

Determinants of Saudi Arabian Foreign Aid

Abstract

Most studies on non-traditional donors of Official Development Assistance (ODA) have been focused on donors such as Russia or China or they have been done in general frameworks, such as the Arab one. A review on the specific case of Saudi Arabia foreign aid is provided in this paper. We provide an overview of the factors that influence the decision of providing aid from the most generous Arab donor. In this paper we find that for the Kingdom it is of great importance to provide aid to countries that are of the MENAP region, that are close regarding political matters to Saudi Arabia and that are important trade partners.

Introduction

As it has been noted in Official Development Assistance¹ literature, ‘new’ donors with non-traditional characteristics are providing aid, which is interesting since much has been said about the western paradigm of aid giving and much less work has been focused on these new donors. As Mawdsley said, it would be better to refer to them as non-DAC² countries rather than ‘new’, since some of them, such as Saudi Arabia, have been providing aid as early as the 1970s. It is interesting to note that the Kingdom of Saudi Arabia was the “largest Arab donor of aid 2014” (United Nations Development Programme, 2016) it is a developing country and a state with an intrinsic relation to Islam. This profile differs from the traditional Western characterization of aid donors. It is the aim of this paper to contribute to the analysis and understanding of foreign aid by Saudi Arabia.

Saudi Arabia foreign aid analysis has been conducted along with the aid provided by Kuwait and the United Arab Emirates, since most research has been done in the Arab framework level. The aid resources provided by these three countries make up “1,5 percent of their combined gross national income (GNI), which is far above the 0.7 target suggested by the United Nations” (Tok, Calleja, & El-Ghaish, 2014). The aid provided by these countries represent 90% of total Arab total aid (World Bank, 2010). There are features of the Arab framework that may provide us with crucial insights on the factors that influence the Saudi Arabian foreign aid allocation. First, Arab aid is highly concentrated regionally and is

¹ Official Development Assistance is defined as “government aid designed to promote the economic development and welfare of developing countries” (OECD, n.d.)

² States which are not members of the Developmental Assistance Committee of the Organization for Economic Cooperation and Development

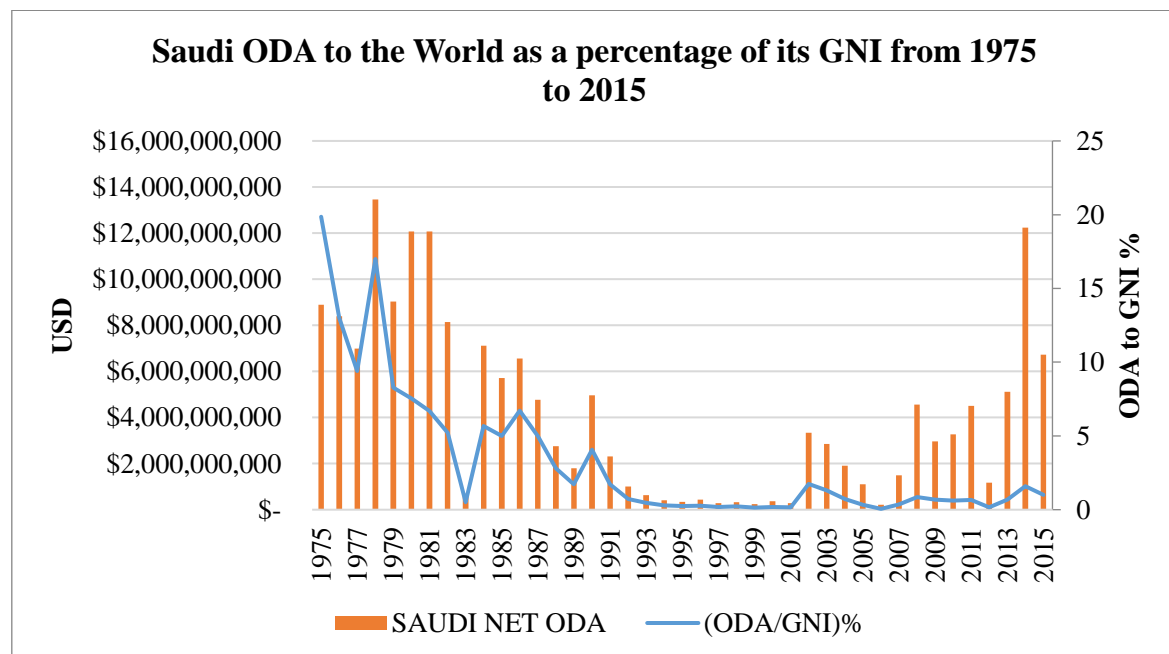
influenced by religious ties (Ramachandran & Walz, 2011). Second, Arab aid heavily concentrated on Arab recipient countries, which is related to the Arab-solidarity principle promoted among Arab states (Neumayer, 2002). Third, Arab aid is far from being amicable or untied to political intentions, signaling the importance of its use as a political tool to fulfill donors interests (Furia, 2015) (Challand, 2014). Lastly, as found by Neumayer in 2003, countries which are poorer, Arab, Sub-Saharan, Islamic and which vote in a similar way to Saudi Arabia in the United Nations General Assembly have a higher and significant probability of getting Arab aid. All factors mentioned are characteristics found on the Arab framework, which may or may not be the same to the specific case of the largest Arab donor: Saudi Arabia.

This paper contains four sections. The first one is this introduction, followed by the description of Saudi foreign aid. An analysis of foreign aid and the case of Saudi Arabia is provided in the third section. The fourth section we conduct the analysis of data found on our topic and finally we close with some conclusions and remarks on data issues regarding Saudi ODA.

General aspects on Saudi aid

Saudi Arabia is recognized as the most generous Arab. Generosity regarding foreign aid is measured by the ODA to GNI ratio, which has been for various years above the 0.7 target of the United Nations. Reaching a 1.5 ODA/GNI ratio in 2014, Saudi Arabia is among the top five most generous countries in the world (UNDP, 2016)

Chart 1. ODA to GNI target



Source: Organization for Economic Cooperation and Development database and World Development Indicators

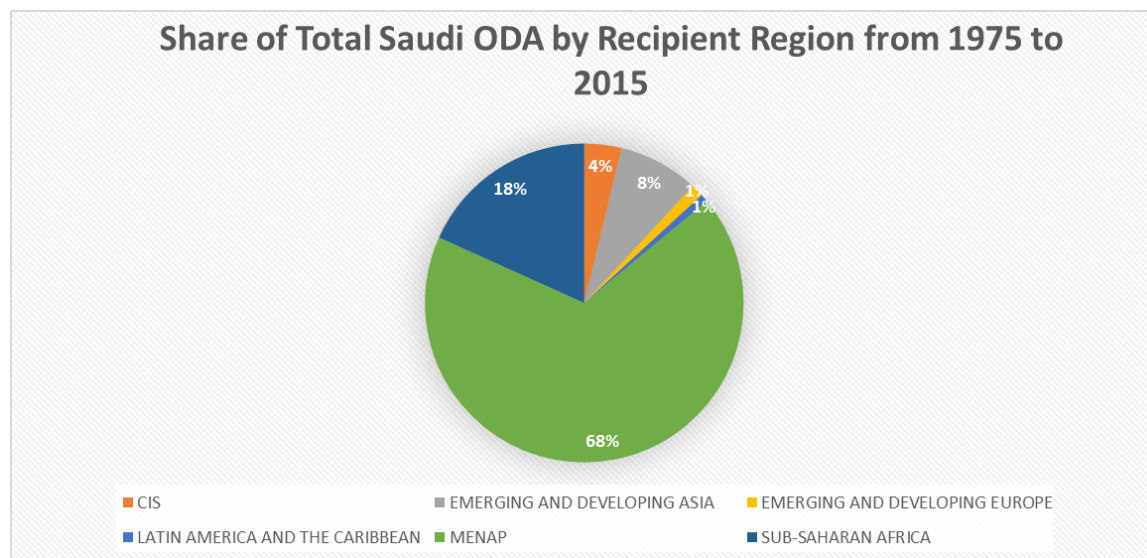
As is can be noticed in chart 1, in the beginning stage of Saudi aid giving the (ODA/GNI) % was the highest reached, which is related to the initial high levels of Saudi ODA. In 1973,

“the Saudi Development Fund was created with the purpose of participating in financing development projects in developing countries through granting concessional loans”(SDF, 2016) Then, in 1975, when the Saudi Fund for Development began operations, the Saudi ODA represented 19% of the Saudi GNI. In 1970 the 0.7% ODA/GNI target was established as an ideal reference for aid donors. In the trend of the Saudi (ODA/GNI) % it can be noticed that for only 18 out of the 41 years of Saudi aid giving the 0.7% target was not reached. The lowest record of this indicator was 0.05% in 2006.

In Arab aid literature it has been stated that ODA from Arab donors such as the Kingdom of Saudi Arabia, Qatar and the United Arab Emirates is related to the oil price, given the important participation -even exclusive- of oil production in the economic growth of these states (World Bank, 2010). It has also been noted that the growth of the GDP of the Kingdom of Saudi Arabia is a factor that enables Saudi ODA giving. The decrease of Saudi ODA is related to the fact that initial capacities for giving aid could not be sustained over time, since fiscal pressure and economic difficulties took place. This consideration is important since Saudi population has been increasing, at an average rate of 2.7 annually from 2000 to 2015.

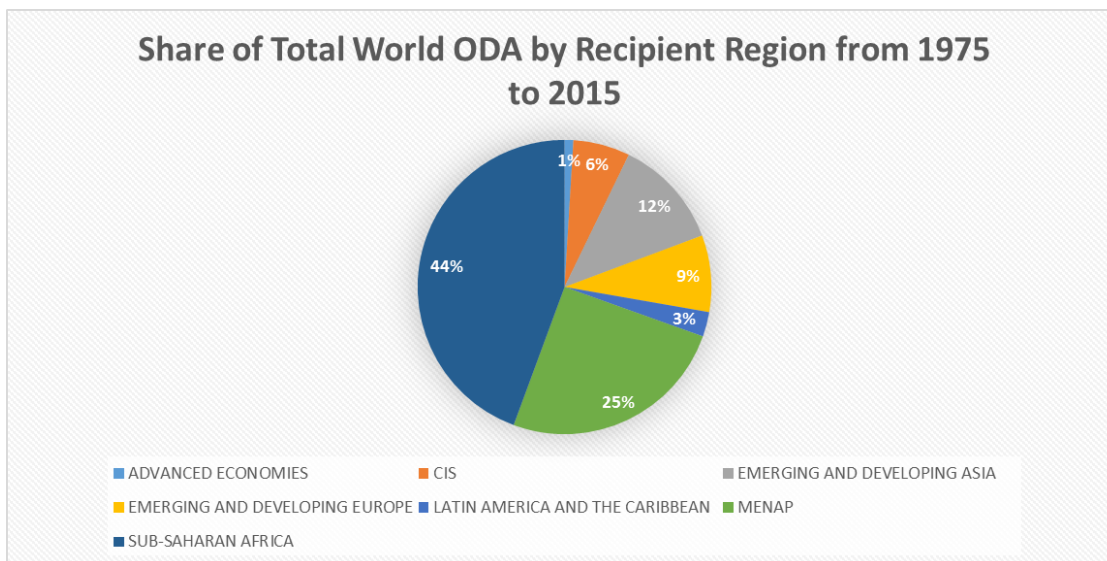
ODA can be given through various mechanisms, of which concessional loans are the most used. Concessional loans or soft loans are provided on a highly concessional basis: an average interest rate of 1-2%, a repayment period of up to 50 years and a grace period of up to 10 years. SFD loans have one of the highest grant elements globally estimated between 35-59% (UNDP, 2016). Other elements through which ODA is provided are grants. As it can be noted in chart 2 the region that has received most Saudi ODA from 1975 to 2015 is the Middle East, North Africa, Afghanistan and Pakistan (MENAP) region, which has received more than half of total Saudi ODA. This can be contrasted to the ODA provided by the world donors (chart 3), which has been focused on promoting the development especially of the Sub-Saharan region.

Chart 2



Source: Data set consolidated with information from: Saudi Fund for Development Report 2016 and DAC of the OECD, Geographical Distribution of Financial Flows to Developing Countries, Development Co-operation Report, and International Development Statistics database. Data are available online at: www.oecd.org/dac/stats/idsonline

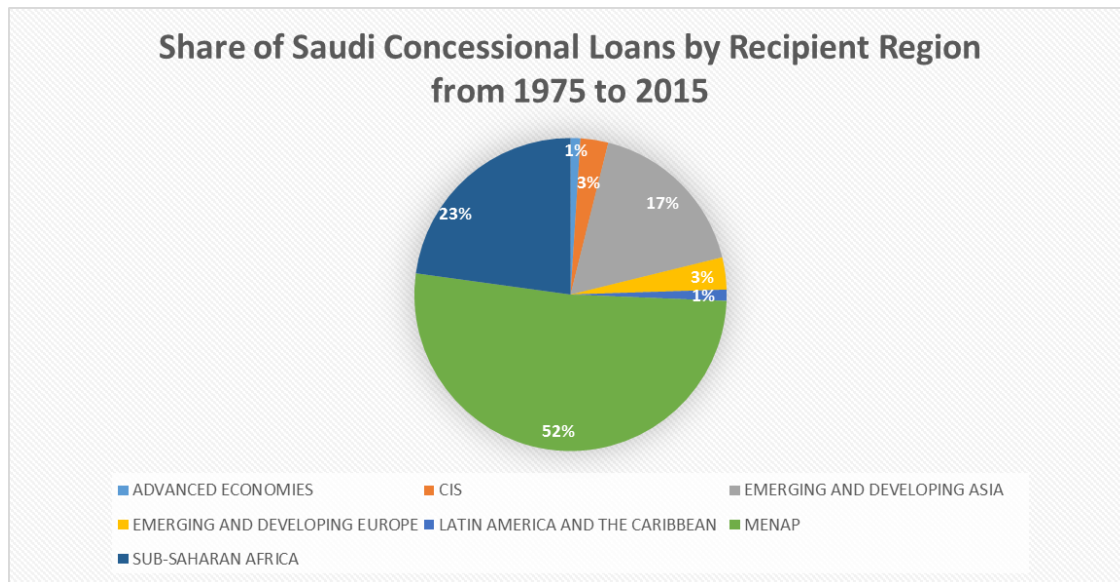
Chart 3



Source: Data set consolidated with information from: Saudi Fund for Development Report 2016 and DAC of the OECD, Geographical Distribution of Financial Flows to Developing Countries, Development Co-operation Report, and International Development Statistics database. Data are available online at: www.oecd.org/dac/stats/idsonline

In terms of concessional loans Saudi aid has been provided also with a preference to the MENAP region, which received 52% of Saudi concessional loans from 1975 to 2015 (chart 4)

Chart 4



Source: Saudi Development Fund 2016 report

It is important to note the sectors to which ODA is provided. From the data available at the Saudi Aid Platform, aid from this Arab donor is provided in three main sectors: development humanitarian and emergency relief and religious charity. ODA provided to development makes up 62% of the total assistance provided by Saudi Arabia, followed by a 37% provided to humanitarian and emergency relief. Religious charity figures are less impressive, and only represent a 0.06% of total Saudi aid.

In the beginning stage of Saudi aid, giving most ODA was granted through grants and donations. Over the years, this pattern has changed: after 1990, most Saudi aid has been granted through soft loans. This is confirmed in the literature, where it is signaled that Saudi aid available for public scrutiny and provided by the Saudi Development Fund is done through concessional loans (Villanger, 2007). Since there are issues regarding data of Saudi aid, this paper decided to use the concessional loans amount as a proxy for the total ODA provided by Saudi Arabia.

Foreign aid and the case of Saudi Arabia

Region. Since aid is a practice of giving away resources of a State to others, its nature is political rather than anything else, as understood by Seo (2017). Bearing in mind the political nature of aid giving practices, a tool serves the foreign policy of States. It is utilized mainly to “promote geostrategic interests, strengthen alliances and keep allied regimes³ in power”

³ Acknowledged in the fact that in the case of Arab aid it is “criticized for probably enlarging the institutions” (Lawton, 1979)

(Apodaca, 2017). Furthermore, a broad literature⁴ on the meaning of aid giving shows that it is utilized to “gain and preserve public recognition” (Furia, 2015). These considerations are strongly linked to the foreign policy interests of Saudi Arabia, since the Kingdom wants to be the Islamic regional power in the MENAP region and is facing a challenge posed by the continuous actions of the Islamic Republic of Iran to promote and fund Shi’i groups following the 1979 revolution (Mabon, 2013). Thus, one would think that Saudi ODA would be mainly directed to the countries in the MENAP region.

Religion. As we continue the analysis of Saudi aid should be related with the role of Islam as a variable that may or may not affect its relationships, and in this case the links created through the allocation of aid. In the great study of Saudi Arabian foreign policy, it is identified that the “Royal family has made use of Islam’s soft power potential by asserting the Kingdom a leading potential role among the Muslim States” (Preuschaft, 2016). One also must understand that “Islam is not an end in itself but rather it contributes to serve Saudi interests such as maintain regional significance” (Preuschaft, 2016).

While the previous considerations were derived from the geopolitical tensions in the Middle Eastern region, one can directly analyze the statements of the Saudi Development Fund to justify the aid giving practices of the Kingdom. By doing this one encounters that Saudi Arabia, following the Islamic principles of the Zakat and Sadaqa, “is highly interested in helping those in need” (United Nations Development Programme, 2016).

As ODA’s goal is to promote development in countries, factors such as poverty and unemployment must be considered. In the case of Saudi Arabia, the Saudi Development Fund has stated in its reports that it is of great importance for the Fund to provide the necessary resources to the countries that have high rates of unemployment and poverty (SDF, 2016)

Foreign aid, by its definition, seeks to promote development of the recipient states, which means that the internal conditions of the countries improve. The improvement of the internal conditions reduces migration since expulsion causes would be eliminated. From this, Saudi aid may be promoted to reduce the foreign migration to Saudi territory. It is important to recall that migration may be a source of negative impact to the destination country, derived from demographic pressure. This is an important consideration for a paternalistic country such as Saudi Arabia.

Methodology

Based on the commonalities found in the Arab disbursement of aid and the specific considerations of the Saudi case, we consider the following variables as factors that may influence the decision of Saudi Arabia to provide foreign aid:

1. Region
2. Muslim population as a percentage of total population

⁴ Recognized first by Marcel Mauss in his book *The Gift*, analyzed by Tomohisa Hattori in the realm of international relations and advanced by other authors since the publication of these works.

3. Import partner share percentage in Saudi trade
4. Export partner share percentage in Saudi trade
5. Poverty
6. Unemployment rate (2005-2014)
7. Saudi migrant stock in recipient country
8. Arab country
9. Political affinity
10. Total population

From these multiple sources we make a consolidated dataset with 56⁵ countries that received Saudi ODA through soft loans. We took the natural logarithm of the loans amount to proceed with the analysis. For the region variable, we generated seven dummy variables for the following regions: Advanced Economies, the Commonwealth of Independent States (CIS), Developing Asia, Developing Europe, Latin America and the Caribbean, Middle East North Africa Afghanistan and Pakistan (MENAP) and Sub-Saharan Africa. For the Arab variable, we generated two dummy variables for countries which were Arab, and which were not.

We proceed with an OLS method which had to be modified due to lack of information on some variables and adjustments made from collinearity issues. We finally accept that our model has missing variables but due to the lack of information and measurement of certain variables such as migration, we were unable to fill this gap. No issues regarding heteroscedasticity were found.

Our final model is the following:

⁵ These are: Afghanistan, Algeria, Bahrein, Bangladesh, Benin, Bosnia and Herzegovina, Burkina Faso, Cameroon, Central African Republic, Chad, China, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, India, Jordan, Kenya, Kyrgyz Republic, Lebanon, Lesotho, Liberia, Madagascar, Maldives, Mali, Mauritania, Mauritius, Mozambique, Myanmar, Niger, Pakistan, Philippines, Senegal, Sierra Leone, Somalia, Sudan, Syria, Tajikistan, Tanzania, Thailand, Tunisia, Turkey, Uganda, Vietnam, Yemen and Zambia.


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. regress lnloans import poverty unemployment politicalaffinity region_6 arab_2
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Source	SS	df	MS	Number of obs	=	47
Model	17.4659404	6	2.91099007	F(6, 40)	=	6.67
Residual	17.4646034	40	.436615085	Prob > F	=	0.0001
				R-squared	=	0.5000
				Adj R-squared	=	0.4250
Total	34.9305438	46	.759359648	Root MSE	=	.66077

lnloans	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
import	.1274066	.0598864	2.13	0.040	.0063717	.2484416
poverty	-.0292823	.0112489	-2.60	0.013	-.0520171	-.0065475
unemployment	.0245418	.0170145	1.44	0.157	-.0098458	.0589294
politicalaffinity	.0299738	.0125736	2.38	0.022	.0045615	.055386
region_6	.8659464	.4160419	2.08	0.044	.0250943	1.706799
arab_2	-.3651756	.4238118	-0.86	0.394	-1.221731	.49138
_cons	15.29861	1.094507	13.98	0.000	13.08652	17.51069

Where the import partner share, poverty, political affinity and MENAP region are significant with a 95% of confidence.

As opposed by the Saudi statements of considering poverty an important factor to provide aid, for this period, the data shows the opposite. Probably what had greater importance was the geopolitical situation at the time, since the Arab uprisings took place from 2011 and this year is part of our observations.

MENAP region (AFT, humanitarian assistance charts) Region (OIs chart)

Data issues on Saudi ODA

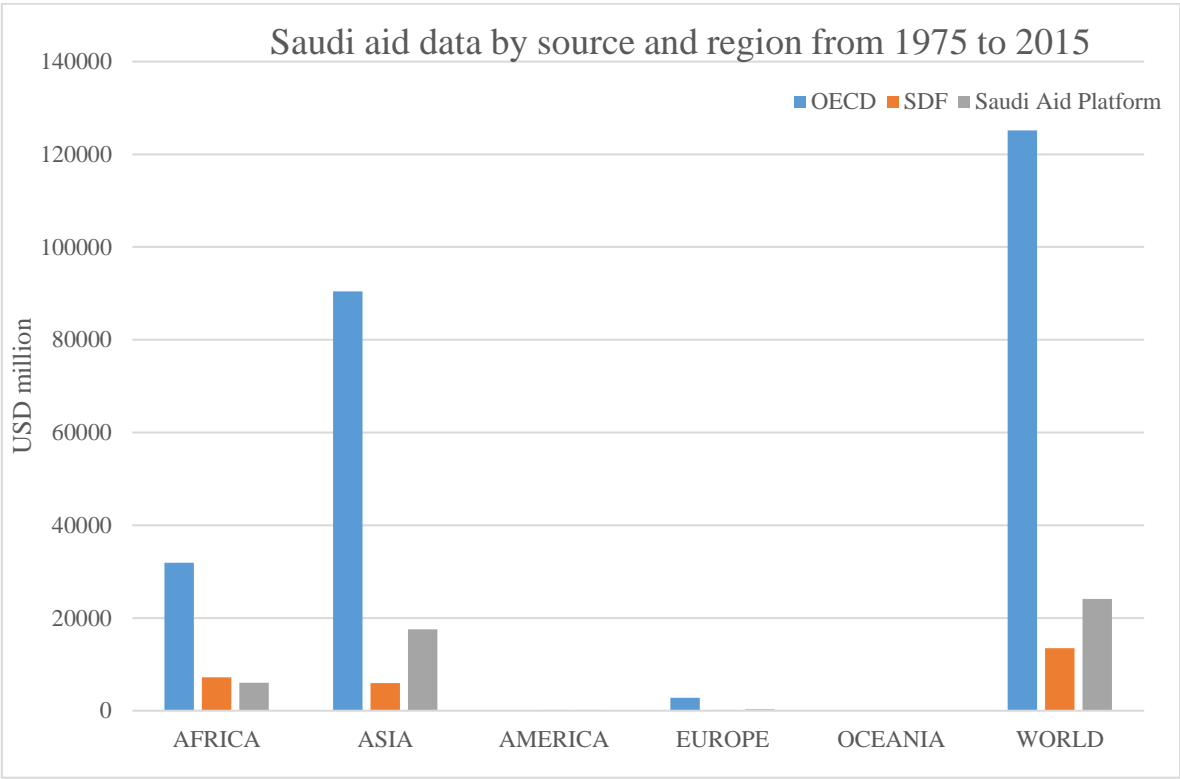
Authors that have been engaged in studying Arab aid have found multiple issues regarding the data on ODA. In the case of Saudi aid, “much of it has been kept in secret and government records are not necessarily transparent” (Villanger, 2007).

The Saudi Aid Platform project is fixing the secrecy on aid reporting signaled by Villager. This project is on its first stage, in which data from 2007 to 2017 is being updated, which is why the information found is insufficient. As Villanger faced 11 years ago, reliable information on the changes between the allocation of aid through loans and grants is not clear in the data reported. This is true due do the fact that in the web-site aid information is presented as the amount of aid received by country and by sector, but the way that assistance was granted is not specified. Furthermore, in the UNDP report, it is signaled that grants and loans where provided through the SDF, but an inconsistency in this information is faced when one reads in the SDF charter that its purpose is to provide assistance through loans.

This paper face problems regarding data uniformity between various sources. For the period 1975 to 2015, data on Saudi ODA provided by continent was available from the OECD

database, the Saudi Fund for Development 2016 report and the Saudi Aid Platform. The comparison between the data from these three sources can be reviewed in table 1.

Table 1.

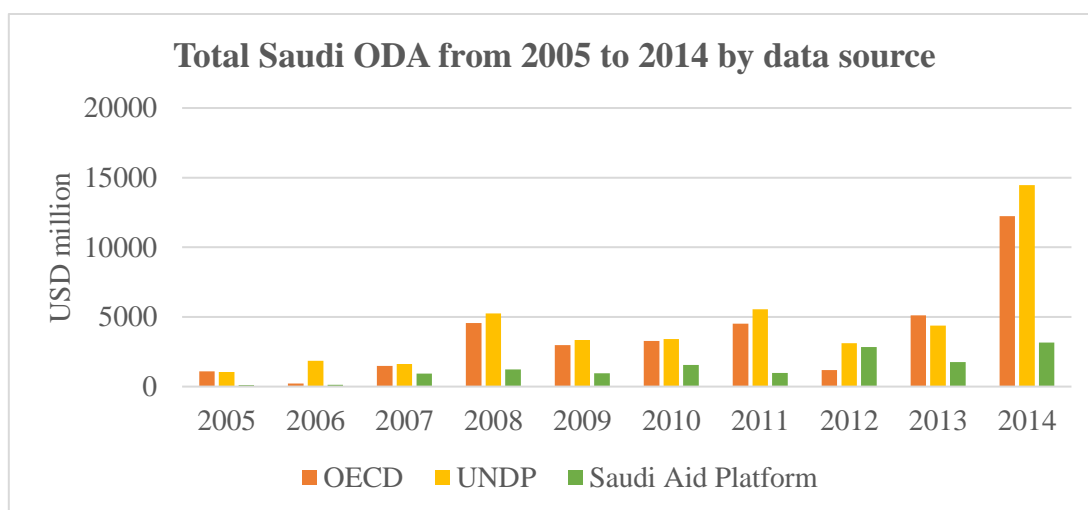


Source: Data from the Organization for Economic Cooperation and Development, the Saudi Fund for Development 2016 report and the Saudi Aid Platform data.

The disparity has a two-fold explanation. On one hand, the Saudi Fund for Development report of 2016 provided information only on the total amount of aid provided through concessional loans, which is why the bar for SFD data is always lower than the OECDs one. On the other hand, the Saudi Aid Platform dataset is still under construction and currently has finished the first stage of data clarification between 2007 and 2017, which explains why the Saudi Aid Platform bar is always lower than the OECDs one and is occasionally lower than the SFDs one.

Data disparity for total Saudi ODA per year is reduced when one compares the information provided by the OECD, the data on the United Nations Development Program report and the Saudi Aid Platform. As is presented in table 2, the difference between data from the OECD and the UNDP report is less severe than the one between these two sources and the data from the Saudi Aid Platform. Once again, these disparities are explained by the undergoing work that is being done to construct the Saudi Aid Platform dataset.

Table 2.



Source: Organization for Economic Cooperation and Development, the United Nations Development Program report of 2016 and the Saudi Aid Platform

Another data issue faced was the disaggregated information incompatibility between information from various sources. The differences between how data on Saudi ODA is presented by the various sources that were relevant to this paper can be viewed in table 3.

Table 3. Differences on Saudi ODA data

Source	Unit of Analysis	Channels of aid	Type of aid	Aid given per year	Aid given per period
OECD	Regions (Africa, Asia, Europe, America and World)	Unspecified	Gross ODA	Yes	Yes
UNDP Report	Country World	Information of these channels is only available for total World ODA <ul style="list-style-type: none"> - Contributions to International Organizations - Concessional loans - Grants 	Humanitarian and Developmental (unseparated)	No	Yes, 2005-2014
SFD Report	Country	<ul style="list-style-type: none"> - Concessional loans 	Unspecified	No	Yes, 1975-2015

Saudi Aid Platform	Country	Unspecified	<ul style="list-style-type: none"> - Humanitarian - Development - Religious charity 	Yes	Yes
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Even though comparison among information from various sources is difficult and may not be properly done, this paper utilizes from each source the most relevant and useful information to present how Saudi ODA behaves and what are its characteristics.

In this sense, the information from the OECD is used to show the general Saudi ODA trend from 1975 and 2015. The data from the UNDP report is used for the main research question of this paper. The data of the SFD is used to show the participation of concessional loans in the Saudi ODA giving since the beginning of the Funds operations.

It is also a useful reference for the Saudi Aid Platform project of data compilation and clarification since disparities among the data on Saudi ODA from both sources are significant. This information is also used to test the hypothesis of the relation between the oil prices and GDP growth with Saudi ODA.

Reasons behind issues with Arab aid data

- Arab donors have not prioritized regular record keeping and publishing
- The distinctive political economy of the Gulf renders problematic the concept of official development assistance as defined by the OECD. (Marcoux & Shushan, 2011)

Conclusions and Final Remarks

As one can see from the data collected there is evidence that give us insights to what a characterization of Saudi foreign aid should be like. The aid giving practice is associated and related to the foreign policy interests of the Kingdom of Saudi Arabia, as it is reflected that more resources measured in different type of aid (loans, AFTs, humanitarian) are given with more emphasis to the MENAP region. This region, recognized by multiple authors, holds special interest for Saudi Arabia, related to the Kingdom's vision of its leading role on it as the Islamic reference power. One can also note that the Arab and Muslim characterization of countries and organizations do influence the Saudi decision of aid allocation, since part of the Kingdom's identity extends and is projected internationally.

This research had a first intention to see if there was a relation between regional events that may had shaped the Saudi aid giving decision in the region such as the Iranian revolution, the Arab Spring or the war in Syria. Since the data collected does not provide a basis for a year-to-year comparison this could not be achieved, but we invite further papers to follow, if possible, that route of research.

Another remark that we have seen in our research is that since the creation of the King Salman Humanitarian Assistance and Relief Centre in 2015 it continues to be found an emphasis of aid giving to the MENAP region, specially to Yemen⁶ which has received the largest number of humanitarian projects from this agency, but other countries in Africa and Asia have also received assistance from this Centre (see annex 2). Probably it is going to handle completely the humanitarian assistance side of aid while de Saudi Fund for Development will continue to provide the aid that we have studied in here. Will the Saudi allocations continue to be biased and would the agencies have a similar behavior in the long run? With the new king and the vision of the most recent Crown Prince changes may appear, but we will have to wait until there's enough evidence to see what happens to the future characterization of the Saudi aid practice.

⁶ The King Salman Centre was created after the war in Yemen began, which reflects its natural relation to this country and its needs.

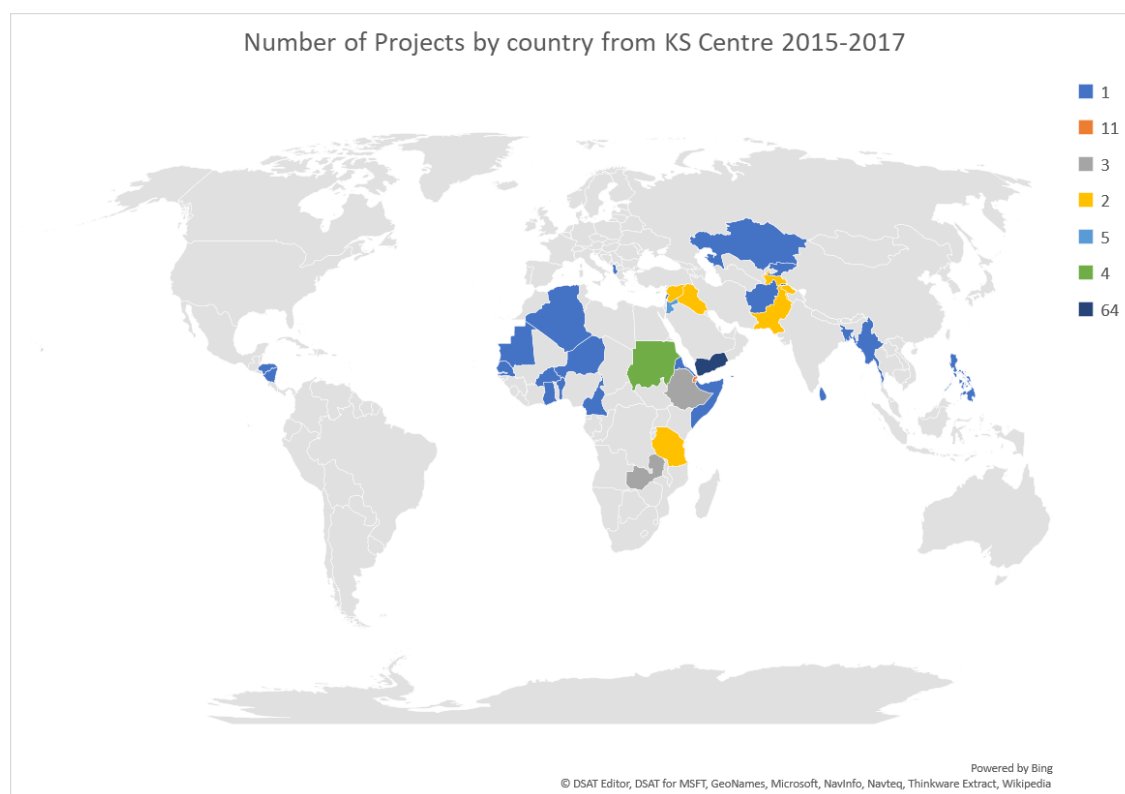
Annex 1. Multilateral Organizations with Saudi Funding Participation

Institutions	Capital (USD)	Contribution of the KSA (USD)	Contribution of KSA (% of the capital)
OPEC fund for International Development	3,435,008,438	1,033,279,607	30
The Special Account for Financing Small and Medium – Size Private Sector Projects in the Arab Countries	2,000,000,000	500,000,000	25
Arab bank for Economic Development in Africa	2,800,000,000	684,952,444	24.46
Arab Fund for Economic and Social Development	6,840,034,200	1,640,985,158	24
Islamic Development Bank	26,280,000,000	6,204,416,000	23.61
Arab Authority for Agricultural Investment and Development	485,735,172	108,990,000	22.43
Arab Investment Guarantee Corporation	134,574,164	23,303,100	17.32
International Islamic Trade Financing Corporation	750,000,000	120,000,000	16
Islamic Corporation for Investment Insurance and Export Credit	584,000,000	87,600,000	15
Islamic Corporation for Private Sector Development	1,000,000,000	150,000,000	15
Arab Monetary Fund	3,265,487,000	487,001,250	14.91
International fund for Agricultural Development	3,652,000,000	462,923,000	12.67

Islamic Solidarity Fund for Development	10,000,000,000	1,000,000,000	10
International Bank for Reconstruction and development	232,791,000,000	8,022,800,000	3.44
Multilateral Investment Guarantee Agency	1,918,180,000	59,813,000	3.12
International Monetary Fund	351,556,491,000	10,313,252,500	2.93
International Finance Corporation	2,502,450,000	30,062,000	1.2
The International Development Agency	225,800,000,000	2,498,330,000	1.11
African Development Bank	103,561,813,800	193,912.20	0.2

Source: Official Development Assistance of The Kingdom of Saudi Arabia report UNDP

Annex 2. Number of Humanitarian Projects by Country from the King Salman Centre from 2015 to 2017



Source: King Salman Humanitarian Assistance And Relief Centre Reports 2015-2016 and 2016-2017.

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