

# ***WORLD AFFAIRS***

A QUARTERLY REVIEW OF INTERNATIONAL PROBLEMS

PAX OMNIUM RE TRANQUILLITAS ORDINIS



Volume 139

Number 3

Winter 1976/77

# WORLD AFFAIRS

A QUARTERLY REVIEW OF INTERNATIONAL PROBLEMS

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## PETRODOLLARS TO THE THIRD WORLD: A CRITIQUE OF THE IMF OIL FACILITY

The abruptness and magnitude of OPEC's oil price rises in late 1973 have had a profound impact upon the international system, the roles of international economic organizations, and the growth prospects of oil-importing, developing economies in particular. Many developing nations were disenchanted with multilateral aid programs before the oil crisis (as exemplified by their successful establishment of UNCTAD in 1964), and now this dissatisfaction has become increasingly associated with the institutions providing financial assistance. Recently, the International Monetary Fund (IMF) oil facility was described as being "oriented primarily to assist wealthy, industrialized nations instead of the poor, developing countries . . . the overall result: the rich will be able to ease their deficits more readily; the poor will become perpetual debtors more surely."<sup>1</sup> Because the economic outlook of the most seriously affected oil importers (the MSA's) remains bleak, this article evaluates the extent to which the operations of the IMF oil facility were, or were not, sensitive to the oil-payment needs of lower income nations when measured by GNP and GNP per capita. Its conclusions are useful not only as an historical account, but should also be considered in light of the Subsidy Account cushioning the interest burdens arising under the 1975 oil facility and the IMF Trust Fund (for LDC's only) which replaced the oil facility altogether in March 1976.

Because the market system was not responsible for the quadrupling of oil prices, it was similarly unprepared for the large transfers of capital accompanying the financing of oil import bills. Consequently, the issue of "recycling petrodollars"<sup>2</sup> initially involved the extent to which political schemes would be required to insure the flow of funds back to oil importers through increased trade, investment, and other forms of capital transfers. Repercussions stemming from the price rises upon the balance of payment prospects of individual nations varied considerably, thus aggravating pre-existing differences over monetary issues and rendering the achievement of multi-lateral consensus over recycling problems a formidable task. Within the IMF, the United States resisted at first the proposal by IMF Managing Director H. Johannes Witteveen that an oil facility be established to recycle petrodollars.<sup>3</sup> But on June 13, 1974 the final communique of the Committee of Twenty urged that an oil facility be created and that same day, the terms of oil facility borrowing and lending were established by the Fund's Executive Board.<sup>4</sup>

The IMF's *Facility to Assist Members in Payments Difficulties from (the) Initial Impact of Increased Costs of Imports of Petroleum and Petroleum Products* for 1974 (hereafter referred to as simply the oil facility)<sup>5</sup> was the only multilateral program actually to recycle petrodollars through 1975. Therefore, the performance of the oil facility was of utmost interest to poorer countries, especially those unable to obtain external financing or credit through the market mechanism. Without emergency aid, these nations were unable to maintain essential import volumes due to the unhealthy state of their economies. The non-oil developing countries did not have an organizational framework of their own capable of coordinating a recycling program and prospects for emergency loans from oil exporters or traditional aid donors such as the OECD countries were hardly favorable.<sup>6</sup> Indeed, by the end of 1974 it was clear that the most difficult aspect of recycling was redistributing petrodollars among oil importers according to their financial requirements ("secondary recycling"), and not simply the movement of funds from OPEC depositories to the oil importing group as a whole.

### Lending Terms

It was evident from the outset that the 1974 oil facility was not designed to funnel the entire flow of petrodollars, be a permanent feature of the Fund, or serve as a concessionary mechanism for the developing countries.<sup>7</sup> But as one IMF official wrote, "... developed countries are expected to utilize their capacity to borrow on international markets before seeking access to the oil facility, whereas this presumption is not applied with equal force to developing countries."<sup>8</sup> Because the facility's operations required the Fund to borrow from oil exporters and other surplus nations, interest charges were to be related to market rates, "partly to ensure that the cost of borrowing was covered and partly to avoid a financial incentive to draw from the Fund rather than to attract capital from the market."<sup>9</sup>

The terms of the oil facility did not compare favorably with previous terms of aid encountered by participating countries, as indicated in Table 1. Its grant element of 56 percent was close to the average figure attributed to the concessionary aid received by the borrowing nation, especially in the most recent time period between 1969 and 1972. However, the disparity between maturities and grace periods of previous aid and the oil facility tends to confirm the contention that the effect of the 1974 oil facility was to facilitate petrodollar flows and not to serve as a long-term concessional mechanism similar to the loans made by development banks and other multilateral aid agencies.

Although IMF lendings are generally not considered aid *per se*, they still can provide a form of financial assistance which is more desirable than capital obtainable elsewhere. In Table 2 the oil facility's interest charge compares favorably with the major market rates prevailing throughout 1974, including World Bank loans (but not IDA loans). It is clear, then, that the terms of the oil facility were much softer than

Table 1

## Oil Facility and Previous Terms of Aid for Borrowing Countries

	(N = 40)	
	<u>1974 Oil Facility</u>	<u>Average Terms of Previous Aid of Borrowing Countries, 1969-72</u>
Interest Rate	7% <sup>a</sup>	4.31% <sup>c</sup>
Maturity	7 years	21.45 years <sup>c</sup>
Grace Period	3 years	5.38 years <sup>c</sup>
Grant Element:		
1965-1968	56.3% <sup>b</sup>	62.8% <sup>d</sup>
1969-1972	56.3% <sup>b</sup>	57.2% <sup>d</sup>

Sources: The IMF and *World Debt Tables* (World Bank: EC-167-72, December 15, 1973, Table 4 for 1965-68 grant elements and EC 167/74, December 15, 1974, Table 4 for 1969-1972 aid terms)

<sup>a</sup>This is the simple average of annual oil facility charges in casual use at the IMF. If repayments of the principal outstanding were not made until the final payment, then the average annual interest charge on an oil facility loan comes to 4.99%. See note <sup>b</sup>.

<sup>b</sup>The *grant element* of a loan is the grant equivalent expressed as a percentage of the face value. The *grant equivalent* is the face value of the loan commitment less the discounted present value of the future flow of amortization and payments of interest, using the customary discount rate of 10%. (From: *World Debt Tables, Volume I: External Public Debt of LDC's*, World Bank, EC-167-75, October 31, 1975, p. vi). The oil facility's grant element has been calculated using effective interest rates of 6.9095% for the first three years, 7.0351% in the fourth year, and 7.1608% for the last three years. This is a combination of the oil facility's interest charges and the standard, one-time 1/2% service charge (See E. Walter Robichek, "The Payments Impact of the Oil Crisis: the Case of Latin America," *Finance and Development*, December 1974, p. 15). It is assumed that all countries take the full seven years to repay and fulfill all other oil facility lending terms as stated in the original text. It is also assumed that the repayment of the principal comes in 16 equal, quarterly installments, while interest charges will vary per period. For example, the grant equivalent of a 100 million SDR's loan is calculated to be 79.31 million SDR's, while its face value would be 140.65 million SDR's (as in the case of Korea).

<sup>c</sup>Does not include Italy, New Zealand, Bangladesh, Ghana, Iceland, Haiti and Guinea for which comparable data was not available.

<sup>d</sup>Does not include Italy, Israel, New Zealand, Bangladesh, Ghana, Iceland, Haiti, Guinea, Fiji, and the People's Democratic Republic of Yemen for which comparable data was not available.

Table 2

## A Comparison of Oil Facility and Selected World Market Interest Rates, 1974

	(End of Period quotations in percent per annum)			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Oil facility <sup>a</sup>	7.00	7.00	7.00	7.00
Eurodollar, London	9.03	11.04	13.13	10.45
U. S. Money Market	7.60	8.27	8.26	7.36
U. K. Money Market	11.99	11.36	11.18	10.96
IBRD	8.00	8.00	8.00	8.00
IDA	0.5	0.5	0.5	0.5
Central Bank Discount Rates:				
U. S.	7.50	8.00	8.00	7.75
U. K.	12.50	11.75	11.50	11.00
Italy	9.00	9.00	9.00	9.00

Source: *International Financial Statistics* (IMF), October 1975, pp. 27, 185.

<sup>a</sup>Simple average of typical oil facility loan.

private market rates, but also did not fall in the aid category when interest rate, maturity, and grace period comparisons are made. In spite of these incongruities, however, the oil facility's grant element is quite close to the values for previous aid. Thus, the 1974 oil facility should be viewed as a unique type of multilateral lending and not as a typical aid program or private market loan.

### Assessing the Oil Facility Through Correlation

Under the 1974 oil facility, 40 countries made 78 separate borrowing transactions totaling SDR 2582.8 million. Each country eligible to draw from the facility could do so as often as it liked, so long as its total borrowings did not exceed the maximum access assigned to it. The oil facility access formula stipulated that the total of a member's borrowings could not be higher than the smaller of: (1) the increase in the cost of its net oil import bill using 1972 as the base year minus an amount equivalent to 10 percent of its reserves at the end of 1973, adjusted for variability of exports, and (2) 75 percent of the member's quota with the Fund.<sup>10</sup> Although access to the

facility by eligible countries totaled more than the amount of available funds (SDR 3,058 million), there was never any serious concern that the oil facility would be overdrawn.<sup>11</sup>

The disbursement of oil facility funds met 26 percent of the increase in oil import costs and 20 percent of the estimated 1974 payments deficit of all borrowing countries based on projections by the Fund in September 1974.<sup>12</sup> Several African countries (Burundi, Central African Republic, and Uganda) met their entire oil import bill increase through the facility. Meanwhile, Senegal covered its entire balance of payments deficit and Chile managed to finance one and two-thirds of its estimated deficit. This was possible because the Fund did not project Senegal and Chile to have deficits in their non-oil account; their balance of payment deficits were seen to be directly attributable to OPEC's price rises. Italy, on the other hand, financed only 16 percent of its oil cost increase and 9 percent of its projected payments deficit, even though it was by far the largest borrower, taking 26 percent of total oil facility drawings.

Italy's large share of oil facility petrodollars and drawings made by other non-LDC's evoked criticism (mostly privately expressed)<sup>13</sup> from Third World spokesmen that the oil facility had been devised by the industrial nations (such as those in the Group of Ten) primarily to finance their own oil deficits. This is in spite of the fact that no country could draw more than 100 percent of its access. In any event, shortly before Italy's oil facility loan, Witteveen acknowledged that the "philosophy when we set up this facility was the major oil consumers, the major industrial countries, would be able to finance their deficits in capital markets and by other channels."<sup>14</sup>

The correlation analysis in Table 3 shows that a nation's maximum access to the 1974 oil facility was highly correlated with its 1972 GNP ( $r = .98$ ) and IMF quota (which limits access), but not its GNP per capita, as evidenced by the low  $r$  value of .26. However, it would be misleading to interpret these numbers as bolstering the argument that low GNP per capita nations were slighted by the access formula. Furthermore, the guardian role played by the IMF in the international monetary system precludes it from undertaking risky ventures in concessional lending which fail to take into account some measure of creditworthiness such as the economy's productive output (GNP).

### Oil Facility Lending in Relation to National Income

GNP per capita is a basic measure of economic development and need for aid. The Development Assistance Committee of OECD has recommended that those nations with per capita incomes over \$1,000 not receive official development assistance (ODA).<sup>15</sup> On the basis of this approach, Table 4 is divided into three country categories according to income; above \$1,000 per capita, between \$200 and \$999, and those poorest nations with a GNP per capita income below \$200. For the purpose of

Table 3

1974 IMF Oil Facility Correlation Matrix<sup>a</sup>

	Maximum Access	1972 GNP	1972 GNP per capita	IMF Quota
Maximum Access	1.00	.98	.28	.99
1972 GNP		1.00	.31	.96
1972 GNP per capita			1.00	.26
IMF Quota				1.00

Sources: GNP and GNP per capita data is from the *World Bank Atlas* 1974. All other data from the IMF (See Note 11).

<sup>a</sup>Values are Pearson  $r$  correlation coefficients.  $N = 40$ , all nations borrowing under the 1974 oil facility. These nations are listed in IMF Press Release No. 76/17, March 24, 1976.

this study, LDC's are defined as being in the second and third categories; their GNP per capita is less than \$1,000. In comparing the assistance provided by the oil facility to these three groups as well as the three country categories determined by the value of their GNP in Table 5, it is concluded that the oil facility was not biased in favor of the richer countries.

Although the higher income category of eight nations according to both GNP and GNP per capita drew 64 percent and 49 percent, respectively, of total drawings, their oil facility financing was not as significant in their adjustment to higher oil price levels compared to developing nations when the value of their oil import costs and payment deficits are taken into account.

Considering the fact that the most developed group of the three had substantially higher increases in oil costs and larger BOP deficits in proportion to the amounts for the two categories of middle and low income countries, their drawing of the bulk of the funds cannot be deemed inequitable to the interests of the poorer countries. The average oil cost increases for the high income group in Table 5 was 1161.1 million SDR's, while the same statistics for the middle and low income categories were less than one-tenth that: 90.3 and 14.7 million SDR's, respectively. With only 3 percent of the increased oil costs and 3 percent of the value of the BOP deficits for all participants, this poorest group had access to 6 percent of the facility's funds and managed to obtain 6 percent of the money actually disbursed.

The results for the GNP per capita indicator are broadly similar to those obtained by measuring economic wealth by GNP. One notable exception is that the various



**Table 4**  
**GNP per capita Indicator Analysis**  
 (Percent share of total by country categories<sup>a</sup>)

<u>Income Level</u>	<u>Facility Drawings</u>	<u>Facility Access</u>	<u>Increase in Oil Import Costs</u>	<u>1974 BOP Deficit</u>
High Income (8 nations)	49	44	70	73
Middle Income (15 nations)	26	24	18	14
Low Income (18 nations)	24	34	13	11
TOTAL	100	100	100	100

Source: IMF Press Release 76/17, March 24, 1976, Note 11 in the text and Table 3.  
 (Percentages may not always total 100 due to rounding.)

<sup>a</sup>See Annex 1 for countries included in each income category.

**Table 5**  
**GNP Indicator Analysis**  
 (Percent share of country categories<sup>a</sup>)

	<u>Facility Drawings</u>	<u>Facility Access</u>	<u>Increases in Oil Import Costs</u>	<u>1974 BOP Deficit</u>
High Income (8 nations)	64	67	83	81
Middle Income (15 nations)	30	27	14	16
Low Income (18 nations)	6	6	3	3
TOTAL	100	100	100	100

Source: IMF Press Release 76/17, March 24, 1976, Note 11 in the text and Table 3.  
 (Percentages may not always total 100 due to rounding.)

<sup>a</sup>See Annex 2 for countries included in each income category.

shares of the low income nations are roughly equivalent to that of the middle income group, whereas in the GNP table (Table 5), middle income shares averaged four to five times greater than those of the low income group.

In this case, the high income group drew proportionally more out of the amounts borrowed than their access share would have dictated (49 percent compared to 44 percent). But their substantially larger oil cost increases and BOP deficits are both roughly one-and-a-half times the size of their share of drawings and access. This makes it difficult to substantiate the charge that the richer nations have used the oil facility at the expense of the poorer countries. What the GNP per capita method does is picture the oil facility as providing more balanced service than the GNP method, due to the relatively small divergencies among drawing, access, oil costs, and BOP deficit percentage shares for the various income levels.

### Measuring the Oil Facility's Sensitivity to the Financial Needs of Oil Importers

The effectiveness of the oil facility in assisting oil importers finance their oil import bills can also be evaluated in terms of the following model composed of concepts of use and needs. These are crude indicators, as defined below, but yield some interesting insights nevertheless.

1. *Use*: This is defined as the percentage figure arrived at after dividing a country's drawings by its access; values will range from zero to one. This ratio shows the extent to which countries used the oil facility within their borrowing limits and has implications for their willingness to accept the terms of oil facility loans as well as their own perception of need for oil facility financing. (Annex I shows that OPEC aid to oil facility borrowers does not distort the *use* values obtained here, because most OPEC aid recipients drew 100 percent of their maximum access anyway).

2. *Potential Effectiveness*: This variable indicates the degree to which oil facility borrowing could have returned a country's balance of payments deficit and oil import bill to pre-oil price rise proportions.

a. Access divided by predicted rise in oil import costs (based on IMF estimate using 1972 demand data).

b. Access divided by estimated 1974 balance of payments deficit (IMF estimate).

3. *Effectiveness*: This variable shows the degree to which oil facility borrowings offset the impact of the oil price rises on the country's oil import bill and estimated balance of payments deficit.

a. Drawings as a percentage of predicted rise in oil import costs during 1974.

b. Drawings as a percentage of predicted balance of payments deficit for 1974.

4. *Need*: This is defined as the value of the rise in oil import costs as a percentage of the estimated deficit in the balance of payments for 1974.

5. *Attractiveness*: The rationale behind this coefficient is to ascertain the extent to which nations draw upon the facility (*use*) in relation to the estimation of their *need*

for its financial resources. In other words, if a nation utilized the facility sparingly even though oil import costs accounted for a substantial portion of its payments deficit (*need*), then one might conclude that the facility did not appear attractive, or necessary to the country's financial decision makers. Conversely, if a nation had a relatively small need for external financing of its oil deficits but used the facility substantially, then one could say that the oil facility appeared attractive in light of its necessity for a recycling mechanism, at least in comparison to other forms of financing. Attractiveness is the number for *use* as a percentage of the number for *need*.

In order to compare facility ratios according to two different measures of economic development, GNP and GNP per capita, Tables 6 and 7 present higher, middle, and lower income group averages for selected facility participant ratios. Table 6 gives the country average for each group: in both tables there are seven countries in the high income category, 15 in the middle group, and 18 in the lower. Table 7 totals the components of each variable by category, so that an aggregate ratio can be obtained for each income group. By summing up country values as if each category contained only one country, this method tends to weight the results so as to reflect more closely the ratio values of the economically large nations such as Italy and India. Because the economically smaller nations (according to both GNP and GNP per capita) had, in general, higher ratio values than the larger nations, the aggregate averages of these ratios for all countries are higher for Table 6, which is based on country means, than in Table 7, which is derived from the income group as a whole.

Both tables illustrate the enormity of the oil price rise impact upon the balance of payment positions of oil importing countries, especially countries with larger GNP's. Depending on which is used, the increase in the oil import bills of those nations borrowing from the oil facility accounted for either 74 percent or 83 percent of their balance of payment deficits in 1974. In Table 7 *need* increased as a nation's GNP and GNP per capita increased, and the high income group (GNP) had the highest *need* value (but it had the lowest value when income is defined in terms of GNP per capita). Although the oil facility tended to assist the poorer nations more than the richer, the data here suggest that increased oil import costs were more important in the balance of payments situation for the larger economies. But due to the country composition of the high income group, it is not possible to conclude, for example, that the level of industrialization will always have a direct link to the role of oil imports in a country's foreign trade. This is because, among other things, a nation's dependence on foreign oil stems from its natural resource base as well as its energy mix and level of industrialization.

Keeping in mind the fact that five of the six largest maximum accesses were restricted by the ceiling of 75 percent of quota imposed by the Fund (see Annex 4), note in Table 6 that as a nation's GNP (or GNP per capita) increased, the *effectiveness* and *potential effectiveness* of the oil facility decreased. When using both descriptions of economic size and wealth—GNP and GNP per capita—the poor nations enjoyed substantially greater access in proportion to their estimated needs.

Table 6  
Selected Ratios of Oil Facility Borrower: Country Means of Income Groups<sup>a</sup>

Country Category	USE Facility Drawings	NEED Rise in Oil Import Bill	Potential Effectiveness: Access as a percent of:		Effectiveness: Drawings as a percent of:		Attractiveness <sup>b</sup> Use
			Rise in Oil Import	Estimated 1974	Rise in Oil Import	Estimated 1974	
	Facility Access	Estimated 1974 BOP Def.	Bill	BOP Deficit	Bill	BOP Deficit	Need
Indicator: GNP							
Higher Income	.89	1.39	.36	.45	.26	.35	.88
Middle Income	.85	.82	.80	.65	.69	.54	1.45
Low Income	.82	.63	.82	.51	.68	.42	1.76
Indicator: GNP per capita							
Higher Income	.93	1.14	.36	.32	.34	.31	1.39
Middle Income	.74	.97	.71	.68	.53	.51	.98
Low Income	.89	.60	.89	.53	.79	.46	1.96
Average Country Value for All Borrowers	.84	.83	.73	.55	.61	.45	1.48

Sources: GNP and GNP per capita data is from the *World Bank Atlas 1974*. All other data from the IMF (See Note 11).

<sup>a</sup>See Annexes 2 and 3 for country composition of income groups.

<sup>b</sup>Attractiveness values for each category are obtained by deriving attractiveness values for individual nations first and then finding the mean for the entire group. Another method would be to divide the category's average use by its need. Figures obtained from this second method produce somewhat lower attractiveness values but the orderings remain the same.

Table 7  
Selected Ratios of Oil Facility Borrowers: Aggregate Values of Income Group<sup>a</sup>

Country Category	USE Facility Drawings Facility Access	NEED Rise in Oil Import Bill Estimated 1974 BOP	Potential Effectiveness: Access as a percent of:		Effectiveness: Drawings as a percent of:		Attractiveness <sup>b</sup> Use Need
			Rise in Oil Import Bill	Estimated 1974 BOP Deficit	Rise in Oil Import Bill	Estimated 1974 BOP Deficit	
Indicator: GNP							
Higher Income	.76	.76	.27	.20	.20	.15	1.00
Middle Income	.88	.62	.69	.43	.61	.38	1.42
Lower Income	.83	.63	.76	.48	.63	.39	1.32
Indicator: GNP per capita							
Higher Income	.92	.69	.21	.14	.19	.13	1.33
Middle Income	.89	.86	.44	.38	.39	.34	1.03
Lower Income	.58	.85	.87	.75	.51	.43	.68
Aggregate Value for All Borrowers	.80	.74	.34	.25	.27	.20	1.08

Sources: GNP and GNP per capita data is from the *World Bank Atlas 1974*. All other data from the IMF (See Note 11).

<sup>a</sup>See Annexes 2 and 3 for country composition of income groups.

<sup>b</sup>Because this table is based on aggregate values and not country means, *attractiveness* values are obtained by dividing the category's overall use by need.

In Table 6, the highest income nations always had the lowest *effectiveness* and *potential effectiveness* values, although there was not always a consistent ordering among the income groups. But it is nevertheless clear that according to both ranking methods, middle and lower income nations had the opportunity to finance a greater portion of their increased oil import bill than their richer counterparts and that they took advantage of this opportunity (as evidenced by *effectiveness*). Indeed, it had been intended for the oil facility to finance a greater portion of LDC oil needs than those of the developed countries who were capable of creating their own recycling arrangements. These nations were more inclined to draw upon the facility because of the more significant role it could play in their payments adjustment or because they could not obtain external financing elsewhere at better terms. Many of the hardest hit nations preferred terms that emphasized delayed payment schedules, which the oil facility provided, rather than modest price cuts that still required some form of immediate payment.

Middle income nations had mixed results, making it difficult to refute in a convincing manner the allegation that "none of the official recycling proposals have focused adequately on the problems of the semi-industrialized developing countries, many of which have depended heavily on external commercial sources of finance."<sup>16</sup> Middle income nations had the highest *use* value in one instance (GNP, Table 7) and the lowest in another (GNP per capita, Table 6). In terms of GNP, middle income nations enjoyed high values for *attractiveness* (Table 7) and *effectiveness* (Table 6), but the lowest *attractiveness* value (Table 6) on the basis of GNP per capita.

With the exception of the GNP ranking in Table 7, the high income nations utilized the oil facility at a greater rate in proportion to their access (*use*) than poorer nations.<sup>17</sup> These high *use* values probably reflect efforts by the high income nations to maximize the effectiveness of the oil facility for their needs, because its potential effectiveness was small compared to that of the nations with lower incomes. On the average, oil facility borrowers drew slightly more than four-fifths of the funds available to them.

One can only draw broad conclusions from the results of *attractiveness*, because the ordering of values is so diverse. On the basis of country averages the lower income nations had the highest values, but when measured in aggregate terms (Table 7), no consistent pattern emerges. The low income group (GNP per capita) had both the highest and lowest values for *attractiveness*: 1.96 in Table 6 and .68 in Table 7. However, the average values of 1.08 and 1.48 for all borrowers suggest that the oil facility's terms were sufficiently acceptable for all nations to borrow amounts in greater proportion than their need for oil-related financing.

## Conclusion

OPEC's oil price rises have thrust the issue of economic development further into the limelight of international politics. Roger Hansen notes that the developing or "Southern countries do not see the problems of development as theirs alone but as

systemic problems which can only be overcome by a more responsive international system restructured to meet their needs. . ."<sup>18</sup> Indeed, the absence of non-oil LDC hostility toward OPEC suggests that their economic goals have become subordinated to the ideological interests of the Third World.<sup>19</sup>

Criticism from the Third World has often emphasized the influence and power "reaped" by the developed nations through their aid efforts,<sup>20</sup> even though developing countries are seeking increases in aid. In their Dakar Declaration the developing countries condemned the global framework of aid dominated by the developed countries: "The international economic situation (is) marked by the perpetuation of inequalities in economic relations, imperialist domination, neo-colonialist exploitation and a total lack of solutions to the basic problems of the developing countries."<sup>21</sup>

The IMF has responded to the post-oil crisis needs of the LDC's and the international monetary system through the expansion of its tranches and quotas, the creation of the extended facility and oil facility, and the transfer of wealth to LDC's through the sale of gold under the Trust Fund.

The performance of the 1974 oil facility cannot be criticized for ignoring the unique circumstances of non-oil LDC's on the basis of the evidence presented here. As shown in Tables 6 and 7, a country's *need* for oil facility financing increased as national income increased, while the oil facility's *potential effectiveness* increased as national income decreased. By offering its financial services to oil importers, the oil facility has helped restore confidence in the Fund's ability to respond to global economic crises and influenced other financial institutions to make additional recycling aid available.<sup>22</sup>

#### Annex 1

#### Oil Facility Use and Bilateral OPEC Aid Commitments, 1974<sup>a</sup>

(million \$)					
100% Use		50-99% Use		0-49% Use	
Pakistan	(747.1)	Sudan	(120.0)	India	(276.9)
Bangladesh	(150.7)	Zaire	( 26.0)	Guinea	( 25.1)
Uganda	( 14.9)	Senegal	( 13.5)		
Sri Lanka	( 20.0)	Honduras	( 5.0)		
Mali	( 1.2)	Chad	( 9.5)		
Burundi	( 1.0)				
People's Democratic Republic of Yemen	( 31.3)				

Source: 1975 *OECD Developmental Co-operation Review*, (Paris: OECD, 1975), p. 183; and IMF.

<sup>a</sup>This table does not include OPEC aid to nations who did not draw from the 1974 oil facility. Value of OPEC aid is in parentheses.

## Annex 2

Country Categories According  
to 1972 GNP

<u>High Income</u>	<u>Middle Income</u>	<u>Low Income</u>
Italy	Pakistan	El Salvador
India	Israel	Cameroon
Spain	Chile	Costa Rica
Yugoslavia	New Zealand	Senegal
Turkey	Bangladesh	Malagasy Republic
Greece	Ghana	Nicaragua
Korea	Uruguay	Honduras
	Kenya	Cyprus
	Sudan	Iceland
	Zaire	Haiti
	Ivory Coast	Sierra Leone
	Tanzania	Guinea
	Uganda	Mali
	Sri Lanka	Chad
	Panama	Fiji
		Central African Republic
		Burundi
		People's Democratic Republic of Yemen

## Annex 3

Country Categories According to  
1972 GNP per Capita

<u>High Income</u>	<u>Middle Income</u>	<u>Low Income</u>
Iceland	Panama	Sierra Leone
Israel	Yugoslavia	Kenya
New Zealand	Chile	Central African Republic
Italy	Uruguay	Uganda
Greece	Costa Rica	Malagasy Republic
Spain	Fiji	Haiti
Cyprus	Nicaragua	Pakistan
	Turkey	Sudan
	Ivory Coast	Tanzania
	El Salvador	India
	Honduras	Sri Lanka
	Korea	Zaire
	Ghana	People's Democratic Republic of Yemen
	Senegal	Guinea
	Cameroon	Chad
		Mali
		Bangladesh
		Burndi



## Annex 4

**Maximum Access to 1974 Oil Facility and Quota Limitation**  
(millions of SDR's)<sup>a</sup>

Country	Maximum Access	75% of Quota	Country	Maximum Access	75% of Quota
Italy	750.0	750.0	Sri Lanka	43.5	73.5
India	644.5	705.0	Panama	27.0	27.0
Spain	296.2	296.2	El Salvador	22.8	26.3
Yugoslavia	155.2	155.2	Cameroon	15.0	26.3
Turkey	113.2	113.2	Costa Rica	24.0	24.0
Greece	103.5	103.5	Senegal	19.8	25.5
Korea <sup>b</sup>	100	60	Malagasy Republic	14.3	19.5
Pakistan	125.0	176.3	Nicaragua	15.5	20.3
Israel	97.5	97.5	Honduras	18.7	18.7
Chile	118.5	118.5	Cyprus	8.1	19.5
New Zealand	109.3	151.5	Iceland	17.2	17.2
Bangladesh	51.5	93.8	Haiti	4.8	14.3
Ghana	42.0	65.3	Sierra Leone	6.2	18.8
Uruguay	51.7	51.7	Guinea	7.6	18.0
Kenya	36.0	36.0	Mali	5.0	16.5
Sudan	36.6	54.0	Chad	2.8	9.8
Zaire	48.2	84.8	Fiji	2.5	9.8
Ivory Coast	39.0	39.0	Central African Republic	3.3	9.8
Tanzania	31.5	31.5	Burundi	1.2	14.3
Uganda	19.2	30.0	People's Democratic Republic of Yemen	11.8	21.8

Source: IMF and International Financial Statistics. These are the country quotas at the time of the 1974 oil facility and not the revised quotas agreed upon in January 1976.

<sup>a</sup>It can be assumed that maximum access was determined by the oil import bill and export variability formula when it is less than 75% of quota.

<sup>b</sup>Korea's maximum access and borrowings (100 million SDR's) exceed the quota limitation set forth in the oil facility text. Its access even exceeded 100% of quota, which is 80 million SDR's. The oil facility text allows for adjustments in the oil bill formula for maximum access, but not for the quota limitation (section 3), and this makes Korea a strange case. However, the Korean case is too specific for the objectives of this article, which are to make general comparisons among nations according to their level of economic development. Refer to IMF Press Release No. 76/17, March 24, 1976 and Executive Board Decision No. 4241-(74/67), June 13, 1974.

## Notes

Research for this article was carried out as part of a master's thesis at George Washington University where computer time was provided by the George Washington University Computer Center. The author is particularly indebted to Alan Buckley and Charles Cutler for their encouragement and critique throughout the preparation of this article. In addition, an early draft benefited from the comments of Stephen Shaffer.

1. Christopher C. Joyner, "The Petrodollar Phenomenon and Changing International Economic Relations," *World Affairs*, Vol. 138, No. 2 (Fall, 1975), p. 166.

2. Given a relatively constant global money supply and OPEC's incapacity to absorb all its oil trade income, it was feared that oil importers would become starved for funds as capital was drained out of them by higher oil prices. Oil exporters earned "petrodollars" and "recycled" them back to oil importers through trade, loans, investments, or government fiat so that there was sufficient liquidity available for them to sustain tolerable levels of economic activity.

3. Witteveen first suggested the oil facility concept at the January 17-18, 1974 meeting of the Committee of Twenty. (This proposal can be found in *IMF Survey*, February 4, 1974). American opposition to this idea was three-pronged: first, it was contended that private markets would be able to manage the surplus petrodollars without official intervention; second, the oil facility would serve as an outlet for surplus OPEC funds and a source of credit for needy oil importers, thereby making it easier for OPEC to continue its pricing policies; and third, should a nation borrowing from the oil facility default, the United States would have to pay off the creditors (*i.e.*, OPEC) as the largest guarantor of IMF transactions.

4. The lending terms for financing the oil facility were denominated in SDR's, with an annual interest rate averaging 7 percent over seven years maximum maturity. Nations borrowing from the oil facility were required to pay an interest rate that would average slightly more than 7 percent over the seven-year maximum maturity period. (See IMF Executive Board Decisions 4241- (74/67) and 4242- (74/67).)

5. The first clause in the oil facility decision text states that it will exist "for a period ending December 31, 1975." Accordingly, the operation of the oil facility was reviewed periodically and in December 1974 the Executive Directors decided to extend the original version into 1975. On June 11, 1975, after the 1974 oil facility had operated for almost exactly one year, changes were made and a 1975 oil facility was established. Thus, references to the 1974 oil facility are to the facility that existed from August 22, 1974 to June 11, 1975, the date of the final transaction of the facility to which contributions were made in 1974. See IMF Executive Board Decision No. 4241- (74/67).

6. OPEC and the major industrialized nations in the West were preoccupied within their mutual political and economic spheres before recycling to the Fourth World became increasingly difficult and emerged as a global issue.

This was due in part to the fact that the recyclable deficit of the developing countries, roughly \$17 billion, had a modest impact upon the flow of international capital in comparison to the oil deficit for the developed countries of \$48 billion. Indeed, the preponderance of the developed nations' recycling needs in terms of their monetary value prompted one IMF official to comment, "The staggering problem of recycling the needs newly accruing to the oil exporting countries—as distinct from the even more vexing problem of the transfer of income and wealth—is therefore predominantly one between them and the oil importers among the developed rather than the developing countries." E. Walter Robichek, "The Payments Impact of the Oil Crisis: The Case of Latin America," *Finance and Development*, December, 1974, p. 12.

7. The purpose of the oil facility is to cushion the initial impact of the oil price rises in late 1973. Oil facility requests were considered separately from members' use of other IMF resources, subject to the customary assessment by the Fund of their balance of payments position. Only IMF members with payment deficits due to oil imports were eligible to borrow under the facility.

8. Robichek, *op cit*, p. 15.

9. See Witteveen's original oil facility proposal in the February 7, 1974 issue of *IMF Survey*. At that time the Fund held the equivalent of only SDR 1.17 billion oil producer currencies out

of its total holdings of SDR 23.889 billion. This made it necessary to devise a scheme to increase the Fund's holdings of oil producer currencies. To a certain extent, then, market-related rates were necessary to induce oil exporters to place their funds at the IMF's disposal, because they sought the highest yield on their capital like any other investor.

10. See IMF Executive Board Decision No. 4241- (74/67) and its Attachment.

11. The Executive Directors scaled down calculations of maximum access by a uniform factor of .87 in September 1974 while reviewing temporary restrictions on access contained in the original oil facility document. This decision was made in conjunction with other provisions phasing disbursements so the pattern of expected use would match receipts of incoming oil facility contributions. (See *IMF Survey*, September 30, 1974, p. 310.) It was determined at their December 1974 meeting that official calculations of access were those in option D of Table 4 of SM/74/220, of September 11, 1974. [IMF Executive Director Decision No. 4529- (74/153)].

12. The data used here can be regarded as most accurate relative to the figures provided by other sources, but they are only rough estimates. Unless noted otherwise, all economic data used in this study are those used by IMF decision makers throughout 1974 and early 1975. This applies especially to estimates of increased oil import costs and BOP deficits. Because this is the set of data employed by the IMF in the operation of the oil facility, any inaccuracies cannot be seen as rendering the data irrelevant to the purposes of this study.

13. Personal interview with spokesmen for economic affairs at the Indian Embassy in Washington, D.C. on May 28, 1975.

14. It should be noted that there were no "other channels" similar to the oil facility in purpose at the time of Italy's loan. See the Press Conference held by H. Johannes Witteveen, Managing Director and Chairman of the Executive Board of the International Monetary Fund at the 1974 Annual Meeting of the Board of Governors, September 29, 1974, p. 2.

15. OECD, DAC (74/21), April 11, 1974.

16. Morgan Guaranty Trust Company of New York, *World Financial Markets*, March 19, 1975, p. 11.

17. Regression of the *use* variable has proven not to be as effective in analyzing its relationship with measures of economic development as comparing average values for categories of nations. One reason for this is the large number of 1.00 values for *use* (22 nations borrowed 100 percent of their access), which scattered national values on regression plots in a haphazard manner unsuited for this technique.

18. Roger Hansen, "The Emerging Challenge: Global Distribution of Income and Economic Opportunity" in *The U.S. and the World Development: Agenda for Action 1975*, edited by James Howe (Washington, D.C.: Praeger, 1975) p. 180.

19. In January 1975 the Third World Forum of prominent LDC economists issued a communique stating that "the increase in the price of oil by OPEC could therefore be seen as part of the struggle of the Third World to obtain a better deal from the world order. . . . The participants considered that close cooperation between OPEC and other parts of the Third World was vital in the next stage of this continuing struggle if the Third World was to succeed in its effort to obtain more justice from the world order and if oil exporting countries were to expect to consolidate and maintain their gains." This same communique also "proposed. . . (the) establishment of a Third World Development Bank financed by OPEC and other Third World countries." As quoted in Helen C. Low and James W. Howe, "Focus on the Fourth World," in *Ibid*, p. 21.

20. One Third World writer has stated that "economic aid, grants and loan agreements are, no doubt, the most powerful instruments of the developed countries' strategies for the achievement of their power and cold war objectives." See S. M. Qaiser Iqbal, "Economic and Political Strategies of the Developed Towards the Developing Countries," *Pakistan Horizon* (Karachi), Third Quarter 1974, p. 12.

21. As quoted in Thomas Rees, "The United States and the Developing Countries: Cooperation or Conflict in Commodity Policy," *The Journal of Energy and Development*, Autumn 1975, pp. 9-10.

22. See "Monetary Reform and the Developing Countries," Remarks by William B. Dale, Deputy Managing Director, International Monetary Fund, prepared for the Washington chapter of The Society for International Development, February 17, 1976, p. 8.

Table 4  
 GNP per capita Indicator Analysis  
 (Percent share of total by country categories<sup>a</sup>)

<u>Income Level</u>	<u>Facility Drawings</u>	<u>Facility Access</u>	<u>Increase in Oil Import Costs</u>	<u>1974 BOP Deficit</u>
High Income (8 nations)	49	44	70	73
Middle Income (15 nations)	26	24	18	14
Low Income (18 nations)	24	34	13	11
TOTAL	100	100	100	100

Source: IMF Press Release 76/17, March 24, 1976, Note 11 in the text and Table 3.  
 (Percentages may not always total 100 due to rounding.)

<sup>a</sup>See Annex 1 for countries included in each income category.

Table 5  
 GNP Indicator Analysis  
 (Percent share of country categories<sup>a</sup>)

	<u>Facility Drawings</u>	<u>Facility Access</u>	<u>Increases in Oil Import Costs</u>	<u>1974 BOP Deficit</u>
High Income (8 nations)	64	67	83	81
Middle Income (15 nations)	30	27	14	16
Low Income (18 nations)	6	6	3	3
TOTAL	100	100	100	100

Source: IMF Press Release 76/17, March 24, 1976, Note 11 in the text and Table 3.  
 (Percentages may not always total 100 due to rounding.)

<sup>a</sup>See Annex 2 for countries included in each income category.