SAUDI FUND FOR DEVELOPMENT (SFD)

Even though a signatory to the Paris Declaration, participation of the Saudi Fund for Development in the 2008 Paris monitoring survey was limited, with no data made available whatsoever.

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

Since its creation in 1975 and up until 2005, the Saudi Fund for Development (SFD) has committed Saudi Riyals (SR) 26.6 billion and disbursed SR 21.6 billion. In other words, average annual commitments have been SR 830 million, and disbursements SR 675 million. However, commitments and especially disbursements have declined compared to the earlier years. While commitments in 2006 were SR 1029.5 million (USD 274 million), gross disbursements have averaged only around US$160 million over the period 2003-05. Though these figures excluded debt relief and loan repayments, they represent only 0.09% of Saudi GNI in 2006.

However, as table 1.1 below shows this represents only a fraction of the Saudi Government's development aid efforts. According to OECD/DAC figures, Saudi Arabia's net development assistance stood at US$ 2095 million in 2006. This is the equivalent of 0.72% of Saudi GNI. Although this is a decrease compared to 2002 (by no less than 15%), it is more than a doubling compared to the US$ 1005 million of 2005.

	2006	**as % of GNI**
ODA Net Disbursements	2094.7	0.72%

Source: OECD/DAC database, table 1 (For calculating % of GNI, Saudi GNI of 2005 was used)

The difference can be explained by the fact that the Saudi Government also gives direct bilateral loans and grants to low-income countries for budget support operations and specific projects. In addition, it provides substantial contributions to multilateral institutions (see section 4.3).

1.2. Future Quantity Intent

In December 2007, Saudi Arabia pledged US$ 500-700 million to the Palestinian Authority.

2) KEY AGENCIES/MECHANISMS

2.1 Agencies and Structures

The SFD is the Kingdom of Saudi Arabia's main development financing fund. It started its operations in March 1975 and finances development projects in low-income countries through concessional loans. At the end of 2005, the capital of the SFD was SR 31 billion (USD 8.64 billion).

Since April 1999, the SFD has been using the “Saudi Exports Programme” to finance the loan, surety and insurance operations of Saudi non-oil export commodities. This programme also finances operations linked to foreigners (both private and public entities), wishing to import Saudi goods and services.

2.2 Key Policies and Documents

2006 Annual Report, Saudi Fund for Development (SFD, 2007)
SFD’s annual report outlines details of the 16 loans approved during the year as well as the projects with which they are associated. It also devotes a large section to Saudi’s export programme activities.

Arab Regional and National Development Institutions 2004 (OPEC Fund, 2004)
This document provides profiles of all major Arab development institutions, including commitments and disbursements cumulatively and for the most recent year, as well as describing their objectives and practices.

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

3.1. Recipient Countries

Top 10 recipients (loans for 2006)

commitments based	**US$m**	**% of total commitments**
1. Yemen	62.7	23%
2. China	48.7	18%
3. Jordan	30.0	11%
4. Egypt	24.0	9%
5. Bangladesh	21.9	8%
6. Algeria	21.9	8%
7. Rwanda	13.0	5%
8. Maldives	12.0	4%
9. Mali	10.0	4%
10. Madagascar	8.5	3%
Total Top 10 Recipients	***252.7***	***92%***

Source: SFD (2007).

In 2006, the Saudi Fund made loan commitments to only 13 countries (1 up compared to 2005), with main recipients being Arab countries, except for China (see table above).
However, since 1975 SFD has provided 395 loans to 71 countries. Of the total amount, 47.27% went to 41 countries in Africa; 50.84% to 25 countries in Asia, and 1.9% to other low-income countries. The 2006 distribution according to geographical location favoured Asia more however (see table below).

Distribution among groups of recipients (for 2006)

commitments based	**US$ mio**	**% of total bilateral**
LDCs	131.6	52.1%
Other LICs	0.0	0.0%

Asia	167.8	66.4%
SSA	84.9	33.6%

Source: SFD (2007).

3.2. Allocation Criteria

3.2.1. *Pre-selection criteria*

There are no geographical or other limitations to the Fund's activities.

3.2.2. *Allocation criteria:*

There are no formal allocation criteria linked to SFD resources. However, the amount of a loan should never be more than 5% of the SFD capital, and one country cannot have a stock of loans outstanding which is more than 10% of the capital (US$ 863.5 million). On the other hand, with respect to export financing, SFD would not finance any export operation in which the amount of its participation is less than SR 500,000.

4) AID POLICIES

4.1. Concessionality

The SFD makes only concessional loans, and therefore matches the minimum level of grant element for its disbursements to qualify as ODA. Its grant element is usually around 35-40%, though it can be higher, if this is necessary according to the developing country policy limits. Terms of SFD loans can be seen in the table below.

Grant Element (%)	?
Maturity (years)	10- 50 years
Grace Period (years)	3 - 10 years
Interest Rate (%)	1% - 4%
Service charge (%)	-
Currency denomination	Saudi Riyal

Source: OFID (2004).

HIPCs indicate that most of the funds they received from the Saudi Fund had around 35-50% grant elements, with the Gambia and Mali indicating the highest grant elements, and others indicating many loans close to the 35% grant element if using IMF methodology.

4.2. Types of Assistance

The SFD gives almost entirely project assistance. Over the last 30 years, programme aid has been only 3% of its total assistance (though the Saudi government has provided extensive non-project BOP or budget support assistance to governments bilaterally).

The SFD also provides debt relief through rescheduling and consolidation of arrears, whilst the Kingdom of Saudi Arabia Government deals with debt relief operations. By end-June 2007, Saudi Arabia had provided debt relief to 10 HIPCs worth US$ 162 million (in 2006 NPV terms – see IDA and IMF, 2007).

SFD's project focus is borne out by HIPCs, who analyze that virtually all assistance comes in project form, with only one country (the Gambia) indicating a significant amount of direct Balance of Payments support from the Kingdom of Saudi Arabia.

The Saudi Fund provides virtually no technical assistance, and largely in the form of hiring consultants to help design or implement projects. HIPCs therefore indicate that such assistance is not generally Government-led or involving capacity-building.

4.3. Channels of Assistance

The Saudi Government is responsible for aid through international institutions, mainly BADEA, the ISDB and the OPEC Fund, but also the AfDF, IDA and IFAD. In 2006, US$ 45 million or 2.1% of total Saudi aid went through multilateral channels.

SFD deals only with governments and, as a result, HIPCs indicate a very high proportion of its aid is captured in the budget, reaching virtually 100% in Ethiopia, Mauritania and Mali, and around 75% in almost all other countries. However, some SFD projects are negotiated directly with line ministries, and Saudi government balance of payments support funding may go via the central bank or other agencies, resulting in some Saudi funding being off-budget in many countries.

4.4. Sectors and Projects

There are no restrictions on the sectors for which SFD aid can be used. SFD is particularly flexible in financing projects which OECD donors may regard as less high priority (notably roads, water and housing). In 2005, 75% of SFD loans went to these sectors. In 2006, relatively more went to education and health, but transport and water (through multi-sector projects) still got a lot of the SDF allocation (see table below)

Distribution of Loans by Sector (for 2006):

Based on loan commitments	**US$m**	**% of total loans**
Social & Admin. Infrastr.	100.5	36.6%
Education	*48.5*	*17.7%*
Health	*51.9*	*18.9%*
Water & Sanitation		*0.0%*
Economic Infrastructure	116.0	42.3%
Transport	*107.7*	*39.3%*
Energy	*8.3*	*3.0%*
Production	24.0	8.7%
Agriculture	*24.0*	*8.7%*
Multi-sector	*34.0*	*12.4%*
Total	***274.5***	***100.0%***

Source: SFD (2007).

In theory, projects financed by the SFD are part of the development plan of the borrowing country (such as the PRSP). HIPCs indicate that Saudi aid is usually well-aligned with priority sectors and projects (75-100% in Ethiopia and the Gambia, and more than 50% in most countries). They particularly appreciate its focus on roads and water supply.

4.5. Flexibility

The SFD does not finance budget or BOP deficits, leaving this to the Saudi government and, as a result, has little flexibility to finance countries against exogenous shocks. This lack of flexibility also emerges from HIPCs analysis, where virtually all indicate little flexibility.

4.6. Predictability

SFD makes internal multi-year indicative projections of disbursements, based on a disbursement timetable for projects approved.

However, HIPCs indicate that these projections are hardly ever shared with them, leaving them with the impression that there is no multi-year programming framework. In spite of this, SFD scores reasonably well according to HIPCs on disbursements matching planned final deadlines of projects (and therefore on implicit projected disbursements), with most countries indicating that disbursements exceed 75% of intended disbursements.

4.7. Conditionality

Given that the SFD does not provide BOP or budget support, it does not insist on any macro-economic or sectoral conditionality. The only basis for suspension of disbursements is if a country is in arrears on repaying its loans. As a result, HIPCs indicate that its policy conditions are neither onerous nor causing delay.

4.8. Policy Dialogue

The SFD does not participate in the macroeconomic policy dialogue and none of its disbursements are linked to the status of relations with the IMF or World Bank. However, it can suspend new commitments to countries which suspend relations with the BWIs.

This is well reflected in analysis by HIPCs, with most countries reporting that the SFD does not have any links to BWI disbursements (eg the Gambia, Mali, Mauritania), except those which have at some stage suspended relations with the BWIs. It also scores relatively low on engagement in policy dialogue even on sectoral priorities, with only Ethiopia, the Gambia, Mali and Sierra Leone indicating some level of involvement.

5) AID PROCEDURES

5.1 Conditions Precedent

The initial step is a loan demand from the borrowing government, including a project proposal. For a loan to become effective, SFD requires a legal opinion from the borrowing country. If the loan is to be lent on to another public entity, an opinion is required from the legal advisor of the respective entity. After receiving and agreeing these documents, SFD sends a message fixing the date for the loan to become effective.

SFD also generally requires a local counterpart fund contribution to the project. In the case of the new export financing operations, the local beneficiary must contribute at least 15% of the contract value in advance. HIPCs indicate that in most countries

SFD counterpart funds requests are an important concern (except in the Gambia and Mali). The borrower must also take out an insurance policy to cover the project.

SFD does not execute directly the projects it finances, but demands that a public or private execution agency, clearly indicated in the funding agreement, be identified. This sometimes means that a project implementation unit has to be created.

HIPC analysis of SFD conditions precedent are that they generally are not particularly numerous or onerous to comply with, except for counterpart funds (especially in Cameroon, Ethiopia, the Gambia, Mali, Mauritania and Sierra Leone). On the other hand, they do generally take more than 3 months to comply with).

5.2 Disbursement Methods

SFD uses three disbursement methods:

1) *Direct payment to supplier* is the most widely used procedure. SFD pays directly to the supplier the amount requested and certified by the beneficiary.
2) *Reimbursement request.* The request indicates proof of payment by the Borrower (bank advice, copy of cheque approved by a bank)
3) *Special commitment.* At the request of the borrower, SFD may pay out sums to refund expenses incurred by the beneficiary in financing the operations stipulated in the funding agreement. The borrower will pay an additional charge of 0.5% for any special commitment contracted by SFD.

According to HIPCs, SFD does not use cash-in-advance. However, delays caused by disbursement methods are reasonably kept in check, with least (less than three months) reported by the Gambia, Mali and Mauritania.

5.3 Disbursement Procedures

The loan agreement provides SFD with the right to oversee the implementation of the funded project. It also provides for a clause obligating the loan recipient to inform SFD of any new developments that may impact on the project and the expenditures incurred by it. Added to this is monitoring on the basis of documents demanded to justify subsequent disbursements of the loan. SFD demands that project expenditure be strictly accounted for in accordance with generally accepted accounting standards. A complete project implementation report must be submitted to SFD six months following expiry of the mobilization period or on any other date agreed with SFD. Such a report must provide information on the execution of the project, the results of tests, the functioning of the project and the current and future advantages derived from it, the borrower's performance of its contractual obligations and whether the purpose of the loan has been achieved.

According to HIPCs, the SFD uses some local public financial management procedures, but insists on separate accounting and financial reporting.

5.4 Procurement Procedures

The acquisition of goods and services financed by SFD is, in principle, based on international bidding procedures, but this may be waived by mutual agreement if the circumstances make another procedure more suitable. Detailed information on bidding procedures can be found on SFD's 'bidding pages' on its website (see SFD, 2007). Further, joint guidelines are also produced together with other Arab aid institutions (World Bank, 2005)

HIPCs report that delays due to procurement procedures appear to be considerable (generally between 6 and 12 months).

5.5 Coordination

In 1975, the "Coordination Group" was set up, with the aim of harmonizing operational linkages among 8 Arab aid institutions, which often act as co-financers of the same projects. The members are: (i) The Islamic Development Bank (IsDB), (ii) the Arab Gulf Programme for UN Development (AGFUND), (iii) the Arab Fund, (iv) Arab Bank for Economic Development in Africa (BADEA), (v) OPEC Fund for International Development, (vi) Kuwait Fund for Arab Economic Development, (vii) Abu Dhabi Fund for Arab Economic Development and (viii) the Saudi Fund for Development. The Group publishes common guidelines and procedures (e.g. the ones listed in World Bank, 2005). Their adoption is not obligatory as it is left to the discretion of each individual institution to utilize the guidelines as appropriate, but in general they are used especially where (as normally) projects are cofinanced among Arab agencies.

SFD does not finance more than 50% of the overall cost of any project. As a result, it has a clear policy of co-financing with other bilateral and multilateral donors. In addition, SFD and the Saudi government are extremely active in mobilising funds from other member countries of the Organization of the Islamic Conference (OIC) and the other Arab financing institutions, which are its most frequent co-financing partners. In 2006, co-financing represented 40% of SFD's loan commitments, and 33% of the co-financed projects' total cost or U$ 108 million (SFD, 2007). Co-financing institutions in 2006 were: BADEA, OPEC Fund, Islamic Development Fund and the Kuwait Fund.

Nevertheless, HIPCs indicate that the SFD is not much involved in wider discussions at country level on harmonisation with other donors and alignment with country priorities.

Key Sources *(All internet sources were accessed on 14 and 15 April 2008)*

IDA and IMF (2007) "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) —Status of Implementation", prepared by the Staffs of IDA and IMF, August 21, 2006, accessed at www.imf.org/external/np/pp/eng/2006/082106.pdf

OFID (2004) "Arab Regional and National Development Institutions 2004", accessed at www.opecfund.org/publications/arab_profile_2004/ProfileArab2004.pdf

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World Bank (2005) "Harmonisation of Policies and Procedures within the Coordination Group of Arab and Islamic Donor Institutions and the OPEC Fund", accessed at www1.worldbank.org/harmonization/romehlf/IPlans/OPEC%20Fund.pdf

ANNEX 1: DATA SOURCES FOR SAUDI ODA

Saudi Arabia reports aggregate ODA statistics to the OECD/DAC. Hence, figures on net ODA are available since 2002 up until 2006. GNI for 2006 (from the World Bank) is not available (as of January 2008), such that % of GNI is calculated for with 2005 GNI in table of section 1.1. Some remarks:

- This profile is mainly concerned with financial flows going through the Saudi Fund, even though it appears that the Saudi Government also gives out aid directly on a bilateral basis. Hence table 1.1 (from the DAC database) should be seen as ODA for Saudi Arabia as a whole, whilst other data, notably taken from the Saudi Fund website, only reflects SFD financial flows.
- The DAC reports both bilateral and multilateral net flows, but it seems very strange that multilateral ODA was very low in the last couple of years.
- Tables (except for table in section 1.1) have been constructed using loan agreements information that can be found on the SFD website.