

Politics of Religiously Motivated Lending: The Case of the Islamic Development Bank



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Motivation (1)

- Donor self interests influence the allocation of development aid:
 - US: Political and commercial interests (Wang 1999).
 - Japan: Commercial interests (Alesina and Dollar 2000).
 - IFM and World Bank: Major shareholders' political interests (Dreher et al. 2009a, 2009b).

- DAC donors relatively neglect in the Islamic world:
 - Non-political allies, non-democratic countries.
 - DAC aid is relatively low (OECD 2010):
 - Sub Saharan Africa: 13% of GNI.
 - East Asia, Latin America, South Asia: 3% of GNI.
 - Middle East and North Africa: 0.7% of GNI.
 - DAC aid is highly concentrated (OECD 2006-2010):
 - Egypt, Iraq, Morocco and West Bank and Gaza account for 80%.



Motivation (2)

- Emergence of multiple Arab development agencies.
 - Islamic Development Bank (IsDB).
 - Arab Fund, Kuwait Fund, others.
- Religious affinity is a key determinant of Arab aid allocation:
 - Islamic countries are largest beneficiaries (Simmons 1981, Hunter 1984, Neumayer 2003a, Neumayer 2003b).
- Incomplete assessment, Islamic societies are heterogeneous:
 - Different Islamic sects (Sunni, Shias).
 - Might coexist with other religious groups (Christians, Hindus).
 - Impact of Islamic societies configuration on Arab lending not yet measured.
- Politics of religion in IsDB loan allocation.



Islamic Development Bank

- Founded by the Organization of Islamic Cooperation in 1973:
 - Started operations in 1975.
 - Membership restricted to states in organization.
- Composed of 56 member states:
 - Geographical distribution:
 - Middle East and North Africa: 22.
 - Sub-Saharan Africa: 21.
 - Central Asia: 6; South Asia: 3; South East Asia: 3; Latin America: 1.
 - Largest shareholders:
 - Saudi Arabia: 23%.
 - Libya, Iran, Nigeria, and United Arab Emirates: 8% to 9%.
- Saudi Arabia, a pro-Sunni regime, is prominent in governance:
 - Lending expected to follow its political stance in Islamic world.



Hypothesis (1)

- Sunni-Shia divide:
 - Clashes to retain power, international cooperation along similar:
 - Arab uprising:
Bahrain supported by Jordan and Saudi Arabia (Itani 2013).
Syrian opposition supported by Saudi Arabia and Qatar (Sanger 2012).
 - Anecdotal evidence:
IsDB favors Sunni-Islam communities in Sub Saharan Africa for projects in education (Ousman 2012).
Saudi Arabia pressured Sudanese government to become a Sunni based state in return for IsDB aid in 1983 (Deegan 1995).

- Hypothesis 1:
 - Being a Sunni majority populated country or Sunni regime increases the probability of receiving higher amounts of development aid from the IsDB.



Hypothesis (2)

- Sunni-Shia divide is less pronounced in conflictive periods with other religions:
 - Different Islamic sects form coalitions to confront common political opposition.
 - Lebanese Civil War:
Lebanese National Resistance Front (Shia and Sunni groups, among others) vs. Lebanese Front (Christian).
 - Anecdotal evidence:
IsDB provided assistance to Moro National Liberation Front in the Philippines (Shia and Sunni members) seeking to overthrow Christian government (Robels 2013).
- Hypothesis 2:
 - Sunni-Shia divide does not influence IsDB lending decisions when conditional upon higher degree of tensions other religious communities.



Data (1)

- Population by religious beliefs:
 - Source: Pew Research Center.
 - National censuses and household surveys.
 - UN Demographic Yearbook, World Religion Database, World Values Survey.
 - Islamic sects (Shia, Sunni), other religions (Christian, Hindu, indigenous).

- Population variables based on religious beliefs:
 - Sunni majority population dummy.
 - Shia majority population dummy.
 - Other religion majority population dummy.



Data (2)

- Religious affiliation of head of state:
 - Might differ with religious belief of population majority.
 - Source: The World Factbook (CIA), Encyclopedia Britannica.
 - Islamic state or Islam is state religion: Official religion.
 - Secular or no legislation: Religious affiliation of head of state.

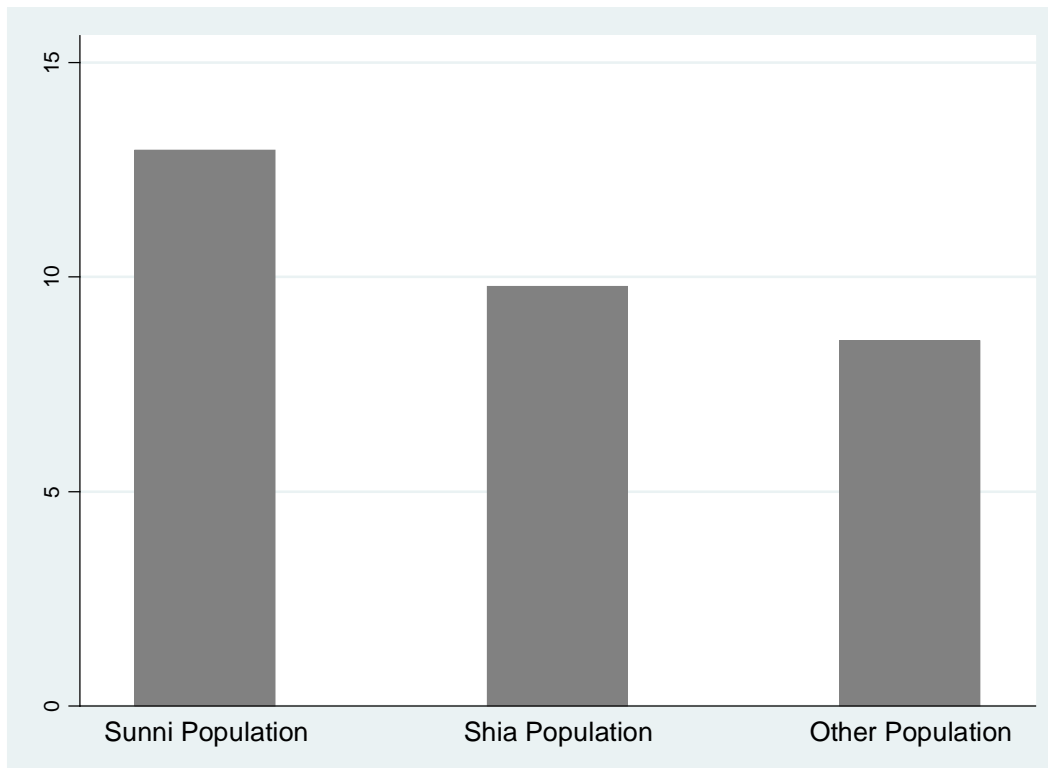
- Population variables based on religious beliefs:
 - Sunni regime dummy.
 - Shia regime dummy.
 - Other regime dummy.

- Religious Tensions Index:
 - Source: International Country Risk Guide (ICRG).
 - Accounts for conflicts across different religious groups and not Islamic sects.



Data (3)

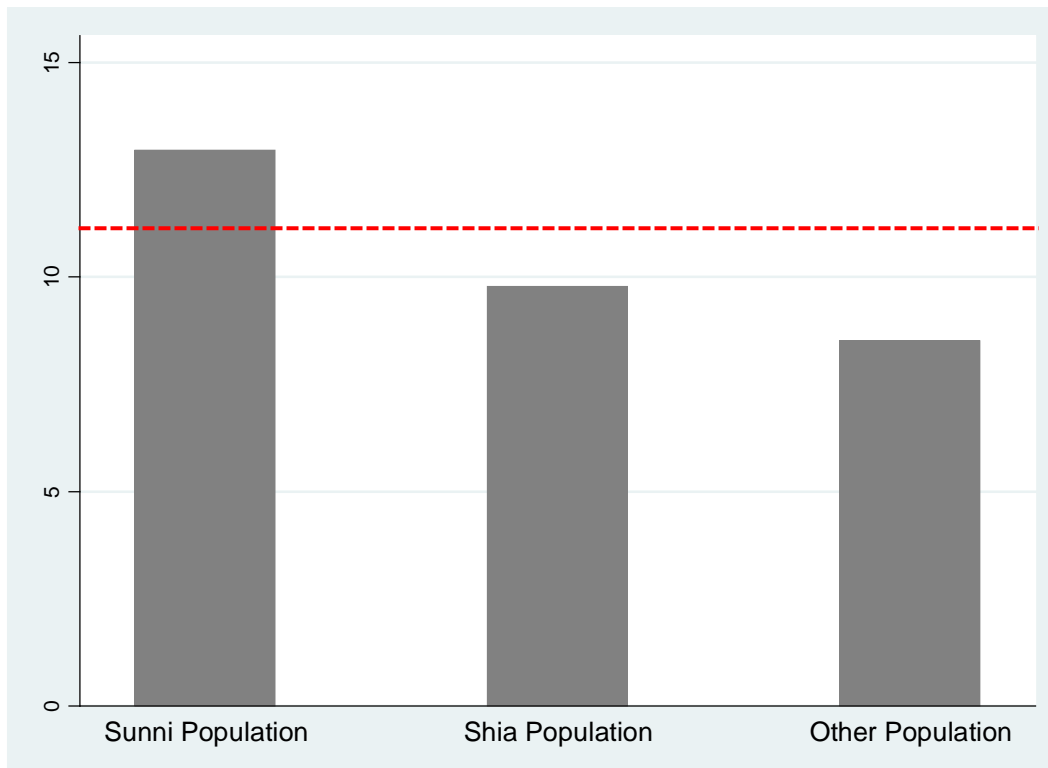
- IsDB Commitments by Religious Affiliation of Population, Yearly Average in 1976-2007, Millions of 2000 US Constant Dollars.





Data (3)

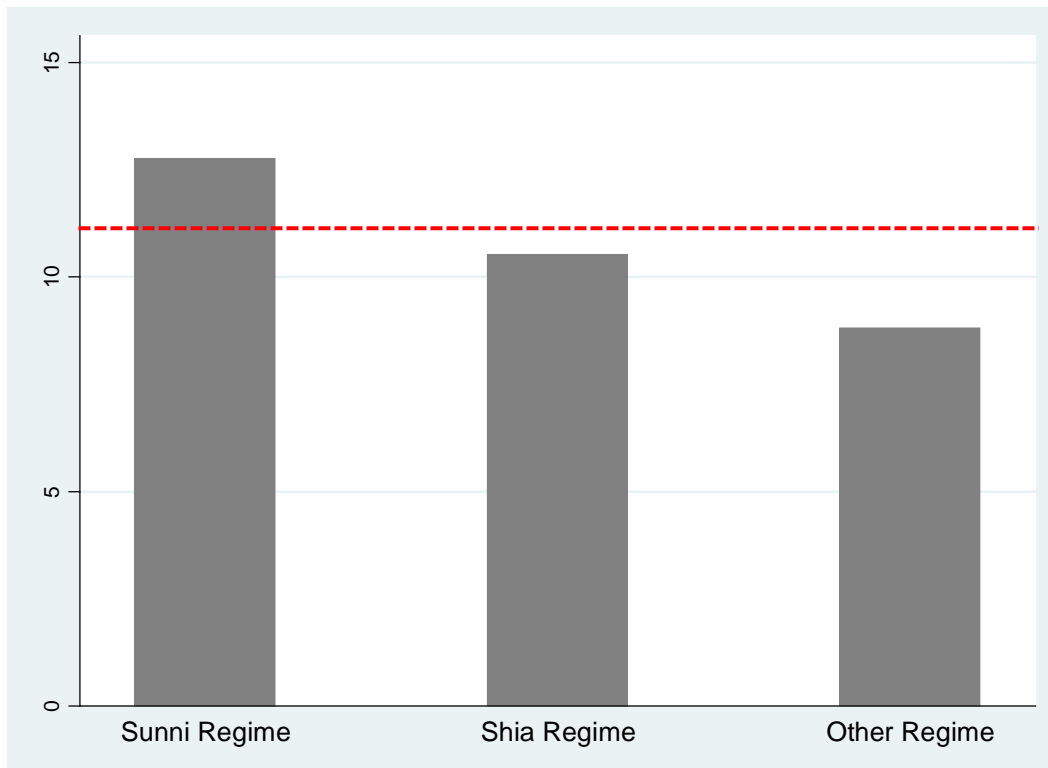
- IsDB Commitments by Religious Affiliation of Population, Yearly Average in 1976-2007, Millions of 2000 US Constant Dollars.





Data (4)

- IsDB Commitments by Religious Affiliation of Head of State, Yearly Average in 1976-2007, Millions of 2000 US Constant Dollars.

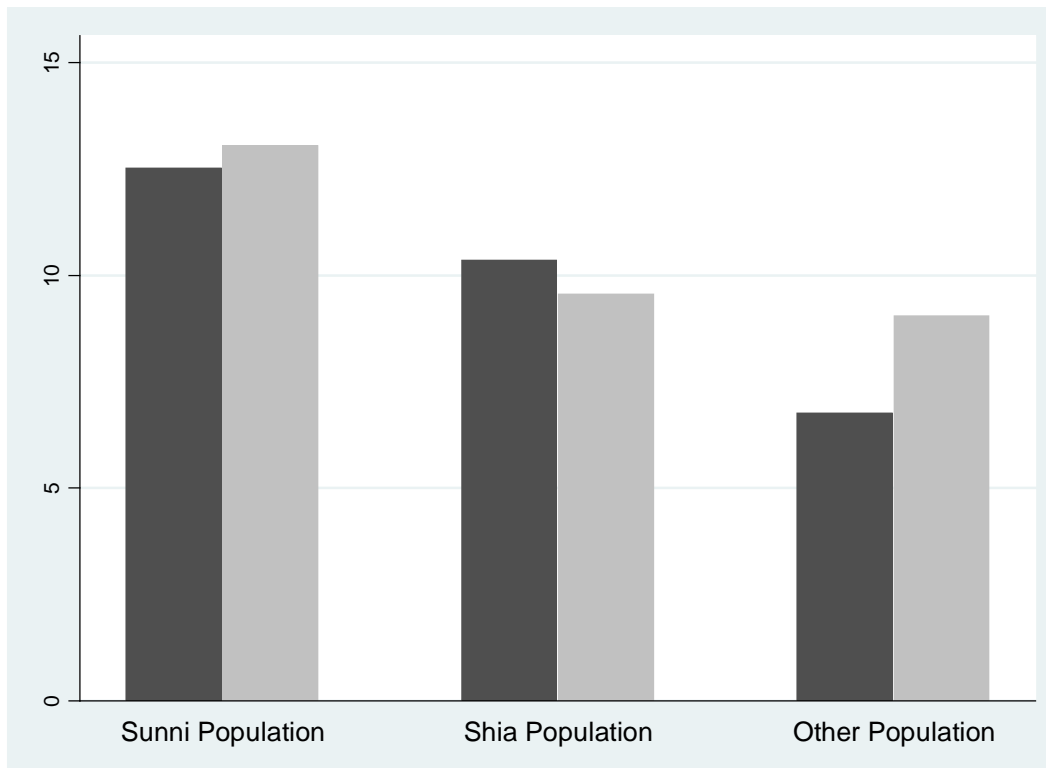




Av: 11.3



Data (5)

- IsDB Commitments by Religious Affiliation of Population and Religious Tensions, Yearly Average in 1976-2007, Millions of 2000 US Constant Dollars.

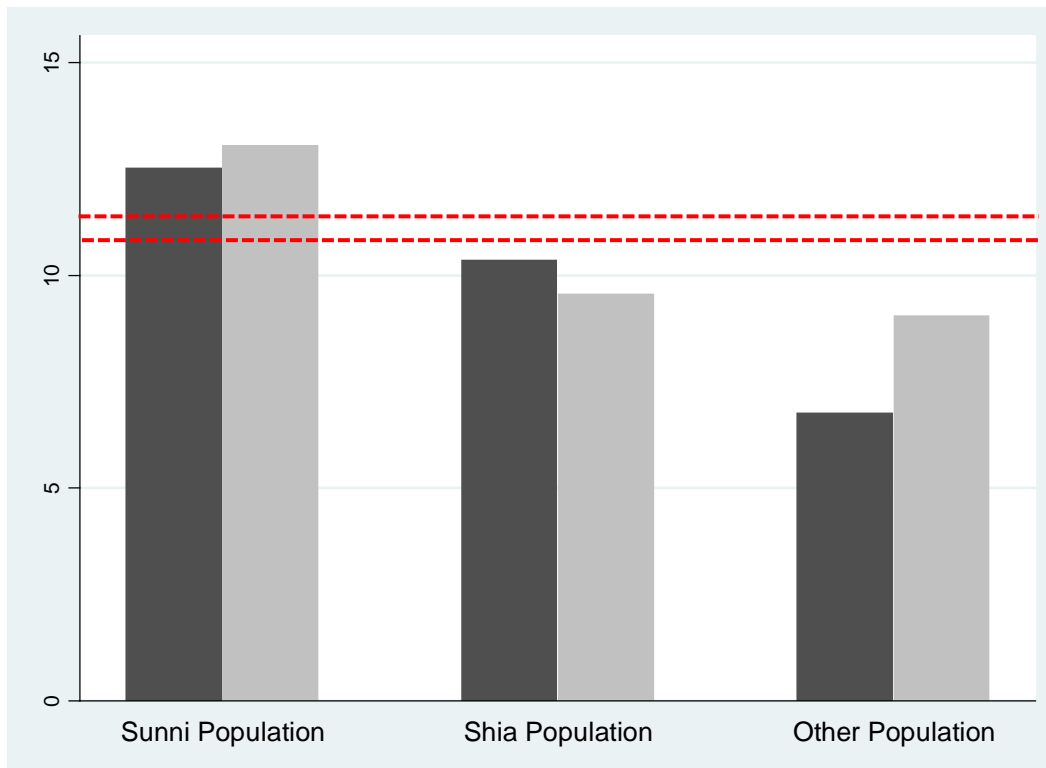


Low Religious Tensions 
High Religious Tensions 





Data (5)

- IsDB Commitments by Religious Affiliation of Population and Religious Tensions, Yearly Average in 1976-2007, Millions of 2000 US Constant Dollars.



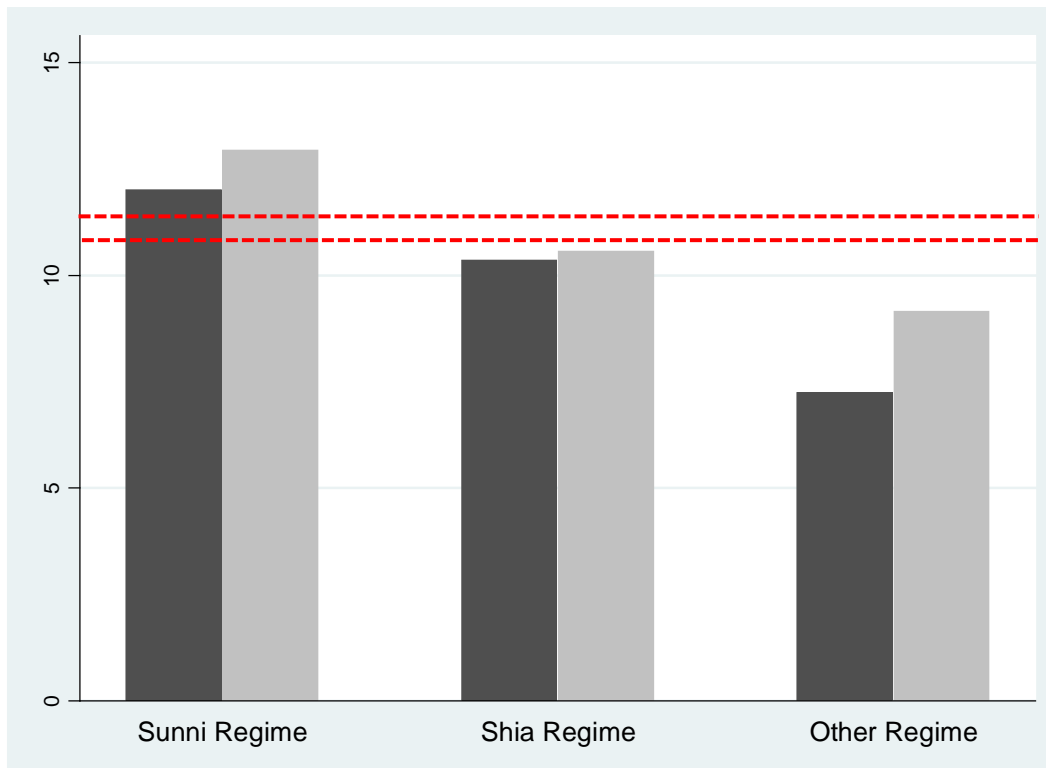
Av (Low): 11.5
Av (High): 10.9

Low Religious Tensions 
High Religious Tensions 





Data (5)

- IsDB Commitments by Religious Affiliation of Head of State and Religious Tensions, Yearly Average in 1976-2007, Millions of 2000 US Constant Dollars.



Av (Low): 11.5
Av (High): 10.9

Low Religious Tensions 
High Religious Tensions 



Estimation strategy

- Econometric method: Tobit, 4 year averages, 1976-2007

$$\text{Comm}_{it} = \alpha + \beta_R R + \beta_X X + \gamma_t + \varepsilon_{it}$$

$$\text{Comm}_{it} = \alpha + \beta_R R + \beta_2 R^* \text{RelTens}_{it} + \beta_3 \text{RelTens}_{it} + \beta_X X + \mu_i + \gamma_t + \varepsilon_{it}$$

R: Religious affiliation of population and head of state

X: Matrix of controls

RelTens_{it}: Religious Tension Index

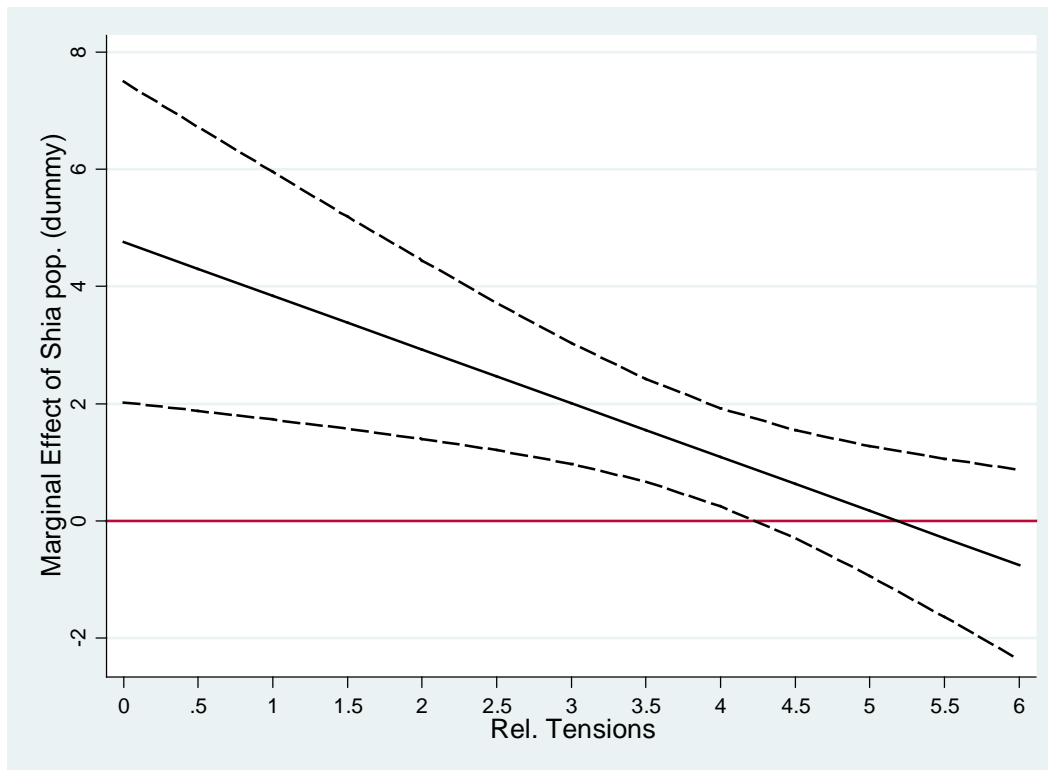
μ_i : Country fixed effects; γ_t : Period fixed effects

ε_{it} : Error term



Results (3)

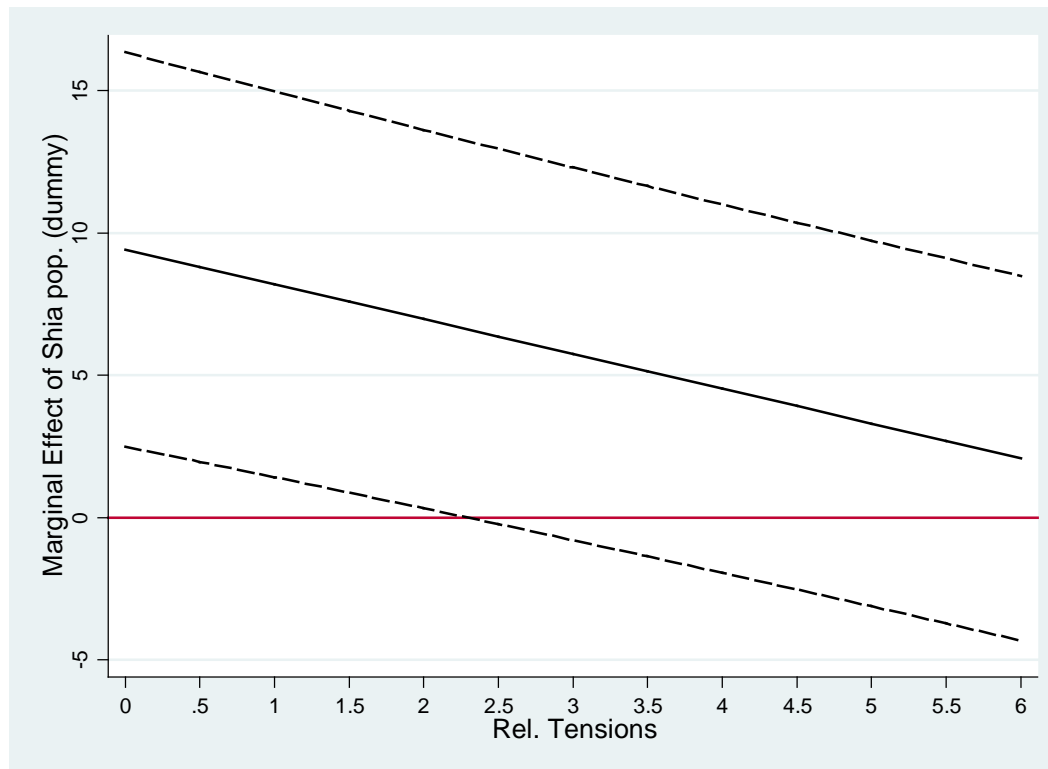
- Conditional Marginal Effects of Shia Population on IsDB Commitments, Country Fixed Effects Excluded, 90% Confidence Interval.





Results (4)

- Conditional Marginal Effects of Shia Population on IsDB Commitments, Country Fixed Effects Included, 90% Confidence Interval.





Conclusions

- IsDB lending reflects Saudi Arabia interests in Islamic World:
 - Muslim majority populated members are favored.
 - Effect in Shia majority populated members is conditional upon high religious tensions.
 - Sunni-Islam regimes receive 59% more resources than Shia-Islam regimes on average every year.
- The IsDB will only gain credibility and transparency as a regional development institution after it assimilates the whole spectrum of Islamic societies in its organization.



Thank you for your attention!