

Financing Development Now and In the Future Implications for the Netherlands and Beyond

Executive Summary

2015 is a key year for development: new international goals on global poverty reduction and sustainable development are currently being negotiated. The proposed new Sustainable Development Goals (SDGs) and climate negotiations prompt a discussion of who should contribute—and how much—to counter the global challenges of today, such as inequality, climate change and food security. Financing development is discussed during the international Financing for Development summit in Addis Ababa in July 2015. It is crucial that sufficient public and private financial resources are made available, as without the necessary financial resources the new goals and agreements are themselves likely to be ‘dead in the water’. The success of the Financing for Development conference mainly depends upon the positions of national governments and the debates and public support within nations, as foreign policies are often framed based on national interests. This is also the case for donor countries such as the Netherlands, where the debate on the financing of development seems to be virtually absent. In order to better understand the current status of the (inter)national discussion on the financing of development and to assess its implications for the Netherlands, Kaleidos Research conducted a study that addresses the following three questions:

1. *What is the current state of the national and international discussion on the future of development financing and what are the main topics?*
2. *How do Dutch experts and public opinion view the main topics in the current international discussion on development financing and how do they differ?*
3. *What are the implications of the current (international and national) debate for the Dutch role in financing development and how can the Netherlands contribute to creating ‘future-proof’ international policies for development financing?*

With the paper, the authors aim to stimulate and nurture the discussion on the future of development financing. The findings are discussed below.

Development finance is more than ODA and a 0.7%-target, rigorous debate change needed

To place the financial flows to developing countries in perspective, this report uses the division of the UN Intergovernmental Committee of Experts on Sustainable Development Financing into four types of financing flows (see Figure 1.):

- Domestic public flows, the largest category comprising a.o. domestic tax collected
- Domestic private flows, in developing countries especially dominated by the banking sector
- International public flows, including Official Development Assistance (ODA)
- International private flows, such as remittances or Foreign Direct Investments

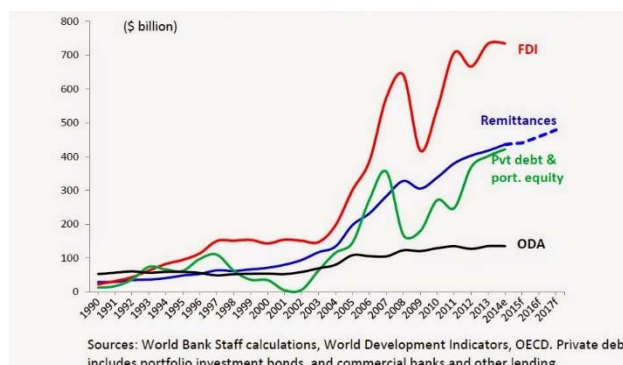


Figure 1.

Also more and more ‘innovative financial instruments’ are used, in which financial flows are combined. The 0.7% target of ODA is an important focal point of attention as this target has been the leading financial instrument for development over the past decades. The study finds that ODA is a small but precious form of finance, that can be used in a flexible manner and has a possible catalysing role to mobilize other forms of finance. Nevertheless,

as Figure 1 shows the relative importance of ODA is decreasing compared to other financial flows to developing countries. It is therefore insufficient to only focus on ODA as a means for development; many other factors contribute to development and those need to be addressed as well. In The Netherlands, the debate often focuses on the 0.7% target and on the role of cost effectiveness. This is diverting attention away from the five most important current issues in the international debate on development finance:

1. Poverty is caused by a complex combination of factors such as administrative capacity, fiscal and trade systems, security, climate, and health, which is questioning both the thematic as geographical goals of development finance. Policy coherence for development is needed.
2. The financial instruments around the formal ODA definition are no longer enough. The reality of much larger financing flows, such as domestic public resources, domestic private resources, and international private flows should be taken into account. Also innovative financing and instruments are needed to mobilize additional resources for development, via blending, financial transaction taxes, or air levies.
3. The donor community is far more diverse than in the 1970s, which now includes emerging economies such as Turkey, Brazil and China, large international philanthropic foundations, NGOs, the private sector, or even individual migrants via remittances. Also recipient countries demand a more country-particular development strategy with specific resources.
4. (Cost) effectiveness is widely considered as relevant but difficult to measure and focused on negative outcomes.
5. The (ODA) definition and 0.7% target is an input target rather than output oriented. While the precious dedicated definition is acknowledged the international (financial) commitment to the target is waning. Among experts there is support for a broader (2%) target focused on a society-wide financial commitment to solve global challenges that includes other developmentally relevant public and private expenses, such as foreign direct investments and certain forms of military spending. Such a broader target would be of additional value, combined with an ODA 'guarantee' of at least 0.25% GNI for the low income countries and fragile states. Further research is necessary to better estimate the required financial resources for global challenges and poverty reduction. In this way relevant targets are not only based on political compromise, but also have a solid scientific foundation.

Further reading: other reports in The Netherlands on Development Finance

In recent years, the Netherlands has seen the publication of various advisory reports about the future of development finance. The last time that development aid sparked wide-spread discussion in the Netherlands, was the publication of the report 'Less pretention, more ambition' by the Scientific Council for Government Policy (WRR) in 2010. This report was very influential and led to changes in the aid policies, such as an increased focus on economic development. In the follow-up to this debate and in the run-up to the international conferences of 2015, several Dutch reports were released, for instance by the scientific advisory council (AIV, 2015), joint ministries (Interdepartementaal Beleids Onderzoek, 2013) and knowledge institutions (e.g. ECDPM) that reconsider the current system of development finance.

Partos, the umbrella organization representing the Dutch development sector, and its German counterpart VENRO have produced an advisory report to support the discussion about financing for development (VENRO/Partos, 2014). The NGO sector has also been particularly more active in Policy coherence for development, e.g. by introducing a policy coherence 'monitor' (2015). All these reports, apart from the WRR report, do not really take into account the (absence of) links between the Dutch debate and the international debate. The reports are also not based on survey research. It is in this way that this report tries to bring added value to the debate from knowledge institutions and advisory councils in the Netherlands.

In recent years various advisory reports and studies on development finance have been published in The Netherlands (see above). Although some attention exists among (sustainable) development professionals, there is very little attention from politicians and society, possibly due to the technical nature of the topic. In any discussion about development cooperation, the emphasis is on short-term cost effectiveness or (not) reaching the 0.7% target. There appears to be no broader, long-term perspective according to the expert interviews. Little or no attention has been given to the financing of sustainable development by either the politicians or—to an even

greater extent— the media. The forthcoming Sustainable Development Goals (SDGs) seem to be shrouded in secrecy, if not apathy. As the experts point out, this is problematic as it seriously undermines the Dutch position of Financing for Development. Furthermore, it is worry some that long-term far reaching international agreements will affect Dutch society, are about to be made without much involvement of the people’s elected representatives. The survey research conducted for this study finds that Dutch citizens in general have a traditional outlook on the policy priorities in development finance (see box), mostly supporting expenditures on social issues such as health and education. While more global issues such as food security and climate change increasingly affect developing countries and require major investments, the traditional Dutch view on the spending priorities for development is not likely to change if there is no public or political debate in The Netherlands about development finance and 21st century challenges.

The Dutch citizens: opinions on development finance

The Dutch public holds a somewhat narrow view on development assistance. Considering the activities and expenditure of the Dutch government, the public favour an approach in which social development themes are dominant. Traditional policy themes such as health, food, water and emergency (disaster) relief should be top priorities. Relatively few acknowledge the link between poverty and the global issues: only 41 percent of the Dutch citizens agree that there is a direct relationship between poverty in the developing countries and global challenges such as climate change. Despite a narrow view on preferred activities and spending by the Dutch government (ODA), the public does acknowledge a more inclusive form of development assistance in general. Private sector companies, NGOs and private individuals can all make an effective contribution to poverty reduction. And given the choice, most would prefer the government to distribute its development assistance resources through the Dutch NGOs. Bilateral aid in which the government directly provide aid to partner governments is least favoured. According to the Dutch, it is important that (rich) countries make agreements on how much money they should spend on development assistance. They believe that a target will secure international solidarity and proportionality.

The Netherlands as a future frontrunner in Financing for Development

On the basis of expert interviews and literature review a SWOT analysis was conducted that identifies several strengths, weaknesses, opportunities and threats for The Netherlands (see below). In general the analysis shows that the Netherlands has the potential of being a front runner in contributing to a modernization of the financing of development as the Netherlands has not only a long standing history as a donor, but has recent experience and expertise in innovating development policies, for instance by leveraging means and knowledge in partnerships and by stimulating the private sector to contribute to development.

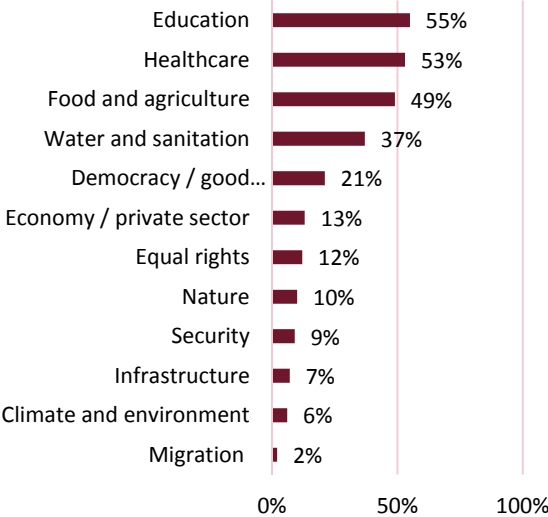


Figure 2 “What should be the priorities of Netherlands’ international development policy? You may select up to three themes.” (n=1002)

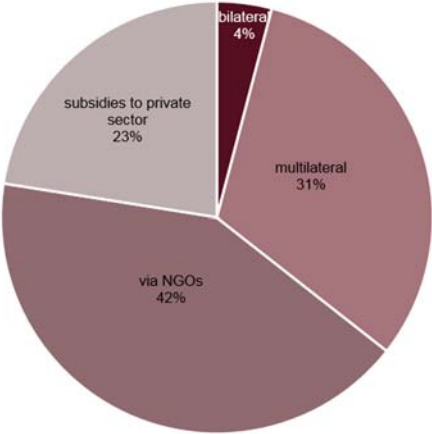


Figure 3: “Through which channel should the Dutch government distribute development assistance funding?” (Select 1) (n=1002)

Strengths

- History of 'good donorship' and adherence to the 0.7% target;
- Leadership role of Minister Ploumen;
- Relatively large donor;
- Front runner in the field of partnerships and in involving the private sector;
- Effective evaluation process.

Opportunities

- Combined portfolio: International Trade and Development Cooperation that could result in increased coherence;
- Prominent role in Global Partnership for Effective Development;
- Dutch Good Growth Fund
- Innovative financing instruments;
- Strong focus on least developed countries and fragile states;
- Combining poverty eradication and sustainable development;
- Potential positive role that the relatively large financial sector in the Netherlands could play for development and its financing.

Weaknesses

- Recipients still have little say in form and use of assistance;
- No political debate about future of development assistance or its financing;
- Existing debate dominated by effectiveness rather than aims.

Threats

- Dutch 'trade and aid' agenda is regarded as self-serving;
- European economic crisis;
- Failure to maintain 0.7% target has eroded the Netherlands' position in the donor discussion;
- The combined portfolio of aid and trade may have adverse local effects or overshadow those global challenges that provide little economic opportunities for donors, such as climate change and migration.

Three dimensions of future-proof FfD policies

The study identifies three different dimensions as prerequisites for a progressive Dutch approach to financing for development, now and in the future. These are a focus on *partnership, coherence, and solidarity*. Balancing these three dimensions would enable the Netherlands to take concrete steps that contribute to the realization of a successful and adequate international framework to finance poverty reduction and sustainable development:

The Netherlands has much to gain and much to offer in terms of the modernization of financing for development. In order to play such a role, a new Dutch narrative on development is needed; a narrative which is adapted to the 21st century needs on development finance. A narrative that acknowledges solidarity, global interdependency, and the importance of policy and financial coherence. Both politicians, media as well as policy makers can share and strengthen this narrative in dialogue with society.

Steps towards future-proof policies to finance development now and in the future:

- Pressing for fully inclusive international agreements;
- Calling for policy and financial coherence for development in international policy while providing a good example in its own national policy (e.g. by starting coherence units at ministries);
- Acknowledging that various other actors, such as private sector, NGOs, and consumers can each make a unique and complementary contribution to poverty reduction
- Making greater use of (revolving) innovative financial instruments to address the needs of middle-income countries, so that resources can be used as efficiently as possible.
- Remaining in dialogue with the recipient countries and taking their requirements, preferences and wishes fully into account, while also ensuring due accountability; and
- Seeking ongoing cooperation with the private sector, not only through instruments such as the Dutch Good Growth Fund, but by acknowledging and leveraging the unique, (potentially) positive role of multinationals in particular and private sector in general.
- Aim for an ODA guarantee of 0,25% GNI or more for the least developed countries and fragile states.
- Suggest further research for an international target of national contribution to global challenges.

Source: Kamphof, R., Spitz, G. & E. Boonstoppel. (2015). *Financing development now and in the future-implications for the Netherlands and beyond*. Amsterdam: Kaleidos Research.