

emergency food aid, disaster relief, and debt relief) amounted to 11 per cent of non-project aid.

Prospects

There is widespread belief that the economic, budgetary, and political environment for aid programs has become increasingly difficult, giving rise to a generalized feeling of "aid fatigue," that is, a feeling that current efforts are already sufficient and that efforts to redress domestic problems should take priority. Most governments and much public opinion are more concerned about the cost of aid in total budget expenditures rather than the ratio of aid to GNP. Aid represents a very small share of most donor governments' budget expenditures—about 1 per cent on average in 1981, ranging from 0.4 per cent in Austria to over 2.5 per cent in Germany, Netherlands, Norway, Sweden, and Switzerland. Nevertheless, the slowdown in economic activity in the late 1970s, accompanied by more rapid inflation, has resulted in general pressure in donor countries to reduce public expenditures in an effort to contain inflation and rising public indebtedness, while rising unemployment, and energy and defense needs have imposed new claims on budgetary resources. Thus, governments have been able to reduce foreign aid commitments without the risk of incurring much opposition at home.

The prospects for maintaining the 4 per cent growth rate of aid achieved in the 1970s are not promising. While official statements have been made by a number of donors in support of an enlarged aid effort (Austria, Canada, Finland, and Italy have announced their intention to reach the UN target by the end of the decade), it will be hard to translate them into action, particularly now that the global economy is in a recession. Aid legislation continues to face difficulties in the U.S. Congress; there may be little or no growth in aid from the United Kingdom and Germany. These nations' willingness to support the international system, in recognition that their economic future cannot be separated from that of developing countries, will continue to be tested in a period of economic and budgetary difficulties. All the official rationales expressed in international forums such as replenishment negotiations of concessional funds treat aid as a form of enlightened self-interest, benefiting donors as well as recipient developing countries. The positive response of donors to the needs of an interdependent world in the context, for example, of the Seventh IDA Replenishment negotiations will be a key factor in the continuation of the common aid effort of the industrial countries during the 1980s.

FD

Arab concessional assistance, 1975-81

Aid from the Arab countries increased steadily after the mid-1970s.

Zubair Iqbal

An important consequence of the increase in oil prices after 1973 was the sharp expansion in the official economic assistance from the Arab oil exporting countries to the developing world. Not only did bilateral aid increase but also existing national and regional development finance institutions became more active and new ones were established. Bilateral assistance, however, remained predominant. In recent years, there has also been a significant increase in commercial flows. Moreover, a transfer of resources to developing countries has also taken the form of rapidly rising workers' remittances.

In 1975-81 about 85 per cent of all official economic assistance was on concessional terms, defined according to criteria applied by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) as loans containing a grant element of at least 25 per cent. Bilateral channels provided about 85 per cent of all concessional assistance from the Arab countries. The rest went through the development finance institutions—some of whose loans are highly concessional, but many are at commercial rates—and to multilateral agencies.

Overall flows

The analysis of concessional assistance from the Arab to developing countries, particularly the sectoral and country distribution of bilateral assistance, is hampered by a lack of adequate data. DAC estimates—the major regular source of information on

aid flows—have recently tended to diverge from indications provided by certain national authorities. These divergences can largely be attributed to differences in the definition of assistance and coverage, and have probably led to underestimates in the DAC figures. Even so, they show Arab concessional assistance to have increased sharply since 1975 and to account for about 8 per cent of total capital flows to developing countries in 1981. The concessional assistance as a proportion of gross national product (GNP) has ranged from 5.7 per cent in 1975 to less than 3 per cent in 1981 (Table 1). The fall in this ratio reflects essentially the sharp growth of the donor countries' economies.

These aggregate net disbursement/GNP ratios mask wide divergences in individual country performance, however. As might be expected, countries with limited absorptive capacity at the time of the increase in oil prices generally provided a greater (though falling) share of their national incomes than countries with relatively large local populations and with domestic development programs that absorbed a relatively greater share of foreign exchange earnings. Thus, Saudi Arabia provided over 56 per cent of all Arab concessional assistance during 1975-81, an amount corresponding to about 6 per cent of its GNP, followed closely by the United Arab Emirates. Assistance from Kuwait and Qatar corresponded to well over 3 per cent of their GNP. On the other hand, countries such as Algeria, Libya, and Iraq contributed much smaller shares of their national income.

In view of the rapidly increasing financing needs of developing countries, Arab assistance met only a limited portion of the overall need. In 1975, the Arab group provided almost 10 per cent of total net resource transfers to the developing world but in 1981 the ratio was 8 per cent. However, during this period, commercial capi-

tal flows from the Arab countries became relatively more important as a share of the transfer of resources. It is reasonable to conclude that the overall transfers probably financed a much larger share of the deficits in developing countries than official assistance alone, given the information that is available.

As mentioned earlier, the lending operations of the development finance institutions increased sharply after the mid-1970s (see Table 2). These institutions are responsible for the distribution of all nonconcessional and some concessional flows from Arab to developing countries. Their lend-

same period. (Prior to 1975, total commitments amounted to about \$1 billion.) At the same time, there was a steady increase in the disbursement/commitment ratio.

Terms

Available data indicate that some 85 per cent of all Arab assistance between 1975 and 1981 was on highly concessional terms, according to the DAC criteria. With the exception of 1979, grants accounted for over 70 per cent of all concessional assistance, so the grant element of overall assistance far exceeded 80 per cent (except for 1979 when it was 78 per cent).

Despite its very high overall level of concessionality, Arab concessional bilateral aid to the least developed countries carried somewhat harder terms than that to the middle- and high-income developing countries—not only to the non-Arab countries but also to the Arab ones, such as the Sudan and the People's Democratic Republic of Yemen. This is perhaps because assistance to some middle-income countries, such as Jordan and Syria, has been determined by special considerations—including defense—and was largely in the form of grants. On the other hand, the least developed and other low-income countries that are members of the Arab League have had a much smaller share of grants. Over 1975–81, the grant element of assistance to the least developed countries was about 70 per cent as compared with 85 per cent for the middle-income recipients. However, almost all Arab aid is provided untied. There is a tendency toward an increasing importance of loans in the total aid portfolios of donor countries, which are channeled mainly through the national development finance institutions.

Direction of aid

The information available shows that the fluctuations in the relative shares of recipients basically reflected the erratic nature of flows to the few large beneficiaries (Table 3). The primary focus of Arab aid was on supporting neighboring Arab countries. Disbursements to Egypt, which was a principal beneficiary until its suspension from the membership of the Arab League in early 1979, amounted to 42 per cent of the total net disbursements in 1975 and covered about 85 per cent of both the Central Government's budget deficit and the current account deficit. Starting in 1979, assistance to Egypt declined rapidly to become virtually nonexistent in 1980. Over the same period, Syria and Jordan became the primary beneficiaries, with their shares rising from 11 per cent and 5 per cent, respectively, in 1975, to 25 per cent and 18 per cent, respectively, in 1980. Other major beneficiaries included India, Morocco, Pakistan, the Sudan, and the Yemen Arab Republic. Less than 10 per cent of Arab assistance was directed to the least developed countries, while over half of the total went to the middle-income developing countries.

The geographic distribution of Arab support through multilateral institutions is virtually impossible to determine. The recipients of loans from the regional and national development finance institutions are better documented. Recently, lending by these institutions has been guided by the desire to promote regional economic inte-

Table 1
Overall concessional assistance from Arab countries, 1975–81¹

	Total 1981 (in millions of current U.S. dollars)	Disbursed ODA as per cent of GNP			
		1975	1978	1980	1981 ²
Algeria					
Net disbursements	65.0	0.28	0.16	0.17	0.16
Commitments	125.0				
Iraq					
Net disbursements	142.9	1.63	0.76	2.13	0.37
Commitments	380.0				
Kuwait³					
Net disbursements	684.9	7.40	5.57	2.04	1.98
Commitments	1,482.2				
Libya					
Net disbursements	105.4	2.29	0.81	0.92	0.37
Commitments	309.0				
Qatar					
Net disbursements	175.2	15.29	3.37	4.25	2.64
Commitments	344.7				
Saudi Arabia					
Net disbursements	5,712.0	7.76	8.39	5.01	4.70
Commitments	6,156.0				
United Arab Emirates					
Net disbursements	798.6	11.69	6.23	3.38	2.88
Commitments	973.0				
Net disbursements	7,684.0	5.69	4.72	3.08	2.57
Commitments	9,766.2				
Average annual percentage change in total disbursements		1975–78	1978–80	1980–81	
		9.71	4.67	-13.35	

Sources: Organization for Economic Cooperation and Development, *Flows of Resources from OPEC Members to Developing Countries, Statistical Tables, 1976–78, 1978–80; DAC Chairman's Report, 1982, Statistical Annex, September 7, 1982; and Economic Assistance by OPEC Countries and Institutions, November 23, 1982.*

¹Consists of concessional assistance from bilateral sources and development finance institutions.

²Provisional.

³Excludes assistance to Jordan and Syria under the Baghdad Agreement, which Kuwait does not consider concessional.

ing is limited to financially profitable projects and is based on economic criteria. It is hard to disentangle the concessional element, but on average their disbursements seem to contain only about half the grant component of the bilateral transfers from Arab countries. The cumulative commitments of these institutions (excluding the Iraq Fund for which detailed data are not available) rose from US\$1.5 billion in 1975 to over \$11 billion in 1981, while the ratio of these to authorized capital rose from 14 per cent to 44 per cent over the

Robert Townsend for F&D



Zubair Iqbal
from Pakistan, is Assistant Division Chief in the Fund's Middle Eastern Department. He holds a PhD from Michigan State University and joined the Fund in 1972. He has published articles on international trade and external finance.

gration, especially of Arab countries and the Sahel area, particularly to least developed countries. The least developed countries as a whole accounted for less than 15 per cent of total commitments in 1975-81, and the share of Arab countries in the total commitments of these institutions declined from over 55 per cent in 1976 to 52 per cent in 1978 and to 44 per cent in 1980. (Although for 1975-81 as a whole, Arab countries accounted for over 50 per cent of total commitments.) Commitments to Asian countries accounted for 25 per cent. Over 40 per cent of all committed flows over 1975-81 were for Egypt, Jordan, Morocco, Pakistan, Tunisia, Sudan, Syria, and the Yemen Arab Republic—eight recipients out of a total of 96.

Table 3
Estimated geographic distribution of bilateral concessional assistance from Arab countries, 1975-81

	(In per cent)							Total
	1975	1976	1977	1978	1979	1980	1981 ¹	1975-81
Arab countries ²	81.2	62.3	70.3	73.0	84.2	78.1	83.6	78.4
Africa	2.8	1.6	1.7	5.0	2.6	5.2	7.7	3.6
Asia	15.6	31.6	26.7	12.7	5.3	11.0	1.0	12.1
Europe	0.3	0.3	—	—	0.5	4.5	2.7	1.1
Unspecified	0.1	4.2	1.3	9.2	7.4	1.2	5.0	4.8
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Organization for Economic Cooperation and Development, *Flow of Resources from OPEC Members to Developing Countries, Statistical Tables, 1976-78*, and *Flow of Resources from OPEC Members to Developing Countries, Statistical Tables, 1978-80*; and national sources.

—Indicates zero.

¹Based on commitments.

²Members of the Arab League including Egypt.

Table 2
Operations of development finance institutions, 1975-81

(In millions of U.S. dollars)

	1975	1978	1980	1981
National institutions				
Abu Dhabi Fund for Arab Economic Development				
Authorized capital	505	517	539	545
Commitments	106	630	866	954
Net disbursements	2	214	551	610
Kuwait Fund for Arab Economic Development				
Authorized capital	3,448	3,636	3,695	7,205
Commitments ¹	853	1,791	2,421	3,164
Net disbursements	53	554	1,027	1,252
Saudi Fund for Development				
Authorized capital	2,843	2,942	4,400	7,400
Commitments	283	2,154	2,880	3,224
Net disbursements	—	447	1,067	1,386
Regional institutions²				
Arab Fund for Economic and Social Development				
Authorized capital	1,379	1,454	1,440	2,862
Commitments	193	891	1,249	1,333
Net disbursements	41	414	639	740 ³
Arab Bank for Economic Development of Africa⁴				
Authorized capital	231	738	738	738
Commitments	72	268	384	460
Net disbursements	—	66	166	198
Islamic Development Bank⁵				
Authorized capital	2,428	2,504	2,603	2,358
Commitments	—	235	553	683
Net disbursements ⁶	—	62	178	254
OPEC Fund for International Development				
Authorized capital ⁷	—	1,600	4,000	4,000
Commitments	—	441	909	1,303
Net disbursements	—	245	487	901
Authorized capital⁸	10,834	13,391	17,415	25,108
Commitments	1,507	6,410	9,262	11,121
Net disbursements	96	2,002	4,115	5,341

Sources: Annual reports of Arab development finance institutions.

—Indicates zero.

¹Includes commitments from the inception of the institution in 1962.

²Two institutions, the Islamic Development Bank and the OPEC Fund, are included because they draw most of their capital from Arab countries. For example, Arab countries account for 82 per cent of total authorized capital of the Islamic Development Bank.

³Estimate.

⁴Includes the Special Arab Fund for Africa since 1977 when its capital of US\$350 million was transferred to the Arab Bank for Economic Development of Africa.

⁵Fiscal years starting from middle of the calendar year. Excludes short-term trade credits.

⁶Gross disbursements.

⁷Total contributions allocated on the basis of original endowments agreed in 1975 and augmented through periodic replenishments. Includes contributions by non-Arab members.

⁸Excludes Iraq Fund for External Development.

More than three fourths of bilateral concessional assistance over 1975-81 was in the form of general support, emergency assistance, and oil credits. The predominance of nonproject assistance was mainly dictated by the needs of the recipient countries as well as administrative limitations in the donor countries. As for the project-related assistance, it is difficult to discern any clearly defined strategy. However, support for infrastructural projects, particularly those relating to transport, communications, education, and health, has been emphasized. Assistance from smaller donors was almost exclusively in the form of nonproject support while the three major contributors (Saudi Arabia, Kuwait, and the United Arab Emirates) were gradually moving toward project assistance. This was facilitated by an increasing recourse to cofinancing with Arab and non-Arab multilateral agencies.

The development finance institutions, on the other hand, attach primary importance to project financing, especially in the infrastructure sector. Except for some balance of payments support from the OPEC Fund, little financing went for overall development programs. Given the limited availability of skilled staff needed for selection and for monitoring project implementation, these institutions favored cofinancing with other multilateral agencies such as the World Bank, the African Development Bank, and with each other. Typically, this involves the lead institution, having prepared the project and determined its contribution, approaching other financing institutions that had shown interest in cofinancing to fill the financing gap. There was also some shift toward smaller projects associated with an increasing stress on the provision of basic necessities, such as food and housing.