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SHOW US THE MONEY

Oil Revenues, Undisclosed Allocations and Accountability in Budgets of the GCC States

Omar AlShehabi

LSE Kuwait Programme Paper Series | 44 | September 2017

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About the Author

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Abstract

This paper traces the historical evolution of the transparency, independence and accountability of public revenues and expenditures in each of the GCC countries. Beginning with the discovery of oil in 1932, specific focus is placed on that part of oil revenues that are treated as undisclosed allocations, including military expenditures, overseas transfers and royal allowances. It argues that with the exception of Kuwait, there is strong evidence to suggest that significant amounts of oil revenues are undeclared, which go either into private hands or into undisclosed government transactions.

Publications Editor
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Cover Image

Introduction

By the end of 2015, all Gulf Cooperation Council (GCC) states were under financial pressures from declining revenues due to falling oil prices. This spurred all of the states to introduce so-called economic reforms during 2016, including increasing prices for basic goods such as water, electricity and petrol, and even slashing public pay.[1] The spotlight has thus increasingly been shone on the Gulf states' fiscal positions and budgets.

This paper focuses on one aspect of the GCC's budgets that has been neglected for the past few decades: their (lack of) transparency, independence and accountability. Particularly, it focuses on the historical evolution of the declaration of oil revenues and their expenditure in each of the GCC countries. Specific focus is placed on that part of oil revenues that does not appear in the public budgets, and especially on those parts that are treated as 'undisclosed allocations'.

The following conclusions will be drawn:

1. As of 2017, only Kuwait has a transparent, accountable and independently audited state budget, particularly in terms of oil revenues and their allocations. The rest of the GCC countries do not have an independently audited and accountable budget, with the spectrum ranging from no kind of public auditing at all to some form of public but not independently audited budgets.

2. This was not historically the case, as there were cases of independently audited budgets with much stronger elements of transparency.

3. With the exception of Kuwait, there is strong evidence to suggest that there are significant amounts of undeclared oil revenues, which go either into private hands or into secretive government transactions.

4. Finally, the paper will reach a tentative conclusion that with increased moves by the states towards austerity and economic reform, this could be an opportune moment for the rest of the citizenry to demand in return greater transparency, independence and accountability in relation to oil revenues and state budgets.

The structure of the paper is as follows: an overview of the situation of budgetary transparency, independence and accountability in the GCC countries as they stood at the end of 2016 is presented in the next section. The third section focuses on the main budget areas where transparency is lacking: foreign transfers, military expenditure and royal allocations. For comparison purposes, the fourth section examines the history of budget-setting in the Gulf, focusing particularly on documents from the British National Archives.

The contents of this paper should be treated as work in progress. As such, the author welcomes any feedback and suggestions for future improvements, including on any possible errors or omissions.

[1] 'Saudi Arabia Slashes Ministers' Pay, Cuts Public Sector Bonuses', *CNBC*, 27 September 2016. Available at www.cnbc.com/2016/09/27/saudi-arabia-slashes-ministers-pay-cuts-public-sector-bonuses.html (accessed 20 December 2016).

The discussion serves as a useful contrast between the present situation and the past, while also providing uniquely rich detail on the construction and expenditure of budgets in the GCC states across time. The fifth section attempts to demonstrate numerically that there is indeed a gap between actual and publicly declared state revenues, although it is hard to quantify the exact magnitude of the gap. The final section concludes with some recommendations.

Budgetary Transparency, Independence and Accountability

As of 2015, Kuwait was the only GCC country with (relatively) publicly and independently audited, transparent final accounts of its budget. The state's revenues and expenditures are audited by the State Audit Bureau, an independent audit entity that is answerable to the country's elected parliament.[2] The independent auditing of the budget is enshrined in Article 151 of the country's constitution, which states:

> The Law shall set up an Audit Bureau and shall guarantee its autonomy. The Bureau shall be an adjunct of the National Assembly, shall assist the Government and the National Assembly in controlling and supervising the collection of the State's revenues and the incurrence of its expenditure within the limits of the Budget, and shall submit to both, the Government and the National Assembly, an Annual Report on its activities accompanied by its observations.[3]

Of course, this does not mean that corruption does not exist in Kuwait. Indeed, government bureaucracy is nowadays notorious across the Gulf for endemic 'middle-range corruption', where cronyism and backdoor dealings are considered to be a significant feature within the different levels, institutions and bodies of the government. Furthermore, classifications of spending still tend to be antiquated and opaque. Thus, the situation is far from ideal. It does mean, however, that 'top-level' corruption and uses of the budget revenues and expenditure are formally placed under the supervision of an independent auditor.

In this respect, Kuwait is unique within the GCC countries, as no other state has a bureau with similar independence and levels of transparency. Furthermore, Kuwait is unique in that it has enshrined in law a specific and clear allocation to the 'emir'. This was increased in 2006 from 8 million to 50 million Kuwaiti dinars ($165 million), when the new ruler came to power.[4]

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2 See Kuwait State Audit Bureau's website. Available at http://www.sabq8.org/sabweb/home.aspx (accessed 20 December 2016).

3 'Kuwait's Constitution of 1962, Reinstated in 1992', *Comparative Constitutions Project*, 18 April 2016. Available at www.constituteproject.org/constitution/Kuwait_1992.pdf (accessed 20 December 2016).

4 'The Kuwait Emir Spends 50 Million Dinars a Year' [Amir Al-Kuwait yunfiq 50 million dinar sanaweyyan], *Al Arabiya*, 23 November 2006. Available at http://www.alarabiya.net/articles/2006/11/23/29322.html (accessed 20 December 2016).

The situation is different in the other GCC countries. To be clear, all GCC countries have state audit organisations that are set up along modern bureaucratic lines. The crux of the matter, however, is the degree of independence, transparency and accountability that these audit organisations offer to the public. None reach the level offered by Kuwait's bureau, although there is variation between the different GCC countries. In Bahrain, the National Audit Court is entrusted by Decree 16 of the year 2002 with overseeing the final accounts of the government's ministries.[5] This bureau releases the final accounts and an annual report to the public that covers the financial and administrative activities and perceived irregularities of the various governmental ministries, releasing its tenth edition in 2015 to cover the fiscal year 2014/15. At the time of writing, the general perception was that in the jurisdiction it covers, the report does a professional and detailed job. Indeed, the contents of the report and the alleged financial transgressions it details have become a periodic topic of interest for the general public.[6]

However, this bureau is legally and structurally under the royal court, an unelected body that is answerable only to the king. Furthermore, the publicly available final accounts and audit report does not cover all state expenditure, and there are questions on whether it covers all of the oil revenues (more on which later). For one example, the royal court's revenues and expenditure do not appear in the report. Indeed, when a noted opposition figure raised this issue in a notorious interview on state TV, the Minister of Information was fired and the show was cancelled.[7] Furthermore, the budgets of many of the non-ministerial state bodies, including the Economic Development Board and Mumtalakat, the state sovereign fund, are not included within it. Arms imports expenditure figures also do not appear in the report and the audited budget.

The situation is similar in Oman where the State Audit Institution is entrusted with overseeing the financial and managerial auditing of the state's ministries. Promulgated by Royal Decree No. 55/2000, and revamped by Royal Decree No. 27/2011 following the 2011 protests, the body releases final accounts to the cabinet, the elected Shura Council and the sultan regarding the uses and misuses of the budget. This report, however, is secret and not released to the general public. Furthermore, the jurisdictions of the report and the institution do not cover the budget of the sultan's court or the military sector. Each of these has its own accounts and auditing bodies, which are not revealed or answerable to the public or the elected Shura Council.

5 'Financial Control Bureau Law' [Qanoon Diwan al Raqaba al Maliyya], *Bahrain Ministry of Justice*, 3 July 2002. Available at http://www.moj.gov.bh/defaultc91e.html?action=article&ID=1471 (accessed 20 December 2016).

6 'Financial Control Bureau Appendix' [Mulhaq Diwan al Raqaba al Maliyya], *Al Wasat News*, Available at http://www.alwasatnews.com/supplements/RQP (accessed 20 December 2016).

7 Bahrain TV Interview with Ebrahim Sharif, 12 November 2008. Available at https://www.youtube.com/watch?v=ZJR6wC73aO4 (accessed 20 December 2016).

In the rest of the countries, the auditing of state revenues is even more opaque. As mentioned previously, all countries of the GCC have state audit institutions, an obvious requisite of a modern functioning bureaucracy. The United Arab Emirates (UAE) has the State Audit Institution,[8] Qatar the State Audit Bureau, and Saudi Arabia the General Auditing Bureau. All of these prepare detailed budgets and closing accounts for the state and its various institutions and ministries. None, however, are answerable to elected bodies, and none release public reports on the auditing of the budgets. In the latter two countries, there is no elected legislative body. The UAE does have an elected body at the federal level, but it only has advisory powers, while it lacks such institutions at the emirates' level, where the vast majority of the budget's expenditure resides. The closing accounts for each year's budget released to the public in Saudi Arabia barely has three lines for each of the sections of general revenues or general expenditure. In Qatar, the detailed budgets and closing accounts are not even shown to the appointed Shura council, and the situation is similar in Saudi Arabia. In both countries, this is considered to be purely under the jurisdiction of the ministerial council. As is the case in Bahrain and Oman, in all five countries no details are given on royal allocations, military imports and allocations for non-ministerial governmental organisations.

Indeed, there is reason to believe that state budgets in the GCC countries are the least transparent in the world. The Open Budget Initiative provides an index that comparatively measures central budget transparency for countries globally. As of 2015, the only two countries from the GCC included in the initiative were Qatar and Saudi Arabia. In 2015, the two countries ranked at the absolute bottom of the index, under the category of 'scant or none', behind countries such as Iraq, Myanmar, Lebanon, Equatorial Guinea, Venezuela and Sudan.[9] The initiative evaluated countries on three criteria: transparency, public participation and budgetary oversight. Both Qatar and Saudi Arabia scored 0 out of 100 on all three criteria in 2015.[10]

In summary, the allocation of state revenues and expenditures in the GCC countries, with the partial exception of Kuwait, is vague, shrouded in secrecy, and prepared and audited by bodies that are not answerable to the public. This indicates that there might be significant portions of revenues and expenditures that are undeclared and do not appear within whatever meagre data there is regarding total public revenues and expenditure.

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8 See State Audit Institution's website. Available at http://saiuae.gov.ae/en/pages/home.aspx (accessed 20 December 2016).

9 'The Open Budget Index 2015', *International Budget Partnership*. Available at www.internationalbudget.org/wp-content/uploads/OBS2015-OBI-Rankings-English.pdf (accessed 20 December 2016).

10 For Qatar and Saudi respectively: 'Qatar', *International Budget Partnership*, 8 September 2015. Available at www.internationalbudget.org/summaries/qatar-2 (accessed 20 December 2016); 'Saudi Arabia', *International Budget Partnership*, 8 September 2015. Available at www.internationalbudget.org/summaries/saudi-arabia-4 (accessed 20 December 2016).

Foreign Transfers, Military Imports and Royal Allocations

From publicly available information, what can be said with confidence regarding the gaps between declared budgetary revenues and expenditures versus actual ones? To paraphrase the infamous words of former US Secretary of Defense Donald Rumsfeld, there are known knowns, known unknowns and unknown unknowns. The fact that there are undeclared budgetary revenues and expenditures in the GCC falls under the known unknowns. In other words, we can put forward the proposition that not all revenues and expenditures are declared, but it is unknown what is the actual size of those not declared.

To begin with the first point, it is actually relatively straightforward to demonstrate that certain oil revenues and expenditures are not declared. This can be done through looking at three areas which are known to contain the largest parts of off-budgetary transactions: transfers to foreign states/agents, deals on arms imports and royal court/family expenditures and allocations. Although such evidence is anecdotal and by no means comprehensive, it does at least point to the fact that there are significant expenditures that do not appear in the budget.

Let us begin with the opaquest of these: transfers to foreign states and agents. It is well known that GCC countries execute significant monetary transfers to states and agents beyond their borders. Such transfers have a long history, and many reasons have been put forward for them, including 'chequebook diplomacy' and charitable aid. The publicly funded Kuwait Fund for Arab Economic Development (KFAED) is one of the oldest development funds in the world, and since its inception in 1961 it has extended more than $16.7 billion to 102 countries worldwide.[11] The wealthier countries of the GCC (Saudi, UAE and Qatar) have similar aid agencies which have distributed significant amounts of funds worldwide.

Less transparent are direct transfers to states and institutions on an overtly political basis. There is a long history of such transfers, stretching back to the first arrival of oil revenues. For example, Saudi Arabia allocated approximately 10 percent of its annual oil to payments to Egypt and Jordan in the wake of the Khartoum Agreement after the 1967 defeat by Israel.[12]

Very little information is available regarding the nature, scope and size of such foreign 'chequebook diplomacy' transfers nowadays, although there are scattered leads. For example, there were revelations in 2015 that the Saudi royal family had 'gifted' the Malaysian Prime Minister Najib Razak $681 million. It is also often stated that since General Abdul-Fattah Al-Sisi took over the rule of Egypt in 2014, the UAE and Saudi Arabia have pumped 'tens of billions of dollars' into Egypt to steady its faltering economy.[13] Prior to that, Qatar reportedly supported Sisi's deposed predecessor Mohamed

[11] Bader Al-Mutairi, 'Kuwait Official Development Assistance: Fifty Years On', unpublished paper, 2013.

[12] British National Archives: FCO 8/1743 Saudi Budget. Letter from the Embassy.

[13] Ahmed Feteha, Tarek El-Tablawy and Zainab Fattah, 'Egypt Readies for Tough Reforms as Gulf Seen Tightening Aid', *Bloomberg*, 23 August 2016. Available at www.bloomberg.com/news/articles/2016-08-23/u-a-e-deposits-1-billion-in-egypt-to-shore-up-imf-loan-deal (accessed 20 December 2016).

Morsi with $7.5 billion during his short rule.[14] Qatar has also been rumoured to have financially supported groups in the conflicts in Syria and Libya, while the UAE too has reportedly provided significant financial backing to parties in the conflict in Libya.[15] By their very nature, these different 'chequebook diplomacy' foreign transfers are shrouded in secrecy, since both givers and recipients generally do not provide public details regarding such transfers, and they do not appear in publicly declared state budgets.

The second large category susceptible to off-budgetary expenditures is the military sector, including deals on arms importation. Scattered information can be obtained on such deals, primarily because arms producers in Western countries often have to declare them, although the figures still remain unreliable. According to the Stockholm International Peace Research Institute (SIPRI), the main authority on arms trade data, Saudi Arabia and the UAE were the second and fourth-largest arms importers globally in the years 2010–14, accounting for 5 percent and 4 percent respectively of total arms imports worldwide.[16] In SIPRI's extremely conservative estimates for the value of arms imports in those years, based on 1990 constant prices, the UAE imported arms worth $15.1 billion, Saudi Arabia $11.1 billion, Oman $2.3 billion, Qatar $1.0 billion, Kuwait $1.5 billion and Bahrain $786 million.[17] These figures seem to have increased significantly in the past few years. According to the business magazine *Forbes*' own data, 'between 2013 and 2014, Saudi arms imports alone are reported to have increased 54 percent to $6.46 billion. In 2014, Saudi Arabia and the United Arab Emirates imported $8.6 billion of military equipment.'[18]

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[14] 'Egypt Returns $2 Billion to Qatar in Sign of Growing Tensions', *VOA News*, 19 September 2013. Available at www.voanews.com/a/egypt-returns-two-billion-dollars-to-qatar-tension/1753280.html (accessed 20 December 2016).

[15] Omar AlShehabi, Mahmood AlMahmood and Mohammed AlDousari (eds), *The Gulf after the Arab Spring* [AlKhaleej Baada al Intifadat al Arabiyya] (Kuwait: Gulf Centre for Development Policies and Dar Afaq, 2016). Available at https://www.gulfpolicies.com/index.php?option=com_content&view=article&id=2309:-2016-&catid=258:2016-05-16-09-50-52&Itemid=577 (accessed 20 December 2016).

[16] Pieter D. Wezeman and Siemon T. Wezeman, 'Trends in International Arms Transfers, 2014', *SIPRI*, March 2015, p. 4. Available at http://books.sipri.org/files/FS/SIPRIFS1503.pdf (accessed 20 December 2016).

[17] 'Top List TIV Tables', *SIPRI*, 2017. Available at http://armstrade.sipri.org/armstrade/page/toplist.php (accessed 20 December 2016). These, it should be remembered, are severe underestimates based on 1990 constant prices, and as SIPRI points out, these 'figures do not represent sales prices for arms transfers. They should therefore not be directly compared with gross domestic product (GDP), military expenditure, sales values or the financial value of export licences in an attempt to measure the economic burden of arms imports or the economic benefits of exports'; 'SIPRI Arms Transfers Database: Methodology', *SIPRI*, 2017. Available at www.sipri.org/databases/armstransfers/background (accessed 20 December 2016).

[18] Niall McCarthy, 'Saudi Arabia Has Become the World's Biggest Arms Importer', *Forbes*, 10 March 2015. Available at www.forbes.com/sites/niallmccarthy/2015/03/10/saudi-arabia-has-become-the-worlds-biggest-arms-importer-infographic/#2715e4857a0b6cafb0d24d45 (accessed 20 December 2016).

Such high expenditure does not come as a surprise, particularly given that military expenditure in the GCC is considered to be among the highest in the world. The countries top the lists of military expenditure both per capita and as a percentage of GDP (Figures 1 and 2).[19]

Figure 1. Defence Expenditure Per Capita (in USD), 2010

Source: 'The Military Balance 2012', International Institute for Strategic Studies.

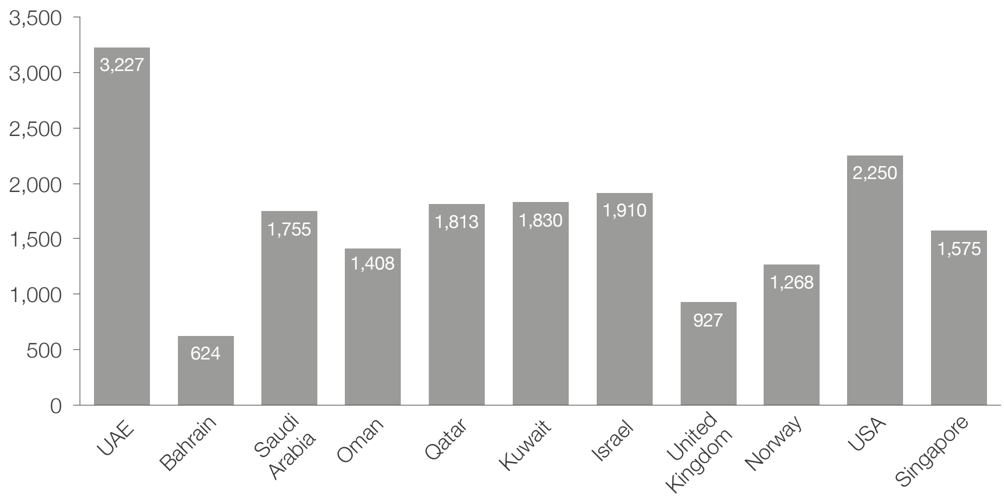
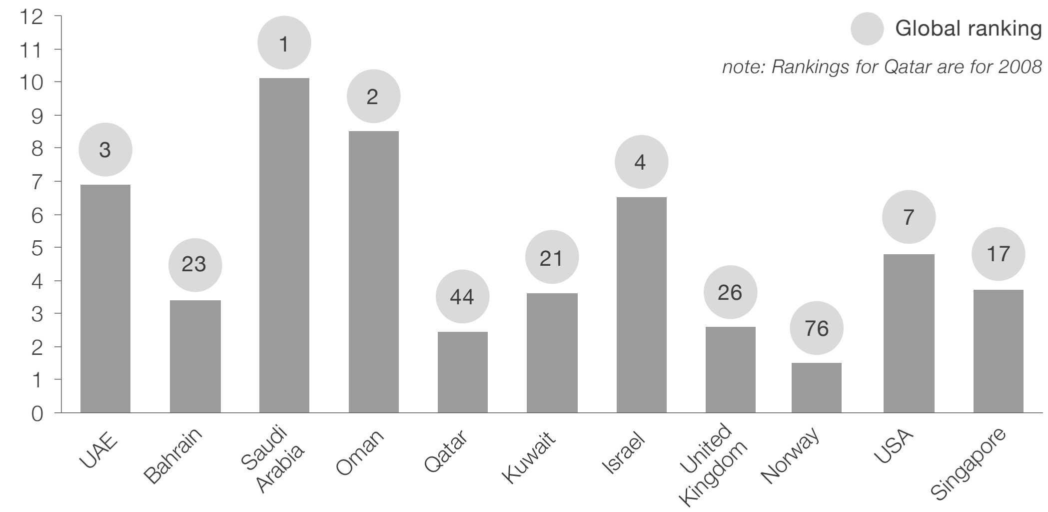


Figure 2. Defence Expenditure as Percentage of GDP, 2010

Sources: 'Military Balance 2012', International Institute for Strategic Studies; *'SIPRI Military Expenditure Database 2017',* SIPRI.

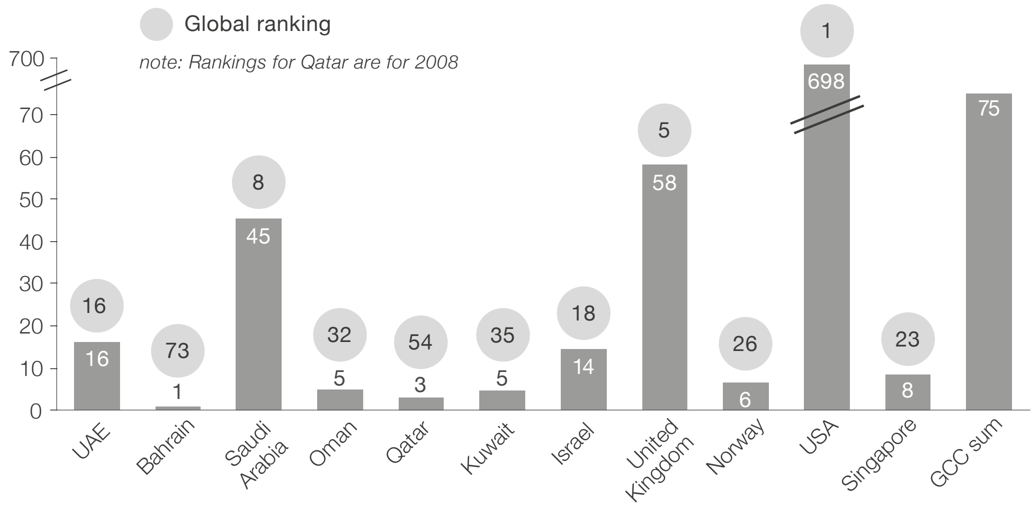


[19] All data in the graphs has been previously published (in Arabic): Omar AlShehabi (ed.), *AlKhaleej Bayna AlThabet wal Mutahawwel* [The Gulf between Stability and Change] (Beirut and Kuwait: Gulf Centre for Development Policies and Muntada Al-Ma'aref, 2014). Available at www.gulfpolicies.com/index.php?option=com_content&view=article&id=1414&Itemid=421 (accessed 20 December 2016).

As a comparative example, the military expenditure by the GCC countries is reported to have exceeded that of the UK and Israel combined (Figure 3).

Figure 3. Total Defence Expenditure (in million USD), 2010

Sources: 'Military Balance 2012', International Institute for Strategic Studies*; 'SIPRI Military Expenditure Database 2017',* SIPRI.



It is worth pointing out that the category of 'military and security spending' sometimes does appear within the publicly declared budgets of GCC countries (e.g. Bahrain and Oman). However, and with the exception of Kuwait, 'military spending' is usually presented as one broad, catch-all category, and it is unclear whether purchases of military equipment imports enter into such figures, or whether they only focus on domestic expenditure, such as salaries and ministerial operations. Indeed military and security budgets are often the largest single-item expenditure in the budgets, which regularly take up a quarter of the declared budgets or more. For example, 25 percent of Bahrain's 2013 budget was allocated to military and security expenditure,[20] while in Saudi Arabia 25 percent of the preliminary 2016 budget went to the military and security sector.[21] Hence, given the large outlays on the military, which rank as the highest in the world and which often take up the biggest outlays in the GCC budgets, and given the lack of details on such outlays, there is significant opaqueness in the allocation of these large sums within GCC budgetary expenditures.

[20] 'Statement of the Bahrain Transparency Society on the State Budget for 2013–2014' [Kalemat al jamiyya al Bahrainiyya lel shafafiyyah hawla mizaniyyat al Dawla lel amain 2013-2014], *Bahrain Transparency Society*, 9 June 2013. Available at http://alshafafeyabh.org/index/كلمة-الجمعية-البحرينية-للشفافية-حول-م/ (accessed 20 December 2016).

[21] 'Ministry of Finance Statement on the occasion of issuing of the State Public Budget' [Bayan wazarat al maliyya bemunasabat sudoor al mizaniyya al aama lel dawla], *Al Arabiya*. Available at http://static.alarabiya.net/files/PDF/2015/12/28/860d0de6-150f-4b8b-8f7f-b4082cf844ac.pdf (accessed 20 December 2016).

The third variable which could point to the fact that declared accounts might not match actual budget accounts is the private allocations of oil revenues, particularly to royal courts and members of the royal families. Such allocations are usually controlled and distributed by the royal court in each country, and most often take the form of monthly allowances for royal family members based on their rank. The allocations could also include transfers for such items as land grants, wedding allowances, travel and so forth. As mentioned previously, royal allocations out of public revenues are undisclosed in the GCC countries, with the exception of Kuwait. Estimating such private allocations is in its very nature even more shrouded in secrecy (not to mention danger) than estimating military deals, since there are international sources that report the values of military deals, no matter how incomplete they are. The same could not be said regarding royal allocations. Of course, one could always list as evidence anecdotes regarding alleged wealth estimates or extravagant deals involving multimillion-dollar mansions and yachts made by individual members of the royal family, but these are best left to the rumour pages of tabloids. Probably the most infamous of these recent revelations have been *WikiLeaks*' 2013 American Embassy cables, which showed estimates by US Embassy staff of the nature and size of such royal allocations in Saudi Arabia in 1996:

> The most common mechanism for distributing the nation's wealth to the royal family is the formal, budgeted system of monthly stipends for all members of the Al Saud, managed by the Ministry of Finance's 'Office of Decisions and Rules'. The stipends range from $270,000 per month on the high end to $800 per month for the lowliest member of the most remote branch of the family. Bonus payments are available for marriage and palace building. The Embassy estimates that the stipends system puts an annual drain of about $2 billion on the $40 billion government budget.
>
> Aside from the stipends system, a handful of the senior-most princes enrich themselves by controlling several billion dollars in annual expenditures in 'off-budget' programs. With no ministry of finance oversight or controls, these programs are widely viewed as sources of royal rakeoffs. […] Through these off-budget programs, five or six princes control the revenues from one million barrels per day (b/d) of the Kingdom's eight million b/d of crude oil production.[22]

Hence, private royal allocations, military expenditure and foreign transfers provide three broad categories with significant opaqueness in the budgets of the GCC. Although – as we have seen – information in recent years has been patchy in all three categories, the same could not be said regarding the not so distant past. There is a useful source of information on this area: the British colonial archives. Indeed, if we dig through the available documents, they show that such appropriations have historically been quite large.

In the following section, we present original primary research on what the British colonial archives reveal regarding the origins, nature and size of GCC state budgets. The archives

[22] 'Saudi Royal Wealth: Where do They Get all That Money?', *Wikileaks*. Available at http://www.wikileaks-forum.com/cablegate/7/wikileaks-cable-saudi-royal-wealth-where-do-they-get-all-that-money/16898/ (accessed 6 September 2017).

give significant details on budget expenditures in the Gulf, and also act as a useful contrast and counterbalance to the lack of information in current budgets. Indeed, it has not always been the case that the final accounts of GCC countries were not fully audited and disclosed. Quite the contrary: history shows that, in some countries at least, there were meticulously audited and transparent budgets. Indeed, it will be shown that the oil boom of 1973 was a turning point in budgetary transparency, as the large surpluses enabled governments to spend significantly on the public while at the same time allowing for them to appropriate public funds away from public accountability and security and towards private ends.

The 'Privy Purse': Then and Now

Bahrain as the Founding Case

To understand the history of state budgets in the GCC, we need to go back in history to the 1920s, with Bahrain as the first testing ground. The government of the island began implementing a fully documented and independently audited budget and final accounts during this decade, a product of the colonial state-building enterprise that was undertaken by the British starting from 1923. By deposing the then ruler and instating his son, as well as installing a British 'advisor' who in effect became Bahrain's first prime minister for more than 30 years until 1957, the British initiated a series of so-called reforms to establish a modern state bureaucracy in the country. An essential part of this was an audited budget along modern lines. The budget was prepared by Charles Belgrave, the infamous 'advisor', along with his team in the Finance Department. It was independently audited by Messrs. Whitney Murray & Co., Baghdad, chartered accountants.[23]

This of course does not mean that these audits and budgets were readily provided for all the public to participate in and critique. Far from it: the state structure was authoritarian and top-down in nature. However, for the limited parties that it was distributed to, the *Bahrain Annual Report* did include meticulous accounts, including any deviations in numbers and explanations for increases or decreases in revenues and expenditures. This was not done out of benevolence. The British had staked their claim to increased meddling in local affairs on the basis of their ability to introduce state reforms and so-called economic 'development'. Having a well-oiled (pun intended) functioning bureaucracy was to their mind an important part of the package.

The situation was different in the rest of what would become the GCC. Indeed, before oil was discovered, the British had limited interest in intervening in the running of local affairs outside of Bahrain (and Oman to a lesser extent). Hence, the (meagre) finances of the state at that point, which primarily came from customs on imports (and Hajj in Saudi Arabia), were in effect the finances of the ruler, and it fell to him to

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23 'Government of Bahrain Annual Report for the Year 1356 (March 1937–February 1938)', *Government of Bahrain*. Available at www.qdl.qa/en/archive/81055/vdc_100024140826.0x000084 (accessed 14 February 2017).

utilise and distribute as he saw fit what was in effect his own personal budget. As is well known, the advent of oil revenues marked a watershed in the region as a whole, changing the politics and economics of the region tremendously. We will limit our discussion here, however, to the effects of oil revenues on the budgeting and auditing of state finances.

Given that it was the first place where oil was discovered in 1932, Bahrain was again the laboratory for the distribution of oil revenues, which would set the precedent for the rest of the Gulf states. The agreement that was reached between the British colonial administrators, the oil companies and the local ruler was that one third of oil revenues were to be directed towards the 'privy purse' of the ruler as his personal share of the oil revenue, which he could distribute as he saw fit. Another third would be used to finance the annual state budget expenditure, and the final third would be invested in a reserve fund. These different shares were officially recorded and presented in the annual budgets and their closing accounts at the end of each year. Thus, in effect, the royal family was receiving annually the equivalent of the rest of the state's annual expenditure for that year.

In the following part of the paper, we will rely heavily on quoting British colonial officials to relay their viewpoints on the allocations of state budgets and their expenditure during the periods in question. The reader should be forewarned, however, about the orientalist and colonialist gaze present in the discourse, which was a prevalent feature amongst colonial officials in the Gulf, just as was the case in colonial administrations in other parts of the world. We have opted to present the quotations verbatim, however, in order to narrate the story, as well as shed light on the discourses and views of the different British colonial administrators at that time period.

Thus, the advisor Charles Belgrave wrote regarding the 'privy purse' budgetary allocations in Bahrain in the year 1950:

> This type of expenditure is from our Western standpoint open to criticism […] We need not grudge the ruler the increase in his privy purse, and he is perhaps wise to be generous to his relations as in the primitive and patriarchal conditions prevailing in the Gulf Shaikhdoms, discontented members of the ruling families are always the main potential source of political trouble.[24]

Indeed, the British Political Resident in the Gulf, Sir Rupert Hay, at the time echoes a similar sentiment:

> Although a Ruler may have little trouble with his people, his relations are often a thorn in his flesh. There may be a few who are of real assistance to him, but the rest may be divided into two classes, those who want both money and power and those who want only money […] The latter class is far more numerous. There are a multitude of shaikhs who refused to do any work and some of them lead debauched lives. They clamour continuously for increased allowances and make a Ruler's life a burden to him. He finds it difficult to resist their appeals.[25]

[24] British National Archives: FO 371/91299.

[25] Ali Khalifa Al-Kuwari, 'Oil Revenue of the Arabian Gulf Emirates: Patterns of Allocation and Impact on Economic Development,' (doctoral dissertation, Durham University, 1974), p. 209.

The practice that the British colonial administrators, the oil companies and the ruler developed regarding what the British called the 'privy purse' distribution in Bahrain set a precedent for the rest of the Gulf emirates under British colonial rule, particularly in terms of personal allocations from the oil revenues for the rulers and their families.[26]

Budgets in Qatar, Oman and the UAE

As oil started to be exported from Qatar in 1949, the British forced the ruler to 'step down' for his son to take over. Simultaneously, the British appointed a political agent to Qatar and sent an advisor to the ruler in 1950, to oversee developing a modern bureaucracy, organise budgetary allocations and put together a development plan for the country, using Bahrain as a model. This was noteworthy, since in prior decades the British did not even have a political agent in Qatar; oil revenues obviously changed these considerations significantly. Furthermore, this was the period which witnessed the flowering of the discourse and focus on economic development, as the obsession with the material improvement of 'developing countries' became a central concern of Western countries and institutions.[27]

The British, however, found the going much tougher in Qatar, as they were never able to establish as complete a dominance in internal affairs as they did in Bahrain. Indeed, the squabbles over allocations of the oil revenues were much more intense, and the British faced much more significant pushback from members of the royal family in terms of their personal allocations. In the year 1950/51, for example, which was the first year a proper budget was produced, out of a budgeted expenditure of 70 lakhs, no less than 30 lakhs were allocated to the royal family.[28] By 1959, allocations to the royal family had exceeded 50 percent of oil revenues, and the advisor, although able to set up the rudiments of a government bureaucracy, ended up leaving, feeling largely defeated.[29] Indeed the internal squabbles between the British and royal family members, coupled with increasing public resentment as well as the inability of the oil revenues to cover the increasing rising expenditure, led to a settlement between the ruling family members and the British, upon which a new ruler took over in 1961, and it was agreed that royal allocations would not exceed 50 percent of oil revenues.

In Oman and the UAE, oil was not discovered until the mid-1960s. Thus, in Oman, as was the case in the rest of the Gulf countries before the arrival of oil, import taxes continued to be the main source of revenue, which were handled by a director of general customs from the Indian subcontinent. Unlike the other Gulf states, however, Oman did not have a large, dispersed and powerful royal family, with most of the power instead being concentrated solely in the hands of the sultan.

26 Ali Khalifa Al-Kuwari, *Lycium Barbarum: Biography and Memories* [Al-Awsaj: Seerah wa Thekrayat] (Beirut: Difaf, 2015), pp. 37–8, 104.

27 For more see A. Escobar, *Encountering Development: The Making and Unmaking of the Third World* (Princeton: Princeton University Press, 2011).

28 British National Archives: FO 371/91297.

29 Al-Kuwari, *Lycium Barbarum* [Al-Awsaj], p. 117.

In the midst of the aforementioned infatuation with development that overtook the Western institutions after World War II, the British sent an economic expert to review the state of the Omani economy in 1951. Regarding the budget, he commented that this was 'a state where the administration is still rudimentary, and where the practice of the last three years has been to keep the Sultan's revenues a closely guarded secret'. There were no receipts or breakdown of the source of revenues, which lagged far behind those of other areas in the Gulf in terms of size, as Muscat's economic powers had diminished considerably by then.

The report made clear how financial decisions were made:

> The standstill policy from which the whole administration is suffering is dictated by the Sultan. He is conservative by temperament and haunted by the memory of bankruptcy in his father's days. He refuses to delegate authority, and prolonged absences at Salalah remove him from the administrative scene. American missionaries, who have known him from his boyhood allege that he wishes his people to remain backward, convinced that education brought about the end of British rule in India. Progress, anyhow, is alien to the tradition of the interior and the Sultan may argue that there is no chance of regaining his hold over the followers of the Imam if he indulges in modern experiment.[30]

On the Dhofar region, the report added that 'this province is treated by the Sultan as a private estate and its revenue and expenditure are to the best of my belief dealt with entirely separately from the State's ordinary finances.'

Indeed, this was one of the main reasons that by the mid-1960s, Dhofar was ground zero for a revolution that shook the fundamentals of rule in the Sultanate and indeed the whole Gulf. By 1970, the British colonial administrators in Oman decided to stage a coup that overthrew the previous ruler and installed in his place his son, Qaboos, who continues to rule until this day.[31] Concerned at the rising success of the insurgency, the British felt that the ruler's conservatism and lack of an economic development plan were a major hindrance, and that they needed to embark on a strategy that involved a modernisation of governmental bureaucracy and services, a familiar theme, as we have seen and will continue to see.

This did not mean that budgetary woes were over under the new sultan. In 1971, 20 percent of the budget was spent on palaces, not counting the new ruler's travel and other luxury items. In turn, 40 percent of state revenue went on military expenditure, primarily against the Dhofari revolution.[32] This rose further in 1972, as out of a budget of 50 million Omani rials, military expenditure took 30 million. Indeed, between the personal spending of the sultan and the military requirements to counter the revolution, matters

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30 British National Archives: FO 371/91297. Letter from British Residency, 28 March 1951, 'The economy of Muscat in 1951'.

31 Abdel Razzaq Takriti, *Monsoon Revolution: Republicans, Sultans, and Empires in Oman, 1965–1976* (Oxford: Oxford University Press, 2013), p. 187.

32 Ibid., p. 218.

had reached such a critical point in that year that the country's finances were only bailed out by two sizeable grants from Saudi Arabia and Abu Dhabi, as foreign transfers from and between Gulf countries became a regular occurrence.[33]

In Dubai too, oil was not discovered until 1966. However, the situation of the economy was very different from that witnessed in Muscat. To illustrate, we return to the comments of the British colonial officials, once again asking to be excused for the orientalist discourse of the colonial gaze present in them:

> The Arabian Nights atmosphere which prevails there is remarkable. Without any regular police the bazaar is clean and well-kept and there is almost complete security […] The entire economy of Dubai depends on the volume of her imports, and it is essential to discover the causes which account for the remarkable prosperity of the moment […] The character of Dubai is, by modern standards, approaching that of a free port […] The Sheikhdom is administered on purely oriental lines and authentic figures are not available […] The son of the ruler draws whatever amounts are needed from the customs director by means of informal requests inscribed on scraps of paper.

Across the Gulf, the lack of meticulously documented fiscal accounts was a common feature before the advent of modern bureaucracies, and the running of fiscal affairs during those times followed similar lines:

> In the course of the conversation the Shaikh affected not to know the amount of his revenue […] This oriental attitude of the ruler towards his finances is incomprehensible until one visits Dubai and sees how the system works. The Shaikh and his son probably know approximately what the revenues are but do not desire to be informed in detail: it is the job of the Customs officer to pay the Shaikh whatever sum is needed and this function is being fulfilled. Western methods would entail some clear separation of the public budget from the privy purse, and with the examples of Bahrain and Qatar before him the Shaikh of Dubai would not un-naturally prefer the status quo.[34]

The situation in Abu Dhabi was markedly different from that in Dubai, and indeed was closer to the situation in Oman. Oil was not discovered until 1966, which also proved a tumultuous year for another reason. The British were once again under the impression that urgent economic development was needed, and they believed that they faced with the ruler Sheikh Shakhbut a similar situation to the one they faced in Oman. They perceived him as being archaic, erratic and too tight with money, and thus not spending the money necessary on internal development. Oil revenues went to the ruler personally, and he distributed them as he saw fit: 'He regards himself as absolute master within his own domains, responsible to none and answerable to none. On internal affairs he is the only arbiter and will accept advice from none.'[35] Finally, internal anger within the ruling family,

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33 Ibid., ch. 10.

34 British National Archives: FO 371/91297. Letter from British Residency, 28 June 1951.

35 British National Archives: FO 1016/737.

coupled with British dissatisfaction with his rule, led to the ruler's deposition and his exile to Khorramshahr in Iran in early August 1966. He was replaced by his brother, the young and charismatic Sheikh Zayed, who led the economic boom of the emirate and the UAE over the next quarter of a century.

Thus, between 1923 and 1970, the British forcibly deposed four rulers (Bahrain in 1923, Sharjah in 1965, Abu Dhabi in 1966 and Oman in 1970) and arranged for the forced 'resignation' of two more (Qatar in 1949 and 1960). Three of the palace coups occurred in the southern Gulf (the UAE and Oman) within five years. In all cases, the reason from a British point of view was the irrationality and instability of the mode of rule under the *ancien régime* in an era that they believed should be geared towards development and modernisation. Thus, internal rule had to be reorganised, and budgetary reforms were a central plank of this drive.

Once oil revenues started flowing in all the cases discussed above, a significant proportion would be directed towards social services, and it would be inaccurate to ignore the increases in health, education, infrastructural, housing and other services that these revenues facilitated in the Gulf countries over the latter half of the twentieth century. However, given the focus of this paper, it would also be inaccurate to deny that significant proportions of the oil revenues went towards private allocations for the ruler and the royal family. Thus, in the case of Bahrain, 32.3 percent of total oil revenues went to the ruling family in 1947/48 and 1970, in Abu Dhabi 25.0 percent between 1967 and 1970, and in Qatar 35.1 percent between 1953 and 1970, complemented by a further 6.6 percent for land purchases, which in large part went to high-ranking individuals from the royal family who were the primary beneficiaries of the enclosures of large plots of previously unowned land.[36]

The History of Budgets in Saudi Arabia

Saudi Arabia was a different story from the rest of the GCC countries, as it was unique in the Gulf, and indeed the Arab world, in that the ruling regime and its heartland central province of Najd were never subjected to direct colonialism by the British or any other Western imperial force.[37] As with the rest of the Gulf countries, however, the export of oil in commercial quantities after World War II had a remarkable impact on public revenues. For the first few years, there was barely an administrative bureaucracy, and the distribution of funds was largely at the discretion of the ruler, as was witnessed in other places before British interference. The year 1957 proved to be fateful, however, and this time the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD, which would later become the World Bank) played the role of advising on development that the British advisors played elsewhere in the Gulf.

[36] Al-Kuwari, *Oil Revenue*, p. 186.

[37] The treaty of Darin was signed with the British in 1915, but was as much a defensive arrangement by the British to limit the expansion of Ibn Saud as it was supposed to be a protection treaty.

Once again, we leave it to the British Embassy in Saudi Arabia to narrate the events in 1958:[38]

> Despite the apparent progress during the past years, Saudi Arabia is now beset by an economic and exchange crisis. The factors behind the present difficulties are not far to seek. The expenditure incurred during recent years by the Saudi Government and, in particular, by the Ruling Family, was geared to maximum oil production and often exceeded the revenue from oil. The economy was therefore ill equipped to meet the recession which followed the Suez crisis when, as a gesture to Arab solidarity, King Saud cut the supply of oil to Bahrain, which represented one-fifth of the total Aramco production; the sales of oil to other markets were also curtailed by the shortage of tankers during the 'post Suez' period. Official reserves of exchange were further depleted by the flight of the Saudi silver rial which then provided the main backing of the paper issue.

In early 1957, the situation had become so grave that import restrictions were introduced. The value of the rial decreased from 100 rials = 125 rupees to 100 rials = 82 rupees. The result of the depreciation of the currency was a shortage of luxury goods, and later, of essentials such as food. The cost of living rose significantly, reaching 35 to 40 percent above the level of October 1956.

The British Embassy report continues:

> Scandals regarding the administration of funds and the allocation of exchange by officials of the Saudi Monetary Agency also reached the ears of King Saud […] [He] was persuaded to invite Dr. Ahmed Zaki Saʿad of the I.B.R.D. and the International Monetary Fund, as a consultant […] Saʿad had a long interview with the King, during which he pointed out, in no uncertain terms, the danger of continuing the present rate of unrestrained and extravagant expenditure by both the Government and the Ruling Family. It is said, from a reliable source, that Saʿad told King Saud that if he wished to emulate King Farouk, he could not do better than continue his present policy.
>
> During his review of Saudi finances, Saʿad informed King Saud that the Government debt was in excess of U.S. $ 700 million (a sum which is equivalent to two years' revenue) […] Saʿad stressed that the was in danger and that retrenchment was now a matter of great urgency.

The reforms that were introduced sowed the seeds for the modern monetary system of the Gulf that was eventually adopted by other GCC countries as well: a fully covered currency with a fixed exchange rate, with some attempts at balanced budgets and management of oil expenditures and revenues. From that year onwards and until the oil boom of the 1970s, Saudi Arabia put together published budgets which – at least when compared to those publicly published in 2015 – were relatively detailed, and which provide a glimpse into the different allocations of public finances. Regarding the budget for the year 1960/61, for example, which was a relative austerity budget after the previously men-

[38] British National Archives: FO 371/133156.

tioned financial crises, the British Embassy said the following:[39] 'The 55 million dollars allocated to "King and Royal Family" represents 14.4 percent of total expenditure – more than that devoted to projects described as "economic development", but less than that devoted to religious purposes.' This, it should be remembered, was a budget in which the then prime minister Prince Faisal severely cut royal allowances, by up to one half according to British estimates. Indeed, the future king built a reputation as being a generally austere person who significantly curtailed, although as we have seen not completely eliminated, the substantial personal allocations to members of the royal family.

This continued for the next decade for which data was still available. For example, in the budget of 1971/72, by which time Faisal was king, out of a total budget of 10.782 billion Saudi rials only 173.1 million Saudi rials (1.6 percent) was allocated to the private treasury. However, the Ministry of Defence and its branches was allocated 2.347 billion Saudi rials (23.5 percent), more than three times the allocation for education and ten times that for health. In the previous year's budget of 6.380 billion Saudi rials, defence actually took up 28.5 percent, and the private allocation, which was unchanged in nominal terms, took up 2.7 percent. In both of these years, approximately 10 percent of revenues were allocated to payments to Egypt and Jordan in the wake of the Khartoum agreement after the 1967 defeat against Israel.[40] Thus, the three categories of royal allocations, defence budgets and foreign transfers took up more than 40 percent of the budget for that year.

The Unique Case of Kuwait

As previously mentioned, Kuwait embarked on a unique path, different from those of the other countries in terms of its budgetary transparency and independence. This does not mean that these countries did not all face similar conditions. Indeed, the British also tried to install advisors and control the budgetary and development process in Kuwait. Hence, a colonial ex-military figure, Major General William Hasted, was brought in to oversee the 'Development Department', while G. C. L. Crichton was brought in as a financial controller at the beginning of the 1950s as oil revenues boomed tremendously. However, as the political agent would admit, the British were never able to establish full control, as the then-emir Sheikh Abdullah Al-Salim refused to appoint an overarching British advisor, and instead resorted to giving senior posts to other members of the ruling family, local notables and Arab advisors, such as Izzat Jaafar and Majd-Udeen Jabri, the ex-Syrian minister, in manoeuvres designed to ensure a relative balance of power and independence from the British. Hence, the British colonial officials faced a much more contested field, and they quickly resigned themselves to being on the margin.

Kuwait was the first country after Saudi Arabia to gain independence, in 1961. As was intimated previously, Kuwait developed the strongest laws in terms of budgetary independence and transparency. Hence, the audit bureau was placed under the parliament in the constitution of 1962, and the audited accounts were made public.[41]

[39] British National Archives: FO 371/157011.

[40] British National Archives: FCO 8/1743 Saudi Budget. Letter from the Embassy.

[41] The periods 1976–80 and 1986–90 were exceptions when parliament was suspended.

In terms of royal allocations of budgets, these were fixed at certain amounts instead of percentages, and indeed the allocated sums fluctuated over time. Hence, in 1963/64, the amount allocated to the emir was 10 million Kuwaiti dinars, which was then decreased to 8 million in 1970/71. As a percentage of total oil revenues, this decreased from 5.2 percent to 2.6 percent.[42] As a comparison, the percentage stood at 11 percent in 1950.[43] Over time, the absolute numbers were subsequently increased, reaching 50 million Kuwaiti dinars in 2006 as we have seen, but they continued to constitute a smaller percentage of the overall budget compared to other Gulf countries.

However, there were other, indirect manners in which oil revenues were distributed to influential private individuals in Kuwait. Chief amongst these were land purchases by the government; although these benefitted individual citizens as well, the vast majority went towards influential individuals, composed mainly of senior royal family members and merchants. Thus, while royal allocations in Kuwait from 1952 to 1970 made up 2.7 percent of oil revenues, land purchases gobbled up 20.6 percent of the same revenues.[44]

The 1970s Oil Boom and Subsequent Budgetary Opacity

Bahrain had a chance to follow the Kuwaiti model of a partially elected parliament when it gained independence with the remainder of the GCC countries in 1971. Significant local opposition and sickness forced Belgrave, the advisor, to depart in 1957, after which there was a lull and confusion in the governmental bureaucracy, given that it was modelled on him being the overlord who oversaw the whole administration. This lull was reflected in a deterioration in the public accounts of the budget. Thus, after 1959, the budgets no longer showed all revenue received by the state or its allocations, and only showed two thirds of the revenue, leaving out the third allocated to the ruler.

By the mid-1960s, the brother of the new emir had risen to establish himself as the new chief executive, a role he continued to play as the prime minister after independence, a position he still holds today. However, the budget continued to be opaque and to lack transparency. Thus, when the Abu Safah field was discovered in 1966 and its revenues were jointly shared with Saudi Arabia, eventually becoming the largest source of oil revenues for Bahrain, its accounts did not appear in the budgets of the government. Instead, the revenues were directly allocated to the privy purse of the ruler, in addition to the third of the previous oil revenues from the onshore fields.[45] The British Gulf Resident had the following to say on the 1966 budget:[46]

> As is usually the case with official documents prepared by the Bahrain Government, one is left with a feeling of anti-climax on reading through the Budget. For something preluded, as this was, by so much inter-departmental lobbying, so

[42] Al-Kuwari, *Oil Revenue*, p. 210.
[43] British National Archives: FO 371/91297.
[44] Al-Kuwari, *Oil Revenue*, p. 186.
[45] Ibid., p. 111.
[46] British National Archives: FO 371/185338.

> many personal intrigues and such frequent agonies of doubt, it is notable only for its similarity with previous Budgets: i.e. its layout is the same, its lack of detail is the same, its inaccuracy is the same and, with few exceptions, its expectations and distribution of revenue are the same. Indeed, what is presented and the manner of its presentation, serves as a striking example of the administrative malaise that is at the heart of so many of Bahrain's problems. It is perhaps as well for the Bahrain Government's reputation that the budget is never published.

By the time of independence, and after significant local pressure and opposition, there was a push by the British to nudge the local rulers towards establishing some semblance of parliamentary constitutional rule. A constitution was adopted in 1973, largely modelled on Kuwait's 1962 constitution, which similarly placed the public audit bureau under the majority-elected parliament. The parliament entered into a heated confrontation with the government in 1973 regarding the emir's allocations from oil revenues, with several secret sessions of the assembly held on the matter. An agreement was not reached until the last working session of the assembly, upon which the emir's allocation was set at 6 million Bahraini dinars, a significant reduction percentage-wise in the ruler's income to less than 10 percent of oil revenues.[47]

This situation did not last long, however. Arguments between the parliament and the government over the renewal of the military base contract with the American navy, as well as over the controversial new security law, coupled with the rising oil revenues from the 1973 oil boom, gave the government the confidence to dissolve the parliament, suspend the constitution, declare a state of emergency, and end the experiment with democracy in Bahrain for the next twenty-five years. With it also ended the practice of independently audited and publicly published government accounts, and consequently any information on private allocations.

Indeed, although unprecedented amounts of revenue poured into the Gulf states with the oil boom of the 1970s, that period also signalled the end of publicly available and independently audited governmental accounts of revenues and expenditures in all of the countries, with the exception of Kuwait. Never again would there be full disclosure and auditing of all oil revenues and their expenditures.

As oil incomes and states' budgetary needs grew tremendously over the subsequent decades, other channels appeared that allowed for appropriations and enrichment. Particularly, the power of having high-ranking positions in government, or using royal privileges in land dealing and other business activities, grew markedly with the growth in the budgets and economy.[48] Hence, direct appropriations from the privy purse have been complemented by senior figures appropriating institutional 'fiefdoms' (ministries, foundations), whose publicly funded budgets allowed for the build-up of riches and influence

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47 Al-Kuwari, *Oil Revenue*, p. 210.

48 For a more detailed study on Bahrain, see Omar Hesham AlShehabi and Saleh Suroor, 'Unpacking "Accumulation By Dispossession", "Fictitious Commodification", and "Fictitious Capital Formation": Tracing the Dynamics of Bahrain's Land Reclamation', *Antipode* 48/4 (2016), pp. 835–56.

for those who controlled such ministries. Indeed, it is very possible that the share of direct royal allowances in budgets has declined, even if they have grown in absolute terms, across the decades, while the use of these other channels for enrichment has increased. The lack of detailed data in this respect, however, makes any hard conclusions nearly impossible to reach.

So How Much?

The secrecies and vagueness regarding the allocations of public oil revenues continue until today. The question remains, however: is there a way to gain at least an approximate measure of the gap between published and actual numbers? Thus, can one show numerically that there is indeed a gap, regardless of the exact size of it?

Although this is by nature a difficult task that is shrouded in inaccuracies, there have been previous attempts to show that there is a gap and indeed to quantify it, while also being mindful that given the nature of the problem, any estimates would obviously be nearly impossible to verify. Probably the most serious attempt has been made by Qatari researcher Dr Ali Al-Kuwari, as he attempted to quantify declared vs. actual oil revenues that accumulated from the oil boom in the first decade of the twenty-first century for a selected sample of years.[49] The method was simple yet revealing: all GCC countries provide official overall figures for central government revenues, whether they are provided directly through their respective ministries of finance, or through official IMF Article IV reports. In contrast, the Institute of International Finance (IIF), which describes itself as 'the global association of the financial industry', provides one of the most trusted figures on the revenues from oil exports in the GCC countries, relying on its knowledge of the financial channels and networks globally through which such oil revenues would have to flow in one form or another.

Now the two variables – revenues from oil exports vs. central government oil revenues – obviously do not match directly. Indeed, central government revenues from oil should theoretically exceed those of oil exports, since they include local revenues from selling oil as well. The latter, however, should be quite small, since the price of oil was significantly subsidised locally until the beginning of 2016.[50] Hence, Al-Kuwari compared the two figures – that based on officially published numbers for central government revenues vs. IIF estimates – for oil exports from each country for five years, from 2002 to 2006.

In what follows,[51] we repeated the simple exercise of comparing IIF data for oil export

49 Ali Khalifa Al-Kuwari, *The Third Oil boom and the Repercussions of the Global Financial Crisis* [Al-Tafra Al-Neftiyya Al-Thaletha wa en'ekasat al-Maleyya al-Alameyya] (Beirut: Centre for Arab Unity Studies, 2009).

50 Comprehensive calculations would also have to subtract oil costs of production in each country – which although low are not insignificant – from their export revenues for a more complete comparison.

51 For more details see the original calculations in AlShehabi, *AlKhaleej Bayna AlThabet wal Mutahawwel* [The Gulf between Stability and Change].

revenues with publicly declared central government revenues from oil, but we expanded the data set to ten years, to include 2002 to 2011. Once again, we must stress that caution should be applied to the figures, as they are not supposed to reflect the gap accurately, but show that there is a gap that necessitates explaining.

What we notice is that in the case of Kuwait, which provides comprehensive audited final accounts audited by an independent audit bureau under the jurisdiction of the elected national assembly, we find that the publicly declared central government revenues modestly exceed the value of oil export revenues. This makes sense, since the difference could be attributed to revenues raised by the state from selling (heavily subsidised) oil locally.

In contrast, in the rest of the GCC, instead of declared oil revenues exceeding the value of oil exports, we find that the value of oil exports is significantly higher (Tables 1 and 2).

Table 1. Total Value of Oil and Gas Exports According to the IIF, 2002–2011 (USD Billion)

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
UAE	23.2	29.6	38.4	55.1	70.1	84.4	102.9	68.2	85.8	130.7	**688.4**
Bahrain	3.9	4.7	5.6	7.8	9.0	10.8	13.8	8.9	11.5	16.3	**92.3**
Saudi Arabia	63.7	82.1	110.9	161.8	188.5	206.4	281.0	163.3	215.2	324.5	**1797.4**
Oman	8.6	9.3	10.8	15.7	17.5	18.7	28.7	18.1	25.2	34.6	**187.2**
Qatar	9.9	12.1	16.3	22.9	31.2	40.7	63.3	43.8	65.9	108.3	**414.4**
Kuwait	14.1	19.6	27.8	44.1	53.2	59.0	82.6	48.9	61.8	94.9	**506.0**
Total	**123.4**	**157.4**	**209.8**	**307.4**	**369.5**	**420.0**	**572.3**	**351.2**	**465.4**	**709.3**	**3685.7**

Table 2. Total Officially Declared Public Oil and Gas Revenues, 2002–2011 (USD Billion)

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
UAE	15.0	20.5	27.0	41.9	59.0	63.2	98.2	47.4	63.8	98.8	**534.7**
Bahrain	1.8	2.2	2.5	3.3	3.7	4.3	6.0	3.7	4.9	6.5	**39.0**
Saudi Arabia	44.3	61.6	88.0	134.5	161.2	149.9	262.2	115.8	178.7	275.8	**1472.2**
Oman	6.0	6.3	8.3	9.4	10.1	11.8	15.8	13.7	16.8	28.5	**126.8**
Qatar	5.0	5.4	10.0	12.7	15.2	19.4	22.0	22.7	26.6	42.1	**181.2**
Kuwait	19.0	21.0	28.2	44.7	50.0	61.1	68.0	57.2	68.8	95.2	**513.1**
Total	**91.1**	**117.0**	**163.9**	**246.5**	**299.3**	**309.8**	**472.2**	**260.7**	**359.6**	**546.9**	**2867.0**

The Mystery of Abu Safah in Bahrain

The case of Bahrain requires a further note. This is because the vast majority of Bahrain's oil revenues come from the Abu Safah field, which is shared with Saudi Arabia. The official accounts of Bahrain state that the revenue of 150,000 barrels per day accrues to Bahrain from the field, while Saudi Arabia for its part is supposed to receive the same amount. However, the case of the exact deal that is implemented in practice with regard to Abu Safah is unknown, and it has been the case historically that revenues from this field were not included in the official public budget. Furthermore, Bahrain derives significant revenue from refining oil imported from Saudi Arabia and then re-exporting it, thus making the calculations of revenues in the case of Bahrain significantly more opaque.

Given the aforementioned reasons, we have excluded the values for Bahrain from the following calculations of totals across the Gulf countries (Tables 3 and 4). We have also excluded Kuwait, since as we have previously seen, central government oil revenues exceed the value of oil exports. If we focus instead on the other four countries, we find that the difference between the value of oil and gas exports and the value of publicly declared central government oil and gas revenues exceeds $772 billion in the period from 2002 to 2011; this constitutes more than a quarter of the total value of oil and gas exports.

Table 3. Percentage Difference Between Value of Oil Exports and Declared Public Oil Revenues, 2002–2011

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
UAE	35%	31%	2%	24%	16%	25%	5%	30%	26%	24%	**22%**
Saudi Arabia	30%	25%	21%	17%	14%	27%	7%	29%	17%	15%	**18%**
Oman	30%	32%	23%	40%	42%	37%	45%	24%	33%	17%	**32%**
Qatar	50%	55%	39%	44%	51%	52%	65%	48%	60%	61%	**56%**
Kuwait	-35%	-7%	-1%	-1%	6%	-4%	18%	-17%	-11%	0%	**-1%**
Total (excluding Bahrain and Kuwait)	**33%**	**30%**	**24%**	**22%**	**20%**	**30%**	**16%**	**32%**	**27%**	**26%**	**26%**

Table 4. Total Difference Between Value of Oil Exports and Declared Public Oil Revenues, 2002–2011 (USD Billion)

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
UAE	8.2	9.1	11.4	13.2	11.1	21.2	4.7	20.8	22.0	31.9	**153.7**
Saudi Arabia	19.4	20.5	22.9	27.3	27.3	56.5	18.8	47.5	36.5	48.7	**325.2**
Oman	2.6	3.0	2.5	6.3	7.4	6.9	12.9	4.3	8.4	6.0	**60.4**
Qatar	4.9	6.7	6.3	10.2	16.0	21.3	41.3	21.1	39.3	66.2	**233.2**
Kuwait	-4.9	-1.4	-0.4	-0.6	3.2	-2.1	14.6	-8.3	-7.0	-0.3	**-7.1**
Total (excluding Bahrain and Kuwait)	**35.1**	**39.3**	**43.2**	**57.0**	**61.8**	**105.8**	**77.7**	**93.6**	**106.2**	**152.8**	**772.5**

Once again, our aim here is not to provide precise figures for the size of the gap, and these figures should be taken with a mountain of salt. Our aim, rather, is to show that there is a huge lack of transparency regarding public oil revenues, and that there is a significant gap between officially declared numbers for public oil revenues and the values for oil exports – whatever this gap happens to be – and that this gap requires pause for thought and explanation.

Although these figures seem vast, and indeed they are vast percentage-wise (26 percent), they are not too far off, and indeed are actually lower than, the amount the royal families have historically taken as private allocations. As we have seen, this reached more than 50 percent in some countries at certain periods. When this is coupled with the fact that there are significant bodies with unpublished budgets, including the royal courts and the military, in conjunction with the structural lack of transparency in the auditing process, then such large figures might not seem so fantastical.

Conclusion

It is worth at this point restating the main conclusions of this paper:

1. As of 2017, only Kuwait has a transparent, accountable and independently audited budget, oil revenues included. The rest of the GCC countries do not have an independently and publicly accountable audited budget, with the spectrum ranging from no kind of public auditing at all to some form of public, but not independently audited, budgets.

2. This was not historically the case, as there were cases of independently audited budgets with significantly more transparency in the not too distant past prior to the 1970s oil boom. The large surpluses generated during the boom allowed governments to increase public expenditure while also decreasing budgetary accountability, independence and transparency. Hence, there has been a significant decrease in all three factors since the 1970s oil boom.

3. With the exception of Kuwait, there is strong evidence to suggest that there are significant amounts of undeclared budget revenues, which go either into private hands or into secretive government transactions. These are mainly concentrated in foreign transfers, military expenditure and private royal allocations.

The year 2016 gave rise to intense discussions regarding the sustainability of GCC state budgets in the wake of falling oil prices, and there were strong statements by the governments themselves regarding the need for drastic reform if these budgets were to remain viable. This paper aims to add to the debate by emphasising that the most obvious area to start reform should be in the transparency, accountability and independence of these state budgets themselves. Indirect allusions to such questions have started surfacing within society and even among concerned public officials. For example, there has been much official fanfare regarding the proposed privatisation of Aramco in Saudi Arabia's Vision 2030, with one of the main benefits of privatisation being touted as the possible increased transparency in the company's financial figures.[52] Such justification seems to be a red herring, however, and is akin to arguing that if one is concerned with increasing the market demand for steel, then one should advocate for the legalisation of firearm sales. If transparency is indeed the main target, it seems that it would make much more sense and be much easier to target transparency directly, by creating, for example, an independent and accountable auditing body that oversees the oil company's and government's accounts, as is the case in Kuwait, Norway and many other countries around the world. Indeed, it seems that oversight of state budgets, including their expenditures and revenues, is the area that is in dire need of transparency, independence and accountability, rather than focusing the blame solely on the oil companies, which are usually the most

[52] Haytham Tabesh, 'Aramco's IPO a Test of Saudi Transparency', *MENASource*, 22 January 2016. Available at www.atlanticcouncil.org/blogs/menasource/aramco-s-ipo-a-test-of-saudi-transparency (accessed 20 December 2016).

efficiently run companies in the GCC countries.[53] Official talk regarding such oversight of states' budgets, however, has yet to be heard within the GCC.

What are the total oil revenues in each state? How is each and every dollar of these revenues allocated? And how can we ensure that an independent, trustworthy and accountable institution audits them and provides the numbers transparently to the public? These are the questions surrounding the GCC's budgets that have become urgent. If citizens are to be forced to undergo a period of austerity and a reduction of subsidies on water, electricity and petrol, and indeed even the introduction of taxes, then it seems only fair that they should have the opportunity to see transparently how much money there is, and how this money is spent. This would be an important first step down the path of citizens eventually leading the process of controlling these oil revenues and how they are spent, and indeed all other facets and institutions of public and civic life in the GCC states.

[53] Steffen Hertog, 'The One Thing in Saudi Arabia that Works Well Is Under Threat', *Reuters*, 3 February 2016. Available at http://blogs.reuters.com/great-debate/2016/02/03/the-one-thing-in-saudi-arabia-that-works-well-is-under-threat (accessed 20 December 2016).

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