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Politics of Religiously Motivated Lending: An Empirical Analysis of Aid Allocation by the Islamic Development Bank

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Abstract: We investigate whether lending by the Islamic Development Bank mirrors Saudi Arabia's political interests based on religious affinity using panel data for its 56 member countries over the 1970 to 2007 period. Our results indicate that Sunni regime countries receive favorable treatment in terms of loan allocation, as well as Shia majority populated countries in exceptional occasions of conflict with other religious minority groups, while non-Muslim countries are the least favored. There is also evidence that lending by the World Bank to the same group of countries and over the same time frame does not respond to the political stance of Saudi Arabia founded on religion. These findings reveal the advantage that Saudi Arabia gains by assuming the leadership of a Regional Development Bank in contrast to coordinating common strategies in a global International Financial Institution with other large shareholders for whom religion might not be essential for political alliances.

Keywords: Development aid, Arab aid, Islamic Development Bank, Sunni-Shia politics.

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1. Introduction

The establishment of International Financial Institutions (IFIs) is often perceived as an instrument for some countries to achieve influence over others (e.g., Buira 2005, Bird and Rowlands 2006). The control pursued may be political, commercial, or over the strategies to attain development. Furthermore, some authors claim that the influence over IFIs' lending decisions is essential to guarantee the engagement of powerful countries in international cooperation and therefore the survival of these institutions (Dreher et al. 2009b, Copelovitch 2010). Not surprisingly, the development aid literature recognizes that major stakeholders' particular interests in borrowing countries are a key driver of resources allocated by IFIs (e.g., Thacker 1999, Dreher et al. 2009a, Kilby 2011).

In a similar way, regional powers may approach Regional Development Banks (RDBs) to exert influence over their geographical proximity, as these might be advantageous in terms of participation, scope and coverage (Kilby 2006, Lim and Vreeland 2013). Saudi Arabia is not an exception and has taken the initiative to found and assume the chief sponsorship of several RDBs most likely to gain leadership in the Arab region and its periphery without the interference of the G7 countries.[1] Unlike the G7, religious affiliation is particularly important for Saudi Arabia to draw political alliances in the Islamic world, making the building of common strategies for this region between both sides a difficult task (Neumayer 2004, Andersen et al. 2006, Clark 2012). For this reason, it is rather challenging for Saudi Arabia to position its interest through the Bretton Woods Institutions, despite its important participation in them (Blanchard and Prados 2007, Copelovitch 2010, Bremmer

[1] Saudi Arabia is the largest shareholder of the Arab Authority for Agricultural Investment and Development, the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Arab Gulf Program for the United Nations Development Organizations, the Arab Monetary Fund, the Islamic Development Bank, and the OPEC Fund for International Development (AAAID 2012; BADEA 2012; AFESD 1968; AGFUND 2011; AMF 2012; IsDB 2010; OFID 2012). None of the G7 countries is a member of any of these RDBs listed.

2013).[2] In this paper we analyze the lending decisions of the Islamic Development Bank (IsDB), by far the largest Saudi-led RDB and Arab development agency, and observe to what extent they are driven by Saudi Arabia's political interests based on religious affiliation.[3] We further perform a similar assessment of the World Bank for the same group of countries and over the same time frame, and observe the relative advantage Saudi Arabia might gain by taking on the directorship of an RDB to pursue its own interests.

The limited number of studies on aid allocation by Arab donors agree that predominantly Muslim countries are their main beneficiaries (Simmons 1981, Hunter 1984, Neumayer 2003, 2004). This finding can also be extended to the IsDB, as it was set up in 1975 with the very purpose of providing development assistance only to countries affiliated to the Organization of Islamic Cooperation (OIC) and to facilitate their access to Sharia compliant monetary resources (Warde 2000, Villanger 2007). Though Islamic solidarity is expected to play a dominant role in IsDB lending decisions, Muslim communities are not homogeneous and recognizing a grasp of countries' affiliation to specific Islamic denominations is crucial to understanding politics in the region. Saudi Arabia, as largest donor of the Bank, pays special attention to the different Islamic denominations in forging political alliances in the Islamic world and therefore we expect this to be reflected in IsDB lending patterns (Clark 2012, Abdo 2013).

[2] Saudia Arabia is the eighth, tenth and sixth largest capital subscriber in the IMF, IBRD and IDA respectively (IMF 2013, World Bank 2013a, World Bank 2013b).

[3] Statistics in OFID (2004) suggest that the IsDB is the largest Saudi led and Arab development agency with cumulative loan commitments until 2003 of US$ 34,224 million. Same figures for the following major Arab development agencies are US$ 15,492 million for the Arab Fund for Economic and Social Development, US$ 12,400 for the Kuwait Fund for Arab Economic Development, US$ 6,896 million for the OPEC Fund for International Development, US$ 6,474 million for the Saudi Fund for Economic Development, US$ 3,384 million for the Abu Dhabi Fund for Development, US$ 2,196 million for the Arab Bank for Economic Development in Africa, and US$ 238 million for the Arab Gulf Program for United Nations Development Organizations.

Of particular relevance to comprehending Saudi Arabian interests is the relationship between Sunnis and Shias, which are the first and second largest Islamic denominations and constitute around 95 percent of the total Muslim population (PEW Research Center 2009a, 2009b). Sunni-Shia relations have been marked by violent conflict and tensions between them are a common phenomenon across the Arab region and its periphery (Luomi 2008, Blanchard and Prados 2007). This has resulted in the polarization of Islamic societies based on affiliations to these two denominations, and international political support among equal Islamic denominations is the norm (Clark 2012, Keath 2013). As for communities affiliated with smaller Islamic branches, cooperation is usually sustained on the acceptance of one or the other's religious fundamentals (Luomi 2008, Clark 2012). The Sunni-Shia divide, however, seems to play a less relevant role in the presence of strong social frictions with non-Islamic communities. Sunnis and Shias tend to collaborate with one another during periods of conflict with populations of other faiths in multi-religious countries, arguably to join together against a common enemy (Abdo 2013, Hunter 2013).

Using panel data on IsDB loan commitments allocated across its 56 member countries during the 1976-2007 period, we find that Sunni affiliated member countries receive significantly more resources from the Bank relative to non-Muslim affiliated members. In addition, members with large Shia populations witness significantly larger loans relative to those with large non-Muslim populations, but this is conditional on the presence of conflicts with other religious groups (Christians or Hindus, for example). These lending patterns closely mirror the political stance of Saudi Arabia in the Islamic world. A comparable analysis employing World Bank loan commitments suggests that Saudi interests do not influence lending from this institution to the Arab region and its periphery. These findings confirm the advantage for Saudi Arabia to positions its interests by assuming the leadership of a RDB.

The rest of the paper is organized as follows: section 2 introduces the IsDB, section 3 presents our argument with anecdotal evidence on the polarization of the Islamic world and how it might affect lending decisions at the IsDB. Section 4 introduces our data and estimation strategy, while section 5 presents the discussion of our main results, and section 6 concludes the study.

2. The Islamic Development Bank

The founding of the IsDB was in response to the interest of the Organization of Islamic Cooperation (OIC) in providing its member states with access to Sharia compliant financial resources. The idea was encouraged by King Faisal Bin Abdulaziz of Saudi Arabia and first discussed during the Second Islamic Finance Ministers' Conference held in Jeddah in 1974 (Warde 2000). Headquartered in this same city, the Bank started its operations in 1975 with its 22 founding members, which are largely found in the Middle East and North Africa (MENA) region. Since then, membership has been extended to countries in Sub-Saharan Africa, Central Asia, South Asia, South East Asia, and Latin America, with a total of 56 members to date, all of which are eligible to receive loans.[4] Affiliation with the OIC is a basic condition for membership in the Bank (IsDB 2013a).

The mission of the IsDB is to promote human development focusing on the alleviation of poverty, improvement of health and education standards, and assurance of good governance practices in accordance with the principles of the Sharia law (IsDB 1974). The IsDB was to become the cornerstone of Sharia compliant banking. Financial services delivered within this banking scheme follow three core principles: prohibition of interest rates on loans, share of financial risk between provider and customer, and investing solely in

[4] A complete list of the current members of the IsDB is given in Appendix 1.

businesses that provide goods and services in accordance with Islamic values (Gafoor 1995, Warde 2000). The IsDB exclusively offers financial instruments that are consistent with Sharia law, the most common being interest-free loans, instalment sales, leasings, and financial services referred as *istisnaa*.[5] Interest-free loans are extended to governments to provide long-term financing for development projects in basic infrastructure and agriculture. They are free of interest rate charges, however, they do bear a service fee to cover administrative related expenses incurred by the Bank, which must not exceed 2.5 percent per annum. Softer conditions may be provided for certain types of projects in the least developed members, in which the administrative fee ceiling is set at 0.75 percent yearly. Even though service fees might resemble interest rates, these cannot be affected by time horizons of repayments and therefore, in case of default for example, no additional charges can be incurred (Warde 2000). Throughout instalment sales the Bank purchases the machinery or equipment needed for a certain project and then resells it to the beneficiary adding a mark-up mutually agreed upon by both parties, which must not exceed 5.1 percent yearly. The ownership of the asset is transferred to the beneficiary upon delivery. By opting for a lease, often denoted as *ijarah*, the Bank procures an asset needed for the production of a good or service, such as factories or power generation plants, and rents them to the beneficiary for a specific period of time. The assets procured remain property of the Bank during the lease financing period and the profit margin ceiling is 5.1 percent yearly. Lastly, *istisnaa* is a financial instrument in which the Bank produces a specific good to be manufactured from materials available to it, according to certain agreed specifications, to be distributed to the beneficiary at a determined price. Conditions regarding the rate of return and ceilings are the same as for instalment sales.

[5] According to the IsDB's Financial Statement for the year 2012, these financial instruments represent the vast majority of the assets of the Ordinary Capital Resources (OCR) of the Bank (IsDB 2013b).

The IsDB's capital comes from the contributions paid by its members. At the time of the foundation of the Bank, the Board of Governors determined the number of shares each member is entitled to subscribe to the ordinary capital. The Board of Governors must also make the decision concerning reestablishment of the new distribution of shares in cases where it has admitted an additional country to membership, authorized a general capital stock increase, or accepted a request to raise an existing member's subscriptions. Currently, the largest shareholder of the Bank is Saudi Arabia with 23.6 percent of the total capital subscriptions. The next largest shareholders in order from largest to smallest are Libya, Iran, Nigeria, the United Arab Emirates, Qatar, Egypt, Turkey and Kuwait, each of them holding between 9 and 6 percent of the Bank's capital subscriptions. Each of the 56 members appoints a governor and an alternate governor to the Board of Governors, which is the highest policy making body in the Bank. Governors usually hold key ministerial positions in their countries of origin and represent the interests of their home governments in the Bank. The voting power of each governor is linked to the country's contribution to the Bank's capital stock, with each having 500 votes plus one additional vote for every share subscribed. The Board of Governors elects the officials of the Board of Executive Directors and the president of the Bank. It delegates the management of the general operations of the Bank to the Board of Executive Directors, including budget approvals and other decisions concerning the business of the Bank. The Board of Executive Directors is composed of 9 permanent officials from the abovementioned 9 member countries and 9 additional rotating officials from the remaining 47 member countries. The president of the Bank is appointed for a 5 year term and may be reelected.

The approval of any decision met in the Board of Governors and the Board of Executive Directors requires a simple majority. This gives Saudi Arabia an enormous advantage in every decision making process, as it owns almost half of the voting power

required for a resolution to be accepted. Essentially, it needs the support of only three or four other large member countries to pass any favored proposal. Even though Saudi Arabia does not retain a formal veto power, it is very difficult to approve any project it is opposed to. Its formal influence in the governance of the IsDB is reflected by the fact that the president has always been a Saudi national. In effect, Ahman Mohamed Ali Al-Madani has held the presidency from the foundation of the Bank to the present day (except for the period 1993 – 1995 in which he served the Muslim World League as Secretary General), implying that he has been reelected seven times by the Board of Governors. The president is the chief executive of the Bank and acts as chairman of the Board of Executive Directors. In addition, he nominates the vice presidents to be elected by the previously mentioned body and is responsible for the appointment and dismissal of the officers and staff of the Bank. Such organizational structure allows the government of Saudi Arabia to substantially control the IsDB.

The core business of the IsDB involves two different lines of credit financed by the Ordinary Capital Resources (OCR) of the Bank and the Waqf Fund respectively. Compulsory fees, provided by the 56 members of the Bank, form its OCR and support development projects in the territories of these countries. On a smaller scale, other voluntary contributions are delivered to the Waqf Fund to sponsor Muslim communities in non-member countries. These resources represent less than one fifth of the Bank's total assets, with more than 60 percent of the total being donated by Saudi Arabia (IsDB 2013b).[6] On average, the IsDB committed US$ 400 million every year to its members during the 1976 – 2007 period (refer to Figure 1). Relatively generous allocations during the early years of the Bank resumed after

[6] Further information on other contributors of the Waqf Fund can be found at the IsDB's website, following the menu on "About IDB," "Specialized Funds," and "AWQAF Properties Investments Funds" (www.isdb.org last accessed: 01.05.2014).

the price of oil (the largest donors' main export commodity and source of government revenue) returned to its historical average during the early 1980s. Low oil prices and production throughout most of this same decade, as well as instability in the region caused by the Gulf War in the early 1990s, limited the availability of resources of the Bank until the mid-1990s (Shushan and Marcoux 2011). Funding has since then been on the rise and commitments reached US$800 million in 2007. These figures place the IsDB as the largest Arab development agency and donor (OFID 2004, IsDB 2010). The largest beneficiaries of the IsDB have been Bangladesh, which received US$ 580 million during the 1976 – 2007 period, followed by Morocco and Senegal with around US$ 500 million each (refer to Figure 2). Brunei, Surinam and Libya have received the lowest contributions, with a total of less than US$ 10 million between them during the same time frame. Electricity generation and transmission and transportation infrastructure have been the main priority sectors of the Bank: they account for 41 percent and 35 percent respectively of all resources delivered since the Bank's founding (IsDB 2013b). In fact, one of the two largest loans approved by the IsDB, worth more than US$ 70 million, was granted to Mali in 2007 to finance the expansion of its power generation network. The other loan, and the largest ever granted by the IsDB, was delivered to Pakistan in 2006, with a value of more than US$ 80 million, for the reconstruction of a community affected by an earthquake. The smallest IsDB loan registered in the 1976 – 2007 period supported the organization of a symposium on pollution control held in Jordan in 2004, and the second smallest a training program in the field of energy generation in Turkey in 2004. The amount of each of these loans was less than US$ 15.000.

3. The argument

Political and commercial interests of donors have often been recognized as a key driver of resources delivered though IFIs. Regional powers may have the opportunity to gain influence

in countries in their vicinity through their control over strategic RDB, as these might be advantageous in terms of participation, scope and coverage (Kilby 2006, Lim and Vreeland 2013). Saudi Arabia took the initiative to found and financially lead the IsDB, the first and largest Arab development agency in terms of monetary resources and geographical coverage, most likely seeking to position itself in the Arab region and its periphery. Achieving such an outcome through the Bretton Woods Institutions would be very difficult, despite Saudi Arabia being a major shareholder, as these are virtually dominated by the G7 countries. Fulfilling and maintaining its role as a leader in Islamic societies is a foreign policy priority for Saudi Arabia and it perceives itself as the principal responsible for the development, cooperation, and support of the region (Al-Yahya and Fustier 2011). As highlighted in the previous section, its substantial contribution in the establishment of the Bank allowed Saudi Arabia to structure it in a way that development projects it strongly opposes are rather difficult to be approved. Therefore, we expect the allocation of aid by the IsDB to closely mirror the political stance of Saudi Arabia in the Islamic world.

Saudi interests in the Arab region and its periphery are strongly linked with religious beliefs. This is a consequence attributed to the polarization of Islamic societies based on Islamic affiliation in which international political support among equals Islamic denominations is the norm (Clark 2012, Keath 2013). A vast majority of the Muslim population, comprising 95 percent of its total, is affiliated to either the Sunni or Shia branches of Islam, resulting in a fairly clear two-sided division of the Islamic world (PEW Research Center 2009a, 2009b). The Sunni-Shia split can be traced back to the succession dispute to designate the leader of the Muslim community after the death of the Prophet Muhammad in 632 AD (Clark 2012). The appointed nominees were never fully recognized by all of the Prophet's disciples, instigating a division within Muslims according to who was accepted as their legitimate leader. These different groups would evolve into the Sunnis, who fully

recognize the appointed nominees, the Shiites, who partially recognized the appointed nominees, and the other minor braches of the Islam (Clark 2012). The foundation and expansion of the different caliphates throughout history have molded the configuration of the Islamic world along its different denominations until the present. Usually, Sunnis have held the power and Shiites have emerged as their opposition (Clark 2012, Abdo 2013). Today, the great majority of countries in the MENA region, as well as many in Central Asia and Sub-Saharan Africa, and a few in Europe, South Asia, and South East Asia, are largely Muslim (PEW Research Center 2009a, 2009b). Significant Muslim minorities, comprising at least 10 percent of the total population, are to be found in numerous additional countries in these same regions and in Latin America, where they usually coexist with either Christians or Hindus. Around 80 percent of the global Muslim population is Sunni and 15 percent Shiite. Shia Islam represents the majority of the Muslim population in Azerbaijan, Bahrain, Iran, and Iraq, more than a third in Kuwait, Lebanon, and Yemen, and at least 5 percent in Afghanistan, Oman, Pakistan, Qatar, Saudi Arabia, Syria, Tajikistan, Tanzania, Turkey, United Arab Emirates, and other countries (PEW Research Center 2009a, 2009b).

Saudi Arabia, with the Salafist stream of Sunni Islam as its state religion whose doctrines are anti-Shiite, is on the forefront to espouse a united Sunni bloc against the "Axis of Resistance" led by the Shia affiliated governments of Iran, Syria, and the Shia political party Hezbollah in Lebanon (Clark 2012). Moreover, Saudi Arabia is believed to use development assistance to countries in the region to demonstrate to Shia affiliated governments that it is the leading nation in the Islamic world (Al-Yahya and Fustier 2011). The Arab Spring, ongoing since late 2010 in several countries of the MENA region, clearly reflects the polarization of Islamic societies between Sunnis and Shiites. As an example, the government of Bahrain, officially affiliated to the Sunni Islam, has received military support from the Jordanian and Saudi Arabian Sunni regimes to block the revolutionary wave of

protests backed by its Shia population (Al Jazeera 2011, Itani 2013). In contrast, the main actors of the Syrian civil war are, on the one side, the Syrian government, Iran and Hezbollah aid forces, all of them Shia affiliated, and on the other side, the Syrian opposition and militant groups supported by the governments of Qatar and Saudi Arabia, all of which are linked to Sunni Islam (Sanger 2012, DeYoung 2012, Dehghan 2012).

There is plenty of evidence to suggest that Saudi Arabia favors Sunni populations in terms of development cooperation. Ousman (2012), for example, identifies that IsDB resources for education that are aimed to increase school enrolment, are preferably allocated within communities in which the youth follows Salafi principles associated with anti-Shiite tenets. Likewise, Al-Yahya and Fustier (2011) and Burke (2012) agree that the surge in Saudi Arabia's development aid to Yemen in the previous decade through the IsDB and other agencies was in response to the escalation of the armed conflict between the Yemeni government, Sunni affiliated groups, and Shiite rebel groups in a region bordering the Saudi Kingdom. Cooper (2007) reports that in a desperate bid to keep the Hezbollah led coalition from obtaining power in Lebanon, Saudi Arabia allocated IsDB resources worth US$ 250 million to the newly elected Prime Minister Fouad Siniora from the Sunni faction in 2005. Al Arabiya (2013) sustains that funding to Egypt from the IsDB significantly increased in 2012 in order to strengthen the Sunni led government of Mohammed Morsi. Moreover, Deegan (1995) states that Saudi Arabia exerted influence over the IsDB in 1983 to pressure the government of Sudan to declare the country a Sunni based Islamic state in its constitution in return for development assistance.

This anecdotal evidence supports the proposition that IsDB lending mirros the political interests of Saudi Arabia in the Islamic world; namely, Sunni countries receive comparatively more development assistance from the Bank. We thus hypothesize (1): **being a**

Sunni country increases the probability of receiving a higher amount of development aid commitments from the IsDB.

Internal divisions of Muslim societies, however, play a less relevant role in the presence of strong social frictions with non-Islamic communities. "Islamic Solidarity" prevails across the different branches of Islam during such periods of conflict in which different Islamic denominations tend to form political coalitions to confront common opponents in multi religious countries (Abdo 2013). The Lebanese Civil War, lasting from 1975 to 1990, is a notable example of how Sunni and Shia populations interact together in the face of tensions with other religions. Lebanon is a country shared by Christians, Sunni and Shia Muslims, and during the Civil War both Muslim populations cooperated with each other to confront the common Christian adversary. Together they formed the Lebanese National Resistance Front, a militia seeking to overthrow the Christian-dominated government (Ghorbani et al. 2014). Additional evidence suggests that Saudi led development agencies provide assistance in response to tensions with non-Muslims. Robles (2007), for example, reports that the IsDB provided US$16 million to the Moro National Liberation Front (MNLF) rebel group, which controls the Mindanao province in the Philippines, whose population is largely comprised of Muslims of different denominations. The MNLF is a political organization founded in 1969 that promotes the independence of their region from the Philippines alleging that the government economically discriminates against Muslims. Similarly, the Royal Thai Embassy (2012) reports the funding of educational projects by the IsDB among Muslim communities in the province of Pattani in Thailand, in which local rebel groups struggle for regional autonomy. Al-Yahya and Fustier (2011) describes another example, indicating that the government of Saudi government makes substantial contributions to the United Nations Relief and Works Agency for Palestine Refugees, from which individuals affiliated to different Islamic denominations receive assistance.

Therefore, "Islamic solidarity" is likely to dominate in the presence of conflict with other religious groups, and this leads us to the following hypothesis (2): **the politics of the Sunni-Shia divide do not influence IsDB aid allocation decisions in the presence of religious tensions with non-Muslim religious communities.**

4. Data and Methods

We analyze a panel dataset consisting of 56 member countries covering the years from 1976 to 2007.[7] Our model estimates the allocation of resources by the IsDB as a function of factors capturing donor and recipient characteristics. The dependent variable measures IsDB aid commitments to country *i* in period *t* expressed in logarithmic form and in year 2000 constant US dollars.[8] Note that our panel is unbalanced given different membership dates of recipient countries and missing observations. From a possible maximum of 32, the average number of years per member country for which information on commitments is available is around 16, ranging from 2 (Brunei) to 29 (Senegal). To circumvent this issue, we consider 4-year averages for our dependent variable, reducing our panel to 8 periods: 1976-1979, 1980-1983, 1984-1987, 1988-1991, 1992-1995, 1996-1999, 2000-2003, and, 2004-2007. Under this structure, the average number of periods per member country is greater than 6 and for almost half of the recipients there is full information. Another distinguishing feature of our dependent variable is that is has zero observations. The clustering in this lower limit responds to the fact that IsDB aid commitments to certain countries for several years was simply zero. Analyzing such a model with an Ordinary Least Squares (OLS) estimator would violate several assumptions, such as zero mean errors, thereby resulting in biased estimates

[7] Information on IsDB commitments is at the present date publicly available until 2007. Palestinian Administrated Areas is an active member of the IsDB, however, it falls out the empirical analysis given the unavailability of data for our control variables.

[8] A value of one is added to the dependent variable before its logarithmic transformation, in order to keep zero observations.

(Neumayer 2002, 2003). This feature makes it necessary to use a nonlinear estimation method; therefore we follow Beck and Katz (1995) and adopt a Tobit maximum likelihood estimator with heteroskedasticity consistent robust standard errors. The following equations are estimated:

$$Loan_{it} = \beta_0 + \beta_R R_{it} + \beta_X X_{it} + \gamma_t + \varepsilon_{it} \quad (1)$$

$$Loan_{it} = \beta_0 + \beta_T R_{it} * T_{it} + \beta_X X_{it} + \mu_i + \gamma_t + \varepsilon_{it} \quad (2)$$

$Loan_{it}$ is the dependent variable, R_{it} is a matrix containing different variables accounting for religion based characteristics of member country i in period t, T_{it} is an indicator measuring religious tensions, and X_{it} is a matrix of control variables. The intercept is referred to as β_0, the remaining βs are the vectors of coefficients of the corresponding matrices, μ_i and γ_t denote country and time fixed effects respectively, and ε_{it} is the error term. Note that we include country fixed effects only in (2), which includes the interaction term, because the variables in R_{it} are often time invariant. The usage of two way fixed effects in (1) will not only be collinear with time invariant regressors but will also generate biased estimates with largely time invariant regressors (Beck 2001). Additionally, the coefficients in the β vectors cannot be interpreted directly in the nonlinear Tobit model. We thus compute the marginal effects of the explanatory variables on either $P(y_{it} > |x_{it})$, $E(y_{it} > |x_{it}, y_{it} > 0)$ or $E(y_{it}|x_{it})$.[9] We calculate the marginal effects at the mean of the respective covariates and report these in the regression output tables.[10]

[9] For our model y_{it} corresponds to the dependent variable $Loan_{it}$ and x_{it} for any variable in R_{it}, T_{it} or X_{it}.

[10] Regarding the time dummy variables, marginal effects are calculated at a specific period rather than at the mean value. We take the most recent period 2004-2007 for this purpose, but the results remain similar if any other period is taken instead.

In order to test our first hypothesis, we introduce four different discrete measures capturing the religion-based characteristics of recipients. The first two measures consider the religious affiliation of the population. Here, a variable receives the value of one if the majority of the population in a member country is Sunni and zero if otherwise. The other is one if the majority of the population in a member country is Shiite and zero otherwise. The baseline and omitted category receives the value of one if the majority of the population in a member country is non-Muslim and zero if otherwise.[11] The information to construct these variables comes from the religious population statistics published by the Pew Research Center. Please note that during our period of analysis demographic changes based on religious affiliation have not been pronounced in any of the recipients, therefore none of the population based variables change over time. The last two measures consider the religious affiliation of the head of state. We decided to include this characteristic in our analysis given that in some countries, such as in Bahrain and Syria, the religious affiliation of the majority of the population and that of the head of state does not coincide. Likewise, a variable takes the value of one if the religious affiliation of the head of the state is Sunni and zero otherwise, and the other variable is one if the religious affiliation of the head of the state is Shia and zero otherwise. In this case, the baseline and omitted category receives the value of one if religious affiliation of the head of the state is different to Muslim and zero otherwise.[12] In order to construct these variables, we consulted the profiles of the head of states available in

[11] All IsDB member countries fall exclusively into one of these three categories, except for Lebanon and Oman. None of Lebanon's main population groups, Christians, Shiites and Sunnis, make up at least 50% of the total population. We code this country in the baseline category, or as a non-Muslim majority populated country, given that the largest of the three groups is by far the Christians (PEW Research Center 2009a, 2009b). Oman's population is largely Ibadi affiliated, another Islam denomination. We coded it in the second category, along with the Shia majority populated countries, given than it is a Muslim majority populated country affiliated to a denomination different to that of Saudi Arabia's.

[12] As for the population based variables, Oman does not fall in any of these three categories. The religious affiliation of the head of the state is Ibadi Islam, and it is coded under the second category, along the Shia regime countries.

the CIA World Factbook and Encyclopedia Britannica. For most of the member countries, these variables do not change over time. In our sample, changes of regime based on religion are to be found in a few cases, such as in Iraq in 2003, and in Lebanon in 1988 and 1990.

Figure 3 presents the distribution of IsDB loan commitments according to the religious affiliation of the recipients' populations. As can be seen, every Sunni majority populated member country obtained on average US$ 13 million each year from the Bank during the 1976-2007 period. The same figure for Shia and non-Muslim majority populated countries is US$ 9.8 million and US$ 8.5 million respectively. Figure 4 reports similar statistics taking into account the religious affiliation of the head of state. Differences between the three groups follow the same pattern but are less pronounced: member countries in which the head of state is Sunni affiliated received on average US$12.8 million every year from the Bank, while those in which the head is Shia and non-Muslim affiliated received US$ 10.5 million and US$ 8.8 million respectively. These numbers reveal the expected pattern from our first hypothesis. The statistical significance of these categories are reported and discussed in next section.

The term T_{it} in (2) is included to test our second hypothesis. Here we interact a measurement of religious tensions with the two dummy variables signaling if a member is a Shia country according to its population and head of state. We take the Religious Tensions Index from the International Country Risk Guide (ICRG), which takes a minimum value of 0 for cases of highest religious tensions and a maximum value of 6 for cases of absence of religious tensions. The indicator only captures tensions between different religions and not within groups belonging to different Islamic denominations. The Index is only available since 1985; therefore we lose the first two periods in our panel when adding the interaction term.

We add a second dimension in Figure 5 to present the distribution of resources. It shows the allocation of IsDB loan commitments considering the religious affiliation of the

population as well as the level of religious tensions in the recipient country. Darker bars denote periods of higher religious tension, or years in which the Index takes a value between 0 and 3. Lighter bars denote for periods of lower religious tension, or years in which the Index takes a value between 3 and 6. As the figure shows, Sunni and non-Muslim majority populated countries receive fewer resources from the Bank in periods of higher religious tension, US$ 13 million vs. US$ 12.5 million and US$ 9 million vs. US$ 6.8 million respectively, on average every year and per member country over the 1985-2007 period. Exactly the opposite occurs in Shia majority populated countries: these receive larger IsDB loan commitments in periods of higher religious tension, US$ 9.7 million vs. US$ 10.4 million on average during the same time period. Note that the greatest contrast in terms of religious tension is found in non-Muslim majority populated countries. Similarly, Figure 6 presents the distribution of IsDB loan commitments according to the religious affiliation of the head of state and the level of religious tension. The numbers resemble that of the previous figure, however variation between periods of higher and lower religious tensions are less pronounced, in absolute as well as in percentage terms. These patterns suggest that our second hypothesis is not rejected and Shia member countries seem to be rewarded during periods of conflict with other religions. In the next section we test whether these differences are statistically significant.

We follow the literature on aid allocation by RDBs (Kilby 2006, 2011, Hernandez 2013), Arab donors (Neumayer 2003, 2004) and other non-DAC donors (Fuchs and Vadlamannati 2013) in selecting our control variables. To reflect recipient needs, we include the total population and GDP per capita in current prices in member countries, both in log form. Total population is expected to be positively associated with loan commitments as this variable accounts for country size. The effect of GDP per capita should be negative given that richer countries are less likely to need aid resources to develop. Ideally, GDP per capita

would be given in constant prices to avoid any time trend distortions, however, employing such measurement would reduce our dataset considerably due to data availability. The inclusion of time fixed effects facilitate in greater extent to overcome this issue. We include measures of institutional quality and political stability in member countries to account for merit as a motive for the supply of aid. The first measurement is a democracy dummy variable taken from Cheibub et al. (2010) based on the distinction between regimes where executive and legislative offices are designated via elections and those where they are not. If elections are contested in a member country for a given year the variable takes the value of one in that observation, and zero otherwise.[13] The second measure addresses the incidence of a civil war as found in Gleditsch et al. (2002). The dummy variable takes the value of one if there is an armed conflict between the state and an organized group causing at least 25 deaths in a single year in a member country, and zero otherwise. Moreover, we include two variables controlling for Saudi strategic interests in member countries, namely Saudi Arabian bilateral aid in constant prices and logarithmic form and merchandise trade relative to GDP. Bilateral aid allocation by Saudi Arabia is a proxy for its political interests, as bilateral aid is often regarded as a reward for political allies (Kilby 2006, 2011).[14] Merchandise trade relative to GDP accounts for trade openness in recipient countries and also for commercial interests with members of the Bank. Merchandise trade is preferred over total trade due to data availability reasons. We expect these two variables to be positively correlated with IsDB loan commitments. Finally, we include three additional variables as loan demand factors. Obtained from De Soysa and Binningsbo (2012), the first of these factors is the value of oil production in a member country for a given year. Many of the member countries are rich in oil and the

[13] For more detailed description and methodology, see Cheibub et al. (2010).

[14] As Saudi Arabia is a recipient country itself, observations for this country consist of the largest bilateral allocation made by Saudi Arabia in each year. The exclusion of this variable in the analysis does not affect results.

greater a country's oil production the lower the likelihood that it will be dependent on development assistance. The remaining two measures control for international reserves as a share of GDP and for debt crises following the dichotomous variable in Laeven and Valencia (2008). We expect these last two variables to take a negative and a positive sign respectively. We provide details on definitions and data sources in Appendix 2, and descriptive statistics in Appendix 3.

5. Empirical Results

Tables 1, 2, and 3 present our main findings. Table 1 shows the outcome from our data analysis for equation (1), testing for our first hypothesis. Here we introduce all variables that describe the religious affiliation of the population and that of the head of state described in section 4. Results for equation (2) including our interaction with the Religious Tensions Index and testing of our second hypothesis are displayed in Tables 2 and 3. Table 2 presents this analysis based on population characteristics, while Table 3 presents it based on information on the head of state. All models are initially estimated using all control variables whereas a reduced form of the model is always shown in contiguous columns. The reduced form models control only for recipient needs, namely population and GDP per capita. The three tables report the marginal effects at the mean of the respective covariates, while subsequent graphs exhibit the evaluation of the marginal effects at different levels to address the interaction term in (2). Note that the dataset in Table 1 is one third larger than that of Tables 2 and 3 because the Religious Tensions Index is only available from 1985 onwards. Values in parentheses refer to p-values.

Column 1 in Table 1 reports results from the regression adding the Sunni and Shia majority population variables, taking non-Muslim populated countries as a baseline category. Column 3 contains the Sunni and Shia regime variables, taking non-Muslim regime countries

as a baseline category. Population and head of state characteristics are included in separate specifications because of the high level of correlation between them.[15] As can be seen in column 1, both Sunni and Shia majority populated countries receive significantly more resources, at conventional levels, from the IsDB than non-Muslim majority populated countries. The interpretation of the marginal effects reveals that being a Sunni majority populated country increases the flow of resources from the Bank by 69 percent, relative to non-Muslim majority populated, while this same figure for the counterpart is 126 percent. A Wald test comparing their means confirms, however, that these are not statistically significantly different.[16] Column 3 indicates that the IsDB allocates significantly larger loans to Sunni regime countries, at the 5 percent level, relative to non-Muslim regime countries, but not to Shia regime countries at conventional significance levels. In fact, the marginal effects suggest that countries in which the head of state is affiliated to the Sunni branch of Islam obtain on average 78 percent larger commitments relative to those not affiliated to any Islamic denomination. Results remain stable in terms of sign, size, and significance levels when employing the reduced form, as shown in columns 2 and 4. It is important to note that population and GDP per capita, in the complete and reduced forms respectively, are the only significant control variables at conventional levels, both taking the expected sign. These initial findings lend support to our first hypothesis that the IsDB favors member countries whose heads of state are Sunni Islam affiliated. Population characteristics show, however, that both Sunni and Shia countries are favored relative to the non-Muslim. The following analysis reveals to what extent these results are conditional on religious tensions.

[15] Correlation between the Sunni majority population and Sunni regime dummy variables is higher than 0.7, and higher than 0.5 between the Shia majority population and Shia regime dummy variables.

[16] The Wald test implemented evaluates the null hypothesis H_0: $\beta_1 = \beta_2$. The F-statistic obtained in the test is equal to 0.78 with a corresponding p-value of 0.38.

Data analysis for equation (2), in which the Shia majority population dummy is interacted with the Religious Tensions Index, is presented in Table 2. The models in columns 1 and 2 exclude country fixed effects, while those in columns 3 and 4 include them. The table displays marginal effects. Figures in the Shia population (dummy) row show the marginal effects of the Shia majority population variable evaluated at the mean value of the Religious Tensions Index in different model specifications. The Sunni majority population variable remains significant at the 1 percent level for both models without country fixed effects, and is significant at the 10 percent level for the reduced form model with country fixed effects. It is highly likely that the lower p-values for this variable in both models including country fixed effects are a consequence of this being time invariant. Similarly, the Shia majority population variable is significant at the 5 percent significance level across all specifications, except in one. As noted earlier, here the marginal effect is evaluated at the mean value of the Index. The Religious Tensions Index enters all regressions with a negative sign, but fails to be significant at conventional levels throughout. The direction and relevance of the interaction term in equation (2) is exhibited in Figures 7 and 8. Here we evaluate the marginal effect of the Shia majority population variable at different points along the range of the Religious Tensions Index.[17] Figure 7 refers to the model excluding country fixed effects in column 1 and Figure 8 to that including them in column 3. The continues lines correspond to average values for every point while dashed lines project 90 percent confidence interval boundaries. As can be seen in Figure 7, the marginal effect of the Shia majority population variable on IsDB loan commitments is positive and significant at conventional levels only for lower values of the Religious Tensions Index (i.e. for higher levels of religious tensions). The

[17] When the model is nonlinear, as in the case here, the interaction effect cannot be evaluated simply by looking at the sign, magnitude, or statistical significance of the coefficient on the interaction term. Instead, the interaction effect requires computing the marginal effects of the first variable in the interaction term evaluated at different points of the other variable in the interaction term (Ai and Norton 2003).

marginal effect turns out to be insignificant at conventional levels after the Index takes a value of around 4. Figure 8 confirms that this effect is robust after controlling for country fixed effects, but only until an Index level of around 2.5, as the marginal effects of the Shia population dummy variable remain significant at conventional levels just until this point. A little less than 25 percent of all observations in our data set fall between levels of 0 and 2.5 in the Index. The effect of the interaction term remains similar in terms of size and significance levels when employing the reduced form model in columns 2 and 4.[18] This empirical evidence supports our second hypothesis: Shia majority populated member countries, relative to non-Muslim countries, receive more IsDB resources only when they experience high levels of religious tensions with other non-Muslim religious groups.

Results for equation (2), including information on the religious affiliation of the head of state in member countries, are presented in Table 3. Similarly to the previous analysis, the table reports marginal effects, columns 1 and 2 present specifications excluding country fixed effects, while columns 3 and 4 including them. The Shia regime variable is interacted with the Religious Tensions Index in all model specifications. Figures in the Shia regime (dummy) row correspond to the marginal effect evaluated at the mean value of the Religious Tensions Index. As observed in the table, a major difference between this table and the analysis on population characteristics is that the Shia regime variable fails to be significant at conventional levels in all model specifications but one. Figures 9 and 10, depicting the marginal effect of the Shia regime variable at different levels of the Religious Tensions Index, reveal another difference. As can be seen on Figure 9, the effect of the Shia regime variable is only significant at conventional levels for a short range of the Index in the model excluding fixed effects. This is, however, not robust to the addition of fixed effects, as shown

[18] For simplicity, these results are not shown and are available upon request.

in Figure 10. These results hold with the reduced form model. Interestingly, even when religious tensions are present, those countries with a Shia affiliated head of state do not obtain larger loans from the IsDB than non-Muslim countries. Our second hypothesis is therefore rejected when taking into account the profile of the head of state in member countries. Thus, it is never advantageous in terms of IsDB allocation to be a Shia regime. Religious tensions between Shiites and non-Muslims seem to be a concern for the IsDB when the population of a member country is largely Shia, but not when its head of state is Shia affiliated.

We replicate our models reported in Tables 1 to 3 with an OLS estimator and relax some assumptions in our dataset. Our main findings are not altered when implementing the regression with OLS in every case, suggesting that our results are robust to the choice of model specification. Moreover, we use different combinations of the set of control variables. Leaving recipient needs as fixed controls, we first include merit-based variables, then Saudi Arabian interests, and finally loan demand factors separately. We observe that the effect of our key explanatory variables remain unchanged, therefore our analysis is robust to the selection of control variables. Due to brevity, we do not report these last two robustness tests, but they are available upon request.

In order to identify the relative advantage for Saudi Arabia to exert influence in its vicinity based on religious affinity through the IsDB compared to the World Bank, we replace our dependent variable with aid commitments from the latter organization. If the previously identified politics of the Sunni-Shia divide are inherent to the Saudi led financial institution, then the World Bank's aid commitments must not be influenced by any of our main variables of interest. Using exactly the same model setting, we regress World Bank aid commitments, expressed in logarithmic form and in year 2000 constant US dollars, against our variables of interest. We analyze, as before, allocations to the 56 member countries over the 1976-2007 period, employing 4 year averages. The results are reported in Table 4.

Columns 1 and 3 refer to data analysis for equation (1), while columns 2 and 4 refer to equation (2) after adding the Religious Tensions Index. In order to keep this analysis as short as possible, the four model specifications include all control variables and exclude country fixed effects. The table shows marginal effects at the mean of the respective covariates. As in the previous analysis, the figures for the Shia majority population variable in column 2 and the Shia regime variable in column 4 exhibit their marginal effect on World Bank aid commitments evaluated at the mean value of the Religious Tension Index. As can be seen in the table, none of our variables capturing population and head of state characteristics according to religious belief are significant at conventional levels. Even the population based variables enter the equations with a negative sign, as shown on columns 1 and 2. The Religious Tensions Index fails to be significant at conventional levels as well. The marginal effects of the Shia majority population and Shia regime dummies are not significant at the mean value of the Religious Tensions Index, as seen in the table, or when evaluated at any point along the Index. The latter results are not shown for simplicity, but are available upon request. Interestingly, besides Population and GDP per capita, unlike for the IsDB, other control variables turn out to be significant at conventional levels. Particularly relevant is the incidence of civil war, which is significant at least at the 5 percent level across all regressions. These findings suggest that World Bank lending patterns do not reflect religiously-motivated political dynamics in the Arab region and its periphery, and support our hypothesis that these are inherent to the IsDB due to the dominance of Saudi Arabia in its organization.

6. Conclusions

The ability of major global players to control IFIs has been suggested to ensure their engagement in international cooperation as well as the survival of these organizations. An affordable alternative for regional powers to exert influence over their vicinity is to assume the leadership of an RDB in contrast to strengthening its participation in a global IFI. In this paper we find evidence of the advantages Saudi Arabia might meet in this respect to position its interests in the Arab region and its periphery. In particular, we observe that Saudi Arabia uses the IsDB to achieve regional hegemony founded on religious affinity. We also find that it does not achieve the same ends with its participation in the World Bank, where it is arguably challenging to coordinate common strategies with other large shareholders for whom religion is not essential for political alliances.

The analysis of aid allocation by the IsDB to its 56 members during the 1976-2007 period reveals a bias towards Sunni countries, and towards Shia countries in exceptional occasions, while non-Muslim countries are the least favored. These lending patterns closely mirror the political stance of Saudi Arabia in the Islamic world. Specifically, the IsDB delivers on average 78 percent more resources to member countries in which the head of state is Sunni affiliated. Member countries with Shia majority populations experience significant increases in lending from the Bank only when religious tensions with non-Muslim communities are high. Interestingly, along with country size, religious affiliation is the core driver of IsDB aid commitments. In contrast, World Bank allocation decisions are not influenced by the religious characteristics of the same group of recipient countries during the same time frame: merit and loan demand factors explain its lending. We thereby recognize the incentives for Saudi Arabia to found and financially lead a RDB in its region of influence.

Lending patterns of IFIs are a result of the interplay of influences of a handful of large shareholders. Saudi Arabia pursues its political agenda in the Islamic world without the

intervention of G7 countries through the IsDB, creating a set of advantaged and disadvantaged member countries within the institution. Despite being the third largest shareholder of the Bank, Iran belongs to the latter group and its interests are probably underrepresented in allocation decisions. Not surprisingly, Iran together with two other countries in the region, founded in 1985 the Economic Cooperation Organization, an IFI serving eleven countries which are also members of the IsDB. Since then, its operations have been expanding in terms or resources and membership. The development aid activity will very likely witness the proliferation of specialized development agencies under the control of rising developing countries in the near future. This trend will only cease with the willingness of powerful countries to democratize IFIs.

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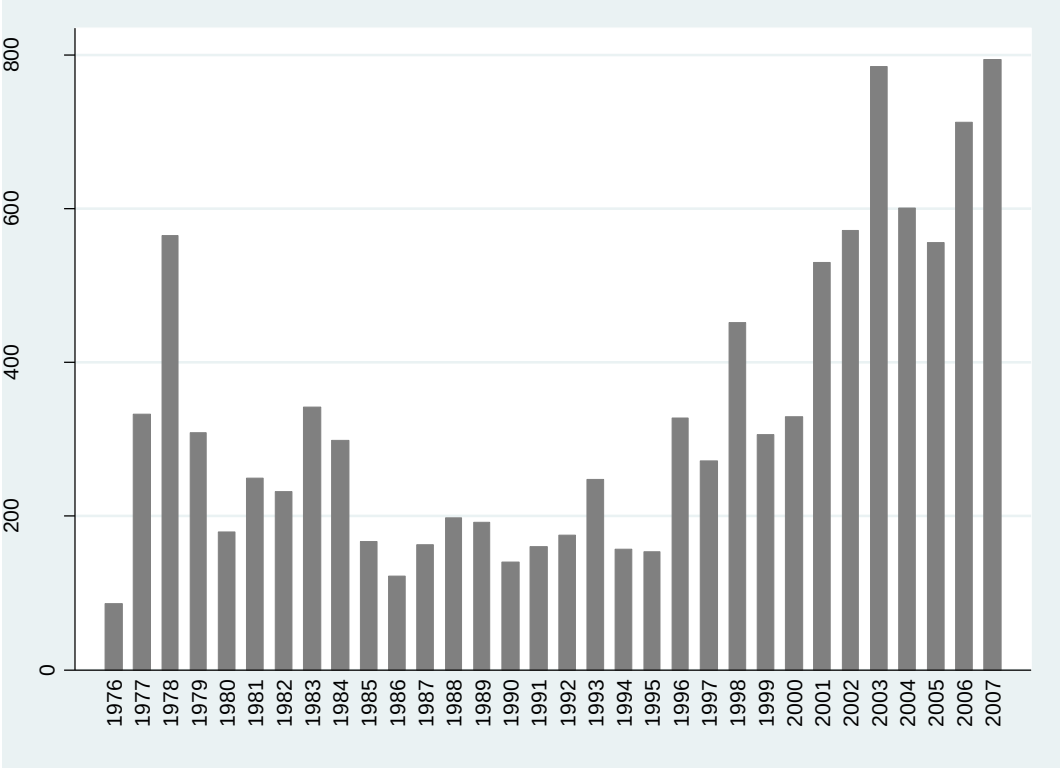
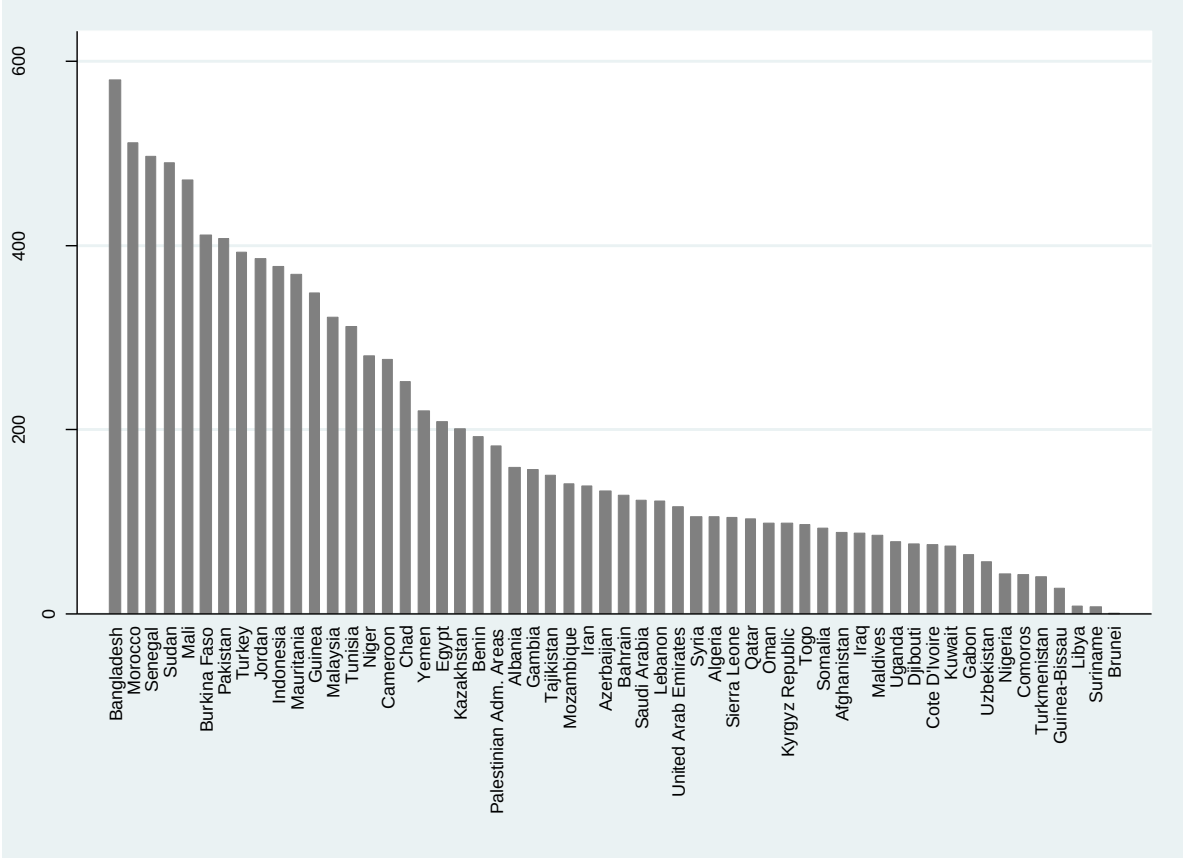
Figure 1: IsDB Commitments by Year (Millions of 2000 Constant US Dollars)



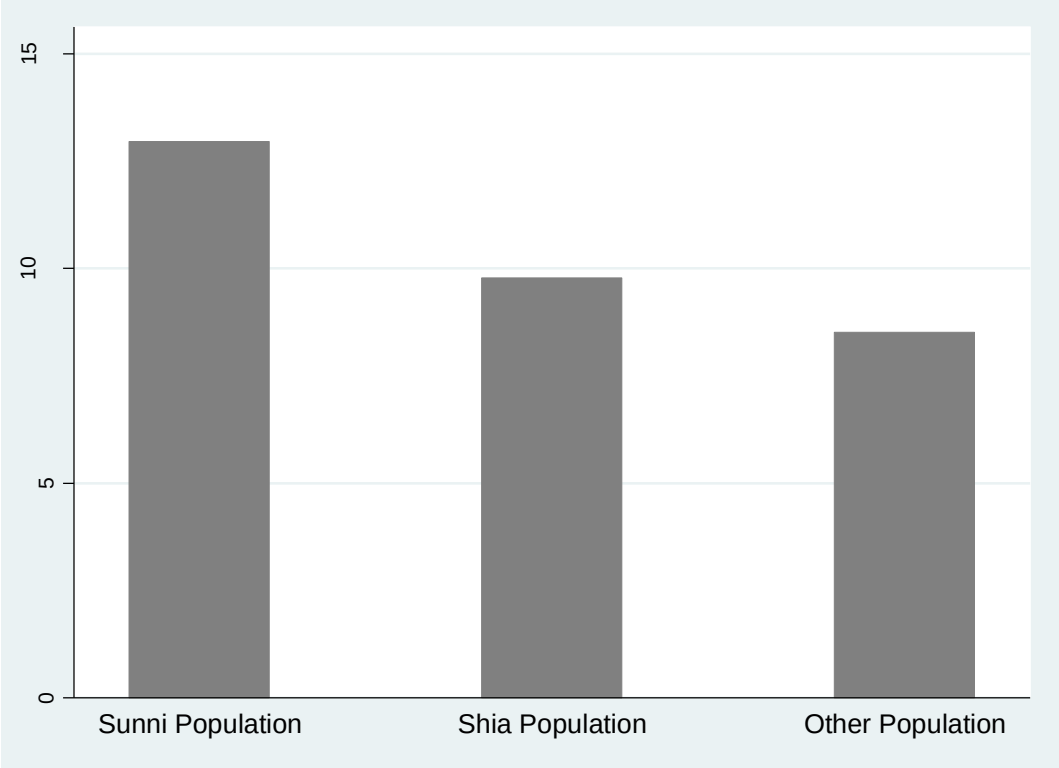
Notes: The graph shows loan commitments approved by the Islamic Development Bank (IsDB) in each year for the 1976-2007 period. Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD.

Figure 2: IsDB Commitments by Borrowing Member, Total Amount in 1976-2007 (Millions of 2000 Constant US Dollars)



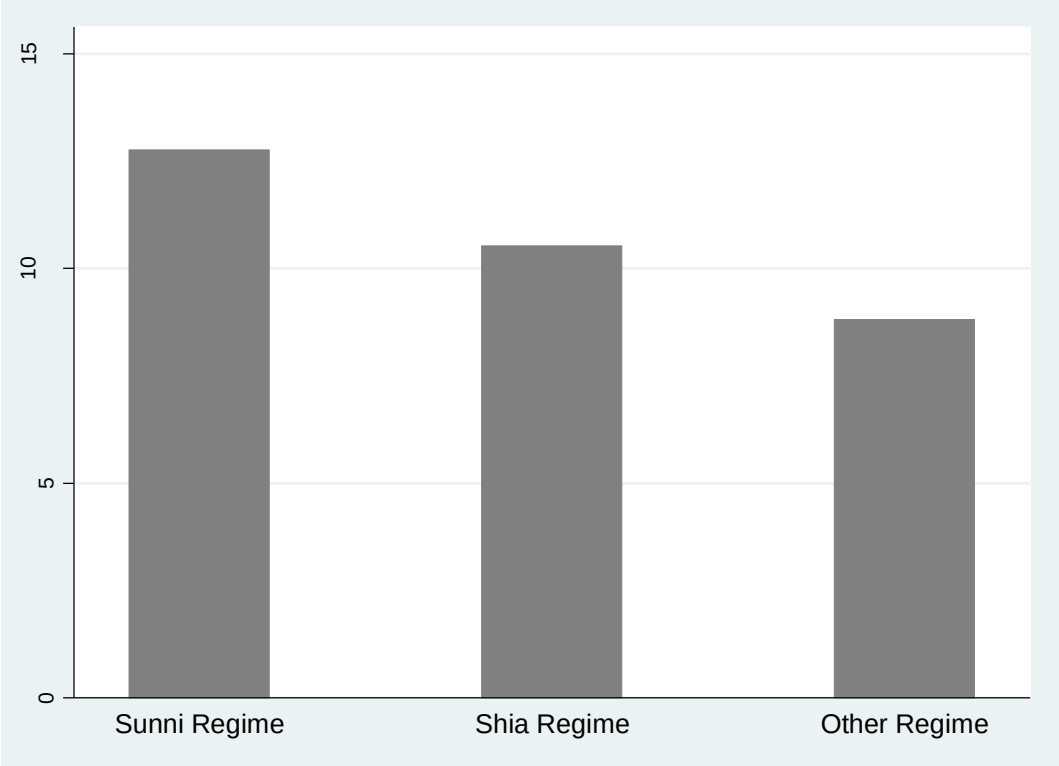
Notes: The graph shows loan commitments approved by the Islamic Development Bank (IsDB) to each borrowing member over the period 1976-2007. Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD.

Figure 3: IsDB Commitments by Religious Affiliation of Population, Yearly Average in 1976-2007 (Millions of 2000 Constant US Dollars)



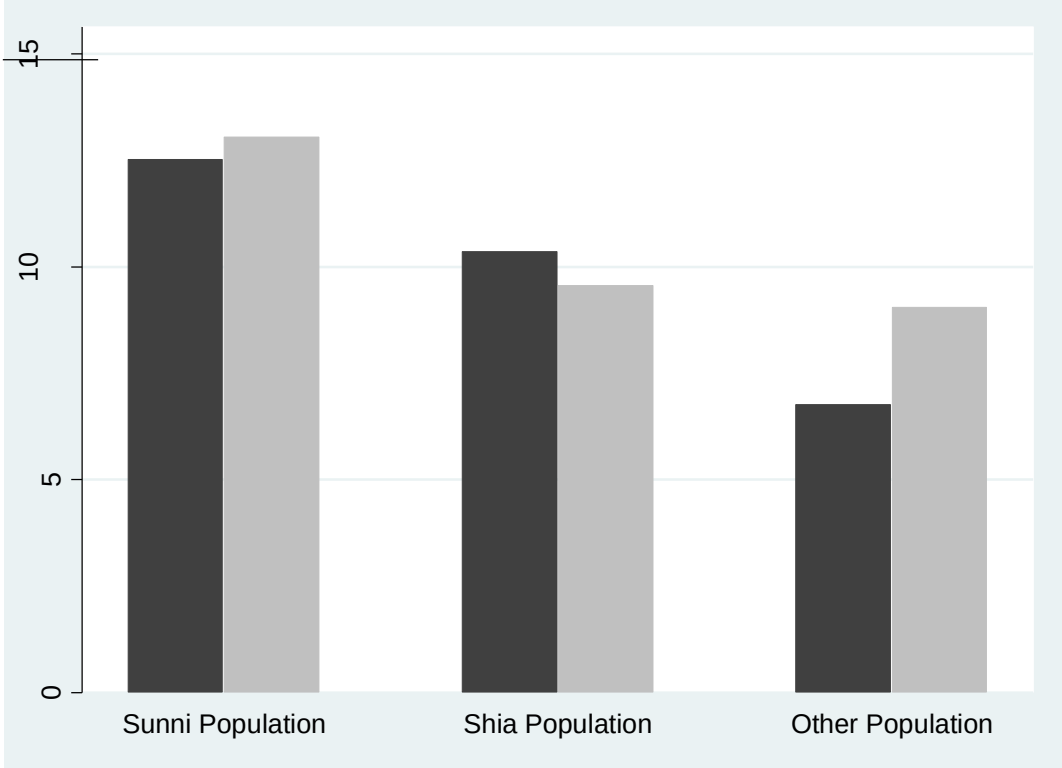
Notes: "Sunni Population" identifies borrowing members where at least 50% of the population is affiliated to Sunni Islam, "Shia Population" identifies borrowing members where at least 50% of the population is affiliated to Shia Islam or any other Islam denomination different to Sunni Islam, and "Other Population" identifies borrowing members where at least 50% of the population is affiliated to a religion other than Islam. Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD, Pew Research Center.

Figure 4: IsDB Commitments by Religious Affiliation of Head of State, Yearly Average in 1976-2007 (Millions of 2000 Constant US Dollars)



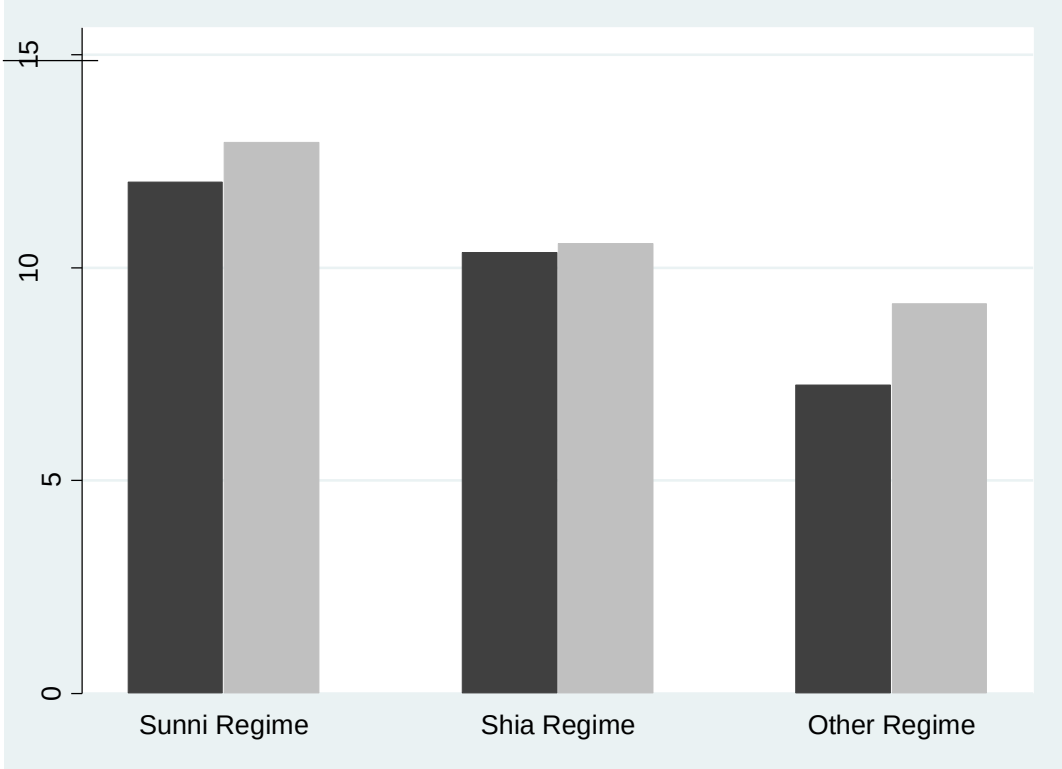
Notes**:** "Sunni Regime" identifies borrowing members whose head of state is affiliated to Sunni Islam, "Shia Population" identifies borrowing members whose head of state is affiliated to Shia Islam or any other Islam denomination different to Sunni Islam, and "Other Population" identifies borrowing members whose head of state is affiliated to a religion other than Islam. Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD, CIA World Fact Book, Encyclopedia Britannica.

Figure 5: IsDB Commitments by Religious Affiliation of Population and Religious Tensions, Yearly Average in 1985-2007 (Millions of 2000 Constant US Dollars)



Notes: The graph shows loan commitments approved by the Islamic Development Bank (IsDB) to each borrowing member whose population is of a certain religious affiliation and confronting a determined level of religious tensions, on average every year over the period 1976-2007. "Sunni Population" identifies borrowing members where at least 50% of the population is affiliated to Sunni Islam, "Shia Population" identifies borrowing members where at least 50% of the population is affiliated to Shia Islam or any other Islam denomination different to Sunni Islam, and "Other Population" identifies borrowing members where at least 50% of the population is affiliated to a religion different to Islam. Dark bars denote for borrowing members experiencing high religious tensions in a given year (Religious Tensions Index between 0 and 3), light bars denote for borrowing members experiencing low religious tensions in a given year (Religious Tensions Index between 3 and 6). Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD, Pew Research Center, ICRG.

Figure 6: IsDB Commitments by Religious Affiliation of Head of State and Religious Tensions, Yearly Average in 1985-2007 (Millions of 2000 Constant US Dollars)



Notes: The graph shows loan commitments approved by the Islamic Development Bank (IsDB) to each borrowing member whose head of state is of a certain religious affiliation and confronting a determined level of religious tensions, on average every year over the period 1976-2007. "Sunni Regime" identifies borrowing members in which the head of stat is affiliated to Sunni Islam, "Shia Regime" identifies borrowing members in which the head of state is affiliated to Shia Islam or any other Islam denomination different to Sunni Islam, and "Other Population" identifies borrowing members in which the head of the state is affiliated to a religion different to Islam. Dark bars denote for borrowing members experiencing high religious tensions in a given year (Religious Tensions Index between 0 and 3), light bars denote for borrowing members experiencing low religious tensions in a given year (Religious Tensions Index between 3 and 6). Figures are given in millions of constant US dollars (base year 2000). Source: IsDB, OECD, Pew Research Center, ICRG.

Table 1: IsDB Commitments and Religious affiliation of Population and Head of State, Tobit (1976-2007)

	(1)	(2)	(3)	(4)
Population (log)	0.244***	0.163***	0.223***	0.165***
	(0.0053)	(0.0010)	(0.0098)	(0.0008)
GDP per capita (log)	-0.0959	-0.172**	-0.118	-0.163**
	(0.4028)	(0.0303)	(0.2988)	(0.0303)
Democracy (dummy)	-0.256		-0.268	
	(0.3541)		(0.3364)	
Civil war (dummy)	0.0227		0.0585	
	(0.9031)		(0.7451)	
Saudi Arabia aid (log)	-0.00643		-0.00973	
	(0.7298)		(0.6053)	
Trade to GDP	0.00284		0.00376	
	(0.3986)		(0.2669)	
Oil production (log)	-0.0162		-0.0109	
	(0.1929)		(0.4002)	
Int. Reserves to GDP	-0.00914		-0.0112	
	(0.2248)		(0.1233)	
Debt crisis (dummy)	0.246		0.203	
	(0.7925)		(0.8269)	
Sunni population (dummy)	0.523**	0.538**		
	(0.0247)	(0.0169)		
Shia population (dummy)	0.816*	0.714*		
	(0.0548)	(0.0562)		
Sunni regime (dummy)			0.584**	0.541**
			(0.0164)	(0.0262)
Shia regime (dummy)			0.536	0.472
			(0.1255)	(0.1494)
Observations	306	327	306	327
Country fixed effects	No	No	No	No
Time fixed effects	Yes	Yes	Yes	Yes

Notes: The dependent variable is the loan commitments approved by the Islamic Development Bank (IsDB) to borrowing member *i* in period *t*, denominated in constant US dollars (base year 2000) and in logarithmic scale. Marginal effects at the mean value of the variable are reported. Standard errors are robust. P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 2: IsDB Commitments, Religious Affiliation of Population and Religious Tensions, Tobit (1976-2007)

	(1)	(2)	(3)	(4)
Population (log)	0.221*	0.0899	2.068	2.354
	(0.0839)	(0.2644)	(0.2227)	(0.1409)
GDP per capita (log)	-0.132	-0.269***	-0.308	-0.561*
	(0.3625)	(0.0019)	(0.3796)	(0.0786)
Democracy (dummy)	-0.326		0.363	
	(0.3134)		(0.1898)	
Civil war (dummy)	-0.0273		-0.128	
	(0.9205)		(0.6536)	
Saudi Arabia aid (log)	-0.00871		0.0240	
	(0.7150)		(0.2803)	
Trade to GDP	0.000694		0.0128	
	(0.8656)		(0.1828)	
Oil production (log)	-0.0269		0.00891	
	(0.1405)		(0.7009)	
Int. Reserves to GDP	-0.00659		0.00412	
	(0.4212)		(0.6583)	
Debt crisis (dummy)	1.259		-0.684	
	(0.4063)		(0.6863)	
Sunni population (dummy)	0.905***	0.882***	0.279	1.409*
	(0.0020)	(0.0014)	(0.7785)	(0.0848)
Shia population (dummy)	1.533***	1.036**	5.130	7.676**
	(0.0040)	(0.0156)	(0.1947)	(0.0373)
Religious Tensions	-0.0497	-0.0146	-0.0680	-0.0681
	(0.5839)	(0.8509)	(0.5659)	(0.5480)
Observations	207	215	207	215
Country fixed effects	No	No	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes

Notes: The dependent variable is the loan commitments approved by the Islamic Development Bank (IsDB) to borrowing member *i* in period *t*, denominated in constant US dollars (base year 2000) and in logarithmic scale. Specifications 3 and 4 control for country fixed effects. Marginal effects at the mean value of the variable are reported. Shia population (dummy) is interacted with Religious Tensions. Marginal effect of Shia population (dummy) at the mean value of Religious Tensions is reported. Standard errors are robust. P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 3: IsDB Commitments, Religious Affiliation of Head of State and Religious Tensions, Tobit (1976-2007)

	(1)	(2)	(3)	(4)
Population (log)	0.168	0.111	2.084	2.633
	(0.1743)	(0.1533)	(0.2189)	(0.1068)
GDP per capita (log)	-0.214	-0.264***	-0.127	-0.251
	(0.1825)	(0.0016)	(0.7481)	(0.5283)
Democracy (dummy)	-0.375		0.428	
	(0.2594)		(0.1275)	
Civil war (dummy)	0.149		-0.0447	
	(0.5608)		(0.8822)	
Saudi Arabia aid (log)	-0.0116		0.0339	
	(0.6310)		(0.1623)	
Trade to GDP	0.00419		0.0129	
	(0.3156)		(0.2070)	
Oil production (log)	-0.0161		0.0163	
	(0.4255)		(0.4943)	
Int. Reserves to GDP	-0.0114		0.00266	
	(0.1727)		(0.8290)	
Debt crisis (dummy)	0.876		-0.859	
	(0.5794)		(0.6095)	
Sunni regime (dummy)	1.041***	0.929***	-0.783	-1.391
	(0.0011)	(0.0033)	(0.7907)	(0.4326)
Shia regime (dummy)	0.769	0.811**	2.495	1.890
	(0.1328)	(0.0471)	(0.4674)	(0.4101)
Religious Tensions	0.0383	0.0250	0.0342	0.0277
	(0.6793)	(0.7471)	(0.7897)	(0.8238)
Observations	207	215	207	215
Country fixed effects	No	No	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes

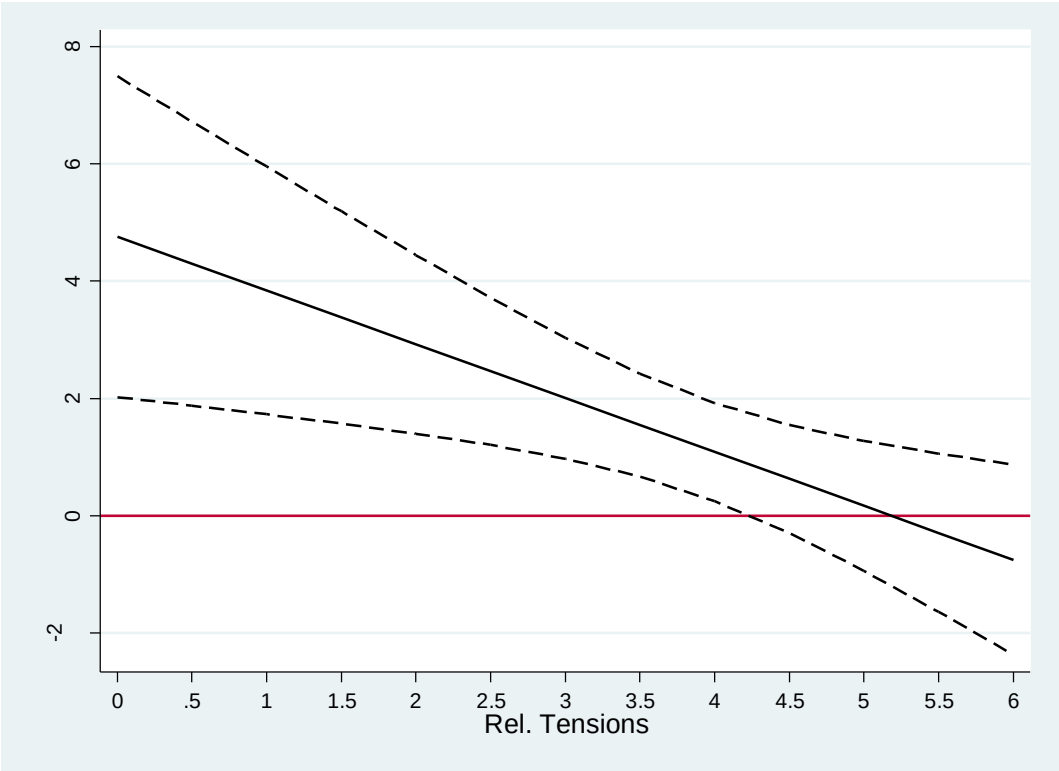
Notes: The dependent variable is the loan commitments approved by the Islamic Development Bank (IsDB) to borrowing member *i* in period *t*, denominated in constant US dollars (base year 2000) and in logarithmic scale. Specifications 3 and 4 control for country fixed effects. Marginal effects at the mean value of the variable are reported. Shia regime (dummy) is interacted with Religious Tensions. The marginal effect of Shia regime (dummy) at the mean value of Religious Tensions is reported. Standard errors are robust. P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 4: World Bank Commitments, Religious Affiliation of Population and Head of State, Tobit, (1976-2007)

	(1)	(2)	(3)	(4)
Population (log)	2.587***	3.342***	2.627***	3.389***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
GDP per capita (log)	-2.808***	-2.050***	-2.896***	-2.029**
	(0.0000)	(0.0037)	(0.0000)	(0.0110)
Democracy (dummy)	1.173	1.809	1.264	1.816
	(0.2165)	(0.1089)	(0.1867)	(0.1150)
Civil war (dummy)	-4.631***	-3.145**	-5.062***	-3.270**
	(0.0001)	(0.0293)	(0.0000)	(0.0265)
Saudi Arabia aid (log)	0.277**	0.206	0.282**	0.200
	(0.0143)	(0.1688)	(0.0138)	(0.1880)
Trade to GDP	-0.0172	-0.0441*	-0.0210	-0.0473*
	(0.3254)	(0.0766)	(0.2223)	(0.0500)
Oil production (log)	-0.0845	-0.131	-0.0915	-0.146
	(0.1657)	(0.1342)	(0.1669)	(0.1491)
Int. Reserves to GDP	-0.0791**	-0.0487	-0.0832**	-0.0490
	(0.0176)	(0.2339)	(0.0165)	(0.2391)
Debt crisis (dummy)	7.976*	10.16	8.850**	11.79
	(0.0701)	(0.1788)	(0.0461)	(0.1198)
Sunni pop. (dummy)	-0.0711	-0.627		
	(0.9293)	(0.5704)		
Shia pop. (dummy)	-3.095	-2.126		
	(0.1466)	(0.8783)		
Sunni reg. (dummy)			0.419	0.185
			(0.6059)	(0.8807)
Shia reg. (dummy)			-0.437	7.448
			(0.8134)	(0.4772)
Rel. Tensions		0.778*		0.883**
		(0.0737)		(0.0482)
Observations	359	236	359	236
Country fixed effects	No	No	No	No
Time fixed effects	Yes	Yes	Yes	Yes

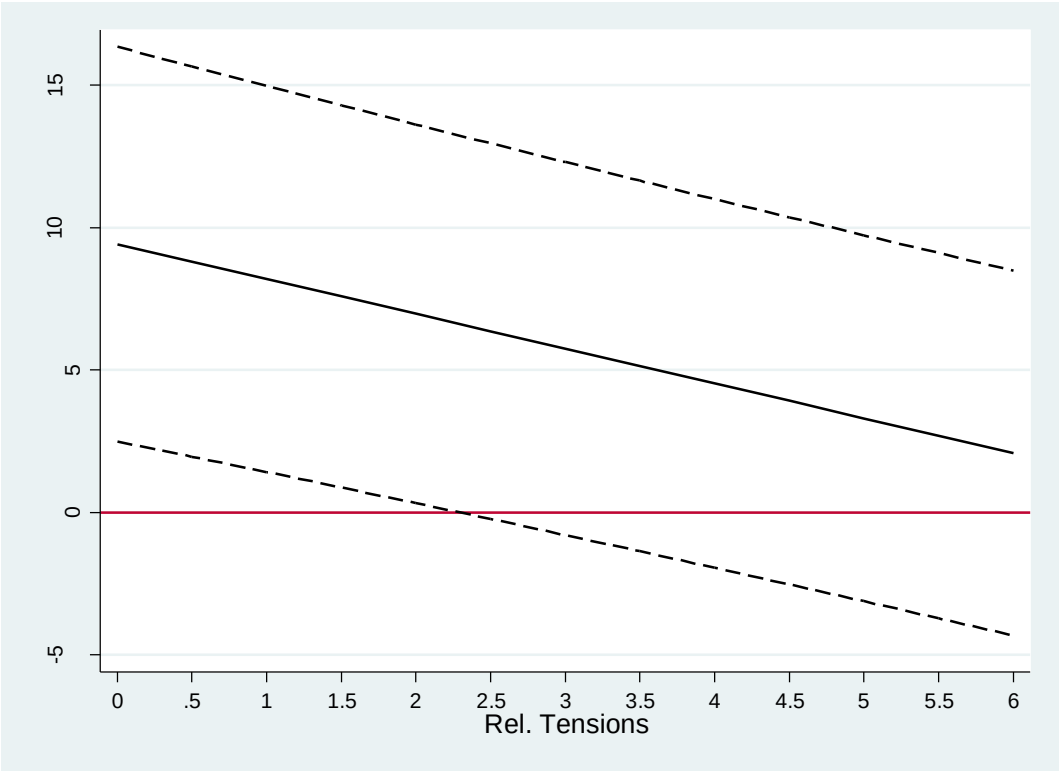
Notes: The dependent variable is the loan commitments approved by the World Bank to borrowing member i in period t, denominated in constant US dollars (base year 2000) and in logarithmic scale. Marginal effects at mean value of the variable are reported. Shia population (dummy) and Shia regime (dummy) are interacted with Religious Tensions in specifications (2) and (4) respectively. In these cases, the marginal effect of Shia population (dummy) and Shia regime (dummy) at the mean value of Religious Tensions is reported. Standard errors are robust. P-values are shown in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Figure 7: Conditional Marginal Effects of Shia Population on IsDB Commitments, Country Fixed Effects Excluded, 90% Confidence Interval.



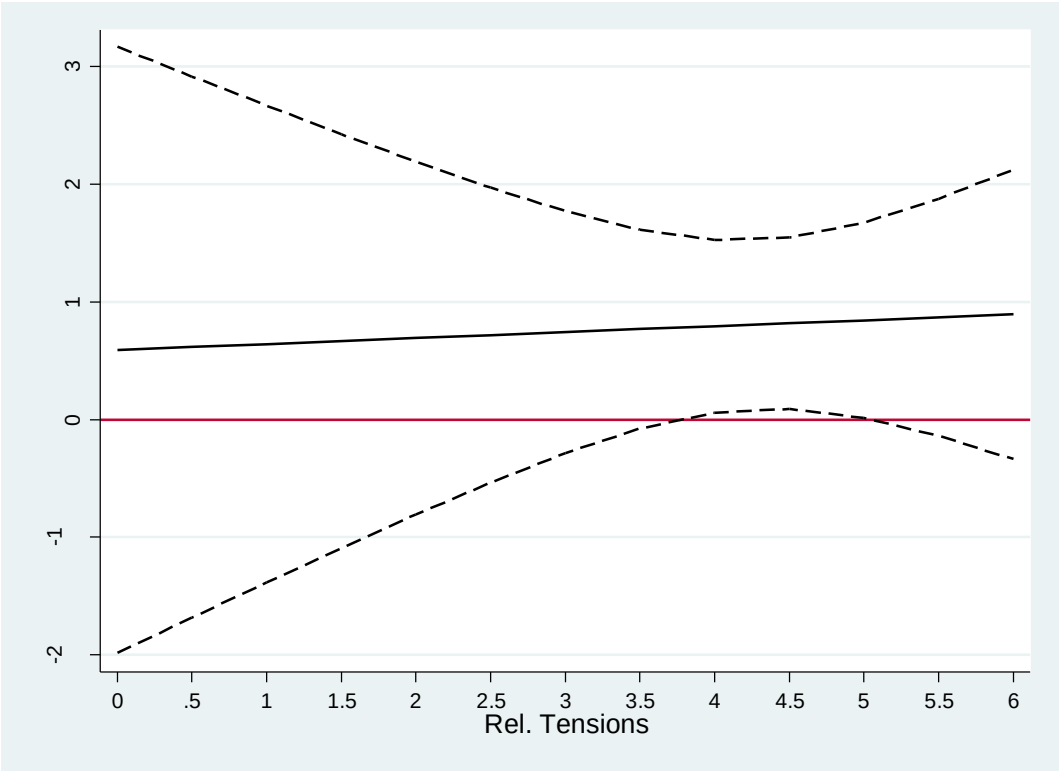
Notes: The graph shows the marginal effects of Shia population (dummy) on IsDB loan commitments (log). Marginal effects are conditioned to different values of Religious Tensions. Dashed lines denote the upper and lower boundaries of the 90% confidence interval.

Figure 8: Conditional Marginal Effects of Shia Population on IsDB Commitments, Country Fixed Effects Included, 90% Confidence Interval



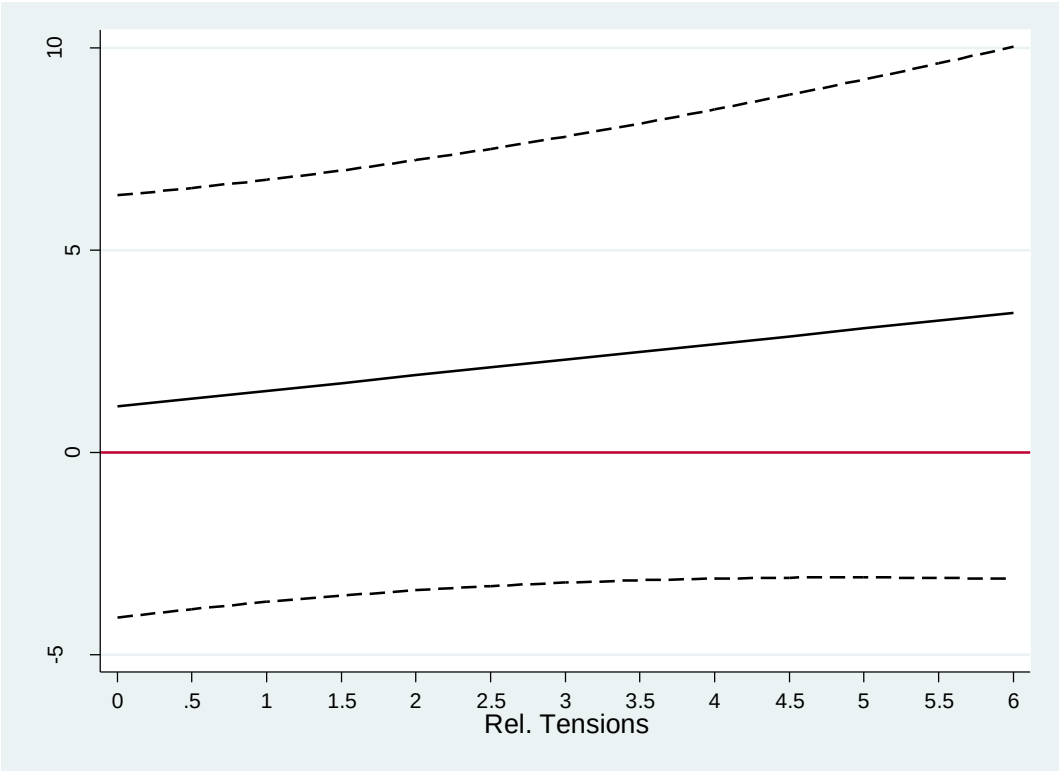
Notes: The graph shows the marginal effects of Shia population (dummy) on IsDB loan commitments (log). Marginal effects are conditioned to different values of Religious Tensions. Dashed lines denote the upper and lower boundaries of the 90% confidence interval.

Figure 9: Conditional Marginal Effects of Shia Regime on IsDB Commitments, Country Fixed Effects Excluded, 90% Confidence Interval



Notes: The graph shows the marginal effects of Shia population (dummy) on IsDB loan commitments (log). Marginal effects are conditioned to different values of Religious Tensions. Dashed lines denote the upper and lower boundaries of the 90% confidence interval.

Figure 10: Conditional Marginal Effects of Shia Regime on IsDB Commitments, Country Fixed Effects Included, 90% Confidence Interval



Notes: The graph shows the marginal effects of Shia population (dummy) on IsDB loan commitments (log). Marginal effects are conditioned to different values of Religious Tensions. Dashed lines denote for upper and lower boundaries of the 90% confidence interval.

Appendix

Appendix 1: List of Countries included

Afghanistan	**Egypt**	**Malaysia**	**Sierra Leone**
Albania	Gabon	**Maldives**	**Somalia**
Algeria	**Gambia**	**Mali**	**Sudan**
Azerbaijan	**Guinea**	**Mauritania**	Surinam
Bahrain	Guinea-Bissau	**Morocco**	**Syria**
Bangladesh	**Indonesia**	Mozambique	**Tajikistan**
Benin	**Iran**	**Niger**	Togo
Brunei	**Iraq**	Nigeria	**Tunisia**
Burkina Faso	**Jordan**	**Oman**	**Turkey**
Cameroon	**Kazakhstan**	**Pakistan**	**Turkmenistan**
Chad	**Kuwait**	**Palestinian Adm. Areas**	Uganda
Comoros	**Kyrgyz Republic**	**Qatar**	**United Arab Emirates**
Cote d'Ivoire	Lebanon	**Saudi Arabia**	**Uzbekistan**
Djibouti	**Lybia**	**Senegal**	**Yemen**

Notes: Countries shown in bold are Muslim majority populated.

Appendix 2: Data definition and sources

Variables	Description	Source
IsDB commitments	IsDB loan commitments received by a borrowing member in a year in constant dollars.	IsDB Annual Report (various years), OECD (2012).
WB commitments	World Bank loan commitments received by a borrowing member in a year in constant dollars.	OECD (2012).
Population	Total population.	World Bank (2012).
GDP per capita	GDP per capita in current dollars.	World Bank (2012).
Democracy	Dummy coded 1 if government is democratic, and 0 otherwise.	Cheibub et al. (2010).
Civil war	Dummy coded 1 if recipient undergoes a civil war, and 0 otherwise.	Gleditsch et al. (2002).
Saudi Arabia aid	Saudi Arabia bilateral aid received by a borrowing member in a year in constant dollars.	OECD (2012).
Trade to GDP	Sum of merchandise exports and imports in percentage of GDP.	World Bank (2012).
Oil production	Value of oil production in constant dollars.	De Soysa and Binningsbo (2012)
International Reserves to GDP	International reserves in percentage of total GDP.	World Bank (2012).
Debt crisis	Dummy coded 1 if recipient undergoes a debt crisis, and 0 otherwise.	Laeven and Valencia (2012).
Sunni population	Dummy coded 1 if religious affiliation of at least 50% of the population is Sunni Islam, and 0 otherwise.	Pew Research Center (2009a, 2000b).
Shia population	Dummy coded 1 if religious affiliation of at least 50% of the population is Shia Islam, and 0 otherwise.	Pew Research Center (2009a, 2000b).
Other population	Dummy coded 1 if religious affiliation of at least 50% of the population is not Islam (any sect), and 0 otherwise.	Pew Research Center (2009a, 2000b).
Sunni regime	Dummy coded 1 if religious affiliation of borrowing member government in a year is Sunni Islam, and 0 otherwise.	CIA World Fact Book (2013), Encyclopedia Britannica (2012).
Shia regime	Dummy coded 1 if religious affiliation of borrowing member government in a year is Shia Islam, and 0 otherwise.	CIA World Fact Book (2013), Encyclopedia Britannica (2012).
Other regime	Dummy coded 1 if religious affiliation of borrowing member government in a year is not Islam (any sect), and 0 otherwise.	CIA World Fact Book (2013), Encyclopedia Britannica (2012).
Religious Tensions	Religious Tensions Index, from 0 (highest) to 6 (lowest).	International Country Risk Guide (2012).

Appendix 3: Descriptive Statistics

Variables	Obs.	Mean	Std. Dv.	Minimum	Maximum
IsDB commitments (log)	346	15.25	1.48	6.11	17.58
WB commitments (log)	448	10.56	8.25	0.00	21.68
Population (log)	427	15.65	1.64	11.89	19.24
GDP per capita (log)	398	6.95	1.40	4.68	10.93
Democracy (dummy)	420	0.13	0.32	0.00	1.00
Civil war (dummy)	420	0.24	0.38	0.00	1.00
Saudi Arabia aid (log)	448	2.82	4.39	0.00	19.25
Trade/GDP	383	58.37	31.38	10.40	213.19
Oil production (log)	429	12.98	10.35	0.00	25.86
International Reserves/GDP	363	13.84	14.96	0.09	141.46
Debt crisis (dummy)	417	0.01	0.06	0.00	0.25
Sunni populous (dummy)	430	0.71	0.45	0.00	1.00
Shia populous (dummy)	430	0.09	0.28	0.00	1.00
Other populous (dummy)	430	0.20	0.40	0.00	1.00
Sunni regime (dummy)	430	0.72	0.45	0.00	1.00
Shia regime (dummy)	430	0.09	0.28	0.00	1.00
Other regime (dummy)	430	0.19	0.39	0.00	1.00
Religious Tensions	257	3.52	1.41	0.00	6.00