

[POLICY BRIEF]

Arab Donors: Implications for Future Development Cooperation

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Introduction

This paper provides an overview of Arab donors and examines possibilities for greater cooperation with European development partners. Arab donors have a long history as aid providers. From 1973 to 2008, Arab official development assistance (ODA) averaged 1.5% of their combined gross national income, double the United Nations target of 0.7% (World Bank 2010). Historically these resources have been directed towards the Middle East and North Africa, often as concessional loans to infrastructure. The prevalence of unreported transfers means that there is limited knowledge of total resources and how these are used. However, there are signs of changing practice, with key Arab donors providing support to a range of countries outside the Arab region and some strengthened transparency over aid flows.

Key actors

Saudi Arabia, Kuwait and the United Arab Emirates are the only Arab states with dedicated aid agencies and are the three largest bilateral donors in the region (Villanger 2007) (Box 1).

An array of multilateral organisations also provides significant levels of Arab aid (Box 2). They are coordinated by the Coordination Secretariat, established in 1975 to facilitate dialogue and cooperation among major Arab donors (Shushan and Marcoux 2010). The Coordination Secretariat has supported harmonisation efforts and promoted standardised legal procedures and regulatory frameworks (Villanger 2007).

Just over half of Arab donor aid commitments are to Arab countries, although this has recently broadened, with modest commitments to parts of Asia and sub-Saharan Africa. If multilateral aid is included, Morocco has been the largest recipient, followed by Egypt, Syria, Algeria, Tunisia, Yemen and Sudan (Shushan and Marcoux 2010).

Arab donors are important and under-examined players in global development. Greater engagement with these donors requires pinpointing areas where common ground already exists and can be built upon, particularly for multilateral channels of engagement between the EU and key Arab donors. This needs to go hand in hand with ongoing diplomatic relations on issues of political reform – something recent shifts in Tunisia, Egypt and elsewhere attest to.

BOX 1: MAIN ARAB BILATERAL DONORS

Saudi Arabia: The Saudi Fund for Development was established in 1974, providing concessional loans to developing countries. Since 1999, the Fund has also promoted Saudi non-crude oil exports via export credits (Shushan and Marcoux 2010). In 2009, Saudi Arabia's aid disbursements (bilateral and multilateral combined) totalled USD 3133.74 million (OECD/DAC Statistics). Additional aid resources are channelled through the ruling family and Ministry of Finance. These flows may be higher than those from the Saudi Fund, although little is known about them (Villanger 2007: 8).

Kuwait was the first Arab state to establish an aid department, with the Kuwait Fund for Arab Economic Development set up in 1961. It initially concentrated on Arab states, but diversified its recipients in the mid-1970s, offering concessional loans to highly indebted countries (Shushan and Marcoux 2010). In 2009 its multilateral and bilateral aid disbursements amounted to USD 221.12 million (OECD/DAC Statistics).

United Arab Emirates (UAE) established the Abu Dhabi Fund for Development in 1971. Its aid is predominantly provided through loans and some small grants. Reported bilateral and multilateral aid disbursements in 2009 amounted to USD 833.67 million (OECD/DAC Statistics). The UAE's Finance Department also plays a role in disbursing aid (Villanger 2007: 9).

BOX 2: MAIN MULTILATERAL ORGANISATIONS

The Islamic Development Bank: Established in 1975, the Bank provides assistance to member states and Islamic communities in non-member states, conducting activities in accordance with Shari'ah law (Shushan and Marcoux 2010). Member states must be part of the Islamic Conference. It is the largest Arab multilateral, disbursing 38% of total Arab multilateral assistance (Villanger 2007).

Arab Fund for Economic and Social Development: Established in 1974, the Fund provides assistance to Arab states to improve regional development and integration (Shushan and Marcoux 2010). Kuwait and Saudi Arabia are the largest donors to the Fund, which provides 30% of total multilateral Arab assistance (Villanger 2007).

Arab Bank for Economic Development in Africa: Set up in 1975, the Arab Bank is the only multilateral Arab institution focusing on assistance to non-Arab African countries (Shushan and Marcoux 2010).

OPEC Fund for International Development: OPEC established a special fund in 1976 to disburse aid following increasing oil prices. This evolved into the OPEC Fund, promoting South-South cooperation in low-income countries. Half of the Fund's members are Arab states, together providing 65% of the Fund's finances (Shushan and Marcoux 2010).

Priorities and motivations

Aid priorities of Arab donors have been remarkably stable over time. Since the late 1970s infrastructure projects have dominated, with top sectors for investment including transport, energy, water and sanitation (Ibid). However, these donors (especially multilaterals) are increasingly focusing on social sectors and agriculture as well. For example, according to its Strategic Framework, the Islamic Development Bank now prioritises human development (including health and education), agriculture and food security, trade and private sector development alongside infrastructure.

Prior to the 1990s, most Arab assistance was provided through direct grants, but more recently it has also been provided through loans. However, the lack of trans-

parency of some of this aid makes it difficult to determine whether Arab assistance has changed significantly over time. Arab aid is generally untied but there are some specific loans and grants for oil purchases (Neumayer 2006: 3).

The historically high concentration of aid towards Arab countries has led to a perception that Arab donors use aid to foster Arab solidarity (Ibid). In addition, links are made between Arab aid and religion and Islamic countries are estimated to receive a share of resources 118% higher than non-Islamic countries (Neumayer 2006).

Like other donors, there are elements of self-interest in Arab aid. Saudi Arabia, for instance, changed the Saudi Fund's charter in 1999 to include Saudi export promotion. In 1997, the Arab Bank decided to broaden its aims to include the promotion of Arab trade through financial

interventions and in 1994 the Islamic Bank established the Islamic Corporation for the Insurance of Investment and Export Credits. Furthermore, aid has been used to reward allies. The 1990 Iraqi invasion of Kuwait prompted a quadrupling of Arab aid to assist Kuwait and to reward those who supported its liberation; Saudi Arabia also oriented its post-Gulf war assistance to key Kuwaiti supporters, with Egypt, Turkey and Morocco becoming its largest aid recipients. In contrast, countries maintaining diplomatic relations with Israel are less likely to receive aid (Villanger 2007).

Some humanitarian concerns motivate Arab aid and the Palestinian Territories and Lebanon have received assistance from Arab donors following periods of conflict. Moreover, while the majority of Arab donor aid is spent in middle income countries, some funds are provided to sub-Saharan Africa and Asia, linked to humanitarian concerns, particularly where Islamic communities are present.

Recent developments

Recent developments may signal some changes for Arab donors. Firstly, Arab bilateral aid appears to be progressively declining. This is partly explained by oil price volatility, but also likely reflects increases in multilateral aid. Combined Arab multilateral aid has outstripped combined bilateral aid consistently since the late 1980s (Shushan and Marcoux 2010). Decreasing Arab donor aid may also reflect their relative displacement, as aid from OECD donors has increased to Arab countries, particularly following the events of 9/11 (Ibid).

Secondly, some Arab donors have gained increasing prominence in international fora. Saudi Arabia is the only OPEC member in the G20, representing a broad constituency of interests and carrying reasonable weight. While several other Arab countries are emerging as future members of the G20, concerns over governance standards remain and may delay greater engagement (IDEAS 2009). Similar concerns exist for international energy cooperation. Despite increasing European dependence on the Middle East and North Africa for oil and gas supplies, little systematic or productive EU-Arab engagement has been established (Burke et al 2008).

Thirdly, while some Arab states are significant donors, others remain recipients of EU aid. Arab states thus occupy a complex position that does not easily fit into dichotomies of ›donors‹ and ›recipients‹. While some EU

aid goes to selected Arab donors, EU and Arab donors exhibit surprising overlap in the countries they assist. Egypt, Morocco, Syria, the Palestinian Territories, Turkey and Sudan are all significant recipients of both EU and Arab aid. Moreover, individual European member states are increasingly building development partnerships with these actors. For example, the UK recently announced that DFID is seconding a member of staff to the Islamic Development Bank to work on results and aid effectiveness (Mitchell 2011).

Implications for European development cooperation

What are the implications of Arab aid for European development cooperation? Bilateral and multilateral Arab donors should be recognised as important development actors which warrant further engagement, particularly where significant overlap in country priorities exist. Recent political changes in the Middle East and North Africa may also pave the way for new forms of European engagement with the region (Clegg 2011).

As the presence of these actors in international fora grows and as a range of actors (including multilaterals) play increasingly significant roles in development, a number of potential entry points for greater collaboration emerge.

Firstly, there is growing engagement from Arab donors. While these donors have historically been absent from some aid debates, in 2010 the UAE reported its ODA to the OECD for the first time and was the first non-DAC donor to report to the DAC Creditor Reporting System in such a detailed manner (Smith 2011).

Secondly, Arab donors are increasing their harmonisation efforts through co-financing and pooling of funds, mirroring growing practice among EU members. This may pave the way for greater coordination with the broader development community, and could represent an important opportunity for the EU. Closer cooperation on reporting systems for aid – and on measures for tracking results – may be a useful entry point.

Thirdly, the overlapping aid recipients of many EU and Arab donors are areas where relationships can be built on-the-ground. As the country priorities of EU and Arab donors converge, so too do the incentives for collaboration.

Fourthly there may be important areas for mutual

learning between EU and Arab donors (Manning 2006). Arab donors have histories of policy dialogue with recipient countries that present themselves on a more equal footing, moving beyond North/South, developed/developing dichotomies. Sharing experiences of how to build productive aid relationships may be helpful.

However, there remain a number of potential challenges to greater engagement. A first key challenge is the lack of transparency of some aid flows. Bilateral Arab aid agencies in particular do not make consistent aid data available, although this is improving with information increasingly available online. Unreported transfers from Arab governments can bypass official aid agencies, making it difficult to assess total levels of Arab aid (Villanger 2007). The difficulty of accessing information as to the purpose and magnitude of these transfers is attributed, by some, to Arab cultural practices, as aid transfers can be perceived as a gift and therefore exempted from usual rules and procedures. Navigating these differences to ensure greater transparency over aid transfers is likely to be a key condition for EU engagement.

A second key challenge lies in the possible ideological implications of some aid, particularly where it bypasses official ODA channels. Grimm et al (2009: 15) highlight aid from Saudi Arabia, for example, given in the form of gifts to the Faisal-Mosque in Islamabad/Pakistan and to madrasahs. This type of aid would not be defined as ODA by DAC criteria and has been interpreted by some as potentially supporting Islamic extremism (Ibid.). Without an accurate picture of all aid transfers, it is difficult to judge these concerns, reinforcing the need to improve transparency.

Efforts to build greater European collaboration will require mutual respect and understanding, as well as dialogue regarding aid transparency and broader security or political reform concerns. There is a remaining need to disaggregate Arab donors, rather than viewing them as a single category, and to understand the different

motivations, approaches and strategies of the range of bilateral and multilateral actors which fall under this generic term. In the short term, strengthening engagement with multilateral organisations in particular may be the most productive path, helping to avoid some of the challenges identified in this paper.

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