effective ways of providing the farms with water, thereby making African farmers less dependent on rainfall, the food problem in Africa will persist. The international community will continue to congratulate itself on the food aid it provides to Africa, and the different nations will continue to rank themselves in the order in which such aid has been provided. Yet it is only when water is guaranteed to the farmer that the other factors, such as the provision of fertilizers and pesticides, the provision of storage and marketing facilities, will truly be meaningful.

The OPEC Fund and our sister Arab Funds have been active in the financing of agricultural projects in Africa. This will continue in the future. A decision has already been taken at the OPEC Fund to increase the financing of food production, particularly by poor and small farmers, even if this would mean a reduction in our operations in other sectors.

As a relatively small development finance Institution, and in a period of shrinking resources, the OPEC Fund has found it desirable to work closely with other similar institutions, notably IDA, AfDB and IFAD. It is in this context that we are particularly disturbed about the funding problems which these institutions now face. The national delegates here, particularly those of developed countries, owe it to Africa to argue for an appropriate level of replenishment of the resources of these institutions, to enable them to play their proper role in combatting the food problems facing Africa. The development finance institutions have a role to play, a role which is an essential complement to that of bilateral assistance.

The multilateral development finance institutions must, for their part, be realistic in their approach to the African problem, accepting that countries' problems must be resolved in the context of their location and environment.

The Common Fund for Commodities: a start

Statement on the occasion of the First Annual Meeting of the Governing Council of the Common Fund for Commodities. Geneva, Switzerland, July 10-21, 1989

It is a great pleasure for me to participate in this first annual meeting of the Governing Council of the Common Fund for Commodities. We of the OPEC Fund for International Development, like those of you gathered here, have looked forward eagerly to this day, certain that it would finally come. There may be doubts in some minds, but this inaugural meeting represents an important milestone in international relations: we are witnessing the birth of a new institution which, we all hope, will make a contribution to global efforts to better the lot of a large section of humanity.

It may, today, be unfashionable to discuss the New International Economic Order – tabled in the 1970s and subsequently placed on 'hold' – but the sentiments, the hopes and aspirations which generated that idea remain very much alive. All over the world, people still look to us to work toward ending the skewed global distribution of income which has resulted in deprivation, disillusionment, and even despair among much of the world's population. Workable means still need to be found for:

- A reform of the international monetary system to aid development and encourage an adequate flow of real resources to developing countries;
- The transfer of technology in forms, and according to procedures, suited to the economies of individual recipient developing countries;
- The broadest cooperation between all members of the international community, based on equity and aimed at banishing prevailing disparities: and
- An equitable relationship between the prices of raw materials, primary products and semi-manufactures exported by developing countries and the prices of manufactures, capital goods and equipment which they import from the developed world.

The shopping list of the developing world is long. It takes no stretch of the imagination to realize that at least some of the items on that list would have to be granted to make meaningful progress toward eradication of conditions we all agree are intolerable. The Common Fund for Commodities – a mechanism to finance commodity schemes of export interest to developing countries – is one such item.

Its birth has been a long and difficult one. One recalls, that it was in May, 1976, in Nairobi, Kenya, at UNCTAD IV, that the idea of a Common Fund was first mooted as a key element of an integrated program for commodities. It was to be one of the first major attempts at bringing about necessary changes in the prevailing economic order through negotiations between developed and developing countries. In contrast with those international institutions in which the developing countries play only a peripheral role, developing countries would be important partners in the Common Fund. They would provide a substantial portion of the Common Fund's resources and would, therefore, have a strong voice in its management.

The instability of commodity prices had long been the bane of economic planning in developing countries. Many of them, heavily dependent on the export of a few commodities, found the price fluctuations unbearable and correctly identified unstable earnings as a major impediment to development. It was clear that an integrated program for commodities was necessary.

Yet it took four years (until June 27, 1980) to reach agreement on the elements of a Common Fund, and nine additional years (until May 9, 1989) to obtain sufficient signatures and ratifications to bring the agreement into effect. Although such delay is not uncommon in international affairs, it still is a disheartening commentary on the state of relations among nations.

OPEC countries, through the OPEC Fund, decided very early to provide full support for the realization of the institution whose birth we are now witnessing. The OPEC Fund has been present – though officially only as an observer – throughout the negotiations on the creation of this institution. As early as March, 1977, the OPEC Ministerial Committee on Financial and Monetary Matters determined that coordination among OPEC countries in the course of these negotiations was to be accomplished through the OPEC Fund; and in August of the same year, the same Committee decided that future contributions by OPEC nations to the Common Fund would be made through their collective aid agency, the OPEC Fund. This prompt support was motivated by their belief that the stabilization of export commodity prices is in the interest not only of the developing countries, but of the world as a whole.

Subsequently, the OPEC Fund announced, in January, 1981, its decision to extend 35 grants, worth $37.16 million, to cover the subscriptions to the Common Fund's directly contributed capital of all the 30 LLDCs as then defined by the United Nations, and those of five other low-income developing countries. In addition, a voluntary contribution in the amount of $46.4 million was approved for the second account, thus bringing the OPEC Fund's total financial participation to $83.56 million. This magnitude of commitment by the OPEC Fund has so far not been equalled by any other single entity or country. I must also point out that this excludes the individual contributions of the 13 OPEC members, amounting to $16.41 million.

The original proposal for the Common Fund envisaged an institution with capital of $6 billion, to finance buffer stock operations and other measures. The idea was to help stabilize commodity prices around some long-term trend and counteract situations in which larger exports of commodities were needed to pay for the same volume of imports of manufactured goods and machinery.

There are some whose support of the Common Fund is still, at best, qualified and lukewarm. They consistently have argued that:

- Given enough resources, the Fund could unduly influence commodity markets without commodity agreements;
- A Common Fund is not needed, since a compensatory financing facility exists at the IMF, as does the EEC's Stabex system;
- The Common Fund would probably represent a cost, not a benefit, to developing countries, since developed countries are, as a group, larger producers of commodities;
- Successful operation of buffer stocks is a complex undertaking, especially in view of the facts that the stocks have to be rather large, and that it is easy to misread market signals and intervene in the wrong direction.
- Furthermore, it was argued, the facility would end up as, and I quote, "an instrument for the regimentation of the world economy"; it would jeopardize classical free-market orthodoxy.

Over the years, some of these fears have been assuaged and attitudes somewhat adjusted.

Today, we have a Common Fund: not a Common Fund in the shape and magnitude we originally envisaged, but one we can live with. It may be difficult for the present mechanism, with greatly reduced resources, single-handedly to "bring stability to, and strengthen, the international commodity markets", but it can, thanks to the second window, at least promote measures, other than stocking, aimed at improving the structural conditions of markets and enhancing the long-term competitiveness and prospects of particular commodities. Indeed, even the $6 billion proposal of 1976 was, of itself, an underestimate of buffer stock operations costs. Experts have cited the single example of copper, buffer-stocking of which would alone have required amounts very close to the $6 billion. Now we have a Common Fund with an initial capital of only $750 million – a mere one – eighth of the original estimate. But that, I submit, is a start.

While we pay tribute to the many who have contributed to the event we celebrate now, we also find it appropriate to appeal to those who, for ideological or other reasons, are still unenthusiastic about the Common Fund. In the final analysis we are all agreed that something needs be done about the looking-glass world of commodity markets and the effects of commodity price instability on developing economies. The Common Fund for Commodities may be far from perfect, but it is the best we could get.

I would therefore like to appeal to those nations still outside this arrangement to reconsider. All hands are required on deck to make a solid institution of this Common Fund and get it off to a smooth start. We need the constructive participation of all to bring relief to the multitude who depend on single commodities for their very survival.

The challenge of development in sub-Saharan Africa

Statement to the Second International Conference on Large Scale Systems in Developing Countries Benin City, Nigeria, July 24-26, 1989

It is now widely accepted that the states and peoples of Africa, particularly south of the Sahara, are in the midst of an economic crisis of unprecedented magnitude. Per capita incomes in sub-Saharan Africa as a whole have fallen in the 1980s. Even in the few countries where GDP has increased, such increases have been undermined by much higher annual population growth rates. The low-income African countries are actually poorer today, on a per capita income basis, than they were in 1960.

In sub-Saharan Africa, food production has risen by 2 percent per year in the last two decades, but still fell short of the region's population growth of 3 percent. To make up for this shortfall, food imports increased fourfold in the same period. In other words, Africa, an agrarian continent where 80 percent of the population makes its living from the land, has lost the capacity to feed itself. African countries are borrowing heavily to feed themselves, and even more alarmingly, all attempts to arrest this decline in food production have so far failed. The situation has been worsened in recent years by lower export earnings, which have made it extremely difficult for many African countries to continue importing the food they need. In point of fact, in addition to the usual commercial imports, several million tons of emergency relief grain are now needed on a yearly basis to stave off famine in the region.

The crisis has also led to a significant deterioration in the quality of life of the sub-Saharan African population, who is already deprived by global standards. The majority of the population lives in abject poverty and suffer from malnutrition, high infant mortality and high illiteracy. There are also the constraints of deficient physical infrastructure and inadequate technical know-how. In addition, desertification, deforestation, soil erosion and water degradation have reached disastrous proportions. In some cases, the destruction of the resource base may be irreversible and the reduction in productivity permanent. The population flight from the rural sector is increasing, production in the rural sector decreasing, unemployment in the urban centres rising, and urban decay accelerating. Even more serious there appear to be no development efforts underway that are likely to arrest this deterioration in the foreseeable future.

The external debt of sub-Saharan Africa grew from $6 billion in 1970 to about $129 billion in 1987, which was slightly more than the combined GNP of the region. In relation to exports, the figures are even more disturbing. In 1975, the debt of countries south of the Sahara represented 58 percent of their combined exports; by 1985 it had escalated to 241 percent, and again rose sharply to 362 percent by 1987.

Sub-Saharan African debt is primarily owed bilaterally to governments of donor countries, and to multilateral institutions such as the IMF, World Bank Group, African Development Bank Group, OPEC Fund, etc.

The debt of sub-Saharan Africa, by comparison with that of Latin America or Asia, represents a relatively small percentage of total world debt. It was estimated at approximately 13 percent of the total debt of the non-oil developing countries in 1983. This comparatively minor debt is a reflection of the marginal role of the region in the world economy, and of the fact that Africa in general had a low international credit rating in the 1970s, when the spate of commercial lending took place. Nevertheless, this debt level is worrisome.

While the debt of some countries in Asia and Latin America may be due to temporary liquidity difficulties or the fact that installed capacity is underutilized because of weak demand for goods in the industrialized countries, the debt of many African countries is due to the insolvency of their economies.

Even without the external debt overhang, sub-Saharan Africa would still be facing the same formidable economic challenges. In other words, although recent pronouncements about debt forgiveness or reduction of the debt service burden are welcome, such actions would not put an end to the economic crisis facing the region. These actions are of a short-term nature and can have little or no effect on the region's low productivity, which requires a long-term and multifaceted solution. In short, sub-Saharan African countries need a more fundamental economic transformation if they are to achieve their aim of self-sustaining development.

Given the poor performance record of sub-Saharan African economies over the past three decades, there is no question of the need for a re-examination and re-orientation of development planning and execution. Such a task will undoubtedly not be easy, as some of the factors accounting for failures so far may not be economic. It is therefore not the intention here to sketch out a full-blown economic development model. Rather, I wish to suggest an approach which relies to a very large degree on the full and better utilization of available domestic resources and capabilities, particularly now that the debt situation of African countries will prevent their increased access to foreign resources in the future.

The greatest resource in sub-Saharan countries is their people. If they have not been able to make a contribution to economic development in ways comparable to other more developed regions, part of the reason must lie in the fact that this resource has not been adequately nurtured. Thus, it would appear that it is now time to ensure that the greatest resource available is in a position to make the greatest contribution to recovery. Development plans should be geared to specific human indicators, to be addressed during a planning period, rather than the rate of growth in GNP or GDP to be achieved. Such an approach would recognize the common truth that economic growth or development is meaningful only to the extent that it measures how well-off people actually are.

If the planning process were seen as a way of catering primarily for the welfare of the people, it would be natural that the people should participate in this process, since they are the best judge of what is in their interest. In other words, plans which are undemocratic in their approach will leave much to be desired. There should be ways of consulting the people on their most urgent needs and when these have been determined, there should be a system for communicating to them the direction in which the society has decided to move in the near future. General support should be sought and governments should provide the assistance which would enable the society to move along the chosen path.

It is common knowledge that one reason why the economic growth of sub-Saharan Africa has failed to match those of other regions is the lower level of development of its human capital.

The years immediately following the independence of African countries were years when education received priority. If anything negative could be said about this period, it is that more attention could have been paid to the appropriateness of education to the needs of the economies. Recent years have witnessed some neglect of the provision of educational facilities and opportunities. The quality of training has suffered and its response to the needs of the economy has not improved. Thus, it is not rare to find in countries where resources are grossly inadequate, unemployed engineers of all sorts and at the same time acute shortages of middle-level technicians such as electricians, plumbers, bricklayers, etc.

It would appear, therefore, that in spite of the financial constraints facing African countries, they will have to spend more on educating their people than they have done in the recent past. Such expenditure should be more focused and made more relevant to the needs of society. For example, girls, who have often been neglected in the provision of education, should receive perhaps more attention than boys, because the former are the educators of future generations and their enlightenment has more effect on the wellbeing of the family.

In addition to training, the ability of people to contribute to the output of the economy depends on their level of nutrition and their general health. Since nutritional standards are not always a function of food availability, the authorities should pay some attention to educating people in this regard. The education of women is certainly very crucial from this viewpoint.

African governments should draw a clear distinction between catering to good health and curing the sick. Governments generally pay some attention to providing facilities for people who are sick. This usually takes the form of hospitals, some highly sophisticated, at great cost to the economy. But measures that would prevent many people from becoming ill, thereby allowing the economy to utilize its labor at close to capacity level, are often ignored, though they are less expensive. Many children are handicapped for life by childhood diseases that could have been prevented by cheap and simple inoculations at the proper time. Large segments of the population, for example, suffer from debilitating diseases because they lack access to safe drinking water.

Higher priority for these simple and unglamorous facilities would not only raise the quality of general health and wellbeing of the people, but could lead to an increase in the output of the economy beyond that available from prevailing high expenditures in many other sectors. All that is called for here is a reorientation of priorities and expenditures, not necessarily an increase in overall resource outlays.

It is the availability of employment and the level of productivity of the people that will ultimately affect the quality of life of people in sub-Saharan Africa. Here also, the answer must lie in the utilization of the resources available in Africa. These are its people and its land. Policies which have been adopted thus far, and which have encouraged many people to expect absorption of the growing labor force in non-agricultural employment, have clearly not been the answer as the growing unemployment in all the countries demonstrates.

Given the present structure of African economies, the potential for labor absorption lies in the rural areas – in agriculture and nonagricultural activities such as services – for a long time to come. It should also be expected that most of the employment will be self-employment.

The greatest failure of African economies has been that of the agricultural sector to maintain growth in output at least equal to the rate of growth of the population. Many factors, ranging from bad climatic conditions to a lack of markets, account for this. But one reason which is perhaps advanced more than any other is the primitive methods of cultivation, and the related small sizes of the farms. The argument is that because of the very demanding cultivation methods, farming is unattractive, and because of the small farm sizes output is low and cannot meet the demands of a growing population. Therefore, mechanization and large-scale farms are the answer.

I would be surprised to learn that the organizers of this conference had not already taken positions on this issue. While I do not deny the advantages of large-scale methods of production in many activities, including agriculture, and while I believe that much could be done to lessen the burden now prevailing in agricultural activities in Africa, I do not believe that large-scale farms are the answer.

Consistent with the argument made thus far, solutions should be sought which take into account the available resources, including the level of education of the farmers. In a region where the majority of the people are farmers, the premature establishment of large-scale farms is eventually bound to lead to dispossession of countless farmers, and the present economic problems will take on social and political dimensions. Besides, I do not know that large-scale farms have been shown to be more productive than small farms.

It would appear that what is necessary in sub-Saharan Africa is to adopt known technologies which are appropriate to the prevailing conditions. There is plenty of room to teach farmers that there are simple things they could do – things that are no more difficult than their present chores – which would increase the output of farms. Larger output does not necessarily require a larger farm. Many African farmers do not know of improved seeds, and have never used fertilizers. Those that have, may not be aware that without water at night time the fertilizers may do more harm than good.

What this suggests is that a plan that recognizes the centrality of farmers in Africa would call for large-scale education of farmers, the provision of improved seeds and fertilizers, and investment that would make the availability of water more reliable. The storage and marketing of products would also have to receive attention.

It should be mentioned here that a pilot project – the Sasakawa Global 2000 Agricultural Project – is presently under implementation in Ghana, and the results show that even with minor adaptations to existing technology, farmers can double and treble their yields and profits.

The project began its work with a focus on improving maize and sorghum productivity. The recommended technologies include the use of high-yield seeds, moderate amounts of fertilizer, improved planting methods and weeding, and more effective insect control during grain storage. These production recommendations are based on hundreds of farm experiments, called production test plots (PTPs), which are grown by small-scale farmers and supervised by extension officers. Each PTP is approximately one acre (0.4 hectare). The cooperating farmer agrees to follow the recommended farming practices and to involve at least 10 neighboring farmers in the PTP during the growing cycle. There are now tens of thousands of farmers participating in the PTP experiments.

The success of these farmers is the clearest example that the recommended maize and sorghum technologies do not have to be on a large scale. It also shows the benefits of democratizing the development process through voluntary involvement in the implementation of the recommended production practices.

Admittedly, encouraging people to stay on the land, even if it could be demonstrated that they could improve their incomes, will not be an easy task. But the governments must persist in this since there are no readily available alternative solutions.

The establishment and growth of industries will also have to be encouraged if African economies are to achieve their full potential. The attention of governments to the growth of small-scale and cottage industries is particularly necessary, since these hold greater promise with respect to employment generation than do large-scale industries. Here, the provision of appropriate policies must be supplemented by training and readily available advice on a continuing basis to the smallscale entrepreneurs, in ways similar to extension workers in agriculture.

It is clear that, in the context of such ideas, governments would have to play a leading role. How can the necessary resources be obtained?

If priorities and plans are well formulated, African countries can obtain grants and concessional loans from bilateral sources. Indeed, many bilateral donors are usually prepared to increase their assistance if they are presented with projects that they find to be of special interest. These are usually projects that improve the lot of the underprivileged. The multilateral development institutions will also continue to provide assistance, primarily at highly concessional terms. However, African governments must realize that in all countries, external assistance constitutes only a small portion of development resources in any country. The bulk of such resources is generated from within. Thus, what is important is how domestic resources are utilized.

No one doubts that in Africa, our resources would go much further if their management were improved. If priorities were more rationally set and they were more honestly adhered to, more could be done with the limited resources. If projects were selected purely on their appraised contribution to the economy rather than other considerations, movement along the chosen path would be better assured.

The definition of what is to be done in a sector plays a part in the determination of the required resources. As mentioned earlier, if the provision for health is seen as the building of sophisticated hospitals, a great amount of money may be spent without a significant impact on general health standards. Also, if improved education is equated with the establishment of universities and training along the lines of those in industrialized countries, the money spent could easily result in unemployed graduates and lower-level school leavers who are unwilling to accept agricultural employment, while the economy continues to rely on expatriate labor for middle-level skills.

Perhaps of greatest importance is the priority which African economies must attach to expenditure on competing sectors at every stage of economic development. The case is often made that African governments do not devote enough resources to the agricultural sector which should be the mainstay of their economies, nor are economic policies adopted which favor the sector. Also, the case is often made that resources devoted to defence are too large.

A careful balancing of expenditure in all sectors would help African countries derive far more benefits from their own resources than is presently the case. Until this is done, the often heard complaint that the developed countries have failed to provide adequate aid to the developing countries will be a weak one.

One final word: a development approach based on human and social indicators will obviously be different from present methods. Information and reliable statistical data on the key variables of the strategy are not readily available and would have to be developed and used along with the existing, conventional measures. This will call for additional effort and training on the part of planners. Here, too, assistance could he obtained from outside sources, including multilateral institutions. I am sure, that African universities would rise to the occasion if they were presented with such a challenge.

Problems and issues in structural adjustment

Statement to the Development Committee
Washington D.C., U.S.A., September 25, 1989

All the issues tabled for discussion by the Development Committee are of particular importance to recipients, as well as those extending development finance. The call for discussion of "the problems and issues in structural adjustment", and of "development prospects for the severely indebted countries", reflects concern on the part of the international community at the lack of decisive progress in formulating an adequate response to the debt problem and other economic ailments.

The reports prepared by the IMF and the World Bank on their experience in the formulation and the implementation of the structural adjustment programs are of particular interest to development institutions, such as the OPEC Fund, which do not participate directly in these programs. The limitation of activities of some development institutions such as ours, to traditional project financing should not, and does not, imply a lack of interest in macroeconomic management. Indeed, it is seldom possible adequately to address issues related to specific projects without considering their interaction with policy issues at sectoral or more global economic levels. Moreover, in an increasing number of countries implementing structural adjustment programs, the formulation, design, appraisal and implementation of projects draw heavily on policies pursued in these programs. The understanding of their objectives and mechanisms is thus crucial.

The documents circulated to this meeting are a clear demonstration that a great deal has been learned, in the past few years, on the objectives and mechanisms of structural programs. Evidently, there is even more to be learned from ongoing experiences. Two important points appear to have gained consensus.

Firstly, there is realization that the process of adjustment is a long-term exercise, and cannot be attained without a measure of economic growth. The point may well appear commonplace these days, and yet, the experience reported by the World Bank and the IMF shows that it is that very aspect of the structural ajdustment program which appears to be lagging. The improvements in the external and internal financial positions of adjusting countries may well be the result of decisions to cut public expenditure, and to reduce imports as well, as the result of unsustainable influxes of foreign capital.

The signs of real economic growth, as opposed to financial movements, have yet to be convincing. This is not surprising for, while countries are proceeding with internal adjustments, the world economic environment remains unfavorable.

Secondly, we have to face the fact that the process of structural adjustment needs strong and continuous external support – notably financial – but also, and this cannot be over-emphasized, the support of those who pay the price of adjustment, namely, the economic agents of the adjusting countries and their ordinary citizens.

The latter aspect of the problem has proven a lasting challenge, as borne out by the social unrest that has flared up in parts of the developing world, and by the reluctance of some countries to enter into adjustment programs.

Too often, structural adjustment programs appear to have been designed and conducted at a technical and restricted level. Too often, failures are blamed on conditionalities attached to external loans, and likewise, governments are charged with lack of political conviction. The costs of such failures are untold, and they should be of concern to us.

The adherence to adjustment programs implies understanding and conviction. In other words, they should not be designed in Washington and signed in the adjusting countries. Structural adjustment programs are not socially and politically neutral; indeed, they touch upon the very fabric of society and its values. Their preparation and their discussion must involve the opinion-leaders of the countries concerned, be they professional, social or political.

Would it be too simplistic to suggest that there must be a “structural adjustment program procedure or cycle”, not unlike the traditional “project cycle”? By this, I mean:

- a preparation period, culminating in a stock-taking of issues and alternative ways of dealing with them;
- a discussion, if not appraisal, of the final choices;
- an implementation process, which includes the establishment of coordinated agencies and procedures to conduct the process; and

- monitoring procedures and bodies capable of adapting the course of the program as it unfolds.

Be it procedure or cycle, the process is complex. It is doubtful whether countries – the small ones in particular – are adequately prepared for the design of such programs and their implementation. All too often, the programs appear to be conducted from "top-to-bottom", administratively and without effective involvement of professional and socio-political bodies of opinion makers. This state of affairs results in mechanical approaches which do not generate or release forces capable of lending to the process the dynamics it requires.

The problem is highlighted by reported experiences. The responses will certainly vary from country to country, but all will culminate in "institution building", not unlike that of traditional projects. The concern for "institution building" is, again, not new. The particularities here are that external technical assistance – which is the usual answer – while needed and particularly useful for the development of techniques, cannot suffice by itself. The involvement of the whole economic and administrative apparatus of the country is the final aim. It requires clear objectives and qualified manpower.

This implies, for the development institutions, that the preparation of adjustment program loans must be preceded by an assessment of the countries' capacities to implement these programs and, when relevant, their support for the "institution building" required.

Cooperation between the CEAO and the OPEC Fund

Statement to the 13th meeting of Heads of State of the Communauté économique de l'Afrique de l'Ouest, Cotonou, Benin, October 23-24, 1989

It was with appreciation that we received the kind invitation of the Communauté économique de l'Afrique de l'Ouest (CEAO) to attend this important meeting which, as we expected, has brought together some of Africa's most accomplished sons and daughters and several of its friends and partners. It is, for me personally, an honor and privilege to be part of this gathering and to share a few thoughts with you on the state of the economies of the sub-region, the role of CEAO in African development and the cooperation between the Community and the OPEC Fund for International Development.

The economic state of the CEAO sub-region is a daily consideration of yours. More than those of us based elsewhere, you are in effective, constant touch with the economic realities of the sub-region, the pulse of the people and their demand for advancement and growth. Sadly, we live in the most difficult of times; a period of rapidly dwindling resources but growing domestic demand; an epoch of natural and other disasters and an era of rapidly changing and adverse external environment.

As world markets offer less and less for the hard-won primary commodities of developing countries such as ours, obligations, especially in the area of debt service and foreign transfers, grow inexorably. You also live in a continent which, perhaps, more than all others, has suffered from poor economic performance. Of the 42 least developed countries of the world, a disproportionately large number are sited in Africa, many of them in the CEAO sub-region. These are countries which have, over the years, seen economic growth rates plummet and social conditions deteriorate. They all face severe macroeconomic imbalances, with a significant proportion of their populations living in absolute poverty. With depressed commodity prices and worsening terms of trade, it is difficult to see the situation significantly correct itself soon.

The severity of the hardships is such that external assistance remains indispensable if we are to alleviate these pressures. External financial resources in all forms and at appropriate terms are required to support and complement domestic efforts. An adequate flow of these resources, from those clearly in a position to help, has regretfully not materialized in recent years.

The OPEC Fund for International Development is, as you know, a development finance institution established by the 13 member states of the Organization of the Petroleum Exporting countries which, like all of those here gathered, are developing countries. It is with pleasure and a measure of pride that I relate that, despite the selfsame economic hardships which OPEC countries equally face, they are doing the best they can in the field of official development assistance.

The Fund's cooperation programs with more than 90 developing countries of the world, most of them in Africa, are widely known. In the CEAO sub-region, we have maintained a presence which has drawn much praise from the leadership of the countries concerned. We are eager to strengthen further our dialogue with our partners in the sub-region, with a view to securing better information, helping to establish priorities and improving the effectiveness of our involvement.

The CEAO is an eminent sub-regional grouping which began rather modestly and has made great strides in its short history. It has been aptly described as a model of inter-state cooperation worthy of emulation, and not just within Africa. The Organization has sought, despite difficult circumstances, to pool the resources of member states, obtain international assistance where possible and undertake larger-scale development projects to the benefit of an entire sub-region.

It certainly is to be applauded that, in addition to national, bilateral efforts at strengthening economies, the nations of the sub-region are cooperating closely (within the framework of the CEAO and other smaller groupings) to master the present difficult circumstances and reverse economic decline. At the OPEC Fund, we deeply appreciate CEAO efforts and achievements and are proud to be part of the struggle. We are keen to further our cooperation for the benefit of the member countries of the sub-region.

The OPEC Fund, it might interest you to know, has, so far, been involved in some 90 operations spread in the six CEAO member countries. Forty-six of these operations are program and project oriented; in other words, they are geared toward sustaining the productive sector. They concern all economic sectors, i.e. agriculture, transportation, education, water supply, health and energy. These operations correspond to financial commitments totalling $340 million.

Among specific examples of re gional projects, and in keeping with our conviction that regional cooperation is a requirement for meaningful economic progress, we have supported such CEAO regional ventures as: ESITEX, the regional training institute for textile industries based in Segou, Mali; the Solar Energy Center, also in Mali; a fisheries institute in Nouadhibou, Mauritania; and the CEAO first and second village and pastoral water supply programs, involving close to 3,000 village wells and boreholes. We would like to hope that such common projects would continue.

Allow me to conclude by assuring the CEAO of the continued support of the OPEC Fund in its future endeavors.

Coordinating donors' efforts for more effective assistance to the LLDCs

Statement to the International Workshop
on the Least Developed Countries,
Vienna Institute for Development and Cooperation,
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As an institution that places particular emphasis on assisting the LLDCs, the OPEC Fund for International Development naturally takes a strong, ongoing interest in the position of these nations. The majority of our operations involves close co-operation with other institutions, and it is therefore also of vital concern to us to exchange information and experience with fellow members of the aid community. The modalities of that cooperation, and the evolution of commonly understood and accepted policies, are of particular importance to us.

The situation of the LLDCs at the end of decade is deeply disturbing. The 42 countries thus defined by the United Nations General Assembly are not merely categorized by extremely low, and declining per capita income, rudimentary levels of industrialization and mass illiteracy. All the indicators of social welfare point to the harsh conditions endured by almost 400 million people living in these states.

I do not intend to list the problems faced by the LLDCs, of which you are well aware. 1 should, however, like to stress that when we look at these problems our gaze should not remain fixed on economics and finance; we should see people. Conversely, human resources have a vital economic dimension, in as far as they represent one of the key constraints on the LLDCs' ability to respond to market stimuli. Moreover, mass poverty is intimately associated with the ecological degradation that constitutes a threat to sustainable development, not to speak of the global environment.

A positive development of the 1980s has perhaps been the dawning of greater awareness that reforms associated with structural adjustment are not, of themselves, sufficient to overcome the crisis of the LLDCs. Indeed, of late, a number of studies has suggested that, even in strictly economic terms, the majority of LLDCs that have engaged in concerted adjustment efforts have not performed significantly better than the group as a whole. At the last count, some 23 of the world's 42 LLDCs have formulated and implemented these programs in the hope that they would transform their economic situation. The results of several of these programs have not been at par with the expectations. It is now often argued that, by focusing on a small range of indicators to the exclusion of wider issues, in some cases adjustment policies have even adversely affected the longer-term viability of the economies concerned.

The OPEC Fund's approach since its inception has been to emphasize on projects benefiting the LLDCs, and the poorest sections of the community in them – a principle incorporated in the agreement establishing the Fund. To date, the Fund's total approved commitments in the form of loans and grants amount to $3.55 billion, of which some $2.71 billion has been disbursed. I take great pleasure in relating that over half of these funds has gone to LLDCs. Again, more than half of the amount committed went to Africa, where most of these countries are situated.

Another central aspect of the Fund's activities and its concern for the plight of the LLDCs has been support for the International Fund for Agricultural Development, which exists to help the rural poor feed themselves and alleviate rural poverty. OPEC countries, acting through the Fund, have pledged over $1 billion to IFAD's initial capital and replenishments.

The bulk of our project lending operations last year was devoted to transportation infrastructure, health, national development banks, agriculture and agro-industry, education, water supply and sewerage. The large number of landlocked and island economies among the LLDCs speaks volumes about the constraints on development imposed by notoriously weak transportation networks, especially in rural areas. Addressing this problem thus benefits the agricultural sector, which is crucial for states with chronic food security problems. As for our emphasis on health, education and related fields, this stems from the recognition that only healthy, well educated populations will be capable of self-reliant, self-sustaining development.

In fact, the Fund has always taken a holistic view of the welfare of those it seeks to assist. Being developing countries, its members have never been prone to over-simplification, in the form of standard prescriptions for recovery, imposed regardless of local conditions; they have sought a genuine dialogue with the recipients of their aid. Indeed, a significant share of the Fund's loan commitments goes in the form of lines of credit to local development banks, which allocate the funds themselves. Furthermore, our assistance has always been on concessional terms, and unlike much of the aid offered by developed countries or multilateral institutions, is neither conditional nor tied. Moreover, from its inception, the Fund has stressed quality in its operations, in terms of flexibility, speed and effectiveness of delivery.

If, in some ways, we have been ahead of our time – though, I hasten to add, by no means alone – we are all the more pleased to see elements of our philosophy gaining wider acceptance. Without wishing to intervene in the debate on appropriate models for adjustment, I note with interest that the preparatory work for next year's Second United Nations Conference on the LLDCs incorporates much new thinking.

Familiar as you are with the problems of the LLDCs, you will be fully aware that no amount of sacrifices endured by them will bring recovery without an easing of the international economic environment in which they subsist.

The LLDCs depend on foreign technology and know-how to strengthen their economic base, and in many cases, bare survival depends on imports of essential goods. Their progressive marginalization within the world economy, illustrated by the fact that their share of world exports is but a quarter of its level two decades ago, has deprived them of the means to trade.

Much of the secular decline of export earning by LLDCs results from the fact that some two-thirds of their exports are accounted for by primary products, the prices of which have long been depressed. As producers dependent on exports of a primary commodity, OPEC members are particularly sensitive to this phenomenon. The existing compensatory mechanisms for commodity prices have so far enabled LLDCs to retrieve only a part of their losses through price and currency instability.

The OPEC Fund therefore attaches great importance to the success of the newly established Common Fund for Commodities. As you may know, we played a role in bringing the Common Fund into being by participating in the negotiations leading to its creation and approving grants to cover the subscriptions of 35 of the LLDC members, and by contributing substantially to the Fund's Second Account.

Meanwhile, the chronic balance of payments and debt problems of LLDCs have created a vicious circle; recent measures by the Paris Club and others, welcome as they are, bring inadequate debt relief even to those able to benefit from them. In the near-absence of private capital flows, we witnessed negative net resource transfers from the world's poorest countries between 1985 and 1987. In 1988, this trend was halted – in the context of a boom year for the industrialized economies, only a small ray of light.

All this being so, clearly the only hope for the LLDCs is ODA of a highly concessional nature. Yet here, too, the record is rather bleak. As many speakers before me have rightly pointed out, we have – with a few exceptions – seen ODA from major donor countries remain insufficient. Repeated pleas by LLDCs most in need have remained unanswered. While it is true that ODA flows to the Least Developed have increased during the current decade, the majority of DAC donors has not achieved the modest target of 0.15 percent of GNP set by the Substantial New Program of Action, and the average is only 0.08 percent of GNP. Even the amount that is made available is not always on terms attractive to recipients. While expressing understanding for the aid policies and priorities of donor countries and recognizing their genuine, expressed concern in a number of cases, one cannot but again appeal for greater magnanimity. More can certainly be done by donor countries even if only to reach the modest targets set by the international community.

Although these targets were set at the time with specific donor groups of countries in mind, a few non-industrialized and, indeed in all respects, developing countries, took it upon themselves to join in the effort to help alleviate the plight of the developing world.

Though themselves facing major economic problems, OPEC members have on average devoted a large share of their resources to assisting the LLDCs. OPEC net disbursements have, in absolute terms, been conservatively estimated by the OECD Secretariat at $87 billion during the period 1973-1988. Though the history of OPEC assistance shows what can be done, even in difficult times, where the political will exists, recent experience suggests that we would be unwise to expect a major intensification of the total aid effort by the industrialized nations.

At the OPEC Fund, we do recognize that the years ahead – the 1990s are upon us – will be even more difficult years for LLDCs. Like many, we see no prospects of an immediate improvement in donor ODA performance. But we still are hopeful. For our part, the declared intention is to continue striving to increase the effectiveness of our assistance.

This returns me to the subject of cooperation between those of us who deliver assistance to the LLDCs. In order that the scarce resources available may be deployed as effectively as possible, there is an urgent need for us to do more to coordinate our efforts. There is a need for more exchanges of information between donors, and between donors and beneficiaries, if we are to avoid unnecessarily duplicating activities and overstraining recipient countries' administrative resources. I trust that this workshop will be a step in the right direction.

Abbreviations:

AfDB	African Development Bank
CEAO	West African Economic Community
CFC	Common Fund for Commodities
CGIAR	Consultative Group on International Agricultural Research
CMEA	Council for Mutual Economic Assistance
DAC	Development Assistance Committee
FAO	Food and Agriculture Organization of the United Nations
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LLDCs	Least Developed Countries
MSAs	Most Seriously Affected Countries
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OLADE	Latin American Energy Organization
OPEC	Organization of the Petroleum Exporting Countries
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
WFP	World Food Program

$ Unless otherwise stated "dollars" ($) refer to United States dollars