

Arab Aid Allocation in the Oil Era

Brief 2

November 2011

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Relatively little is known about Arab aid allocation. We use AidData to document trends in reported donations from specific bilateral donors and multilateral agencies. Arab bilateral donors have given less generously over time, with aid levels remaining relatively stable despite skyrocketing national wealth. We explore reasons for this decline, including that Arab donors have: shifted giving from bilateral to multilateral channels, given less as DAC donors have given more, and increased domestic spending (at the expense of foreign aid) with a view to safeguarding regime security. We also examine the sectoral allocations of Arab bilateral and multilateral organizations, and compare the aid practices of Arab donors to their DAC counterparts. Finally, we argue that tracking aid commitments may not be a reliable approach if one is interested in studying Arab aid allocation patterns.



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Introduction

Arab states are major foreign aid donors. Saudi Arabia, Kuwait, and the United Arab Emirates give the most bilateral assistance outside of Development Assistance Committee (DAC) members (Nielson, Powers, & Tierney, 2010). Yet, the subject of Arab aid has so far been neglected in academia, both as an aspect of Arab foreign policy and in terms of its impact on development outcomes. It has been nearly two decades since the last major country-level survey of Arab aid practices (van den Boogaerde, 1991), and the time has come to explore what a new generation of aid information can reveal about Arab foreign policy.

The major players in Arab foreign aid

Arab states emerged as major donors in the 1970s, beginning with the skyrocketing of oil prices in 1973. After existing aid groups broached the idea for an umbrella organization in 1974, the Secretariat of the Coordination Group was established in 1975 as an overarching structure to facilitate dialogue and cooperation among the major Arab aid organizations, thus improving aid efficiency and maximizing the overall impact of Arab aid. The Secretariat's member organizations include the most significant multilateral donors as well as sovereign bilateral donors.

Table 1 illustrates the distribution of development finance activities by members of the so-called Coordination Group of

Table 1: Coordination Group Member Activities Through 2008

Institution	Location	Founded	Aid from/ to	Recipients [#]	Operations [#]	Amount [US\$ bil.]	% of CG Aid
Islamic Dev. Bank (IDB)	Jeddah, Saudi Arabia	1975	OIC/ Muslims	56 [96]	2,111 [2,092]	26.3 [19.8]	29.1 [19.5]
Arab Fund (AFESD)	Kuwait City, Kuwait	1974	Arab/ Arab	17 [22]	525 [1,200]	20.8 [24.9]	23.0 [24.6]
Kuwait Fund (KFAED)	Kuwait City, Kuwait	1961	Kuwait/ world	103 [108]	769 [1,044]	15.7 [24.1]	17.3 [23.7]
Saudi Fund (SFD)	Saudi Arabia	1974	Saudi Arabia/ world	71 [67]	470 [339]	8.7 [13.2]	9.6 [13]
OPEC Fund (OFID)	Vienna, Austria	1976	OPEC/ world	107 [118]	1187 [1,930]	7.2 [11.1]	8.0 [10.9]
Arab Monetary Fund (AMF)	Abu Dhabi, UAE	1976	Arab/ Arab	22 [n/a]	141 [n/a]	5.2 [n/a]	5.7 [n/a]
Abu Dhabi Fund (ADFD)	Abu Dhabi, UAE	1971	Abu Dhabi/ world	49 [44]	160 [158]	3.7 [4.2]	4.0 [4.1]
Arab Bank for Africa (BA-DEA)	Khartoum, Sudan	1975	Arab/ Africa	42 [46]	451 [845]	3.0 [4.2]	3.3 [4.1]
Total					5,814 [7,608]	90.5 [101.6]	100 [100]

Arab donors. In the four columns to the right, the first number is provided by the Coordination Group. Using AidData, we generated an alternative set of figures (which appears in brackets). AidData reports more operations and aid than the Coordination Group Secretariat itself does.

Transparency of Arab aid

While Arab multilateral aid organizations generally do an admirable job of documenting their aid activities, bilateral donors have been less transparent. Barriers to transparency come in two forms: (1) insufficient data supplied by national aid organizations and (2) additional unreported transfers by Arab governments which bypass the bilateral organizations.

Problems with data supplied by national aid organizations

Lacking data from national aid organizations reflect two deficiencies. First, some Arab bilaterals do not consistently report annual data. Of the three major Arab bilateral aid organizations, UAE's ADFD is the least consistent. It does not report aid from 1988 to 1997, and has another gap from 2005 to 2007. Second, Arab bilaterals omit certain types of development aid which DAC donors routinely publish. For example, the three Arab national aid organizations do not publish figures for debt forgiveness.

Unreported transfers

A major challenge is the fact that Arab governments make additional, unreported aid contributions beyond what they disclose through established institutional channels. And even as such unreported transfers seem to be the norm across Arab donors, some governments appear to utilize them with greater frequency and weight than others. For instance, the Saudis conduct a major share of their aid activity off the books, through the Ministry of Finance rather than the Saudi Fund. Kuwait, by contrast, tends to channel a higher proportion of its total aid through KFAED, rendering it a more "regular," predictable, and transparent donor.

Why is Arab aid opaque?

In an aid environment that increasingly emphasizes the importance of transparency, why is Arab aid relatively opaque, compared with reporting by DAC donors? We offer five reasons. First and most important, there is an institutional explanation predicated on regime type and domestic accountability. Unlike DAC members, the states of the Arabian Peninsula are gov-

erned by regimes which are (in varying degrees) nondemocratic, and thus have not been pressured for a transparent, reliable accounting of foreign aid expenditures from civil society.

Second and related, Gulf states likely do not report certain aid transactions because there is something they wish to hide. For instance, a leader may wish to make a donation which he knows will be unpopular with his people, due to the identity of the recipient and/or the amount of the gift.

Third, there is a norms-based explanation. Whereas DAC members have been socialized to follow particular standards of transparency, non-DAC donors have not received the same exposure to those norms, nor been socialized into following them. As Arab donors participate with DAC donors in co-financed projects and seek more international prestige, we may expect the former to place more emphasis on reporting data, as long as such transparency does not endanger regime security.

Fourth, the distinctive nature of the domestic political economies of the Gulf oil states may contribute to the opacity of Arab aid. Led by dynastic monarchies composed of large ruling families, the distinction between public and private wealth is blurred in the Gulf states. A personal donation from an Arab ruling elite renders problematic the concept of official development assistance as defined by the OECD.

Fifth, an Arab cultural norm may exist, which frowns on publicizing certain charitable contributions. For example, when the leader of a Gulf country gives money to some country which has been stricken by a humanitarian disaster, announcing that charitable gesture would violate a cultural norm regarding publicizing generosity.

Generosity of Arab donors

In UN General Assembly Resolution 2626 of 24 October 1970, the United Nations called on countries to give a minimum of 0.7% of their GNI as official development assistance. Members of the OECD's Development Assistance Committee (DAC), which does not include Arab states, have not come close to hitting this mark. During 1975–99, DAC countries reported five-year averages of between 0.24% and 0.36% for ODA/GNI. By these standards, Kuwait has been quite generous, while donations by Saudi Arabia and the UAE have been more similar to those of average DAC countries.

Generosity has declined for two of the bilateral donors—Kuwait and Saudi Arabia—since 2000. The decline in Kuwait's generosity is due almost entirely due to the tremendous jump in Kuwait's GNI. Expressed in current US dollars, Kuwait's GNI increased approximately fourfold from 1998 to 2007, while Kuwait's bilateral aid increased by only 40%. This raises the question: As high oil prices have bolstered the

Table 2: Generosity of Arab aid as percentage of GNI, 1975–2007. Source: AidData and authors' calculations

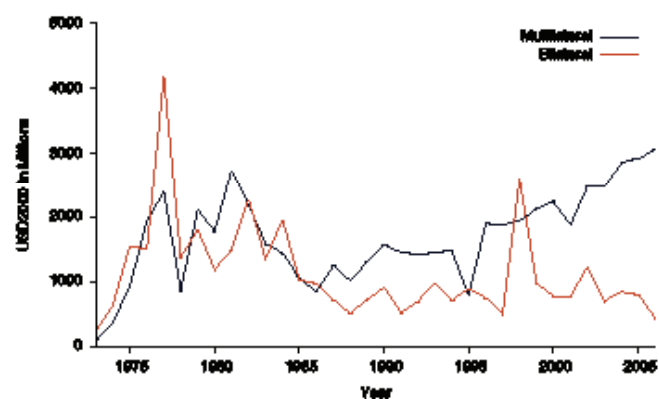
	1975–79	1980–84	1985–89	1990–94	1995–99	2000–04	2005–07
Kuwait	1.80	1.66	1.02	1.84	1.61	1.09	0.56
Saudi Arabia	0.50	0.20	0.21	0.12	0.28	0.12	0.07
UAE	0.27	0.59	0.12	n/a	0.24	0.26	n/a

national wealth of the principal donors of Arab aid in the last decade, why haven't aid allocations kept pace? In the following sections, we offer potential explanations.

Bilateral versus multilateral Arab aid

One possibility is that Arab states have actually maintained their previous level of generosity, making up for flat levels of bilateral giving by donating more money through multilateral channels.

Figure 1: Arab aid commitments by multilateral and bilateral institutions, 1976–2006. Source: AidData and authors' calculations.



Indeed, Figure 1 shows that while bilateral Arab aid has been fairly consistent since the late 1980s, commitments from multilateral Arab institutions have risen rather gradually and consistently over the same period. This challenges the conventional wisdom that Arab states give most of their aid bilaterally, a strategy which would enable them to maximize the foreign policy leverage they could derive from development assistance efforts. However, the increase in multilateral commitments is not sufficient to compensate for the decline in generosity of bilateral aid.

A second possible reason for the decline in generosity of Arab donors is that non-Arab donors have increased their commitments to traditional recipients of Arab aid. Indeed, during a

period of substantial GNI growth (2002-2006) in Arab donor countries, non-Arab donors sharply increased their commitments to Arab recipients. This surge of non-Arab support may have dampened the perceived need to increase aid to fellow Arabs.

Increasing government expenditures by Arab donors

A third factor that explains the decline in generosity of Arab donors is that wealthy Arab states have substantially increased domestic expenditures. When political leaders in these states face increasing opposition, we would expect to see a rise in domestic spending aimed at ensuring the regime's political survival.

Focusing on Kuwait (for which we have the best data), we find domestic expenditures have indeed grown more rapidly—and began their increase earlier—than GNI. By 1981, each of these measures had doubled from its 1975 level. During the 1980s, while GNI remained flat and aid commitments decreased, domestic expenditure doubled again, to four times the 1975 level. When GNI began to accelerate rapidly in the 2000s, domestic expenditures also accelerated. Based on their stability over the last three decades, development assistance commitments do not appear to be sensitive to changes in the size of domestic budgets. Growth in government expenditures are quite likely a salient part of this picture.

Sectoral trends in Arab aid

In this section, we explore the sectoral priorities of Arab aid organizations, considering whether they are consistent across bilateral and multilateral Arab donors and over time. We also provide comparative perspective, by juxtaposing the sectoral breakdown of aid by Arab and DAC donors. To do so, we leverage the sector and project codes for non-DAC donors in AidData to learn about the priorities of Arab aid organizations.

What types of projects does Arab aid support?

Our findings indicate that the sectoral priorities of Arab bilateral and multilateral aid agencies are largely the same. Arab bilateral and multilateral development institutions allocate the majority of their funds to transport, energy, and water. Arab multilateral institutions have further mirrored Arab bilateral agencies by growing more focused over time.

Comparing sectoral allocation among Arab and DAC donors

While Arab donors have focused their aid on infrastructure, and especially transport, energy, and water, DAC members have spent far less on those items and have decreased their emphasis in these areas over time. In both 1978–87 and 1988–97, DAC states allocated roughly 20% of their aid budgets to transport, energy, and water, and this proportion decreased to 15.1% in 1998–2007. While aid allocation for Arab donors is highly concentrated in a few sectors and consistent over time, DAC donors support a much broader portfolio of projects, the foci of which has shifted over the years. In the earliest of

the three decades covered, the top three sectors were general budget support, food aid, and agriculture. In the most recent period, the top sectors were action relating to debt, budget support, and education aid.

Looking ahead: moving forward with Arab aid research

Issues with an exclusive focus on commitment data

One lesson that we have learned from using AidData is that an exclusive reliance on commitments creates difficulties for the study of Arab donors. The main reason is that Arab donors have been resolutely immune to norms favoring more numerous, but smaller, development projects. Large, comprehensive projects that take a long time to complete likely entail disbursements over a number of years. If our aim is to measure aid effort over time, assigning the full value of these projects to the year of commitment is ultimately arbitrary.

Table 3: Aid Commitments by Sector (Sectors comprising <2% are blank. Note: only top sectors are shown.)

	Arab bilateral commitments			Arab multilateral commitments			DAC commitments		
	1978-1987	1988-1997	1998-2007	1978-1987	1988-1997	1998-2007	1978-1987	1988-1997	1998-2007
Transport & storage	27.6	24.3	34.6	19.2	10.8	31.9	8.5	8.6	6.5
Energy	18.3	18.9	21.8	16.3	26.1	21	8.1	7.6	4.9
Water & sanitation	13.8	16.9	10.8	7.4	15.6	14.5	3.3	4.3	3.7
Agriculture	9.7	8.9	3.3	16.3	12.5	3.9	9.5	5.6	
Industry	6.8	8.9		8.3	9.7	2.6	4.9	4	
Other/multisector	4.8	6.2	4.8	5.3	5.4	7.6	3.4	5.1	4.3
Gen budget support				6.7			10.8	9.3	4
Food aid				6.1			10.2		
Action rel. to debt								5.7	11.5
Education	2		3.6		5.5	3.6		3.5	5.5

Another difficulty arising from an exclusive focus on commitments is the inability to measure gaps between committed aid and disbursed aid. Countries that make larger, multi-year commitments are also more likely to run into difficulties following through on those commitments, even when they have the political will to do so. For example, Saudi Arabia's disbursements fell sharply in the 1980s, following a decline in global oil prices.

This is a potentially serious problem because the major Arab donors are united in their preference for large aid projects. In 1977, Kuwait made 25 bilateral aid commitments, with a mean value of more than \$45 million (USD2000). In the same year, DAC member Norway made 103 bilateral commitments with a mean value of just over \$2 million. In recent years, this gap between Arab donors' and DAC members' commitment practices has become a chasm. In 2007, Kuwait made 30 bilateral commitments with a mean value of \$30 million; Norway made more than four thousand commitments, with a mean value just over \$0.5 million.

Broadening coverage of Arab donor states

By collecting systematic, project-level information on Arab bilateral commitments, AidData has made a major contribution to the study of development assistance in the Arab world. We are also encouraged to see that AidData has begun to incorporate data from other Arab donors outside the "big three" (for example, Qatar's 2007 bilateral aid is included). If AidData builds on these early successes and expands its coverage beyond Kuwait, Saudi Arabia, and the United Arab Emirates, it would certainly contribute to our knowledge of Arab aid.

Conclusion

Nearly two decades have passed since the last major country-level survey of Arab aid practices (van den Boogaerde, 1991). How well does the conventional wisdom hold up, in light of recent developments in foreign aid information? Our work shows that Arab aid is not as geographically concentrated as previously thought. Likewise, our work calls into question the wisdom that Arab donors primarily give to Arab recipients. Unfortunately, our work does support one element of the conventional wisdom: Arab donors as a group are considerably less transparent than their DAC counterparts. As new Arab donors (like Qatar) emerge, and as Arab multilateral institutions grow in importance, we hope to witness a reversal of this trend.

Though our work here is mostly exploratory, we feel confident in drawing some general conclusions. First, there has indeed been a decline in the "generosity" of bilateral Arab donors. Our work has identified three plausible causes: an

effort to channel more aid through multilateral organizations; the tremendous increase in aid commitments to Arab recipients from non-Arab donors following the 2003 Iraq war; and the acceleration of government expenditures by Arab donors in recent years. Second, we are confident that the increase in Arab multilateral aid cannot be explained by a shift in sectoral preferences. Third, it is clear that Arab donors differ from the more widely studied DAC donors in their continuing preference for high-profile, expensive infrastructure projects.

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Acknowledgements

This research brief draws on excerpts from [Debra Shushan and Christopher Marcoux. 2011. The Rise \(and Decline?\) of Arab Aid: Generosity and Allocation in the Oil Era. *World Development* 39 \(11\): 1969-1980](#), with permission from Elsevier. The authors thank Alena Stern (William and Mary '12) for her assistance in compiling this brief.