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Shifting Gulf Foreign Aid: Prospects and Obstacles in EU Collaboration.

REVITALISING MULTILATERAL PERSPECTIVE AND POLICY SERIES

ANALYSIS

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"We used to give direct grants and deposits without strings attached and we are changing that. We are working with multilateral institutions to actually say we need to see reforms," said Saudi Arabia's Minister of Finance, Mohammed al-Jadaan, in January. His statement refers to a strategic shift in the Kingdom's aid policies, turning away from financial assistance towards more technical cooperation and multilateralism.

Traditionally, financial assistance emerged as a key driver for aid politicisation as indicated by the Gulf engagement in countries such as Egypt or Tunisia that faced political turmoil after the "Arab Uprisings" more than a decade ago. In both cases, the growing rivalry between pro-Islamist Qatar on the one hand and the status quo powers Saudi Arabia and the United Arab Emirates (UAE) played out also in the aid

dimension. To counterbalance the impact of rivalling Gulf competitors, Qatar, as well as the UAE and Saudi Arabia, channelled financial assistance to their respective political partners. Money was further provided as a critical element of Gulf humanitarian efforts to countries of utmost geostrategic relevance: Saudi Arabia, for instance, emerged as one of the leading humanitarian donors in Yemen after the conflict started in 2015, with a volume of more than USD 7.85 billion. Between 2013 and 2017, the bulk of Gulf aid was provided to Egypt, Yemen, Jordan, and Morocco through budget support in the form of deposits in the beneficiary's national banks to stabilise cash reserves.

Today, however, the relevance of financial assistance in Gulf aid policies is declining. This shift needs to be understood as a general trend in the Gulf aid policies, as not only Saudi Arabia but also the UAE, Kuwait and Qatar – the main providers of Gulf aid – need to reformulate their traditional aid policies and have to adapt to growing socio-economic pressure in a multipolar post-COVID-19 world. Although most of the Gulf monarchies recovered rapidly from the recession caused by the pandemic due to rising oil prices and growing energy demand driven by the Russian war on Ukraine, economic diversification remains a key pillar for them. Hence, they are investing heavily in non-hydrocarbon sectors such as tourism, culture, sports, or entertainment in order to promote their respective business models and consolidate their international reputation as attractive hubs for investment.

In countries such as Kuwait or Saudi Arabia, socio-economic challenges remain relevant, as youth unemployment (15-24 years) was still high in 2021, with 19.7% in the Kingdom, or 15.4% in the Kuwaiti case. Despite the fact that the unemployment rates in both countries have declined due to the post-pandemic recovery, diversification efforts need to intensify in order to absorb the bulk of young jobseekers into the workforce. By 2030, up to 4.5 million young Saudi nationals are expected to enter the job market, which is a number the already over-bloated public

sector cannot absorb. Against this backdrop, non-oil economic diversification and privatisation are needed to promote the localisation of industries and the nationalisation of the job markets. In Qatar and the UAE, pressure on the domestic job market is lower as both economies have undergone successful diversification efforts in recent years and are thus in a more advanced position. Consequently, youth unemployment rates are lower in both the UAE (9.3%) and Qatar, with only 0.3% in 2022.

A HYBRID APPROACH TO AID POLICIES

In times of domestic transition, driving calculations for foreign aid provision also need to be reconsidered. Hence, the provision of significant financial assistance to crisis-torn countries is increasingly replaced with a more hybrid approach: on the one hand, Gulf states still consider financial assistance as an instrument for power projection and stability; on the other, topics such as accountability, return on investment, and efficiency have emerged as driving pillars for the Gulf states to assess their aid provision. Instead of providing financial disbursements to governments such as in Egypt or Tunisia, Gulf companies – mainly governmental investment funds such as Saudi Arabia's Public Investment Fund (PIF) – seek to take over local companies in order to diversify their portfolios and create chances for the generation of high investment dividends. For instance, the PIF has invested USD 1.3 billion in four Egyptian companies, and has unveiled its new Saudi Egyptian Investment Company in January 2023. In times of economic diversification, aid provision is considered an instrument to enhance market access and invest in economies of strategic relevance. As such, development cooperation and economic investments are closely tied with each other and thus form a relevant dimension of Gulf economic statecraft.

VOLATILITY OF AID

Since the 1960s, Saudi Arabia, the UAE, Kuwait, and Qatar have emerged as global providers of humanitarian and development assistance. Over the years, they have developed outstanding expertise in aid policies and created widespread networks in countries of relevance such as in North Africa, Asia, Europe, Latin America, and neighbouring countries. Against this backdrop, they should not be considered as an "ATM" for aid provision, but rather as highly professional actors in international development policies. As the shift from unconditional towards conditional aid provision is likely to continue, volatility in Gulf aid could decrease: In recent years, the willingness and capacities to provide humanitarian or development assistance have decreased in times of low oil and gas prices as the state revenues still rely heavily on the income from fossil resources. In the course of significantly falling oil prices and the serious effects of the pandemic on the Gulf Arab economies (the so-called "dual shock"), the volume of official development assistance (ODA) from the Gulf dropped between pre-COVID-19 2019 and 2020 from 0.24% of GDP to 0.19% in Saudi Arabia (from USD 4.8 billion in 2018 to USD 1.6 billion) in 2020, and from 0.55% of GDP in the UAE to 0.48% (from USD 7.8 billion to USD 2.8 billion) during the same period. This trend is likely to continue: between 2021 and 2022, Saudi Arabia's ODA decreased by 14.3% in real terms in volume, whereas the UAE's ODA fell by 5.6% in real terms in volume during the same period.

MORE PROFESSIONALISATION

The professionalisation of aid providers has also improved recently: in Saudi Arabia, Qatar, and the UAE, a new generation of developmental actors is increasingly reforming traditional aid sectors by focusing on efficient financing modalities, international regulations and aid principles such as the Sustainable Development Goals (SDG). Gulf monarchies consider development cooperation on a multilateral

level as a relevant opportunity to present themselves as reliable and trustworthy partners. By aligning with and referring to the SDG, providing core or ear-marked funding to UN organisations and establishing partnerships with various international providers of development assistance, they frame and brand their humanitarian engagement in a more universalist way. New governmental institutions and philanthropic charities with a focus on sustainable development have been created.

Islamic charity traditionally features prominently in Gulf aid: for decades, aid provision for people in need has been closely entrenched in Gulf societies driven by the religious values of giving alms (*zakat* and *sadaqah*), characterised by popular donations campaigns during Ramadan to Syrian refugees or the victims of the devastating earthquake in Syria and Turkey. However, Islamic charity has become less ideological in recent years: in Saudi Arabia, for instance, aid provision is nowadays mainly framed in non-ideological ways, as the power of the religious elites has been reduced by the current Saudi leadership. Regulations to restrict non-controlled aid flows through unregistered Islamic welfare organisations have been introduced in all Gulf monarchies in recent decades. Such organisations have started to focus on capacity development and youth and female empowerment, provide skills training for young entrepreneurs and start-ups, online courses for aid workers and financing for regional initiatives working on climate mitigation efforts and environmental education. Those actors thus present a hybrid organisational model combining Islamic aid principles and long-term development goals. In doing so, aid still features prominently as a religious duty but has also become a social trend to showcase solidarity and generosity on an individual and state level. Consequently, humanitarianism also creates a driving force for identity politics and nation branding for the Gulf monarchies.

GROWING MULTILATERALISM

Historically, Gulf monarchies have preferred to deliver aid on a bilateral level: in 2020, accordingly, bilateral development assistance accounted for 85.6% of Saudi Arabia's, 91.6% of Qatar's, 95.9% of Kuwait and 98.7% of the UAE's ODA. Nevertheless, the Gulf states are increasingly interested in multilateral formats of donor cooperation and coordination: in Saudi Arabia, for instance, disbursements to multilateral organisations increased by 10.2% in real terms between 2020 and 2021. The Gulf states have become participants of the Development Assistance Committee of the OECD (UAE in 2014, Qatar in 2016 and Saudi Arabia and Kuwait in 2018), and are engaged in several Arab-DAC Task Forces together with international development organisations. For instance, Germany and the multilateral AGFUND have launched a Task Force on Employability and Vocational Training in 2022. In 2019, the Arab Coordination Group (ACG) initiated its task force on water and sanitisation for affected communities in Guinea and Tunisia. The ACG includes ten relevant bilateral and multilateral Arab donor organisations and provides a professional platform for Arab development aid. Furthermore, vaccination diplomacy resulted in enhanced cooperation between the Gulf states and international organisations such as the WHO or the Global Alliance for Vaccines and Immunisation (GAVI).

CHANCES AND CHALLENGES FOR ENHANCED EU-GCC COOPERATION

So far, challenges for concrete cooperation between the EU and Gulf aid providers have remained high; still, both sides mistrust each other as political reservations are dominating the controversial debate about joint action. Furthermore, issues such as the human rights situation also feature prominently in the European discourse on Gulf aid. In turn, representatives from the Gulf criticise that Eurocentric double standards drive the European humanitarian approach, as it widely neglects the

outstanding expertise of Gulf developmental organisations and still considers them as cash-cows rather than as respected partners in project implementation. In addition, donor coordination is still limited, which results in a lack of knowledge about financing mechanisms or partnership models.

Nevertheless, the potential for mutual development cooperation has improved. As outlined in the Strategic Plan 2020-2024 of the Directorate-General for International Cooperation and Development, key priorities for the EU's development cooperation are climate change, environment, energy, sustainable growth and jobs, digitalisation, migration, human rights promotion, and human development. Most of those topics are also relevant for the shifting Gulf aid policies. The EU's "Strategic partnership with the Gulf" also aims to enter a global humanitarian and development partnership with the Gulf. Here, adressing the humanitarian-development-peace nexus in order to work jointly on regional stability is explicitly mentioned as a key pillar for cooperation. Regular formats for exchange, such as the Arab-DAC Dialogue or enhanced engagement with the ACG, are presented as concrete future formats for such cooperation.

After all, the growing investment-development nexus also offers a new momentum for EU-Gulf cooperation: in identifying initiatives encouraging entrepreneurship, green local agencies, or youth and female empowerment and inclusive health services, actors from both the EU and the Gulf could create synergy effects in times of economic diversification. The more resources become limited, the more cooperation is necessary to find ways for sustainable development assistance. More knowledge transfer is also needed: here, ambitions to organise an EU-GCC Ministerial Meeting on humanitarian assistance in autumn 2023 are promising, but should also include a plethora of technical experts from Europe, the Gulf, and relevant partner regions. Such a meeting could initiate a regular exchange on

different stakeholders' levels by addressing joint financing, but also needs to discuss technical partnership models with a stronger focus on capacity development.

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The BIC is an independent, non-profit, think-and-do tank based in the capital of Europe that is committed to developing solutions to address the cyclical drivers of insecurity, economic fragility, and conflict the Middle East and North Africa. Our goal is to bring added value to the highest levels of political discourse by bringing systemic issues to the forefront of the conversation.

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