

Arab Foreign Aid: Disbursement Patterns, Aid Policies and Motives

Espen Villanger

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Executive summary

This report examines Arab aid flows and aid policies, and contrasts them with the broad picture of Western practice in these areas. The lack of analysis of Arab aid in the literature is unfortunate since (1) Arab countries have been major donors of foreign aid in general, (2) targeted strategic aid can be a powerful weapon of influence, especially for pursuing Arab donors' own foreign policies, commercial interests or religious motives, and (3) it seems that Arab aid is different from Western aid in that it is used to promote Islam and build Arab solidarity. One aim of this report is to assess whether Arab and Western aid are set to work in opposite directions, or whether they can complement each other.

One feature of aid from the three major Arab donors, Saudi Arabia, Kuwait and the U.A.E., is that they give most of it (around 85 %) bilaterally, mostly in the form of loans, with a large share (about 50 % of national and multilateral Arab aid) going to Arab countries. This is not to say that the Arab multilaterals are not major financiers of development projects. On the contrary, Arab multilaterals have been built up over the years in such a manner that they are more important than the bilateral national aid agencies of the Arab countries. However, most of the Arab bilateral aid is channelled through their Ministries of Finance and is not open to public scrutiny; hence, the Ministry of Finance in each of the Arab donor countries seems to be the most important aid institution in the Arab region.

Another feature is that while Arab aid has been very generous, it has also been very volatile – due both to the volatility of Arab countries' revenue from their oil and gas exports and to their strategic use of aid to support their foreign policies. On the latter issue, much aid has gone to build and maintain allies in the Arab world and to reward supporters during military conflicts (Iran-Iraq war, the 1991 Iraqi invasion of Kuwait). This is the same motive for giving aid as is found for much Western aid.

Other motives important to Arab donors seem to be to support their own commercial interests; similarly, Western donors have a long history of pursuing tied aid and giving more aid to countries that are major importers of that donor country's goods. Finally, Arab aid seems to go partly to Islamic countries, and coupled with the large flow of non-official aid into promoting Islam, it seems as though such religious aims are important to Arab donors.

Arab donors have not participated in the aid policy debate that has been so important to Western donors. This probably reflects the Arab view that recipient countries should be allowed to choose their own development path and not be obstructed by "imperialist" ideas from donor countries. The Arab donors thus have a long history of policy dialogue with recipient countries that Western countries can learn from if they are in fact interested in building partnerships with recipient countries.

The recommendations of this report are as follows:

1. A qualitative study is needed to quantify the volume of secret aid given by the Ministries of Finance in the Arab donor countries, and to assess the reasons why they are kept secret and compare the motives for these grants with other Arab and Western donor motives.
2. Arab donors should reduce the volatility of their aid and keep it above the UN recommendation of 0.7% of GNI.

3. Arab donors should calculate the degree of pro-poorness of their spending and investment and target more aid towards projects that mostly benefit the poor.
4. Arab donors should reverse the trend where aid increasingly is used to support their own commercial interests, and keep export promotion of donor country goods separate from aid and aid institutions.
5. Arab donors should select poorer countries as the main beneficiaries of their development finance and increase the grant element of their finance to these countries.
6. Western donors should learn from the way in which Arab donors have practised partnership and policy dialogue with recipient countries and ensured recipient ownership of the development projects.
7. There are clear synergies from more cooperation between DAC and the Coordination Group of Arab Donors that should be exploited. Tighter cooperation on collection and reporting systems of information on foreign aid could ensure more accurate and comparable aid data. Similarly, they could establish a joint committee with responsibility for making available analyses of Arab aid. Alternatively, the Arab Cooperation Secretariat should be strengthened to produce economic analysis and a wider spectrum of statistical material.
8. Arab aid donors should calculate and publicise the grant element of their lending operations in the same way as OECD-DAC is doing. This would separate non-concessional from concessional lending and thus be helpful in separating aid from non-aid.

1. Introduction

This report analyses aid from the main Arab donor countries – Saudi Arabia, Kuwait and the United Arab Emirates – focusing on patterns and policies of aid giving. We are not looking at issues of aid effectiveness or perceptions of Arab aid among its recipients. While much analysis and debate is surfacing on Western countries' aid policies and their related foreign policy strategies (see Mavrotas and Villanger (2006) for a review), little has been done to analyse Arab foreign aid giving and its motives. This is unfortunate for at least three reasons. *First*, Arab countries have been major donors of foreign aid – they gave, for instance, 13.5 % of world assistance between 1974 and 1994, and Saudi Arabia remains one of the world's single largest bilateral donors. *Second*, there are several indicators pointing to Arab aid being used for strategic purposes – as a source of influence for pursuing the donor's own goals, be it foreign policy, commercial interests or religious motives. *Finally*, it seems that Arab aid is used in particular to promote Islam and to build Arab solidarity.

One crucial question is then whether Arab and Western aid are set to work in opposite directions, for example by giving opposite policy advice to recipient countries, or whether they can complement each other, for example in joint operations. Moreover, is there scope for synergies between their aid efforts? This paper attempts to address these issues by analysing the differences and similarities between Arab and Western aid. There are major differences between Arab aid agencies' policies, and likewise, large differences between Western aid agencies' policies. Hence, we will focus on the broad picture and the averages in aid-giving patterns.

The focus of this paper is to describe Arab official development assistance (ODA), the accompanying aid policies, and their motives for giving. These findings are then compared to the broad picture of Western donor behaviour, mostly with the average disbursements and policies of the Development Assistance Committee (DAC) countries of the Organisation for Economic Cooperation and Development (OECD). The definition of ODA comes from the OECD-DAC and defines official development assistance as financial flows, technical assistance and commodities from the official sector that are

- (1) designed to promote economic development and welfare as their main objective; and
- (2) are provided as either grants or subsidised loans¹ to
- (3) low- and middle-income countries.

The definition hence excludes aid for military or other non-developmental purposes. Foreign aid, foreign assistance, and aid will be used interchangeably throughout the paper and refer to ODA as defined above.

While analysing the official figures of ODA, the aid patterns, the policies and the motives for giving is interesting, it is important to be aware of the fact that much of the Arabic resource flows have traditionally been channelled in private through the ruling families, and through government channels that are not necessarily transparent in the public domain. This is particularly true for Saudi Arabia, which, according to Nonneman (1988) and Van den Boogaerde (1991), has kept a part of its aid giving secret. Secrecy in aid giving is currently also the policy of Kuwait, and this was confirmed by Al-Hamad, Director General of one of the largest multilateral Arab aid institutions, The Arab Fund for Development, in March 2007.² Moreover, the OECD states that the non-DAC

¹ A loan has to have a grant element of at least 25 % or more to be counted as aid.

² All references to Al-Hamad in this paper refers to the author's interviews with Al-Hamad at the Arab Fund headquarters in Kuwait on 5 March 2007.

donors are not reporting their ODA accurately and have now taken the initiative to promote information sharing on aid disbursements (OECD 2006).

It is puzzling that so little attention is paid to Arab aid disbursements, especially considering their importance to conclusions on aid patterns and motives. If an Arab donor has controversial aims or pursues interests that it wants to keep out of the public domain, one might expect these transactions to be performed through unofficial channels. This indicates that there may be more strategic aid giving from these countries than is revealed by our analysis, and the issue warrants further research.

The three oil-rich Gulf States of Saudi Arabia, Kuwait and the United Arab Emirates are the main Arab givers of official foreign aid. Hence, we focus on these countries and their relations with recipients of foreign aid. These three countries are also the only Arab countries that have national aid agencies and they support and cooperate with a range of Arab multilateral development finance institutions.³ Furthermore, they are also members of the most important international multilateral institutions - the UN, the World Bank, the IMF and the WTO – and Kuwait and Saudi Arabia are also non-regional members of the African Development Bank.

The remaining parts of the paper consist of four sections. Section 2 gives an overview of the volume of Arabic aid from 1985-2004, lists the recipients and categorises the different types of aid instrument. Section 3 contains a comparison of Arab and Western aid policies on the main areas of contemporary debate (Good governance and transparency - 3.1, Economic policy reforms and conditionality - 3.2, Harmonisation, coordination and cofinancing – 3.3, pro-poor interventions – 3.4). Then, in section 4, an analysis of Arab motives for giving aid is tabled, and these motives are contrasted with Western aims. The conclusions and recommendations are presented in section 5.

³ Algeria, Libya, Iraq, and Qatar also provide foreign assistance, but in very small amounts.

2. Arab foreign aid: Volumes, types, and recipients

2.1 Arab aid volumes over time

Arab generosity

One striking feature of Arab countries' foreign aid since its start in 1973 is their outstanding *generosity*. Arab aid averaged 4.7% of their combined GNI⁴ in the initial period from the start up to 1978 while the DAC countries averaged 0.3% in the same period (van den Boogaerde 1990).⁵ Declining in the following years, the average annual net ODA provided by Arab countries still represented 1.5 percent of their GNI during the period 1974-1994 (Neumayer 2003a), which is considerably more than the average contributions of DAC countries, which amounted to 0.3 % of their GNI during the same period (OECD 1995).

The gap has narrowed in recent years, as indicated by the figures in table 1. DAC countries disbursed 0.25% of their GNI as ODA from 1995 to 2005, while the ODA/GNI figures for the main Arabic donors from 1995 to 2004, Saudi Arabia, Kuwait and UAE, are 0.43%, 0.59% and 0.17%, respectively.⁶ However, Saudi Arabia and Kuwait are still among the countries that give the most ODA in the world – only five countries in the world gave more ODA/GNI during the last decade (1995-2004).⁷ Looking at the past ten years, Saudi Arabia remains the largest Arab donor in absolute figures. Kuwait is the second largest donor while UAE is in third place; and hence, the ranking is the same as for the initial period 1973-1987.

Keeping in mind that Saudi Arabia does not report all its ODA,⁸ the available figures indicate that it has been the largest aid donor in the world since 1973 as measured by ODA/GNI. Moreover, Saudi Arabia has from the start been the dominant Arab donor with an average of 51% of all Arab aid between 1973 and 1979, 60% between 1980 and 1982 and 83% of the total between 1983 and 1987. The Saudis remain by far the most important Arab donor with a share of the total Arab aid of almost

⁴ The Donors' gross national income (GNI) at market prices is the sum of gross primary incomes receivable by resident institutional units and sectors. In contrast, gross national product (GDP) measures the value of the total production within a country and does not include income and profits going into or out of the country. Hence, for aid givers, especially large donors, GNI gives a more accurate measure of the burden of giving relative to the donor's income

(http://www.oecdobserver.org/news/fullstory.php/aid/1507/GDP_and_GNI.html).

⁵ Boogaerde (1990) uses data for the following Arab donors: Algeria, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, U.A.E. All figures borrowed from this author throughout this paper refer to the abovementioned countries. Note, however, that Saudi Arabia, Kuwait, UAE and Qatar provided 90 % of Arab aid during the time frame of this study (1973-87), and Qatar was the smallest among these four donors, so the comparison with our focus group is relevant.

⁶ Author's own calculations using OECD (2006) figures for ODA and WDI (2006) for current GNI. The reason why 2005 was not included in the calculations of the Arab ODA/GNI measures is that no figures were available for Saudi ODA for 2005 by the time this report was finished. Note also that there is a somewhat large discrepancy between these figures and the figures claimed by the Coordination Group, which states that Arab donors contributed 0.7% of their GNP during the last 10 years (Coordination Group, 2006)

⁷ These countries were Denmark, Luxembourg, the Netherlands, Norway and Sweden (OECD 1998, 2001, 2005).

⁸ Parts of the secret resource transfers from Saudi Arabia clearly do not qualify as ODA in that they are private transfers, financial support for the building of mosques and so on.

70% in the decade from 1995 to 2004, and as much as between 81% and 93% during the last three years for which we have figures (i.e. 2002-2004).

Table. 1 Arab official development assistance (ODA) flows and trends.

Net disbursements	Current USD million (ODA/GNI)										1995-2004
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	
Kuwait	384 (1.20)	414 (1.12)	373 (1.01)	278 (0.87)	147 (0.42)	165 (0.38)	73 (0.19)	20 (0.05)	138 (0.31)	209 (0.34)	2201 (0.59)
Saudi Arabia	192 (0.13)	327 (0.20)	251 (0.15)	288 (0.19)	185 (0.11)	295 (0.16)	490 (0.27)	2478 (1.31)	2 391 (1.12)	1734 (0.69)	7631 (0.43)
UAE	65 (0.14)	31 (0.06)	115 (0.21)	63 (0.12)	92 (0.16)	150 (0.20)	127 (0.18)	156 (0.21)	188 (0.21)	181 (0.17)	1168 (0.17)
Of which: Bilateral											
Kuwait	339	367	355	247	147	164	73	20	114	185	2011
Saudi Arabia	134	177	79	123	-1	129	395	2146	2 340	1691	7213
UAE	55	29	115	63	92	150	127	156	188	181	1156

Table. 1 continued.

Net disbursements	Current USD million (ODA/GNP)									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Kuwait	771 (2.96)	715 (2.89)	316 (1.20)	108 (0.40)	170 (0.55)	1295 (7.28)	390 (2.45)	203 (0.85)	395 (1.49)	555 (2.01)
Saudi Arabia	2630 (2.91)	3517 (4.67)	2888 (3.88)	2040 (2.52)	1170 (1.36)	3652 (3.71)	1704 (1.48)	783 (0.65)	549 (0.44)	317 (0.25)
UAE	(0.45)	(0.42)	(0.08)	(-0.07)	n.a.	(2.63)	558 (1.64)	172 (0.49)	239 (0.67)	100 (0.27)

Source: OECD (1990, 1992, 1993, 1994, 1995, 2006),⁹ WDI (2006), author's own calculations.

High volatility of Arab aid

Another striking feature of Arab aid is its high *volatility*, which in turn makes it difficult to predict the trends of these resource flows. Many recipient countries criticise donors for being unpredictable with respect to when and how much aid will be disbursed. In fact, Arab aid has had huge swings over the years, and changes in oil prices seem to be the major driving factor, which is confirmed by the Director General of the Arab Fund, Mr. Al-Hamad.

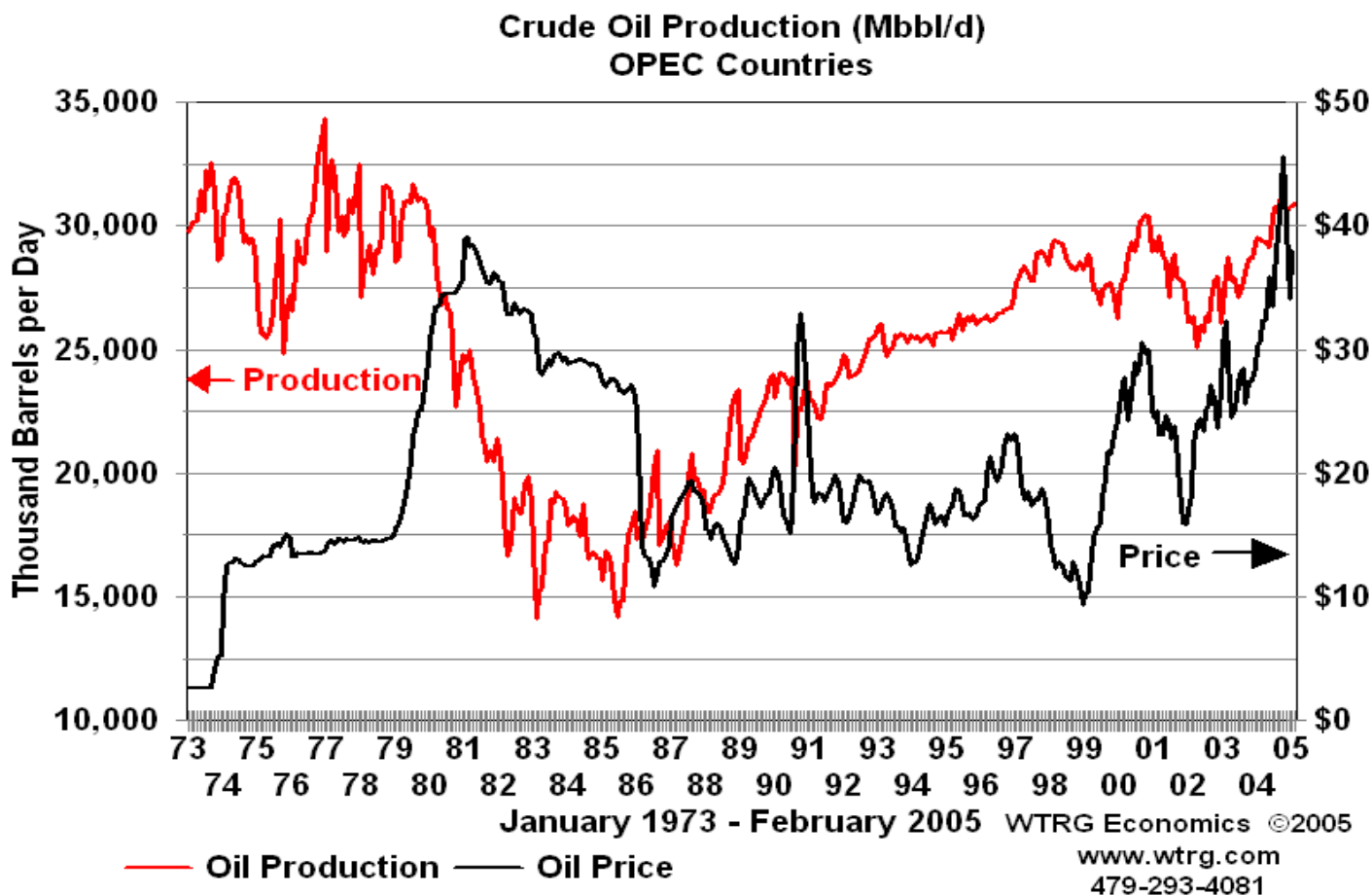
Pierre van den Boogaerde (1990) gives an interesting analysis of the volatilities in Arab aid and its main causes during 1973-87. Arab foreign aid was negligible before the quadrupling of real oil prices in 1973-74. During the six-year period 1973-1978 the Arab economies prospered with high oil production, high growth rates and large currency reserves, and a range of development projects

⁹ Where there were conflicting numbers, the latest figure is used in the table.

were initiated that required imports of labour, mainly from other Arab countries. During these years of rapid progress, Arab aid peaked in 1973 at almost 6 % of Arab donors' combined GNP, while it had a low in 1977 at 3.8 % of their GNP. The importance of oil prices to Arab aid is confirmed by a third source. Neumayer's (2004) simple statistical analysis finds that Arab aid is highly correlated with the total revenue from their oil and gas extraction.

Absolute figures give a more interesting picture of the volatility in Arab aid: ODA was doubled in nominal terms from 1973 to 1974 and then increased 35 % in the subsequent year. When the world economy, including the Arab economies, contracted after the second oil price shock in 1979-80, with high oil prices leading consumers to use energy more efficiently, world oil consumption was drastically reduced. This large drop in demand caused a reduction in oil prices and OPEC oil production and Arab aid plunged. The chart below illustrates that the oil price was drastically reduced towards 1983 at the same time as OPEC oil production was more than halved. The foreign currency position of the Arab donors thus deteriorated and turned negative in 1983 and cuts in currency-intensive operations were undertaken across the board. Hence, Arab foreign aid was cut in half from 1980 to 1983 and to only one third in 1985 of its peak in 1980. The major reason for the large drop is that Iraq, Libya, Qatar and the UAE went from being substantial donors in 1980 to disbursing almost negligible amounts of aid during the period up to 1985. In particular, Iraqi aid plummeted after 1983 due to the war with Iran.

Figure 1. Nominal crude oil prices and production, 1973-2006



Combining figure 1 with the changes in Arab ODA given in table 1 above illustrates the importance of the oil price and oil production for the volatilities in recent Arab aid giving. However, even though the enormous peak in Arab aid in 1990-1991 coincides in time with the oil price peak, it is important to acknowledge that the Iraqi invasion in Kuwait in 1990 played an important role in the increases in foreign aid. The oil price peak may have made a larger sum of foreign aid available to the Arab donor countries, but the main reason for disbursing such huge amounts in 1990/91 was to support the eviction of Iraq from Kuwait after the 1990 invasion. We will return to this issue below, but note here that there was an openly stated policy among Arab donors to financially reward those who supported the war against Iraq.

The drop in oil prices in 1992/93, the needs for the reconstruction of Kuwait and the strained economic situation in Saudi Arabia after the assistance to allies in the war against Iraq all contributed to a drop in aid from the three main Arab donors up to the mid-nineties as compared to the five-year period prior to the invasion of Kuwait (OECD 1994, p. 110).¹⁰ However, it is still a puzzle why Saudi Arabian aid remained at an all-time low for so many years after the war, especially during the period from 1996 to 2001, which includes the tripling of the nominal oil price from 1999 to 2001. However, the tripling of the oil price in nominal terms from 2002 to 2005 was from a higher initial level and seems to have spurred Saudi Arabia to increase aid disbursements to 1.04% of GNI during 2002 to 2004, as compared to the average of 0.26% of GNI from 1992 to 2001. However generous, it is still quite far from the amounts given in the 1970s (7.5% of GNP) and 1980s (3% of GNP). This discrepancy reflects that Saudi's per capita oil export revenues are far behind those of the 1970s and 1980s – they earned US\$ 4564 per person in 2004 versus US\$ 22.589 in 1980.¹¹

In addition to oil price swings, political matters and security issues are the most important factors explaining the volatility of Arab aid. The most important Arab donors take decisions at the Arab Summit meetings and other developments in the Arab world into account when deciding on aid disbursements (van den Boogaerde 1990). Supporting foreign policies in general, and regional stability in particular, has been an important motivation for Arab aid. This implies in turn that the amounts of aid will vary accordingly, and we return to this issue in more detail in section 3.

2.2 Types of Arab aid and aid instruments

Bilateral

One striking characteristic of Arab aid is that it has from the beginning mainly been channelled bilaterally. The share of bilateral aid remained above 90% during 1973-81, except in the period when the multilateral institution Gulf Organization for the Development of Egypt was built up (1976-78). Remaining committed to their multilateral obligations through the times of economic hardship in the early 1980s, the bilateral share shrank to 84% for the years 1982-87. The bilateral share has, however, remained high and stood at 86% from 1995 to 2004.

¹⁰ The importance of the Gulf War in explaining the subsequent fall in Arab aid is confirmed by statistical analysis in Neumayer (2004).

¹¹ Saudi Arabia's population tripled during that time span, and the oil export revenues has declined by 40% in real terms.

Multilateral

As indicated above, the share of Arab aid going to multilateral institutions has been rather low: it amounted to 14% from 1973 to 1987 and remained stable at around 14% also during 1995 through 2004. The main beneficiaries of Arab multilateral aid have been the Arab regional aid institutions, which received 65% of total multilateral Arab aid between 1973 and 1987. The major Arab multilateral institutions from the start were the Gulf Organization for the Development of Egypt (GODE), the Arab Fund for Economic and Social Development (Arab Fund), the OPEC Fund for International Development (OPEC Fund), the Arab Monetary Fund, the Islamic Development Bank (Islamic Bank) and the Arab Bank for Economic Development in Africa. Non-Arab multilaterals receiving Arab aid included the World Bank IDA, IFAD (International Food and Agricultural Development), IFC (International Financing Institution), the IMF and the African Development Bank.¹²

The most important contemporary Arab multilaterals continue to be the above-mentioned institutions, except for GODE, which was set on hold in 1978 after the peace accord between Egypt and Israel. Ranked according to their total gross financing operations (share of total Arab multilateral finance up to 31 December 2006), the Islamic Bank is the largest (38%), followed by the Arab Fund (30%), the Arab Monetary Fund (17%), the OPEC Fund (10%) and the Arab Bank for Economic Development in Africa (4%) (Coordination Secretariat 2007). We get the same ranking if we compare gross financial flows for 2006, which indicates that the relative positions of the institutions are not changing.

Grants versus loans

In the early years, particularly before the 1990s, a major part of Arab foreign aid was given as direct grants (van den Boogaerde 1990). This was in contrast to much Western aid, which was given as loans (especially through the WB/IMF), technical assistance or in commodities or tied to certain purchases from the donor's country. Van den Boogaerde (1990) states that the large grant share reflected a philosophy of making significant and unconditional contributions so that developing countries could develop their own policies without economic and social pressure. He goes on to cite the Abu Dhabi Fund's annual report 1982 on the overall objectives of the aid given by Arab oil-exporting countries – that they help in an unconditional manner that reflects the Islamic philosophy of helping without building in economic returns. The differing views among Western and Arab donors probably reflected a deep divide in aid policies and approach to development during the 1970s and especially the 1980s.

However, almost all of the Arab aid open to public scrutiny comes as loans. The Saudi Fund relies solely on lending as its aid instrument, while most of the Kuwait Fund's engagements go through lending operations. To give a broad picture of the magnitudes, note that the Kuwait Fund's cumulative gross lending from the beginning up to March 2007 has been around US\$ 13.2 billion, while the corresponding figure for cumulative grants and technical assistance is approximately US\$ 350 million. The multilateral Arab aid agencies are also all lending institutions, and some, like the Arab Fund, do not even get replenishments and are thus dependent on generating enough income to make their ends meet. We are, however, not able to say whether there has been a change in the relative shares of loans and grants due to the secrecy of the aid channelled through the Ministries of Finance.

¹² Note that the Islamic Bank and the OPEC Fund are not exclusively Arab institutions since a few non-Arabic countries are minor shareholders in these institutions.

Nevertheless, the magnitude of Arab development finance necessitates a brief look at the concessionality of the Arab loans. This reveals that some of the loans have a rather low grant element. The Arab Fund states that it charges higher interest rates for more developed countries, which is similar to Western lenders and the World Bank in particular.¹³ Looking at its loan portfolio, Egypt pays 4.5 % while countries like Sudan, Morocco and Libya pay 3%. The Coordination Secretariat also mentioned that Uganda had argued that a loan from the Arab Fund was not concessional due to the low grant element. The Abu Dhabi Fund for Development states that it gives loans with interest rates of up to 6 % p.a. However, a more detailed analysis of repayment conditions is required to determine the concessionality of the different loans.

Saudi Arabia

The Saudi national aid agency, the Saudi Fund for Development (Saudi Fund), has played a minor role relative to the total amount disbursed by Saudi Arabia. In the initial period 1973-89 the Saudi Fund distributed only between 2% and 7% of total Saudi foreign aid. The Ministry of Finance is the major aid agency in Saudi Arabia, but little is known about how it operates. The Saudi Fund, on the other hand, has a web page where all projects that have been funded are listed.

The Saudi Fund does not provide grants or equity transactions, but gives highly concessional loans, preferably in co-finance with other development agencies. The cumulative gross development finance provided by the Saudi Fund from the beginning in 1974 to the end of 2006 represents 9 % of total Arab aid finance and 31% of the total bilateral financial aid from the three contemporary Arab donor countries. Hence, the Saudi Fund has been a major player on the Arab aid scene.

Kuwait

Kuwait is often said to be the pioneer of the Arab aid effort and its engagement dates back to the establishment of its national autonomous aid agency The Kuwait Fund for Arabic Economic Development (Kuwait Fund) in 1961. Kuwait used to give aid through two main channels in addition to the Kuwait Fund – the Ministry of Finance and the General Board for the South and the Arabian Gulf. The latter institution is now incorporated into the Kuwait Fund. Very little is known about how the Ministry disburses aid other than the fact that it gives general assistance mostly to Arab countries. The Kuwait Fund, which is open about its operations, has played a major role in disbursing Kuwaiti aid. From the beginning, it grew from 2.6% of the country's total aid disbursement to 25 % in the late 1970s and to 44% in 1986. As does the Saudi Fund, the Kuwait Fund has its own website where project information and operations are displayed. The premier role of the Kuwait Fund for Kuwait's international development efforts is underlined by the fact that the Fund has been charged with Kuwait's membership obligations in a number of multilateral aid organisations and has represented the Government of the country in the World Bank and other international forums (van den Boogaerde 1990).

The Kuwait Fund has been the largest Arab bilateral donor agency measured by the official figures from the beginning in 1961 up to the end of 2006, and mostly through lending. The cumulative financing operations in this period represent 17 % of total Arab aid finance and 55 % of total bilateral development finance from the three contemporary Arab donor countries. Although Kuwait's aid to multilateral institutions only averaged 9% (22%) of its total aid flows during 1995-2004 (1973-1987), it is still the second largest Arab donor to these organisations.

¹³ The World Bank IDA loans are confined to the poorest countries, and have a high grant element. The World Bank IBRD, which provides loans to better off countries, charges higher rates comparable to the rate offered to developed countries in the world lending market.

United Arab Emirates

The U.A.E. has similar aid patterns to the two other Arab donor countries. The U.A.E.'s national agency, the Abu Dhabi Fund for Development (ADFD), accounted for around 10-15 % of the total ODA from this country during the initial period. The U.A.E.'s Finance Departments have also acted as a major national aid agency. In contrast to Saudi Arabia and Kuwait, the U.A.E. did not provide any multilateral assistance during the last decade.

The ADFD was established in 1971 and was called the Abu Dhabi Fund for Arab Development before it changed its name in the mid 1970s. Compared to the two other Arab bilateral aid agencies, its cumulative gross development finance up to the end of 2006 is rather low – it provided 13 % of total bilateral finance from the three countries and 4 % of total cumulative Arab development finance. The Fund does not have its own website, but provides statistical information about its operations to the Coordination Secretariat. Some information is also displayed on the U.A.E. government website (www.uaeinteract.com).

2.3 Recipients of Arab Aid

From the beginning of Arab aid giving, these resources tended to flow to other Arab countries (Van den Boogaerde, 1990). This pattern has continued, albeit at a lesser extent. Of the cumulative development finance from the eight major Arab donors¹⁴ as of 31 December 2005, almost 60% went to Arab countries.¹⁵ Arab donors are eager to point out that a lower share now goes to Arab countries, and the Saudi Fund, for example, states that “only” 50% of its aid now goes to Arab countries (www.sfd.gov.sa).

The Kuwait Fund is primarily targeted towards developing Arab countries. During the period 1973 to 1987, 54% of the Kuwait Fund's aid was disbursed to Arab countries, while the figure from the beginning up to February 2007 is 49%.¹⁶ The Saudi Fund does not distinguish between Arab and non-Arab recipients, but country-level data reveals that almost 49 % of the Fund's total cumulative loan agreements from 1975 to 2005 favoured the present members of the Arab League of Nations. The figures from the Coordination Secretariat confirm this number, and their corresponding figure for the Abu Dhabi fund is 79 % as of 31 December 2005.

The picture is somewhat different for the Arab multilateral institutions, except for the Islamic Bank, which had a financing share to Arab countries of 49%. The Arab Fund, on the one hand, gives aid exclusively to Arab countries, while the Arab Bank, on the other hand, is quite different in that it solely finances projects in African countries that are members of the African Union and not members of the Arab League. Finally, the OPEC Fund prioritises Sub-Saharan Africa and non-Arab Asian countries and thus only disbursed 17% of its finance to Arab countries.

Egypt has a particularly important role in that it has been the second largest receiver of Arab aid and even got a multilateral aid agency (GODE) established with the sole purpose of developing this single country. The importance of Egypt for the Arab donors is underlined by the fact that Egypt is the second largest receiver of Arab aid despite the fact that it was denied aid for a long period after the peace agreement with Israel. According to Cooperation Secretariat's statistics, Egypt received

¹⁴ These are the institutions mentioned above: the Islamic Bank, the Abu Dhabi Fund, the OPEC Fund, the Saudi Fund, the Arab Fund, the Kuwait Fund, the Arab Bank and the Arab Monetary Fund.

¹⁵ The Coordination Secretariat has the following lists of recipients: Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauretania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, U.A.E. and Yemen.

¹⁶ The latest figures are taken from <http://www.kuwait-fund.org/e/grantsCountries.asp>

7.4 % of total cumulative aid from the eight most important Arab aid institutions up to the end of 2005. In absolute nominal terms, this amounts to US\$ 5.3 billion, which would have been substantially higher if evaluated at real 2007 terms.

Morocco is the largest receiver of Arab aid (7.9 %, US\$ 5.7 billion), while Syria is the third largest receiver (6.0 %, US\$ 4.3 billion), Algeria the fourth (5.6 %, US\$ 4.0 billion) and Tunisia the fifth (5 %, US\$ 3.6 billion).

The reason why *Sudan* is only the eighth largest recipient of Arab aid, behind Jordan and Yemen, seems to have been a cut-off of Arab aid during times of war. In 1976, the biggest Arab donor in Sudan, the Arab Fund, proposed a programme to develop Sudan as a breadbasket for the Arab world and 12 Arab states established the Arab Authority for Agricultural Investment and Development (AAAID) in Khartoum to implement the plan. After the mid-1970s the Saudi Development Fund became the largest source of investment capital, aiming to get Sudan to make up its large food deficits (US Library of Congress Country Studies 1991).¹⁷

After the peace agreement was signed in 2005 by Al-Bashir's Khartoum regime and the SPLA we now see huge inflows of Arab funding into Sudan. Al-Hamad in the Arab Fund confirmed in 2007 that they were starting up several new projects in Sudan in order to support the peace process. A statement from the Director of the African and Afro-Arab Cooperation Department of the League of Arab States, Samir Hosni, on 6 March 2006 revealed that both Saudi Arabia and the Arab Fund were planning large new aid projects in Sudan.

It is evident that *Palestine* is important for Arab donors. The Arab Fund website explains:

“The Arab Fund initiated a program to support the perseverance of the Palestinian people, and alleviate the dire circumstances that have harshly affected their living conditions under the occupation, in compliance with the decision of the Board of Governors of the Arab Fund to allocate 10% of its net income for the years 2002, 2003 and 2004. This program includes supporting Palestinian universities, and educational institutions, charitable societies and institutions that aim to provide health, education and social services, as well as building housing for those who lost their homes. It also includes rehabilitating the infrastructure of industrial areas, supporting the Jerusalem Fund projects, establishing an industrial area in the Jerusalem district, in addition to backing the export of Palestinian products.”

The Arab Fund had contributed approximately by US\$ 90 million under this scheme alone, which came in addition to around US\$ 75 million in ordinary finance. These figures do not, however, match those that are given by the Coordination Secretariat, which amounts to a cumulative amount of US\$ 56 million from the Arab Fund. Only two other Arab aid institutions are recorded as donors to Palestine, the Islamic Bank (cumulative US\$ 30 million) and the OPEC Fund (cumulative US\$ 18 million).

It is worth noting that only 15.5 % of Arab financial aid had gone to sub-Saharan Africa (SSA) up to the end of 2005, while 23 % had gone to Asian countries. Bangladesh, Turkey and Pakistan received 57 % of the Arab aid to Asia, none of which are the poorest countries in that region.¹⁸ Only three SSA countries have received more than 1 % of total Arab finance each, Senegal (1.6 %, US\$

¹⁷ The ambitious Arab plans for making Sudan the Arab world's major food source gradually fell apart during the mid-1980s as agricultural production declined sharply, causing great economic losses for the investors.

¹⁸ Pakistan has a GNI per capita close to the average for South Asian countries, while Bangladesh is clearly worse off in that it lies 30 % below the average income in that region in 2005.

1.2 billion), Mali (1.1 %, US\$ 0.8 billion) and Guinea (1.1 %, 0.8 billion). It is striking that 42 Sub-Saharan countries have received Arab aid, but all in relatively small amounts. In comparison, Western aid is more balanced in that aid to Sub-Saharan Africa has been above 35 % of total Western aid on average during the last 5 years (2001-05), while Asia except Middle East received between 28 % and 19 % in the same period. The Middle East, and Iraq in particular, has received enormous increases in Western aid since 2004 and Iraq is now the largest aid receiver in the world.

3. Arab foreign aid: policy and conditionality

Western donors have a long record of developing aid policies that aim to influence the recipient country's domestic policies more or less detached from the actual main motive for giving aid. To illustrate the point – the US usually demands democratic reform in the country receiving US aid at the same time that the aid may be used to promote US firms in the country, for example through giving American grain as food aid. In this section we assess the broad similarities between Western and Arab aid policies when it comes to the specific domestic policy requirements, i.e. the conditionality, that comes with much aid.

3.1 Good governance and transparency

Good governance has been promoted as a main vehicle for achieving development by Western donor agents during the last 10-15 years, and the World Bank and the US have been especially strict in demanding improvements in governance in order for a country to be eligible for aid. The US Millennium Challenge Account, the large aid fund initiated by the American president in 2002, has democratic development as a requirement for a country to receive funding.¹⁹ Arab donors, however, seems not to be very interested in government issues in the aid setting, at least not in demanding reforms in the recipient country or in participating in the international debate on these issues.

According to Al-Hamad of the Arab Fund, democracy and governance issues are not topics that are part of the Arab aid dialogue. He emphasised, however, that many of the recipient countries were close partners and that they knew each other very well and had other forums for discussing governance issues. He also stated that democratic reforms were not on the agenda in Arab aid meetings and that the issue was a responsibility of the recipient governments themselves.

On the other hand, corruption, efficiency and sound tendering processes were clearly areas where it has become increasingly important for Arab donors to make progress. The Arab Fund supports the Arab Anti-corruption Organisation financially, which is an independent non-profit organisation established in 2005 that seeks to combat corruption through collecting, analysing and monitoring all information on corruption and disseminate the findings and its damaging impacts on society. The organisation also states that it will seek to promote democracy.²⁰

On the more technical side of reporting and assessment, it is unclear to what extent Arab donors follow a stringent reporting system. The Arab Fund clearly has many different practices depending on the types of loan. If the loan is given to a recipient government, then that government is responsible for the auditing, reporting and assessments. However, in cases where the Arab Fund is directly involved in a project, they get external auditors to review the financial side, and send an expert to view the project and to make a report based on his opinion. On the other hand, the Arab Fund is strict in following the funds flowing to Palestine and in ensuring that they go directly to the beneficiaries. Being aware of the large-scale corruption within the Palestine Authority, the Arab Fund's director stated that it directs the funding around the Authority.

¹⁹ The US Millennium Challenge account received US\$ 1 billion in 2004, US\$ 1.7 billion in 2006, and President Bush has asked the US Congress for US\$ 3 billion for 2007. The selection criteria on governance issues are based on information from Freedom House and the World Bank Institute: Civil liberties, political rights, voice and accountability, government effectiveness, rule of law and corruption.

²⁰ For more information, see <http://www.arabanticorruption.org>

There is also some cooperation between Arab aid institutions similar to what we find among Western institutions and Western-led institutions such as the World Bank. In particular, the practice where the World Bank takes a lead role in coordinating donors' efforts in joint funds is mirrored in Arab donor practices where they have established procedures for one multilateral to take the lead role in Arab cofinanced projects (The Coordination Secretariat 2006). One example of an Arab multilateral taking a coordinating role is the Arab Fund, which in 2005 monitored the execution of projects financed by the grant provided by the Kuwaiti Government to the Palestinian people. The Fund also continued its collaboration with the OPEC Fund for International Development in administering and monitoring projects financed by OPEC in several Arab countries, in particular Palestine. The Arab Fund also maintained its cooperation with the Islamic Development Bank in financing, implementing and supervising the Jerusalem Fund projects. The Arab Fund director Al-Hamad stated that it had taken a lead role in coordinating Arab aid to Palestine.

Transparency has increasingly been highlighted as an important component of good governance and democratic society. The World Bank, which was accused earlier of hiding information from the public domain on important issues concerning its projects and policies, is now giving free access to most of its documents by posting them on its web site. With regard to Arab aid we need to distinguish between development aid channelled through the bilateral or multilateral aid organisations and what can be termed political aid that is channelled through the Ministries of Finance in Kuwait and in Saudi Arabia. There seems to be full transparency about the former. Essential information is posted on the web sites of the respective Arab aid organisations and it is possible to get more information about projects upon request to the agencies. In sharp contrast to the development aid, however, it is extremely difficult to get information about the magnitudes, purposes and usage of the latter aid flows. When confronted on the issue, Al-Hamad in the Arab Fund said that it could be bigger sums to help out a country in need, and the reason for not being open about the transfer was that the donor would not want to brag about the gift and the recipient might be offended if the donor went public. It remains a question why it is less controversial to be open about project aid than what is presented as unconditional budget support.

3.2 Economic policy reform and conditionality

In the eyes of Western donors, a main obstacle to achieving development has been that the recipient countries' policies are not conducive to economic growth and social improvement. Hence, Western donors have required the recipient countries to implement certain reforms before they can get aid. This principle, termed conditionality, has been in use since the beginning of aid giving and in particular by the WB/IMF through their requirements for macroeconomic policy in the countries to which they were making loans. The basic rationale for the international lenders at that time was to ensure that the macro framework was improved so that the recipient country became able to repay the loans. However, conditionality first began to receive worldwide attention when the WB/IMF started their Structural Adjustment Programmes (SAP) in the 1980s. The main pillar continued to be to get the basic macroeconomic framework "in order", which meant keeping inflation low, reducing budget deficits and balancing the current account by reducing trade barriers and aligning the currency to its market value.²¹ Now, in addition, these reforms were complemented with sectoral reforms aimed at increasing income generation by reducing government regulation and ownership and letting the market determine prices without price controls and subsidies. One important feature of these reforms was that all were developed by WB/IMF expert staff with little or no involvement from the recipient country's staff.

²¹ In practice, many poor countries had to devalue their overvalued currencies in the 1980s in order to reduce the deficit on their current account.

In the new millennium, the Western donors increasingly recognised that conditionality did not work and that recipient country ownership of reforms was key to a successful implementation of the new policies.²² Even though traditional macroeconomic conditionality continues to be a main pillar in international lending, the introduction of a participatory process to develop the Poverty Reduction Strategy Papers in 2002 represents a shift in Western donors' approach to achieving policy reform in poor countries. Widespread public meetings were arranged to ascertain public opinion on how to reduce poverty, and it was argued that the plan for poverty reduction was the recipient government's own despite heavy World Bank influence.²³ So even though the Western donors would like to keep the recipient on a short leash when it comes to policy, it is generally recognised that the poor country's government needs to be in favour of a reform in order for it to be implemented.

There is currently a sharp difference of opinion between Arab donors and most Western donor countries on the issues of aid conditionality. Al-Hamad, the Director General of the Arab Fund and former Minister of Finance in Kuwait, stated that Arab donors have always adhered to the principle of non-interference in recipient country policies. He argued that the Arab approach is limited to giving advice on policy matters when they discover clear failures. This view is repeated by other Arab donors (OPEC Fund, 2006, p. 7), and also surfaces in the academic literature. Van den Boogaerde (1990), for example, cites the Abu Dhabi Fund's annual report 1982 stating that Arab aid is given to help developing countries "set up policies for their economic and social development of their own free will outside of political and economic pressures."

The view that recipient countries are to determine their own economic and development policies, and hence receive aid without any strings attached, poses several challenges for Arab donors' relationships with the IMF and the World Bank. First, the Arab donors are members of these institutions, and are hence jointly responsible for their conditionality approach. However, there is reason to believe that Arab donors tacitly approve the conditionality of the IMF/WB, at least in areas such as macroeconomic stability and monetary policy. When asked about whether Arab donors opposed conditionality on inflation targets, budgetary balance and openness to trade, Al-Hamad stated that each institution has a separate role to play and the IMF/WB play their role. Nevertheless, other economic reforms implicit in IMF/WB loans are clearly controversial for Arab donors, and Mr. A. Bouchelaghem, the head of the Coordination Secretariat,²⁴ clearly stated that donors that are against conditionality should form a coalition within the World Bank to get this principle abandoned.

The second challenge for the divergence between Western and Arab views on conditionality is that recipient countries facing severe conditions for receiving finance from the IMF/WB have turned to Arab donors to get the same finance without having to implement any conditions. Al-Hamad of the

²² The latest research literature on foreign aid gives a harsh verdict on conditionality and points out that this policy scheme has been a failure. Not only did the recipient government not implement the conditions, but the aid was often disbursed anyway. Hence, the credibility of conditionality is low, which in itself undermines such an approach. Based on the understanding that the recipient government itself needs to have ownership of the reforms in order for them to be successful, aid policies have to some extent changed in favour of more ownership-based aid policies. See the World Bank's own literature review on conditionality, available online at

<http://siteresources.worldbank.org/PROJECTS/Resources/40940-1114615847489/conditionalityliteraturereview07-21.pdf>

²³ There is still a discussion about the degree of WB/IMF involvement in developing the PRSPs, and we separate "home-grown" PRSPs from World Bank-developed PRSPs, although the difference is quite blurred due to the strong World Bank influence in most poor countries.

²⁴ The Coordination Secretariat of the Coordination Group of the Arab National and Regional Development Institutions.

Arab Fund confirmed that he knew of such cases. When raising the issue of whether the World Bank has put pressure on Arab donors not to lend to countries that try to avoid the macroeconomic conditions set by WB/IMF, we could not get a clear answer. Bouchelaghem stated that the World Bank and the Arab donors have agreed not to compete with each other in lending, which was confirmed at a meeting on 26 February 2007 between the Coordination Group and the IMF/WB on debt sustainability and conditionality. Al-Hamad of the Arab Fund stated that many of the Arab donors are so against the conditionality approach that they refuse to enter into co-financing schemes with the World Bank and the IMF. They have instead launched their own way of cooperating with these institutions in a particular country, and Al-Hamad denoted it “parallel financing”, which implies that the Arab donors finance some of the World Bank project components in a separate loan agreement with the recipient government.

3.3 Harmonisation, coordination and cofinancing

The high volume of Arab aid in the beginning of the 70s, and the subsequent increase in Arab aid institutions, induced the Arab donors to institutionalise their cooperation by establishing the Coordination Group of Arab Aid Agencies in 1975 (van den Boogaerde, 1990). The Coordination Group have since then consisted of the most important Arab aid institutions, and now comprises nine members: the three national aid agencies; the Kuwait Fund, the Saudi Fund, and the Arab multilateral institutions; the Arab Fund, the Islamic Bank, the OPEC Fund, the Arab Bank, the Arab Gulf Program for the United Nations Development Organizations and the Arab Monetary Fund. The Arab Fund was given responsibility for operate the Coordination Secretariat, and still serves as the coordinator of the activities of the group.

The Coordination Group has met from the beginning on three different levels, (1) Heads of Agency meetings, (2) Directors of Operations meetings, and (3) technicians meetings, in order to

“increase the efficiency of Arab aid, help beneficiary countries obtain the required funding for their high priority projects, avoid overlapping and duplication of donor efforts, increase the efficiency of utilization of resources, coordinate project evaluation activities, apply unified rules and procedures at the project implementation stage, exchange information and data relating to projects and developing plans, and coordinate interventions with international and regional financing institutions.” Arab Fund (2006).

Since there is limited information about the Coordination Group’s activities, apart from the group and its secretariat, it is difficult to assess to what extent the group meetings actually achieved all the aims stated in the statement quoted above.²⁵ However, the secretariat has since 1978 had responsibility for compiling and disseminating information on commitments made by their members. The secretariat now publishes, twice per year, a *Summary of Loans and Technical Assistance Extended to Developing Countries by Arab National and Regional Development Institutions*. While the secretariat only consists of two persons, they draw on other resource persons in the Arab Fund when needed and are now developing a website for the Coordination Group, www.arabaid.org, where information about the cumulative contributions of the members is to be posted.

In an assessment made in 1990, it is asserted that the coordination effort has resulted in the “harmonization of operational procedures, the exchange of information on new projects, a large

²⁵ There has been and certainly is activity in the Coordination Group. It was decided that the Directors of Operations were to meet twice a year, and from 1975 to 2006 they have had 60 meetings. Similarly, the Heads of the Agencies were to meet whenever necessary and they have met 10 times since the start.

number of cofinanced projects and joint proposals and supervision missions” (van den Boogaerde 1990). The report states, moreover, that loan agreements have been standardised across Arab Funds, and that the standardisation has enabled the agencies to increase the amount of aid, include more recipient countries and use staff more efficiently. Similar statements are found in contemporary documents from the Coordination Group. A memo summarising coordination experiences among group members identifies three major achievements.²⁶

The first major achievement of the Group has been that coordination of project funding has ensured the cofinancing of several large projects. This is considered the most significant achievement of the group, and the Saudi Fund, for example, states that it has pooled almost 64 % of its loans in different cofinancing arrangements from the start up to the end of 2005. Second, it has developed a series of standard legal procedures and routines which resulted in a harmonised regulatory framework among the members. Finally, the Coordination Group adopted a loan management system that enabled one member to manage a cofinanced loan on behalf of the other cofinanciers.

To sum up, we see that Arab donors have coordinated their aid policies and operational procedures from a very early stage, and that they have developed a standard regulatory framework that paved the way for efficient cooperation between the aid agencies. Neumayer (2004) notes that the Coordination Secretariat roughly compares to the OECD-DAC, but with the difference that DAC is a more important tool for coordinating national aid agencies and produces more comprehensive statistical information and policy documents.

3.4 Pro-poor projects

It has been increasingly popular among Western donors in general, and the World Bank in particular, to assess the degree of pro-poorness in spending and investments. This approach was embarked upon in order to focus the aid better on achieving the UN Millennium Development Goal (MDG) of halving the share of people living in poverty. The basic framework is to estimate how many of the beneficiaries of a project are poor. Hence, a rural electrification project for a village where everyone is poor would get a rating of 100 % pro-poor, while a project for building an airport would get a rating of 0 % pro-poor if none of the poor are positively affected by the project.

While poverty reduction has been high on the agenda of OECD donor countries, leading to various attempts at assessing the “pro-poorness” of aid programmes, Arab donors have not had a similar focus. This is unfortunate given the importance of achieving the MDG on halving poverty by 2015, and the fact that the Arab countries have also committed themselves to fulfilling this goal. Going through their lending portfolios, it is clear that some projects will have a low impact on the poor, like the financing of the Ethiopian Addis Ababa Bole airport (Kuwait Fund), while others will have a high impact on the poor, like the provision of potable water to 116 villages in Senegal (Saudi Fund). However, using the available online project information, it is difficult for most of the projects to assess to what extent the investments are benefiting the poor. Summing up, calculations of the degree of pro-poor spending in the different projects can be helpful in focusing aid more towards the poor and can be a valuable tool for scrutinising the degree to which aid contributes towards achieving the MDG on poverty.

²⁶ This memo is available from the author. One should also note that the Group has collaborated with some recipient countries in formulating their development plans (Egypt, Tunisia and Djibouti).

4. Motives for giving aid

4.1 Aid as a foreign policy instrument

The idea of using ODA to support the donor's own foreign policy goals has been prevalent since the beginning of modern aid giving, i.e. after the Second World War for Western countries and the Soviet Union. The Arab donor countries embarked on this approach after 1973, i.e. after the large oil revenues started flowing in. In general, Western military interventions are most often accompanied by foreign aid both to alliances in the combat and to the country under attack in order to get domestic support. The US-led ongoing wars in Afghanistan and Iraq are two examples in that these are the two countries that received the most ODA in 2004. Moreover, several developing country allies in these wars, such as Pakistan and some Middle Eastern countries, were heavily rewarded with ODA for their cooperation with the US/NATO-led forces.²⁷

The interesting and controversial aspect of these transactions is not that countries want to support their military operations, or their allies, or to gain new supporters, but that they use official development assistance for this purpose. ODA is supposed to be, according to its definition, "designed to promote economic development and welfare as their main objective". The strategic ODA seems to be designed in the same way as military aid, which is kept out of the ODA figures, making it hard to assess how much resource is actually spent on development purposes and the effects of such spending.

We observe that Arab aid has been used to reward allies in military conflicts or build strategic alliances, in ways similar to many Western donors. Arab donors have built alliances by giving to countries of strategic importance, scaling up aid to countries of vital importance in the outbreak of conflict and punishing deviators by withdrawing aid if they do not choose the right side in the conflict. Iraq's invasion of Kuwait in August 1990 triggered a quadrupling of Arab aid and large amounts went to countries which supported liberation of the country (OECD 1992). Nevertheless, despite the fact that all the major Arab Gulf states used aid to marshal support in the war against Iraq, several of the recipients of this aid sided with Iraq during the conflict.²⁸ As a response to this lack of support, Kuwait's National Assembly decided in 1992 to deny aid to countries which supported the Iraqi invasion. Saudi Arabia followed the same line, and in 1991, after the war, Egypt, Turkey and Morocco – all supporters of the war against Iraq – became the three major aid recipients of Saudi aid.

The Kuwait Fund is very clear on the strategic importance of giving aid:

²⁷ See for example the Guardian, 20 September 2001: "US to reward Pakistan with billions in aid. Government may receive package to clear US\$ 25 billion debts. American officials are drawing up plans for a major economic aid package to reward Pakistan for supporting a military operation against Osama bin Laden and Afghanistan's Taliban regime. Wendy Chamberlin, the new US ambassador to Islamabad, is due to meet the biggest financial donors to Pakistan today to work out the details of an economic assistance plan. Washington will ask donors including Britain's department for international development, the EU, the International Monetary Fund, the Asian Development Bank, the World Bank and the Japanese government to give Pakistan all the support they can for a significant new package."

²⁸ Despite Kuwait's assertions that only a few Arab countries supported Iraq, it is evident that 8 out of the 20 States of the Arab League voted in favour of supporting Iraq in the conflict.

“...when Kuwait was invaded by Iraq in 1990, it received the overwhelming support of the world community. This was a reflection both of the natural outrage at a gross breach of international law and of the goodwill created by the Kuwaiti government and by the Fund's activities over the previous three decades. 'The Syrians, the Egyptians, the Moroccans and many others came to help us,' says Al-Humaidhi,²⁹ 'partly for strategic reasons, but also because Kuwait had been a big supporter of their development programmes.' These may seem small gestures, but they were evidence of the goodwill which flowed from the Kuwait Fund's activities around the world. From the point of view of the Kuwait government, the Fund had been one of its best investments.”³⁰

There is a discussion in the literature on whether the favouring of Arab countries in Arab aid giving, as elaborated on in section 2.3, is an expression of Arab solidarity or a reflection of a motive to stabilise the Arab community and to build relations among Arab countries. Neumayer (2003a) finds that a typical Arab recipient country received 22 (6) times more bilateral (multilateral) Arab ODA as compared to a typical non-Arab recipient country in the period 1974-1997. Hence, it is clear that Arab governments favour Arab recipients to a very large degree, and that the Arab multilateral aid agencies also follow this pattern although to a lesser extent. However, it is evident that political developments in the receiving Arab countries have been determining the level of disbursement (van den Boogaerde, 1990). From the beginning of Arab aid, Egypt has been an important receiver and it got USD 2 billion (current prices) from 1975 through 1979. There was, however, an abrupt halt in Arab aid to the country once its political relations with the rest of the Arab world became strained. Following the Camp David Accords in 1978 that led to the signing of the peace treaty between Egypt and Israel in 1979, all aid from Arab donors was stopped, including from the Gulf Organization for the Development of Egypt (GODE). Moreover, no further support was given through GODE during the following decade (van den Boogaerde 1990).

Similarly, a stream of resolutions from the Arab Summit Meetings has been strengthened by linking them to aid disbursement. One example was the annual grant of US\$ 3.5 million pledged at the Arab Summit meeting in Baghdad in 1978 to “enhance the steadfastness of the confrontation States”, i.e. the frontline states bordering on Israel (Egypt, Jordan, Syria and Lebanon). Another example is the foreign aid to Iraq in the 1980s that was intended to support the country in its conflict with Iran. Hence, it seems that one can conclude that Arab solidarity has been important for aid giving only to the extent that the recipients contributed to the stability of the region.

The Arab countries' use of aid to support their fellow Arab nations parallels Western countries' support of their former colonies. Several independent studies find that former colonies are likely to receive more aid from their former colonial powers. The evidence singles out France, UK, Japan³¹ and Italy as favouring their former colonies in aid donation. As for Arab countries' support to Arab nations, it is not evident that this aid pattern stems from some sort of solidarity. Many former colonial powers have political ties with their former colonies, and many of them still have important economic interests in these recipient countries. However, there is no resemblance between these donors and the Arab donors when it comes to the stability argument as the former colonies do not pose a threat to the stability of European countries or Japan.

The only econometric studies of Arab aid allocation are those of Neumayer (2003a, 2003b, 2004), in which data on Arab assistance from 1974 to 1997 is analysed. Even if Arab and Western donors

²⁹ Al-Humaidhi is the Director General of the Kuwait Fund.

³⁰ <http://www.kuwait-fund.org/kf-hmpge/publications/friendsinneed/fr6.htm>

³¹ The case of Japan differs from the others in that it gave much aid for war reparations after its Second World War occupations.

espouse similar strategies in using aid for national defence, security and military interventions and to build political alliances, there seems to be a marked difference in some foreign policy goals that are being promoted by foreign assistance.

The first issue where there are conflicting interests between Arab and Western aid donors concerns Israel's role in the Middle East. Neumayer finds that recipient countries that maintain diplomatic relations with Israel are more prone to be excluded from bilateral Arabic ODA. This pattern of giving is similar to what others have found for Western countries, but with the opposite outcome: Alesina and Dollar (2000) find that the US gives more foreign aid to countries that vote in favour of Israel in the UN. Moreover, Israel has been a major recipient of Western foreign aid, especially from the US, which is countered by the Arab support to the Palestinians elaborated in section 2.3 above.

The second area where Arabs and Westerners are giving aid with opposite purposes to reward or create allies is on political issues as indicated by the voting in the UN General Assembly. Alesina and Dollar (2000) find that the pattern of aid-giving is dictated much more by political and strategic considerations than the economic needs or policy performance of the recipients, especially when it comes to voting in the UN General Assembly. They reveal that France, Great Britain, Japan, the US and Germany allocate more aid to recipients that vote in tandem with them in the UN. A similar pattern is found for Arab aid. Neumayer estimates that a country eligible for multilateral Arab aid will get 68% more aid if it votes in tandem with Saudi Arabia in the UN. It is important to note that the figures in themselves do not indicate opposing views on UN policy, and a deeper analysis of UN voting is warranted in order to establish to what degree the Westerners and the Arabs have different agendas in the UN.

4.2 Religious motives for giving aid

The religious motive for giving foreign aid is somewhat neglected in the literature, and plays an important role both for Arab donors and the recipient societies. Some analysts assert that while the "Islamic connection" certainly is present, it "appears to be of relative small significance among the motivations underlying the Arab aid efforts and its distribution." (Porter 1986). However, the overview in section 2.3 above indicates that substantial amounts of the Arab aid flow go to countries with a predominantly Muslim population, and that lending in accordance with Shari'ah is promoted simultaneously.

The Islamic Bank, which is the single biggest Arab donor agency measured by cumulative disbursements up to the end of 2005 and is funded mostly by official aid from the Arab countries, is restricted to lending only to member countries of the Organisation of the Islamic Conference. One of the most important tasks for the Bank is to provide financial means through different modes of Islamic financing that are compatible with Shari'ah. This entails specific rules for the sellers and buyers of a product if it is to be financed by the Islamic Bank, as exemplified by the financing mode *Murabaha*, whereby "one partner buys a good and sells it on to the other partner on a cost-plus basis with the profit to the seller and repayment by the buyer specified in the initial contract". Hence, one of the main missions of the Bank is not only to provide the financial means, but to promote economic behaviour in accordance with the religious rules and to promote Islam generally by bundling aid with the religious aspect. The latter aid-giving pattern has its parallel in the Western aid tradition where Christian organisations give aid with a "Christian label" attached – i.e. that they are informing the recipient about their religious affiliation. However, if we look at the shares of official development assistance that have a "religious label", it seems that Arab aid is much more focused on promoting Islam than Western aid is on promoting Christianity. The Islamic Bank

accounts for almost 30% of total cumulative Arab aid disbursements up to the end of 2005, which amounts to US\$ 21 billion in gross development finance.

Neumayer (2003a) estimates that Islamic countries receive a share of bilateral Arabic ODA that is 118 percent higher than for non-Islamic countries, *after* correcting for the fact that Arab donors favour Arab recipients and a range of other factors. Interestingly, there is no such relationship between Arab multilateral aid-giving and Islamic recipients in that these recipients get as much as non-Islamic recipients once they are among those countries eligible to receive aid. It is, however, a larger probability for Islamic countries to be eligible to receive aid. Among Western donors, Norway, the Netherlands, Canada and Sweden tend to give more aid to countries with a predominantly Christian population, while the rest of the Western donors do not have a similar bias (Neumayer 2003b).

Finally, the eagerness to support Sudan among Arab donors may also have a religious aspect since Sudan has often be regarded a spearhead for expanding Islam into the Christian/animist population in southern Sudan by imposing Shari'ah.

4.3 Commercial interests

It is interesting to note that while the Western donors have reduced the promotion of their own economic interests in aid-giving through the reduction of the costly³² tying of aid to purchases from the donors' countries, the most important Arab donor seems to be going in the other direction. The OECD-DAC has made a significant effort to eliminate tied aid to the least developed countries, and it has been successful in that 92% of DAC countries' aid was untied by 2005 and only the US is now presumed to keep the bulk of its aid tied (OECD 2007).³³

The pattern of untying aid does not imply, however, that Western countries refrain from using ODA to support their own commercial interests. Neumayer (2003b) finds that aggregated Western bilateral and multilateral ODA tends to go to countries to which these countries export their goods. Some donors, especially France, but also Germany, Canada and Japan, give more aid to recipients that import a larger share of these donors' goods. Moreover, economic self-interest measured by the value of imports from Arab countries does not affect the probability of receiving aid for an average recipient country. Hence, the evidence suggests that Arab aid donors do not reward recipient countries that import goods from that donor.

Saudi Arabia changed the Saudi Fund's charter in 1999 from being purely devoted to financing development in developing countries to also include Saudi export promotion.³⁴ Interestingly, the public information about the Saudi Fund now underlines that the scope of the fund is twofold – development of low income countries *and* exporting Saudi goods. The Saudi Fund started its export programme in 2001 at the same time as the Western countries started to reduce their aid tying, and is very clear on the fact that the goal is to use aid to promote Saudi business:

“The Saudi Export Program (SEP) aims at contributing to the diversification of the national income resources. It provides credit and insurance facilities to promote Saudi non-crude-oil exports. Since its inception in 2001, the SEP has provided credit services for Saudi exporters, as well as for foreign importers of Saudi Products.

³² Studies show that the loss of aid value from tying aid to purchases in the donor country can be as high as 15-20 %.

³³ The US has not report the share of tied aid since the OECD-DAC exerted pressure towards untying aid. However, the US has traditionally tied three-quarters of its aid.

³⁴ See http://www.sfd.gov.sa/english/basic_info.htm

Recently, it has launched the insurance service as part of the services provided to the Saudi exporters as well as for foreign importers of Saudi products.” (Saudi Fund 2005)

The emphasis on non-crude oil exports should be taken to indicate that the Saudis are trying to diversify their economy in order to reduce their dependence on oil production and oil prices. The export programme is substantial and the Saudi Fund has given export credits worth SR. 2243 million since the programme’s inception. Moreover, the Saudi Fund’s credit-grants during the last year for which figures were available accounted for almost 50% of the total since the beginning. This indicates that there has been an increasing trend during the last five years towards using such credits. However, it is not possible to assess the grant element in these operations since no information is provided on repayment conditions.

Other Arab donors have also started to use their aid to support their own commercial interests in conjunction with their aims of broadening their domestic industrial base. The Arab Bank issued a Governor’s decision in 1997 to include financial interventions to promote Arab trade as one of the Bank’s aims. Similarly, the Islamic Bank has a Trade Finance and Promotion Department and established the Islamic Corporation for the Insurance of Investment and Export Credits (www.iciec.com) in 1994 with the purpose of stimulating trade and investment in member countries. Later on, in 2000 the Islamic Bank also established the Islamic Corporation for the Development of the Private Sector (www.icd-idb.com) with the purpose of using Islamic financial services and products to stimulate the private sector in the member countries. Finally, the Kuwait Fund is currently spending US\$ 3.4 million on training Kuwaiti engineers with the objective of assisting them to acquire the skills and practical knowledge needed to be employed in the private sector. It is also obliged to use up to 25 % of its income for housing purposes in Kuwait.

The Arab Fund also finances private sector investments, but the Director General states that this is on a commercial basis (i.e. there is no grant element), and that the project needs to be related to development goals. In these cases, the private company needs to provide evidence of its commercial viability, and the Arab Fund will then finance the project without any tendering process. This is yet another example where Arab aid flows are used to support their own commercial interests, although the lack of any grant element substantially reduces the amounts of ODA spent.

4.4 Altruistic motives for giving aid

The definition of ODA does not preclude a dual purpose in that the aid could benefit both the donor and the receiver. This has donors taken advantage of. In this section, however, we try to assess to what extent it is the donor’s sole purpose to help the recipient country, i.e. that the donor only cares about the welfare of the recipient in the aid relationship. To operationalise this, we must look at the aid-giving pattern after correcting for other motives; does the donor in this case give more to poor countries?³⁵

Neumayer (2003a) finds that poor countries and sub-Saharan Africa are more likely to be included among the many countries that receive bilateral Arabic ODA, correcting for other Arab motives like supporting an Arab recipient country, Muslim populations, commercial interests and so on. We note that poorer countries do not receive more than less poor countries among the group receiving bilateral Arab ODA, and that sub-Saharan countries do not receive more of this aid than others in the aid-receiving group. Hence, it seems to be a qualification to be poor or from SSA in order to be eligible to Arab aid, but when it comes to what determines the amounts of aid among the chosen

³⁵ The literature uses economic measures of development. Results indicate that donors do not use proxies for human development as a basis for giving.

countries, degree of poverty and being a SSA country do not play a role. The pattern that emerges in overviews of cumulative Arab aid is that they give aid to many poor and SSA countries, but only small amounts.

Western donors are also more likely to give aid to a country the poorer it is (Neumayer 2003b). On average, however, they give more aid to a particular country the poorer it is. Hence, it seems that Western donors are more concerned with poverty than Arab donors. This is also reflected in the debate on the degree of pro-pooriness of different aid projects. Western donors are increasingly calculating the share of which the aid goes to poor people. When this issue was raised with the Arab Fund and the leader of the Coordination Secretariat, both stated that that was too difficult a task to embark on.

5. Conclusions and recommendations

This paper underlines several aspects of Arab foreign aid giving that warrant attention. First, new data on foreign aid has given the opportunity for a new assessment of Arab aid patterns and determinants. One important issue to be aware of in such studies is the fact that all of the three large Arab donors (Saudi Arabia, Kuwait and U.A.E.) channel major shares of their foreign aid through their Ministries of Finance. Even though some of these transfers do not qualify as ODA, large amounts that do are not included in the official aid figures. In order to get a better understanding of the Arab motives for giving aid and their actual strategic allocation, a qualitative study should be carried out in order to quantify the hidden amounts and the reasons why they are kept secret.

All the Arab donor countries have committed to the Millennium Development Goals. To achieve these goals, it is important that Arab donors reduce the volatility of their aid and keep it above the UN recommendation of 0.7% of GNI. The implementation of the MGDs raises the question how Arab aid institutions can improve their operations in order to make their effort more effective in achieving these goals. Three recommendations are proposed in this report. Arab donor institutions should:

1. calculate the degree of pro-poorness of their spending and investment and target more aid towards projects that mostly benefit the poor,
2. reverse the trend towards increasingly using aid money to support their own commercial interests, and
3. select poorer countries as the main beneficiaries of their development finance and increase the grant element of their finance to these countries.

On the other hand, what can Western donors learn from Arab donors in order to be more effective in reaching the Millennium Development Goals? One lesson for Western donors is that Arab donors have practised the partnership that Western donors are now striving to achieve with many developing countries. Much can probably be learnt from the Arab approach to policy dialogue, their mutual respect and understanding with the recipient, which has been built during the last decades.

Finally, there are clear synergies from more cooperation between Western and Arab donors. They have common aims in many fields, and could benefit from joint operations in many countries. Moreover, the DAC and the Coordination Group should consider tighter cooperation on collection and reporting systems of information on foreign aid to ensure accurate comparable aid data. Similarly, the DAC and the Coordination Group could establish a joint committee that is responsible for making available analyses of Arab aid. Alternatively, the Cooperation Secretariat of the main Arab aid institutions should be strengthened so as to produce economic analysis and a wider spectrum of statistical material. In the meantime, the Arab aid donors should calculate and publicise the grant element of their lending operations in the same manner as OECD-DAC. This would separate non-concessional from concessional lending and thus be helpful in separating aid from non-aid.

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SUMMARY

This report examines Arab aid flows and aid policies, and contrasts them with the broad picture of Western practice in these areas. The lack of analysis of Arab aid in the literature is unfortunate since (1) Arab countries have been major donors of foreign aid in general, (2) targeted strategic aid can be a powerful weapon of influence, especially for pursuing Arab donors' own foreign policies, commercial interests or religious motives, and (3) it seems that Arab aid is different from Western aid in that it is used to promote Islam and build Arab solidarity. One aim of this report is to assess whether Arab and Western aid are set to work in opposite directions, or whether they can complement each other.

One feature of aid from the three major Arab donors, Saudi Arabia, Kuwait and the U.A.E., is that they give most of it (around 85 %) bilaterally, mostly in the form of loans, with a large share (about 50 % of national and multilateral Arab aid) going to Arab countries. This is not to say that the Arab multilaterals are not major financiers of development projects. On the contrary, Arab multilaterals have been built up over the years in such a manner that they are more important than the bilateral national aid agencies of the Arab countries. However, most of the Arab bilateral aid is channelled through their Ministries of Finance and is not open to public scrutiny; hence, the Ministry of Finance in each of the Arab donor countries seems to be the most important aid institution in the Arab region.

Another feature is that while Arab aid has been very generous, it has also been very volatile – due both to the volatility of Arab countries' revenue from their oil and gas exports and to their strategic use of aid to support their foreign policies. On the latter issue, much aid has gone to build and maintain allies in the Arab world and to reward supporters during military conflicts (Iran-Iraq war, the 1991 Iraqi invasion of Kuwait). This is the same motive for giving aid as is found for much Western aid.

Other motives important to Arab donors seem to be to support their own commercial interests; similarly, Western donors have a long history of pursuing tied aid and giving more aid to countries that are major importers of that donor country's goods. Finally, Arab aid seems to go partly to Islamic countries, and coupled with the large flow of non-official aid into promoting Islam, it seems as though such religious aims are important to Arab donors.

Arab donors have not participated in the aid policy debate that has been so important to Western donors. This probably reflects the Arab view that recipient countries should be allowed to choose their own development path and not be obstructed by "imperialist" ideas from donor countries. The Arab donors thus have a long history of policy dialogue with recipient countries that Western countries can learn from if they are in fact interested in building partnerships with recipient countries.

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