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# FINANCING DEVELOPMENT NOW AND IN THE FUTURE

## IMPLICATIONS FOR THE NETHERLANDS AND BEYOND

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# GLOSSARY OF ABBREVIATIONS

| | |
|---|---|
| AIIB | Asian Infrastructure Investment Bank |
| AIV | Advisory Council on International Affairs (*Adviesraad Internationale Vraagstukken*) |
| BBO | Bureau for Policy Research (*Bureau voor Beleidsonderzoek*) |
| BRICS | The emerging economies: Brazil, Russia, India, China, and South Africa |
| CPA | Country Programmable Aid |
| DAC | Development Assistance Committee: the OECD forum of countries active in development assistance |
| DGGF | Dutch Good Growth Fund |
| EEC | European Economic Community |
| ECDPM | European Centre for Development Policy and Management |
| EU | European Union |
| FfD | Financing for Development |
| FMO | Financing Corporation for Development (*Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.*) |
| FTT | Financial Transaction Tax |
| G8 | A governmental forum of leading advanced economies in the world: Canada, France, Germany, Italy, Japan, United Kingdom, United States, Russia (and the European Union) |
| GNI | Gross National Income |
| IBO | Interdepartmental Policy Review (*Interdepartementaal Beleidsonderzoek*) |
| ICESDF | Intergovernmental Committee of Experts on Sustainable Development Financing |
| IMF | International Monetary Fund |
| IOB | Aid Policy Evaluation Agency of the Ministry of Foreign Affairs (*Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie*) |
| LDC | Least Developed Country |
| LIC | Low Income Country |
| MDGs | Millennium Development Goals |
| MIC | Middle Income Country |
| NCDO | Dutch expertise and advisory centre for citizenship and international cooperation (*Nationale Commissie voor internationale samenwerking en Duurzame Ontwikkeling*) |
| NGO | Non-Governmental Organization |
| ODA | Official Development Assistance |
| OECD | Organization for Economic Cooperation and Development |
| OOF | Other Official Flows |
| SDGs | Sustainable Development Goals |
| TOSD | Total Official Support for Development |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| USD | United States Dollar |
| WRR | Scientific Council for Government Policy (*Wetenschappelijke Raad voor het Regeringsbeleid*) |

# 1. INTRODUCTION

"*We are on the threshold of the most important year of development since the founding of the United Nations itself*."
Secretary-General Ban Ki-moon in the United Nations report 'The Road to Dignity by 2030' (2014).

2015 is a key year for development: ambitious international agreements on global poverty reduction and sustainable development are needed. The Millennium Development Goals (MDGs) - the internationally agreed agenda to halve poverty and combat many poverty-related issues - reach their deadline. Progress has been made, particularly in terms of education, health, access to clean water, and income poverty reduction. In 1990, 43% of people in the developing countries were living below the poverty threshold of USD 1.25 per day. By 2010, this figure had dropped to 22% (United Nations, 2012). In sub-Saharan Africa, deaths from HIV/AIDS - part of one of the MDGs - have dropped by over 40%.

Despite these successes, there has been criticism on the MDGs' focus and achievements. The financial commitment of donor countries such as the Netherlands has decreased due to the economic situation, while the developing countries have been beset by conflicts and environmental disasters: challenges which are not addressed by the MDGs. Therefore, a new 'universal' global agenda for poverty eradication and sustainable development is being negotiated. The proposed new Sustainable Development Goals (SDGs) and climate agreement prompt a discussion of who should contribute - and how much - to counter the global challenges of today, such as injustice and inequality, climate change and food security. 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'.

### 1.1. Previous International Agreements on Development Assistance

For several decades, financing of development cooperation has been based on an international target. In 1970, the Western countries agreed to aspire to devote 0.7% of their national income (GNI) to helping the poorer nations of the world. The rationale behind the target - based on a calculation of Dutch Nobel Prize winner Jan Tinbergen - was the idea that transferring money from the rich industrialized countries to the 'third world countries' of the time would enable poor countries to lift themselves out of poverty. The public resources channelled through government agencies, international institutions, and civil society organizations were termed Official Development Assistance (ODA). Although the binding nature of the commitment is debated by some countries, the international donor community has recommitted itself to the 0.7% target several times over the last decades (Spitz, 2012). For instance, during the first Financing for Development Conference in Monterrey in 2002, donor countries vowed again to spend 0.7% of their national income on development. And in 2005, the G8 and the European member states reaffirmed their commitment to the target (European Council, 2005).

How did these commitments and agreements work out in practice? The OECD Development Report 2014 proudly announces an absolute 'world record' of official development finance: ODA flows in 2013 totalled over 135 billion US dollars.[1] However, the traditional donors' relative contribution only accounted for 0.29% of GNI, far below the 1960 figure of 0.5% (see Figure 2). An increasing influence of 'new' donor countries such as China, India, and the Arab Emirates, and private donors such as the Bill & Melinda Gates Foundation, the Ford Foundation, and the Omidyar Network is perceived. Despite

[1] 127 billion euros at exchange rate current on 1 March 2015 (http://www.wisselkoers.nl/dollar-euro).

that, over forty per cent of worldwide ODA is still provided by the EU and its member states (Organisation for Economic Co-operation and Development, 2014c).

### 1.2. The Changing Role of ODA and International Public Finance

The United Nations Intergovernmental Committee of Experts on Sustainable Development Financing recognizes clearly four types of financing flows: domestic and international public flows, and domestic and international private flows. The *domestic public flows* are by far the largest category comprising amongst others the tax collected in developing countries. These flows are extremely unstable in many low-income countries. *Domestic private flows* in developing countries are especially dominated by the banking sector. ODA is a form of *international public financing*, and now represents an ever shrinking share of the 'external' financing for development, having been overtaken by other flows (see Figure 1). In 2013, ODA accounted for just 28% of all official and private financing provided by the Development Assistance Committee members of the OECD (Organisation for Economic Co-operation and Development, 2014c). Examples of *international private flows* include direct foreign investment or money sent home by migrants ('remittances'), a category which is gaining in both volume and importance. Also, a fifth category of innovative financial instruments is gaining importance.

The decreasing role of official development assistance by traditional donor countries is a sign of a changing global economic order of development finance. New donor countries, NGOs, migrants, the private sector and independent foundations are playing an increasingly important role when it comes to development finance, although their efforts are generally not considered to be Official Development Assistance. A country like the United Arab Emirates for instance is not part of the OECD Development Assistance Committee (the traditional donor community), but does provide the highest level of aid in relation to their GNI (1.17%/GNI). Moreover, private flows such as foreign direct investments and money sent home by migrant workers are increasing. The size of international financial markets and velocity of flows have expanded immensely since the 1970s (Roxburgh et al., 2009) and financial market integration has led to increased interdependence.

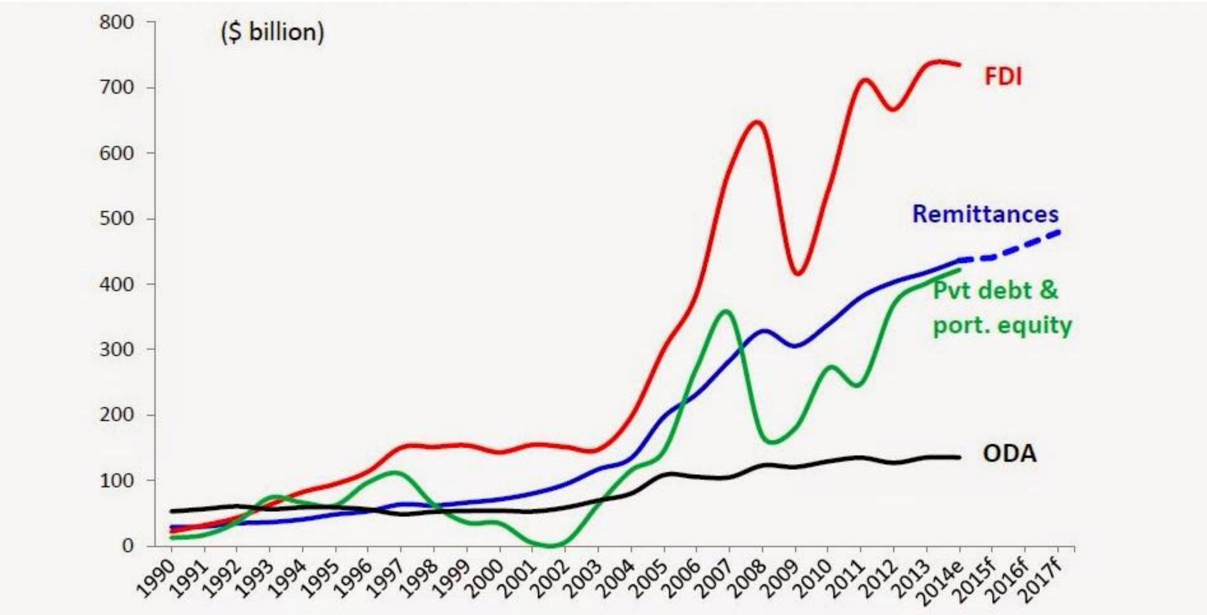



**Figure 1.** Financial flows to the developing countries, 2002 – 2011 (Worldbank, 2015)

Just as the world has changed much over the past fifty years, so have the challenges surrounding development assistance. Catalysing development turns out to be much more complex than we thought in the 1970s. We know now for instance that poverty is not only the result of a lack of funds, but often also of a lack of governance for instance. We also know that ODA is only a small fraction of what actually pays for development, such as access to trade etc. And although issues such as climate change, unfair trade, and tax injustice hugely affect development, they require change in the wealthier nations. This raises the question of whether the existing financing instruments remain ‘fit for purpose’ and, if not, what alternative arrangements should be adopted in their place.

### 1.3. The Netherlands

The Netherlands was long regarded as a role model, meeting the 0.7% commitment in 1975 and every year thereafter until 2013, when the Dutch government announced drastic austerity measures and budget cuts. Figure 2 shows how the Dutch have always been a relatively generous donor that for periods of time even exceeded the target and also illustrates how the Dutch ODA spending fell below 0.7% of GNI for the first time in almost forty years (Spitz, Muskens, & Van Ewijk, 2013).

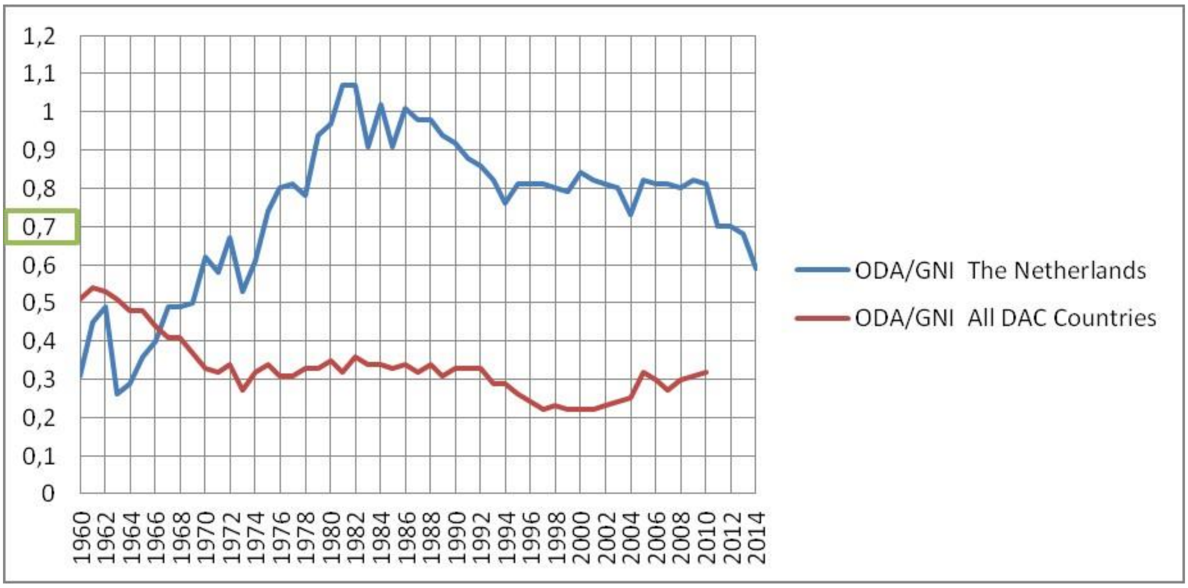



**Figure 2.** Development of Dutch ODA and ODA by all DAC countries (in % of GNI) between 1960 and 2010/2014 (Spitz, Muskens & Van Ewijk, 2013).

The national debate about development assistance is of the utmost importance in clarifying the ‘process, focus and outcomes’ of the international conferences (Van Heukelom et al; 2012). What role does the Netherlands currently play in the evolving debate on Financing for Development? In recent years, the Netherlands has seen the publication of various advisory reports about the future of development cooperation funding. 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 lead 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 (Rijksoverheid, 2013a), and knowledge institutions (e.g. ECDPM 2012), that reconsider the current system of development finance. These contributions did however not lead to much public or political debate about the financing of development.

The lack of Dutch attention for the future of development financing is striking, as 2015 can be considered the ‘year of truth’ for the international community. Various summits are to be held during the course of the year to discuss (the financing of) sustainable development, including the SDG Summit (New York, September) and the Climate Summit (Paris, December). In terms of development finance, the most important meeting will be the Third International Conference on Financing for Development (FfD) held in Addis Ababa in July that aims to support in realizing the financial means of implementation for the international development agenda beyond 2015. The Netherlands can take a credible frontrunner role in development finance judging from its history and progressive approach towards development. Nevertheless, apart from the WRR report, the earlier reports in the Netherlands do not specifically look at the Dutch debate itself and the implications of both the international topics and the national debate in conjunction for the future of development finance from the Netherlands. The reports also did not take into account the public perception of development finance. This report is specifically looking into these two dimensions.

### 1.4. Purpose, Methods and Focus of this Study

This study focuses on the main topics of the (international) debate on the future of financing for development. It considers the role the Netherlands can play in policy development at an international level by focusing on strengths, weaknesses, opportunities, and threats of the Dutch policies, public perceptions and national debates. It does so through a combination of qualitative research (interviews with key experts), survey research among Dutch citizens and by building on the existing national and international literature on development financing. More information about the methodology of the study can be found in the methodology section of this report. As there are already many reports on the technicalities and direction of the future of development financing, this study's purpose is to analyse the current status of the (inter)national discussion on the financing of development and in particular to assess its implications for the Netherlands. The paper explores the following research 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?*

By conducting this report, the authors aim to contribute to stimulating and nurturing the political and professional debate on the future of development financing.

### 1.5. Structure of this Report

Following this introduction, Chapter 2 shortly examines the historical context of the 0.7% commitment and continues into the evolving international and national discussion on development financing, especially in the run-up to the Addis Ababa conference. In Chapter 3, we offer an analysis of the debate on development financing and the role of the Netherlands based on interviews with experts. The chapter considers the aims, instruments and actors involved in development cooperation, with particular reference to the Dutch context. Chapter 4 compares the view of experts to the findings of public opinion research examining Dutch public opinion about development cooperation and the use of public resources. Chapter 5 analyses the Dutch strengths and weaknesses in relation to the financing of development cooperation and discusses their implications for the future. The concluding Chapter 6 offers a summary of the key findings and perspectives suggested by this research.

# 2. THE EVOLVING (INTER)NATIONAL DISCUSSION ON FINANCING FOR DEVELOPMENT

**Summary**

- The financing needs for 'sustainable development' and 'poverty reduction' are enormous in a new universal global agenda for development beyond 2015.
- Economic thinking on development finance has evolved from the 1950s in the Netherlands and internationally. The focus has broadened from social development and poverty reduction, via economic and institutional development to 'global public goods' and sustainable development.
- The current system of Official Development Assistance (ODA) from the 1970s has not adequately evolved and is insufficient to deal with current global challenges. Additional resources should be adequately mobilized. Different forms of financing can serve different goals and vary in their development effects.
- Several topics emerge in the current international debate on Financing for Development. These point to dilemmas related to:
    - Thematic and geographical goals,
    - Financial instruments,
    - Donors and recipients,
    - Cost effectiveness, and
    - New (ODA) definitions and targets.
- In the Dutch debate, some key reports from WRR, IBO, AIV and ECDPM point to the importance of the emergence of 'global issues' for development and the need for a redefinition of ODA. Dutch NGOs mainly focus on 0.7% commitment and Policy Coherence for Development.
- Dutch politicians and the general public show a low interest for the Financing for Development debate. This is problematic considering the implications of the current international development finance discussion for the future role of the Netherlands.

The Sustainable Development Goals reflect the expansion towards a multi-dimensional development agenda. This is a 'universal' agenda for various actors worldwide, which devotes attention to 'global challenges' such as international trade, access to natural resources, gender equality, poverty reduction, inequality, climate change, and peace and security, all in one agenda (United Nations, 2014b). From a 'financing' perspective, this agenda is "very, very different from financing the Millennium Development Goals. The MDGs were basically about financing a gap," states Helen Clark, administrator of the United Nations Development Programme (UNDP). "It now becomes a total development financing agenda, not just a 'gaps' financing agenda" (Nash, 2015).

Given the extremely ambitious programme with 17 'goals' and 169 'targets', both the implementation and the financing of the SDGs will be complex (Anrys, 2014). To allow the developing countries to implement necessary climate adaptation measures will even require additional investment. It is difficult to arrive at a reliable estimate of all the financial resources required, or to formulate qualitative targets (Rijksoverheid, 2013b). Nevertheless, the success of the broader agenda relies on absolute clarity with regard to financing and implementation. For this reason, the financial aspects are to be discussed at the Addis Ababa Financing for Development Conference in July 2015, *before* the Post-2015 Summit in September and the Climate Summit in December. The main goal of the conference is to encourage governments and other actors to enlarge their understanding of the forms of international cooperation needed to implement a broader agenda, and to mobilize additional resources toward this end.

How did we come to this point and what role did and do the Netherlands play in the international discussion on Financing for Development? And in what way is the Dutch professional and political debate reflecting the international dilemmas? In this chapter, the international (2.1) and national (2.2) historical context will set the scene for an evolving international discussion with upcoming hot topics on Financing for Development (2.3). The most often coined topics in Financing for Development are currently: 1) (thematic and geographical) goals, 2) financial instruments, 3) donors and recipients, 4) effectiveness, and 5) new (ODA) definitions and targets. Despite some relevant publications by renowned advisory centres in the Netherlands, these discussions and dilemmas are not adequately reflected in the Dutch political and public debates (2.4).

## 2.1. The International Historical Context (1950s-2015)

In the 1950s, development assistance was seen in terms of 'modernization'; poor countries were poor because they had yet to adopt modern technology, methods, and practices. Given enough money (and time) they could become just as developed and prosperous as other nations (Van Ewijk, Bokma de Boer-Nubé, Spitz, & Boonstoppel, 2015). In 1958, the World Council of Churches proposed an 'input target' whereby the richer, developed nations would devote at least one per cent of their national income to assisting the developing countries in the form of grants and loans. This target, if adopted and met, would serve to double development spending thus far (Vanheukelom, Migliorisi, Herrero Cangas, Keijzer, & Spierings, 2012). The United Nations continued to discuss the 'input target', a process which culminated in 1969 in the Pearson Commission Report *Partners in Development* (Nunnenkamp & Thiele, 2011; Pearson, 1969). The report recommended that the developed nations should (significantly) increase their development assistance budget to reach 0.7% of Gross National Income (GNI) "by 1975 and in no case later than 1980." This norm, a political compromise, was ratified by the United Nations in a resolution in October 1970. In 1972, the Organization for Economic Cooperation and Development (OECD) arrived at a formal definition of Official Development Assistance which continues to apply to this day (see Box 1) and is accompanied with relevant statistics and monitoring systems. The main objective of ODA is the "promotion of the economic development and welfare of developing countries" (Organisation for Economic Co-operation and Development, 2015b).

**Box 1. Definition of ODA (Organisation for Economic Co-operation and Development, 2015b)**

The DAC defines ODA as those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are:

i. provided by official agencies including state and local governments, or by their executive agencies; and
ii. each transaction of which:

a. is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
b. is concessional in character and conveys a grant element of at least 25%. (calculated at a rate of discount of 10%).

The Dutch government was one of the few governments keen to achieve the 0.7% target. In 1975, the Netherlands became the second country to do so, following Sweden. Norway followed in 1976 and Denmark in 1978. In 1980, these four countries achieved another milestone in that they all were devoting between 0.15% and 0.2% of their GNI to helping the least developed countries and the fragile states. Many other countries lagged behind including the traditional 'Big Five' donors: the USA, Japan, France, Germany and the United Kingdom.

The 0.7%-donors in the 1970s were inspired by new economic ‘solidarity’ thinking on international development. The Dutch minister Jan Pronk (PvdA, 1973-1977) played a leading role in the commitment of the Netherlands to the 0.7% target. He, in turn, drew his inspiration from the Dutch economist and Nobel laureate Jan Tinbergen (Rijksoverheid, 2013b). Tinbergen’s ‘gravity’ model demonstrates that underdevelopment is the result of unbalanced trade relations between North and South (Van Ewijk et al., 2015).

The 1980s saw an immense change in the world’s ‘economic thinking’. Under the influence of conservative leaders such as Reagan, Thatcher, Kohl, and the Dutch minister-president Ruud Lubbers, the World Bank and the International Monetary Fund began to promote neoliberal structural adaptation programmes for the developing countries. Markets were opened up and much attention was devoted to exports of raw materials (Kamphof, 2013). The policy recommendations became known as the ‘Washington Consensus’ (Williamson, 1993) and were predominant also for much of the 1990s.

In September 2000, the United Nations Millennium Declaration was a landmark moment. The Millennium Declaration was signed by the heads of State and Government of 189 countries who promised collective responsibility to bring about improvements in various fields, such as poverty reduction, education, health, and environment.[2] In 2001, the Declaration formed the basis of the eight Millennium Development Goals (MDGs) which provided the new vehicle for development assistance.

This strong commitment was not only the result of the clear objectives, targets, and indicators of the MDGs themselves, but was also to further (financial) agreements made during the first Financing for Development Conference held in Monterrey in March 2002 (United Nations, 2003). The conference in Monterrey is widely regarded as a ‘breakthrough moment’ in terms of donor generosity, effectiveness, and new financing mechanisms (Nunnenkamp & Thiele, 2011). The conference took place just a few months after the 9/11 terrorist attacks on New York and Washington D.C, and many high-level representatives such as President Bush (USA) and Chirac (France) were present. Also representatives from the private sector and civil society attended the conference. The adoption of the MDGs heralded a significant increase in the financial flows for development cooperation, which rose by 63% during the period 2000 to 2010 (Melamed, 2012; Spitz, 2012).

After the Monterrey Consensus and the re-commitment of the 0.7% target, this commitment was once again endorsed by the European Council and the member states in 2005, who undertook to meet the 0.7% target by 2015. The Lisbon Treaty also designates poverty reduction as the key aim of all European development assistance programs ("Verdrag van Lissabon tot wijziging van het Verdrag betreffende de Europese Unie en het Verdrag tot oprichting van de Europese Gemeenschap, ondertekend te Lissabon, 13 december 2007 ", 2007). However, world leaders’ commitment waned in the face of economic uncertainty and threats to national security (Nunnenkamp & Thiele, 2011). While in general aid volumes increased over time, the traditional donors’ promise to meet the 0.7% norm by 2015 was broken by the economic crisis which began in 2008. Following a brief upturn, their average development assistance expenditure now stands at just 0.29% of GNI (Organisation for Economic Co-operation and Development, 2015a).

The international debate on development assistance is increasingly being linked to the ‘global societal challenges’, also termed ‘global public goods’ (Kaul, Grunberg, & Stern, 1999; Van Ewijk, 2014). Global public goods are “aspects of importance to everyone in the world” (Rijksoverheid, 2013b). This results in a more explicit acknowledgement of the relationship between development on the one hand, and issues such as security, climate, migration, financial stability, access to resources, food security,

[2] http://www.oneworld.nl/toekomstdenkers/millenniumdoelen

and taxation on the other (Itriago, 2011; Kamphof, 2013; Rijksoverheid, 2013b; Severino & Ray, 2009). Within the international policy domain, this is also acknowledged, seeing the interlinkages of economic, social, and ecological development from the Rio+20 Conference with the Sustainable Development Goals, the Climate Change Summit, and Financing for Development (Rijksoverheid 2013).

### 2.2. The Dutch Historical Context

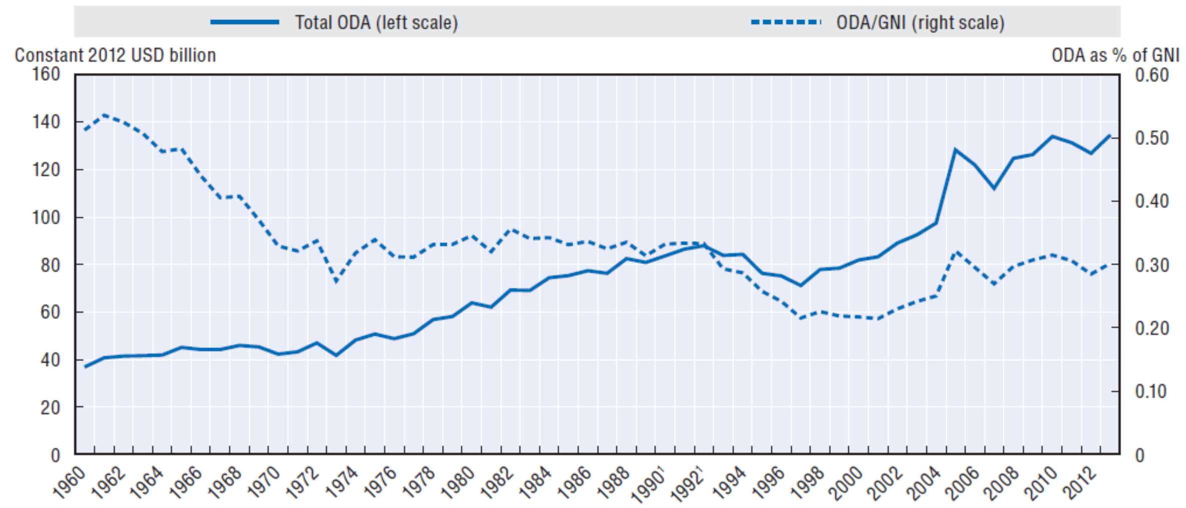
It was during the 1950s that interest in development assistance began to grow in the Netherlands. The private sector saw the benefits, since (at that time) much of the assistance provided was ‘tied aid’, which had to be spent on goods or services produced in the donor country (Van Ewijk et al., 2015). From the late 1950s, part of the Dutch development assistance budget was channelled through the European Economic Community. In the 1960s, NGOs were institutionalized as the ‘civil-lateral channel’ whereupon organizations such as Novib, ICCO, and Cordaid benefited from co-funding and matching arrangements while retaining considerable discretion in how they spent the resources at their disposal (Spitz et al., 2013).

In 1975, the Netherlands was one of the first countries to meet the 0.7% commitment target agreed in 1970 (Spitz et al., 2013). In the interests of international solidarity, the Dutch focus gradually shifted from larger infrastructural and agricultural projects to small-scale social projects and capacity building. A leading figure in this development was the (earlier mentioned) Dutch minister Jan Pronk (PvdA, 1973-1977) with his strong focus on poverty reduction. Poverty reduction has always been very popular in the development policies of the Netherlands (Rijksoverheid, 2013) and has also spawned a number of social initiatives such as the World Shops that only stocks ‘Fairtrade’ products from the developing countries. Meanwhile, the non-governmental development organizations underwent a process of professionalization and established a growing network of local partners in the developing countries (Spitz et al., 2013).

During the 1990s, economic development has been increasingly linked to ‘human safety and security’ and, to a slightly lesser degree, the environment. Minister Pronk’s second term (1989-1998) saw the establishment of the Financing Corporation for Development (FMO) and a significant increase in the number of non-governmental development assistance organizations. Minister Eveline Herfkens (PvdA, 1998-2002) revised the co-financing and matching arrangements, whereby organizations which were not entirely devoted to development cooperation also became eligible to receive public funds. Under Minister Agnes van Ardenne (CDA, 2002-2007) the number of countries that received development assistance from the Netherlands was drastically reduced. In the mid-1990s, there had been 120, and by 2007, there were just 36. Cost effectiveness of expenditures on development aid became ever more important. NGOs and their activities attracted much attention and media coverage with special attention for less cost effective projects. During the course of time however, public support for development cooperation remained reasonably high (Carabain, Van Gent, & Boonstoppel, 2012).

By now, the Netherlands remains among the most generous donors. However, its position has shifted since the financial crisis and the sharpened focus on (cost) effectiveness. In 2012, Lilianne Ploumen was appointed Minister of Trade and Development Cooperation, and objectives such as ‘the eradication of extreme poverty’ and ‘success for Dutch companies abroad’ became part of the same policy agenda (Ministerie van Buitenlandse Zaken, 2013). In 2013, the Netherlands failed to meet the 0.7% target for the first time since 1975. Furthermore, attention has shifted away from social development (health and education) to the economic development of poor countries and fragile states. This is visible in a much smaller list of partner countries prioritizing (among others) Mali, Burundi and Yemen as aid countries (Organisation for Economic Co-operation and Development, 2014a), while aiming for more professional ‘transitional’ or ‘trade’ relationships with countries such as Indonesia and Colombia, respectively.[3]

### 2.3. Current State of the International Debate




1. Total DAC excludes debt forgiveness of non-ODA claims in 1990, 1991 and 1992.

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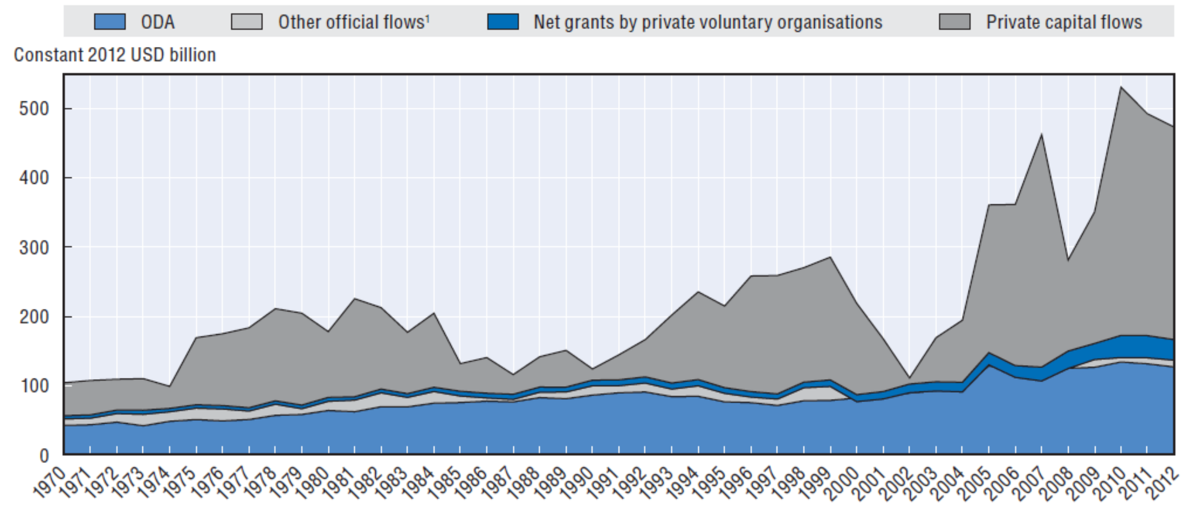


1. Net OOF flows were negative in 2000-01, 2003-04 and 2006-08.

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**Figures 3 and 4.** resource flows to developing countries 1970-2012 (Source: OECD 2014c)

As figure 3 and 4 show the distribution of resource flows to developing countries have changed from the 1970s until now. ODA has grown in absolute numbers but its relative importance have been declined. The ‘broadening’ of resource flows can have positive consequences. Different forms of financing can serve different goals and vary in their development effects. Remittances, for example, would tend to provide direct income to family members and would be concentrated in countries or regions linked to large groups of diasporas. All financial flows can contribute to the overall volume of development finance. An effort should be made to determine how additional funding can be mobilized and how different forms of development finance can work together in a more complementary way.

[3] http://www.government.nl/issues/development-cooperation/partners-in-development

With the enormous financing needs in mind, a ‘narrow’ focus on just ODA and international public finance is insufficient, and a broad focus on ‘topics’ in Financing for Development might help. What are the current dilemmas in the international discussion on Financing for Development?

**Dilemmas Related to Goals: Thematic and Geographic**

According to the interdepartmental policy review (IBO) of the Netherlands (2013), there are divergent, and not mutually exclusive, views about the main drivers of poverty reduction and sustainable development. The ‘narrowest’ approach focuses on direct poverty reduction and improving living standards by means of action in social sectors, such as health care and education. A second approach is mainly geared towards permanent improvements in economic development, democracy, and constitutional justice, strengthening governance and institutions. The third and broadest approach is concerned with ‘global public goods’ such as climate, food, energy, safety and security, stable financial markets, and fiscal coordination to preclude tax avoidance or evasion (Rijksoverheid, 2013b). There is a growing awareness that real progress in poverty reduction and sustainable development relies on solving these ‘problems without passports’ (Organisation for Economic Co-operation and Development, 2014c).

In reality, a combination of approaches might be needed to focus on problems at different interrelated levels. Development policy should seek to find a balance between objectives rather than focusing on a single approach. Yet, the situation in countries which are now experiencing major economic growth, such as India and China, demonstrates that a focus on economic development alone is not enough. Although their national income is rapidly increasing, so is the divide between the rich (relatively few in number) and poor. With 456 million people living below the poverty line defined by the World Bank, India has more ‘extremely poor’ inhabitants than all the countries of sub-Saharan Africa combined (387 million) (Shafik, 2011). Similarly, an approach in which social development is pursued through investments in health care and education will not automatically reduce poverty. This is evident from the high rate of youth unemployment in many developing countries, even among those with school and university qualifications. Also, as Box 2 illustrates, gender equality remains an important point of attention in developing countries, especially because poverty can inherently be regarded as sexist: it affects women and girls disproportionately (One, 2015).

**Box 2. Gender Equality & Financing for Development**

The Netherlands is one of the twenty countries aiming for more ‘gender equality’ in the Financing for Development process. How can development finance be detrimental to gender equality? Yet, some domestic taxation policies contain discriminatory biases against women, as they are particularly vulnerable to poverty. Many women in developing countries do not pay income tax, but indirect taxes, user fees, bribe requirements etc., which may constitute “a heavy and disproportional burden for them” (Gunnarsson, 2015). Also, women are disproportionately active in (unpaid) house care work, often coupled with negative incentives for women entering the work force, reinforcing traditional gender roles.

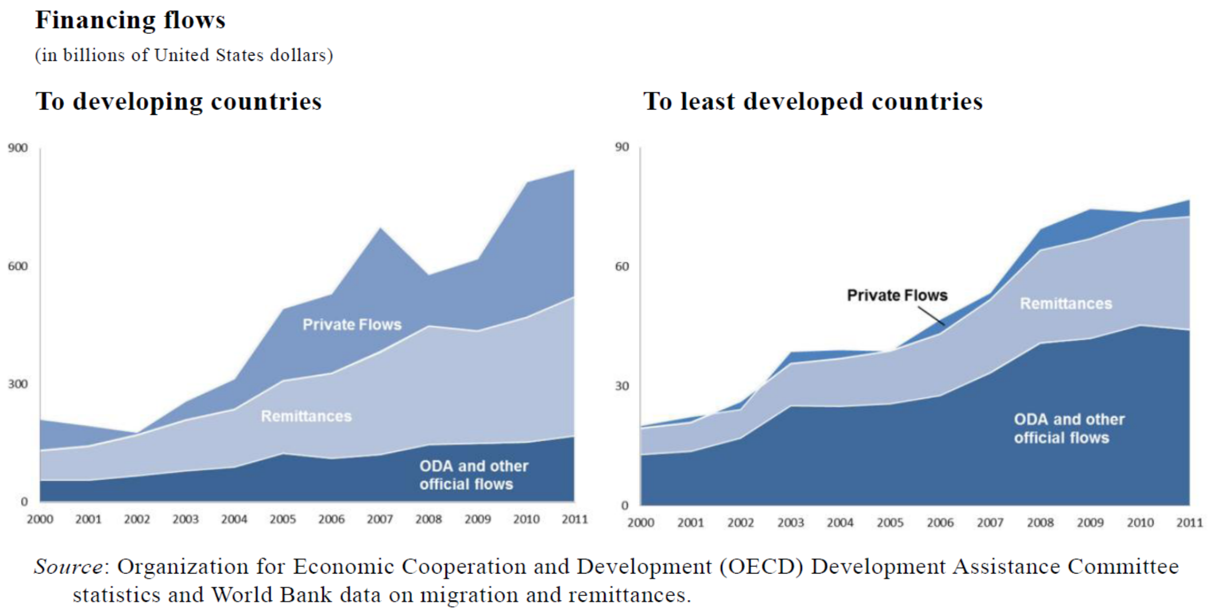
How could this be resolved? The idea of ‘social protection floors’ is coming up in the international debate with a (minimum) spending package for social services (Van der Hoeven, 2012). This would be of utmost importance for gender equality since 70% of

the poor are women, and 'social protection floors' constitute a tool to break the cycle of poverty. Furthermore, access to finance is often difficult for women as there is often insufficient access to finance for micro, small, and medium enterprises, while women are (disproportionately) more often owners of small enterprises. With the help of ambassadors like Her Majesty Queen Máxima of the Netherlands (UNSG's Special Advocate for Inclusive Finance for Development) access to finance for women is gaining importance in the international debate on Financing for Development.

Another point of discussion is the *geographical* allocation of development finance: should development finance poor people or poor regions, or both? In 1993, the OECD DAC produced the first official list of ODA recipients categorized according to their assistance requirements, from 'least developed countries' to 'upper middle-income countries and territories', based on per capita Gross National Income. In early 2015, the DAC list of ODA recipients included no fewer than 148 countries, all of which are therefore eligible to receive official development assistance. They include emergent, but yet economically unequally divided economies such as China and Brazil, as well as desperately impoverished nations such as South Sudan, Haiti, and Nepal. It is very clear that the countries on this list are not in equal need of assistance. Neither do they have equal access to ODA or other sources of financing (Organisation for Economic Co-operation and Development, 2014c). Therefore, the question in the international debate remains whether the current DAC list needs revision and should, for example, be constricted to the 'least developed countries'. Yet, although overall ODA is stable, the amount of development assistance going to the least developed countries fell by 16% in 2014 compared to the 2013 level, while the amount of assistance provided to the middle-income countries has increased.

**Dilemmas Related to Financial Instruments**

As has been stated in the introduction, four types of financing flows are clearly recognized: domestic public flows, international public flows, domestic private flows, and international private flows. The domestic public flows are by far the largest category reaching 5,523 billion dollars in 2011 (ODI, ECDPM, GDI/DIE, University of Athens, & Southern Voice Network, 2015), but they are extremely unstable in many low-income countries. ODA is a form of international public financing and now represents an ever shrinking share of development finance (see Figure 4). Nevertheless, in the case of the low-income countries, ODA still accounts for 68% of total external financing (see Figure 5) (Gijsberts & Lubbers, 2015). Examples of international private flows include direct foreign investment or money sent home by migrants ('remittances'), a category which is gaining in both volume and importance, seeing the rise of almost 300% from 2002 to 2011 (ODI et al., 2015). Nevertheless, private flows could also lead to 'outflows of capital' from developing countries, because of tax avoidance. These flows are often called *illicit flows*. Especially in Sub-Saharan Africa, these illicit financial flows compose 6 to even 10% of GNI (Adviesraad Internationale Vraagstukken, 2015; Barder & Talbot, 2014). There is an emerging debate to make companies stop these illicit flows, led by NGOs such as Oxfam (internationally) and Tax Justice (in the Netherlands). Domestic private flows also rose considerably from 2002 to 2011 (from 725 billion to 3,734 billion dollars) in developing countries, but they are especially dominated by the banking sector.




**Figures 5 and 6.** Financing flows to the developing countries and to the least developed countries (United Nations, 2014a)

Besides mobilising more domestic resources (e.g. by improving domestic tax collection) there is a clear need to make more international financing available to address development-related transnational challenges (Kaul, Le Goulven, & Schnupf, 2002). Climate change alone will call for approximately 1.5% of the total worldwide investments, in addition to the existing amounts. To allow the developing countries to implement the necessary climate adaptation measures will require an additional investment of between 28 and 67 billion dollars (United Nations, n.d.). Given that the total of development assistance financing is approximately 135 billion dollars, the current investment level is clearly inadequate.

Besides the four categories as pronounced by the intergovernmental committee, a fifth category of new financial instruments is gaining attention: innovative financial instruments (Rijksoverheid, 2013b). It seems likely that this trend will continue now that a broader development agenda calling for even greater financial resources awaits. Innovative financing flows which combine various types of sources of financing flows are essential to finance a universal agenda for poverty reduction and sustainable development. Examples of innovative instruments include Public-Private Partnership constructions and 'catalytic' mechanisms (Vanheukelom et al., 2012). Public financing can be used to guarantee a (far) larger input of private financing. However, some NGOs are very cautious and feel that ODA resources should not be used to leverage investments from the private sector (Sauer, 2015). One form of innovative financing, which seems particularly promising is 'blending': the combination of grants and loans (see Box 3) (Adviesraad Internationale Vraagstukken, 2014a).

**Box 3: Blending**

Investment needs of developing countries are substantial. Public funds (e.g. ODA) are often far from sufficient to cover these needs, and additional private and public finance is needed to drive economic growth. Blending is recognised as an important vehicle for leveraging additional resources. Blending combines concessional grants (outright gifts) with repayable loans and equity from private and public financing partners. Because blending is applied to both investments in the public domain as well as those in the private sector, it does not fall into any of the four categories of official financing flows (see above). Blending is often applied in major infrastructure or renewable energy projects (Adviesraad Internationale Vraagstukken, 2015), which involve a clear public interest (Vanheukelom et al., 2012). The European Commission now makes significant use of blending as a development assistance financing mechanism (Fox, 2015).

Efforts are also made to increase international public financing. This will also entail the use of other, non-ODA instruments such as taxation. France is in favour of introducing global taxes, such as a levy on air travel.

An even larger amount of finance could be found in the financial sector. Global equity capital markets totalled 46 trillion dollars in 2012. To understand this order of magnitude it might be helpful to recall the total amount of ODA as 135 *billion* dollars in 2014 and to point out to the combined wealth of all 1,200 billionaires in the world at 4,5 trillion dollars (Accenture, 2012). The economic crisis therefore sparked calls for a European tax on financial transactions (Organisation for Economic Co-operation and Development, 2014c). This could raise some 30 to 35 billion dollars a year, which could then be devoted to development assistance (Alonso, 2015). Developing countries will profit from initiatives to encourage the financial sector to serve the real economy. This could indeed mobilize a large amount of necessary additional resources for development finance (ODI et al., 2015). The Netherlands has a relatively large financial sector, comprising more than 8% GNI in 2012, as compared to a mean of 5% of GNI in other member states of the EU (Nootenboom, 2012). Some authors even speak of an 'obese' financial sector in the Netherlands (Van Tilburg, 2012). Combined with its 'donor portfolio', the Netherlands could contribute to the worldwide debate on development finance by offering innovative solutions to use the wealth of money in the financial sector also for development finance (see also Chapter 5).

**Dilemmas Related to Donors and Recipients**

As discussed earlier, the traditional donor countries (united in the DAC) now give far less development assistance than they had promised on numerous occasions, partly due to budget cutbacks prompted by the economic crisis. Other parts of the world were largely unaffected by the crisis and are now experiencing significant growth: the economies of China and India are growing by some 7% per annum (Worldbank, n.d.) and they also contribute to development assistance. They were (and still are) recipients of development assistance and have followed their own 'path to development', which help explain their different insights. These new donors, most of which are engaged in South-South development cooperation, have not escaped criticism. China has been accused of having 'no vision' with regard to development assistance while the absence of proper reporting by the BRICS countries makes it difficult for the OECD to assess whether there is indeed any development assistance as such, or whether the prime aim is to promote trade interests (Hackenesch & Janus, 2013). Moreover, India and China devote a very low percentage of their Gross National Income to ODA. Other new donors such as Turkey, the United Arab Emirates, and Venezuela contribute more in relative terms (Organisation for Economic Co-operation and Development, 2014c).

Foreign direct investments from the private sector have shown marked growth in both absolute and relative terms, as have remittances from migrant workers. NGOs such as World Vision and philanthropic organizations such as the Bill & Melinda Gates Foundation already contribute more to development assistance than the average medium-sized European country and are therefore influential donors (Organisation for Economic Co-operation and Development, 2014d). Development banks such as the Dutch FMO are also playing an increasingly important role catalysing ODA to bring private sector investment to support development efforts (OECD, 2014c). The BRICS Development Bank was recently established, and much is expected of the new Asian Infrastructure Investment Bank (AIIB). The activities of these types of institutions do not always qualify as 'official' development assistance, but they can nevertheless make a major contribution to the financing of (large) development-related projects, as Ban Ki-moon himself acknowledges (United Nations, 2014b). At present, two out of every three major infrastructure projects are financed entirely from public resources, while they are often ideal targets for loans or private investment (Kharas, Prizzon, & Rogerson, 2014).

There is also an ongoing international discussion about the (in)direct recipients of development assistance. Because there are (major) differences between developing countries, there are calls to give recipient countries greater influence in determining the type of financing that will best address their specific problems (WRR, 2010). Their governments will then be able to use resources strategically and more effectively in line with policy. In practice, flows are often channelled through 'intermediary financiers'. For example, much of the Dutch ODA is spent in the recipient countries by non-governmental organizations such as Oxfam, Cordaid, and ICCO (see 2.2). Further, multilateral organizations such as the UN run projects in developing countries through various allied organizations, such as the World Food Programme. We also see 'bilateral' arrangements whereby the Dutch government provides direct funding to the government of a developing country. Direct financing by the private sector is also growing in volume and importance.

**Dilemmas Related to Cost Effectiveness**

The idea that development assistance should represent 'value for money' enjoys wide support, especially since the first Financing for Development Conference in Monterrey in 2002. This idea is perhaps strengthened in response to claims that public funds are being treated as a 'bottomless pit' (Moyo, 2009) or that assistance misses its target altogether and the money ends up in the wrong hands (MyWorld, 2012). Evaluating the (cost) effectiveness of an assistance intervention is a complex undertaking: at the macro level there is "little or no information about the effectiveness of efforts to reduce poverty or achieve other development goals" (Rijksoverheid, 2013b). It is therefore difficult to determine the extent to which the reduction in poverty achieved in recent years is attributable to the (international) development finance and how much is due to general economic trends (Spitz, 2012).

There would appear to be a clear role for the OECD in measuring cost effectiveness, given its long track record in data collection and analysis. However, the DAC (a part of the OECD) has something of a reputation as a 'postcolonial institution'. Critics complain that it represents only a small number of countries and has imposed various standards and rules for development assistance without ascertaining whether the assistance provided is the most appropriate (and effective) way of addressing the problems at hand (Bräutigam, 2011). The DAC is aware of these concerns and tries to address these legitimacy problems by engaging with important donors beyond its membership (Organisation for Economic Co-operation and Development, 2014e). It may be appropriate to pass responsibility for monitoring donor information to the United Nations as other (state) actors such as the BRICS countries, would then be better embedded in the discussion (VENRO/Partos, 2014), The UN, however, has far less expertise and experience than the OECD in terms of data monitoring and reporting of development finance and the BRICS countries have not been particularly active in contributing to better reporting and assessments of effectiveness until now.

Another forum with high potential to advance development effectiveness is the Global Partnership for Effective Development Cooperation. Dutch Minister Lilianne Ploumen is currently one of its co-chairs. This forum was established in late 2011, further to agreements made during the Fourth High Level Forum on Aid Effectiveness in Busan, South Korea. It works to maintain political support and foster engagement among the various actors, disseminating knowledge to maximize the effectiveness of development assistance (The Development Assistance Committee, 2014). The Global Partnership may have a significant overlap with the DAC and UN bodies such as the UNDP, particularly in the area of monitoring and data-reporting (Morazán, Niewerth, & Behrens, 2014). One distinct 'unique selling point' of the Global Partnership is that it includes non-governmental actors such as the private sector and CSOs.

**Box 4. *Increasing Tax Revenue: the Most Cost Effective Measure?***

In 2012, no fewer than 32 African nations raised less than one dollar a day in per capita taxation (Organisation for Economic Co-operation and Development, 2014d). This clearly is a missed opportunity, since the mobilization of domestic resources is crucial to development (see dilemma 2: financial instruments). Although taxation has an extremely high 'return on investment', only 0.1% of ODA is used to establish better tax collection systems in the developing countries (Organisation for Economic Co-operation and Development, 2014c). On the other hand, tax avoidance and tax evasion by international companies cost developing countries around 100 billion dollars each year. This problem could be resolved by establishing a global tax authority,* although both the desirability and practicality of doing so are difficult to establish. One thing is certain: taxes provide a much higher and more stable source of revenue than the ODA flows (see Figure 7) and a stronger link between ODA and mobilizing domestic resource flows would help to raise more money in developing countries.

*http://www.oxfamnovib.nl/Redactie/Downloads/Rapporten/Business%20Among%20Friends.pdf

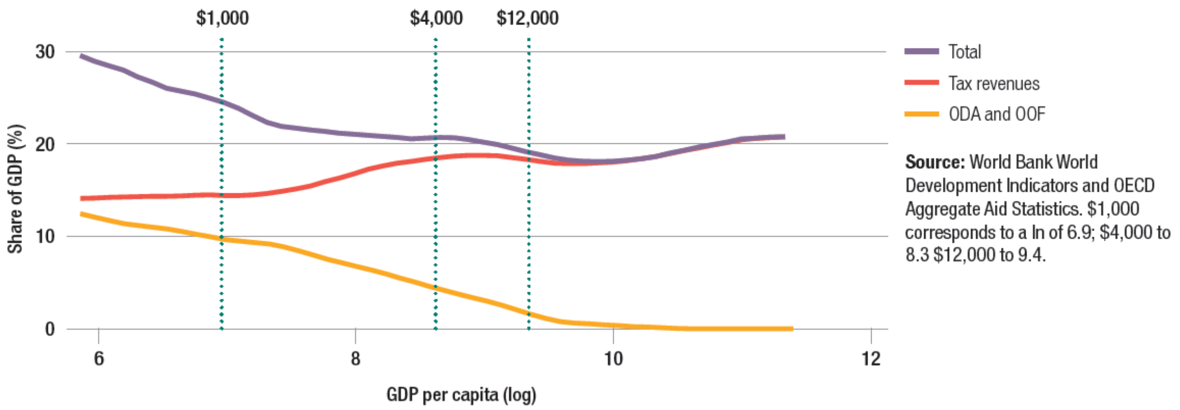



**Figure 7.** ODA, OOF and tax revenue as a share of GNI by per capita income (Source: ODI, 2015)

**Dilemmas Related to New (ODA) Definitions and Targets**
The concept of 'official' development assistance (ODA) is now under pressure. Very few countries continue to meet the 0.7% target and the formal definition of ODA is precious and unique, but not appropriate to the 21st century challenges. ODA in its current form measures only expenditure flows which meet certain criteria. Moreover, reported ODA may include flows that cannot be regarded as relevant to development per se, such as administration, the reception, and resettlement of asylum seekers in migrant host countries, and scholarships to study in donor countries for students originating from middle and lower income countries (Vanheukelom et al., 2012). The use of ODA to finance activities that are not directly relevant to development in lower in middle income countries is sometimes termed 'dilution' (Markova, 2013).

Even when the 0.7% target is met, this does not guarantee that sustainable economic development will be achieved in the recipient countries. Clearly, more financial resources will be required in the new situation. Moreover, development is a complex process, which depends on more than the size of the budget, particularly when the issues to be addressed are transnational in nature. It is crucial to set out the financing arrangements clearly and to monitor who is doing what and where (Adviesraad Internationale Vraagstukken, 2014a). It may be appropriate to apply two or more different targets: perhaps one, which provides guarantees for the least developed countries, and a broader target for financing the global challenges.

At the UN level, there is already an agreement in place whereby donors are expected to devote between 0.15% and 0.2% of their GNI to the least developed countries (Development Co-Operation Directorate/Development Assistance Committee, 2014). In practice however, the financial flows to these countries are actually decreasing (Organisation for Economic Co-operation and Development, 2015a). The target is still being met by some donors, including the Netherlands, Denmark, Sweden and the United Kingdom. Even so, a higher commitment seems necessary. The UN Under-Secretary General Gyan Chandra Acharya, suggests that fifty per cent of all ODA flows should be reserved for the least developed countries, a proposal backed by various NGOs (Organisation for Economic Co-operation and Development, 2014c).

At the same time, achieving democracy, the constitutional rule of law, fair working conditions, an effective employment market, financial stability, security, and climate financing will remain relevant preconditions for development and equality in all developing countries (*Kabinetsreactie op het interdepartementale beleidsonderzoek "Naar een nieuwe definitie van ontwikkelingssamenwerking - Beschouwingen over ODA"*, 2014). For this reason, there are calls to broaden the overall ODA definition or to include certain 'Other Official Flows' (OOF) within the reporting system (Morazán et al., 2014). The idea of a broader target, with different types of financing for different goals and groups, can also be found in the literature. Examples include the AIV report, 'Development Cooperation: More than a definition' (Adviesraad Internationale Vraagstukken, 2014b) and the article 'The End of ODA II' (2010) by Severino and Ray, in which the authors suggest a three-tiered system with separate flows targeting economic inequality, the fulfilment of basic human needs, and measures to address the global public goods. They regard ODA as particularly appropriate to the second aim. In the case of the Netherlands, the new and broader commitment target might be 2% of GNI, to include an ODA component (see Box 5) (Bakker, 2014; Wijffels, Van der Hoeven, Van Gennip, Van den Boom, & Spitz, 2012) but further research is necessary to set a specific target.

**Box 5. A 2% Target for Spending on the Global Challenges**

The OECD is currently preparing a new measure of development assistance, the Total Official Support for Development (TOSD), which is described as 'complementary' to ODA. TOSD will enable a more comprehensive measurement of the amounts donors contribute towards 'global challenges' and 'preconditions for development assistance' such as climate measures, peace, security, and fair trade. It will also allow innovative financing instruments and other financing flows currently designated non-official' to be included in the assessment (Development Co-Operation Directorate/Development Assistance Committee, 2014). The question then becomes whether a separate target should be established and precisely what financing flows can be included?

In his contribution to the OECD report, Age Bakker suggests that a target of at least 2% of GNI to be devoted to 'international cooperation' would be a viable option. The calculation method is described in Wijffels et al. (2012) and Vanheukelom et al (2012), and includes Official Development Assistance, private financing flows, remittances, international (coherent) spending by the Ministry of Infrastructure and the Environment, and the government's contributions to international UN peacekeeping missions. When applying this calculation method, the Netherlands' total expenditure on 'national development efforts' in 2010 amounted to approximately 1.7% of GNI.

### 2.4. The Dutch Debate: Political and Public Silence

The Dutch Minister for Foreign Trade and Development Cooperation, Lilianne Ploumen, acknowledges that a review of ODA is now necessary. In a speech given during a recent visit to China, she said: "Development cooperation funded with ODA remains essential, but in more and more countries the role of ODA in financing development is gradually declining. We need to adapt ourselves to this new reality" ("Speech by Lilianne Ploumen", 2014). Despite this awareness of the need for change and modernization, there recently has been little discussion in the Netherlands about the future of development finance. The debate is clustered around a set of advisory councils, (units within) ministries, and knowledge institutions. They provided a couple of high-quality reports with practical suggestions.

In 2010, the *Scientific Council for Government Policy* (WRR) issued a report entitled *Minder pretentie, meer ambitie* ('Less pretention, more ambition'). This report received a lot of (media and political) attention. The report states that Dutch development assistance should be (radically) overhauled; it should concentrate on helping (people in) developing countries to become (economically) self-sufficient. The Dutch development policy (and financing) should shift from aid to 'global issues' like financial stability, climate change, and global health. According to the WRR, the current 'knowledge infrastructure' in the Netherlands is not sufficient to make this shift. The Council, among others, suggests starting with 'Policy Coherence for Development' units in several Dutch ministries.

In 2012, the German and Dutch governments commissioned the ECDPM to produce a report on the future of ODA (Vanheukelom et al., 2012). One conclusion points to the current ODA system, which does not always provide appropriate incentives to examine the outcomes and effects of development assistance. They investigated a broadening of the ODA definition to include Official Security Assistance, Official Climate Assistance, Official Private Flows, and innovative financing mechanisms.

Their conclusion was that a debate on changing the ODA definition during the next few years appears 'not to be politically desirable'.

Similarly but from a government perspective, the Interdepartmental Policy Review (IBO) report on ODA undertaken in 2013 presents various alternatives for a 'new definition of development cooperation' in which global public goods play an important part. Nevertheless, IBO also suggests a 0.25% GNI 'guarantee' of ODA for the Low Income Countries and fragile states (Rijksoverheid, 2013b).

Furthermore, the Advisory Council on International Affairs (AIV) produced a report entitled *Ongelijke werelden – armoede, groei, ongelijkheid en de rol van internationale samenwerking*' ('Unequal worlds: poverty, growth, inequality and the role of international cooperation') in which it calls for greater differentiation of assistance flows. This is one of several recent AIV reports in which the 'global public goods' are given greater prominence (Adviesraad Internationale Vraagstukken, 2013).

More recently, reports on Financing for Development are published by ECDPM (2015, together with renowned international knowledge institutions such as DIE and ODI) and the AIV (2015). The admirable European Report for Development 2015 'combining financing and policies to implement a transformative post-2015 development agenda' is supported by the European Commission and four Member States, but excludes the Netherlands. The added value of the report is (among others) the specific combination of finance and policies for development looking into 'enablers' of development such as trade, local governance, human capital, green energy, technology, and biodiversity. Also, the combination of think tanks from different counties, taking up case-studies from across the world, is quite unique. The report concludes that it is not an overall shortage of funds, but effective mobilization and use of resources that will determine the success of a transformative agenda (ODI et al., 2015). The report is not looking into the specific Dutch position. The AIV (2015) on the other hand, advises the Dutch government directly to stand strong for 'financial coherence' and transparency of all financial flows in Financing for Development. According to the Advisory Council, it might be necessary to strengthen international tax regulation on tax avoidance, and evasion and illicit financial flows. Furthermore, the AIV proposes that the monitoring and coordination of financial flows is more explicitly taken up at a multilateral (UN) level, for example by means of annual conferences including IMF, the World Bank and UNCTAD (Adviesraad Internationale Vraagstukken, 2015).

As noted earlier, 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.

From the Dutch NGO sector there has recently been greater attention for issues around Financing for Development. 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). They call for the 0.7% norm to be retained, with direct poverty reduction as the focus of all assistance efforts and spending.

With regard to the broadening to 'global issues' the Dutch NGO sector is especially pushing to 'monitor' policy coherence for development. A report has been published early 2015.As a reaction the Dutch Minister Ploumen promised to come up with annual monitoring reports on Dutch policy coherence for development (Partos, 2015).

Public and political interest in the topic of Financing for Development is however extremely low. Development cooperation in general receives very little attention from politicians, possibly due to the technical nature of the topic. In any discussion about development cooperation, the emphasis is on short-term cost effectiveness. Parliament and universities are also devoting far less attention to the broader context of development cooperation (Wetenschappelijke Raad voor het Regeringsbeleid, 2010). The result is a rather one-sided fixation on meeting the 0.7% target and on the effectiveness (or lack thereof) of individual projects (Hurkxkens, 2012).

A parliamentary motion calling for the gradual recovery of development assistance expenditure to at least the 0.7% target level was tabled by Joel Voordewind (*ChristenUnie*) in 2014. Although this motion was more symbolic than practical at the time, it does show that the financing of development assistance have been forgotten altogether. Development cooperation is nevertheless low on the agenda. Although the agreements made in Addis Ababa will affect all Dutch citizens to some extent, it seems likely that the average 'man in the street' will remain blissfully unaware of them. This would be a missed opportunity as the international conference gives a unique point of reference to alter and broaden the Dutch debate on development finance. The national Dutch debate might indeed be important for process, focus, and outcomes of the international conference (Van Heukelom et al; 2012).

What would the experts interviewed suggest with regard to the dilemmas on development finance now and in the future? And how does that fit with the general perception of the Dutch public on issues surrounding the debate? That will be the focus of Chapter 3 and Chapter 4, respectively.

# 3. EXPERT INTERVIEWS

**Summary**

- Regardless of the changing role of ODA in relation to other financial flows, it is seen by the experts as a unique and precious form of finance with a large symbolic value for the 0.7% target. Definition and target are however not sufficient to deal with transnational challenges, such as climate change.
- The experts largely agree that further resources are needed to address transnational issues which are relevant to development.
- A new and broader framework may provide the answer, particularly if it is devised in such a way as to guarantee that the least developed nations will continue to receive the ODA they need. Such a framework and target could encompass other forms of international public and private financing.
- In the past, the Netherlands earned much international respect as a 'custodian' of the 0.7% target. The Netherlands is still seen as a leader, especially in the context in which the combined portfolio of international trade and development cooperation is viewed, and in particular the efforts to strengthen the role of the private sector on the part of the incumbent, Ms Ploumen.

How do Dutch and international experts see the future of the Netherlands' financing of development assistance? In this chapter, we built on the dilemmas presented in Chapter 2 to provide insight in the way experts view Dutch policies on development financing, and on the issues they find pressing, remarkable, or important with regard to the financing of development and the Dutch approach on this issue. Sixteen experts from inside and outside of the Netherlands were interviewed for this chapter; they represent various backgrounds and disciplines: the research field, government, politics, civil society, and international institutions (see Annex 1).

### 3.1. Goals: Thematic

In line with the literature described in Chapter 2 on the limits of ODA, the experts are aware that there are numerous themes which fall outside of the current definition of ODA and development finance, but which are nevertheless relevant to development: international trade practices and fiscal legislation, for example. At the same time, they note that the developmental relevance of some themes which do fall within the current definition is not always apparent. Some experts for instance question why the reception and resettlement of refugees should qualify as ODA.

There is no consensus among the experts with regard to which themes should be financed from the development cooperation budget and which should not. Some are concerned about the 'dilution' or 'contamination' of ODA with topics that are not part of the traditional development domain, such as the reception and resettlement of refugees in donor countries. A few of the experts state that issues such as international security and migration have such a major influence on development that it makes sense to finance them from ODA. Climate change is frequently cited as extremely relevant to development, but given the large amounts of money required to provide an adequate response, most experts contend that it should be financed separately. Several experts state that international public and private financing should be made available to address the 'global public goods': transnational issues such as access to clean drinking water and a stable climate. The question is how such objectives can best be financed. In general the experts are of the opinion that both public and private sources should be mobilised for these transnational issues.

For the experts, direct relevance to development is not only a deciding factor when considering whether a theme should be financed from ODA. The choice for the topics to be included as part of ODA seems to be mostly rated by the experts on the potential impact that ODA can have. This is in line with the thought that ODA is limited, but precious, and should therefore be used where it can be most useful.

A specific recommendation for the Dutch aid focus that was made concerns focusing more on ‘global value chains’ within the aid and trade policies. That would allow for increased policy coherence. The choice for a combined ministerial portfolio of trade and aid is also seen as a progressive approach by most of the experts, although a few argue that a combination between aid and environment would make just as much sense because of the apparent links between these topics.

### 3.2. Goals: Geographic

Almost all experts agree that the OECD list of recipient countries should be reviewed and revised. They call for a distinction to be drawn between low-income and middle-income countries. Several interviewees expressed concern about the ongoing decrease in the amount of assistance going to the least developed countries. Some experts state that the emerging economies (which are now middle-income countries) need not be excluded from the list altogether but should be subject to more stringent qualifying criteria for development assistance. Others hold that ODA is not intended for middle-income countries, which would derive greater benefit from other forms of financing such as access to long-term loans. This would provide more guarantee that certain forms of assistance, such as concessional loans (extended on terms substantially more generous than market loans) and gifts, can be used to benefit the least developed countries. The general opinion among the experts is that middle-income countries no longer need bilateral assistance in order to tackle inequality within their own borders. It was, however, stressed that these countries continue to need support in strengthening the societal midfield and the ‘lobby and advocacy’ groups, so that the people themselves can work to reduce economic and social inequality. It was also acknowledged that middle-income countries often have trouble getting access to long-term finance. A point of concern that was raised is the development that in some cases aid to middle-income countries decreases faster than that other flows such as taxes and investments rise. In line with these observations, the experts emphasize the importance of investment in, and loans to, the middle-income countries. Many interviewees commend the Netherlands’ decision to provide direct assistance to quite a small number of countries, believing that the choice of recipients is based on the potential impact of the resources available.

### 3.3. Instruments: Dutch ODA and Beyond

When asked about the designation of the Dutch development finance, experts note that the Netherlands applies a unique set of development cooperation instruments. Most see the country as a leader in terms of private sector involvement, not only in terms of budget allocation, but also in terms of policy choices. A much mentioned example of this was the prominence of the Dutch Good Growth Fund (DGGF, see Box 6) and other measures to stimulate the role of the private sector for development. Although there is currently ongoing discussion with regard to the extent to which the DDGF will qualify as ODA, the experts point out its advantages. It is a revolving fund, which means that more can be done with less money. There might be advantages if DGGF is not (fully) financed through ODA; this way emerging economies outside the Dutch partner might also be eligible for funding through the programme that funds developmentally relevant activities. The choice for a combined ministerial portfolio of trade and aid is also seen as a progressive approach by most of the experts, although a few argue that a combination between aid and environment would make just as much sense because of the apparent links between these topics. It should be noted that, although the consulted experts are quite positive about the Dutch focus on the private sector, there have also been criticisms inside and outside the Netherlands on the strong attention for the private sector. These mostly concern the risk of Dutch private interests prevailing over the needs of the beneficiaries and of the unintended effects of private sector development (ActionAid, Both Ends, & SOMO, 2013).

Similarly, the relatively large share of the assistance budget which is channelled through NGOs and other development organizations—the civil-lateral channel—is a notable feature of the Dutch approach and one which enjoys a high level of public support within the Netherlands (as described in Chapter 5). In fact, the majority of Dutch citizens prefer to see development cooperation funding spent in this way. Notwithstanding the public support, the civil-lateral channel has to endure very large budget cuts: the 1 billion euro cut on aid that the Minister announced in 2013 will largely come at the cost of the Dutch development NGOs. Others have however criticized the long standing prominent position of Dutch civil-lateral channel. The OECD, for example, considers the practice of channelling Dutch assistance resources through Dutch NGOs to be circuitous when funds could be donated directly to local organizations (Development Assistance Committee, 2011).

### *3.3.1. Loans or Grants?*

All experts acknowledge the distinctly unique character of ODA. One respondent stated: “ODA is a small but precious source of finance.” In line with this, most of the consulted experts acknowledge the importance of continuing assistance to the poorer countries, although a few call for greater differentiation here too. The ‘least developed countries’ on the DAC list have the greatest assistance requirement, whereby it remains appropriate to extend grants. For those with a somewhat stronger economy (the ‘low-income countries’), concessional loans can also be an appropriate form of financing. The ‘fragile states’ are somewhat more problematic. Assistance is of great importance from the moral perspective. However, the fragile states lack adequate infrastructure and administrative capacity, whereupon it is far more difficult to ensure the effectiveness of assistance.

Most development assistance provided by the Netherlands is in the form of grants, but various experts point out the advantages of (concessional) loans, citing not only their efficiency but their effect in terms of mutual relations. A loan creates a more equal and more enduring relationship. Opinions are divided with regard to the role of grants and loans as assistance instruments. Some experts prefer a strict geographic and economic division: loans to the middle-income countries and grants to the low-income countries. Others believe that the choice depends on the nature of the project and target group. An infrastructure or energy project has a clear and largely predictable return on investment. An education project does not. The majority of experts agree that loans should be used with caution to avoid creating unmanageable debts.

**Box 6. Dutch Good Growth Fund**

The Dutch Good Growth Fund has been created to support private sector companies wishing to invest in, or export to, the low-income and middle-income countries. The underlying concept is that these companies’ involvement in those countries will create local employment and promote knowledge development, whereby the Dutch national economy will also benefit. The fund is regarded as one of the most significant achievements of Minister Ploumen’s term as Minister of Trade and Development Cooperation thus far. The original intention was that the revolving fund would be financed entirely from ODA resources, with a starting capital of 750 million euros. However, the proposed activities are not entirely in keeping with the formal ODA criteria. The development sector has raised a number of concerns. ActionAid, BothEnds, and SOMO (ActionAid et al., 2013) warn that it will be very difficult to ensure that all activities of the companies receiving support from the fund will indeed make a tangible contribution to development in the target country. In particular, export subsidies drawn from the fund would primarily benefit the Dutch private sector, contributing nothing to local development elsewhere in the world. As the fund is still quite new, there is not yet insight in the results of activities funded by DGGF.

### *3.3.2. Mobilizing Other Forms of Public and Private Finance*

Many experts emphasize the role of international public financing in the broadest sense, warning against adopting too strong a focus on ODA. Much more (public) financial resources than ODA alone are necessary to finance development, and it is highly unlikely that a new development agenda will be realized without also mobilizing private resources, both internationally and domestically. Several respondents mention the concept of a ‘solidarity tax’ as a way to mobilize international public funds, whether in the form of an international tax on financial transactions or on air travel, revenue from which can be used to finance the transnational issues. France is known to support such a tax. This type of public non-ODA instrument can be supplemented with innovative financial instruments, for instance through public-private partnerships. In all cases, independent monitoring of these flows is important. In addition, several experts mention ‘domestic resource mobilisation’, i.e. the generation of internal revenue through taxation. Although this is a matter for the individual country concerned, the Netherlands and other donors can provide support in establishing the necessary collection systems.

## 3.4. Donors and Recipients

Having acknowledged that poverty reduction and economic development demands international systemic changes, the experts are almost unanimous in the view that development cooperation is a global undertaking that demands input from all sectors of society. Nevertheless, they also state that it is difficult to involve actors other than the government itself in this broader approach amongst others due to problems of transparency and accountability. After all, democratic governments should provide information about development spending and can be held accountable for their actions—this is much more complex to ask from providers of private finance. In this regard, the potential and risks of involving the private sector as a leading actor for development are frequently mentioned by the experts. Many also underscore the indispensable role of the NGOs and philanthropic organizations. One respondent suggests that the private sector has assumed much of the government’s traditional responsibility in relation to development due to globalization, especially multinational companies and globalized product chains have become of great influence on the welfare of people in developing countries.

**Box 7. The Changing Position of the Netherlands as a Donor**

Asked whether the Netherlands’ international position has been eroded by its (temporary) abandonment of the ODA target, the experts express different views. The international experts point to the progressive character of the Netherlands and the influence which it has long held in the international arena, but also state that the country’s credibility has been dented by recent performance. One international expert states that the British Prime Minister David Cameron, who continues to strive to meet the 0.7% target regardless of domestic resistance, has been placed in a very difficult position by the Netherlands’ change of policy. Why should the UK step up its commitment to the target when one of the traditional 0,7% donors seems to abandon it? The Dutch experts, by contrast, regard the diplomatic effects of the government’s cutbacks to be extremely limited. Several welcome the appointment of Minister Ploumen as co-chair of the Partnership for Effective Development Cooperation, which they see as a way to strengthen cooperation between the various stakeholders and as a clear indication that the Netherlands wishes to retain its reputation as a leading participant in international development cooperation. The experts note that the Netherlands has new allies. In the past, it often sought cooperation with the Scandinavian countries, which were also among the larger donors. Today, the Netherlands tends to align itself more with Germany, Belgium and the United Kingdom, countries which have traditionally held a lower position in the ODA/GNI rankings (as does the Netherlands at present).

Almost all experts state that greater attention should be given to the wishes and preferences of the recipient countries. Although country programmable aid (CPA)—the type of aid that is programmed by donors with a significant say from recipient countries —has been rising over the last years, with 10.2% in 2013, the CPA towards low-income and least developed countries is expected to decrease by 5% (Organisation for Economic Co-operation and Development, 2014b). This can be seen as an indication that aid to those countries is still largely donor led and that LDCs and MICs have less options to spend aid according to their own preferences. As Figure 8 shows, Dutch CPA has been decreasing since 2008 but increased slightly in 2013. Although the Dutch share of CPA to the poorest countries is relatively stable, experts emphasize that there should be greater dialogue to ensure that the recipient countries receive the assistance and investments that they actually need. Several experts suggest that this does not only require a change in attitude for donors, but that recipients should actually show greater leadership in this respect. Some respondents suggested drawing up general donor-independent strategies which set out their objectives and the resources they need to attain them. Such strategies, which go beyond the country strategies produced for each donor, may also allow the donor countries to achieve greater coherence in their policy.

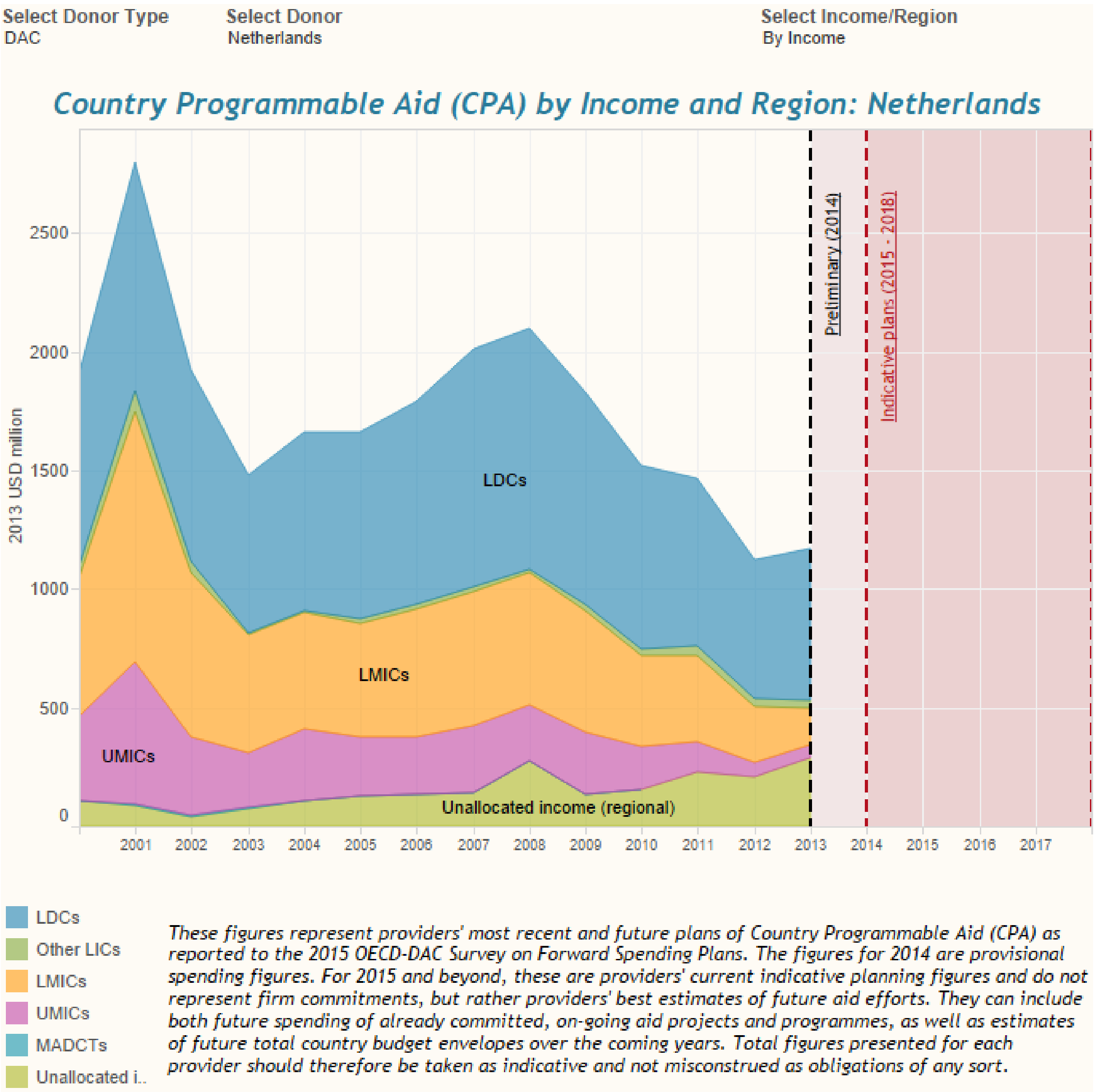



**Figure 8.** Dutch Country Programmable Aid and its recipients 2000-2013 (source: OECD, 2015c)

### 3.5. Effectiveness

Overall, experts commend the Dutch development cooperation policies on their strong focus on evaluation. The Netherlands is seen as a country that pays much attention on measuring the results of aid, especially through its own aid policy evaluation agency (IOB). It was also noted that the Dutch public debate on aid is very much centred on the notion of effectiveness, although some experts find that the current focus is very narrow and negative in nature. In line with that, some experts criticized the inherent focus of the ODA target on input, instead of results. Some experts preferred a more result-oriented target over an input-oriented target, because that would improve the monitoring of effectiveness and efficiency.

In terms of effectiveness, many experts criticize Dutch development cooperation because it involves so many different and changing actors and instruments. With ODA being a relatively small and—in the Netherlands—a decreasing source of finance, efforts and resources can quickly become fragmented. This makes it more difficult to have impact on a larger scale or over a longer period of time. Some experts believe that the same results can be achieved at a lower cost and that savings can be made through better coordination of assistance efforts and greater coherence. As was mentioned in one of the interviews, at the European level, costs could be reduced by between 3 and 6 billion euros (Carlsson, Schubert & Robinson, 2009).

In relation to the Dutch emphasis on the private sector and on partnerships, several experts emphasize that the effects of these policies are still unclear. Some interviewees take the view that blending and partnerships do not actually increase the financial resources available for development, but are used as a way of compensating for the reduction in the government's own budget. Private financing should be additional to the government's contribution, not an excuse for the government to do and spend less, several respondents contend.

**Box 8: Who Should Guard the ODA Definition and Collect FfD Data?**

The experts frequently refer to the OECD as the 'guardian' of the ODA definition given its historical monitoring role. The criteria and data collection system allow the contributions of donor countries to be accurately assessed and compared, but there are some cracks in the system. The emergence of new donors such as the BRICS countries has given rise to the question who should decide what aid is and who should collect data from donors. As some experts pointed out, the BRICS are not members of the DAC and do not feel very much at ease within the OECD. There have been pleas to move the OECD's role in monitoring aid flows to the United Nations which would be a more democratic platform. At the same time, all experts are very positive about the quality of the OECD's work and emphasize the expertise and experience of the OECD in this field. Some experts worry that this work cannot be carried out in such a way at UN-level.

### 3.6. Target and Definition of ODA

Almost all experts acknowledge the historic importance of the 0.7% target, particularly with regard to (political) commitment. They do however agree that there must be a clear modernization of ODA, although some experts propose more far-reaching changes than others. For a small group, the target is actually synonymous with development cooperation, while another group of experts point out that 0.7% of GNI is only a very limited contribution to all the various elements that must be in place to allow development, such as fair trade and good governance. They see ODA as a catalyst for development rather than the sole route to development. One respondent states that the Netherlands' adoption of the 'aid and trade' concept would have been even more successful had it not abandoned the 0.7% target as "the reasons for the change in policy would have appeared more sincere." Nevertheless, several experts praise Lilianne Ploumen's performance as Minister for Trade and Development Cooperation; a role she has filled well in difficult political circumstances.

Virtually all experts underscore that ODA remains a relevant financial flow, but the opinions on the continuation of the 0.7% target are quite mixed. A small majority of experts state that they have no objection to the idea of a target, but feel that the current target has become somewhat obsolete. Their reasons included the continuously low level of support among donors, the 70's based old-fashioned input oriented economic model behind the target—which is considered to be no longer applicable—and the restrictions in terms of actors, goals, and themes. Many experts find the introduction of a higher target of between 1% and 2% of GNI acceptable, whereby development cooperation should be a fully inclusive, society-wide undertaking involving various actors and financial flows rather than the government alone. This new target would go beyond the proposed TOSD, which includes only official flows: it might for example also take private sector investments and remittances into account, while the qualifying objectives might include development-relevant themes such as climate change, peace and security.

Although all experts agree that the current target of 0.7% of GNI is not enough to meet all challenges facing the world, several would be reticent to do away with a target altogether lest 'the baby is thrown away with the bathwater'. The target is not ideal but it is better than nothing. Some experts fear that, without a firm target, some donor countries would feel no responsibility to contribute towards development. One expert pointed out that the absence of a norm and monitoring system would remove all accountability. A small majority of the expert group favours the retention of the current target until an alternative international agreement is made. This is in line with the government's standpoint, the official policy of most Dutch political parties as stated in their manifestos (Spitz, 2012), and the conclusions of the Advisory Council on International Affairs (AIV) in its report 'Development cooperation: more than a question of definition' (2014). One expert is opposed to the idea of an internationally agreed target, contending that it is for each country to decide how and how much it wishes to contribute to international development.

Many experts expect that ODA will eventually be cast in a broader framework or set of agreements which require resources to be made available to address the global public goods. Some experts point out that such a model would offer greater opportunity to provide financial assistance to middle-income countries in the form of investments and loans with low or no levels of concessionality, which fall outside the current definition of ODA but are of potential relevance to development. In this scenario, ODA as such would specifically target the very poorest, least developed countries, while other financial means can help address inequality in middle income countries. Here, the views of the experts are in line with the proposals from the literature (as described in Chapter 2) in which ODA is part of a three-tailed approach, with other forms of (inter)national public and private finance (also) being used for creating greater economic equality in middle income countries and for addressing the global public goods. Figure 9 illustrates how such an approach could look like, using the categories of development financing as introduced by the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) that has also suggested a three-tailed approach to development financing. Some experts express concern that a broader target and definition could further dilute assistance to the very poorest nations; reserving ODA for LDCs and LICs alone could be a way of guaranteeing that ODA is used for its original purpose: furthering economic development in countries with little means to improve the lives of the world's poorest.

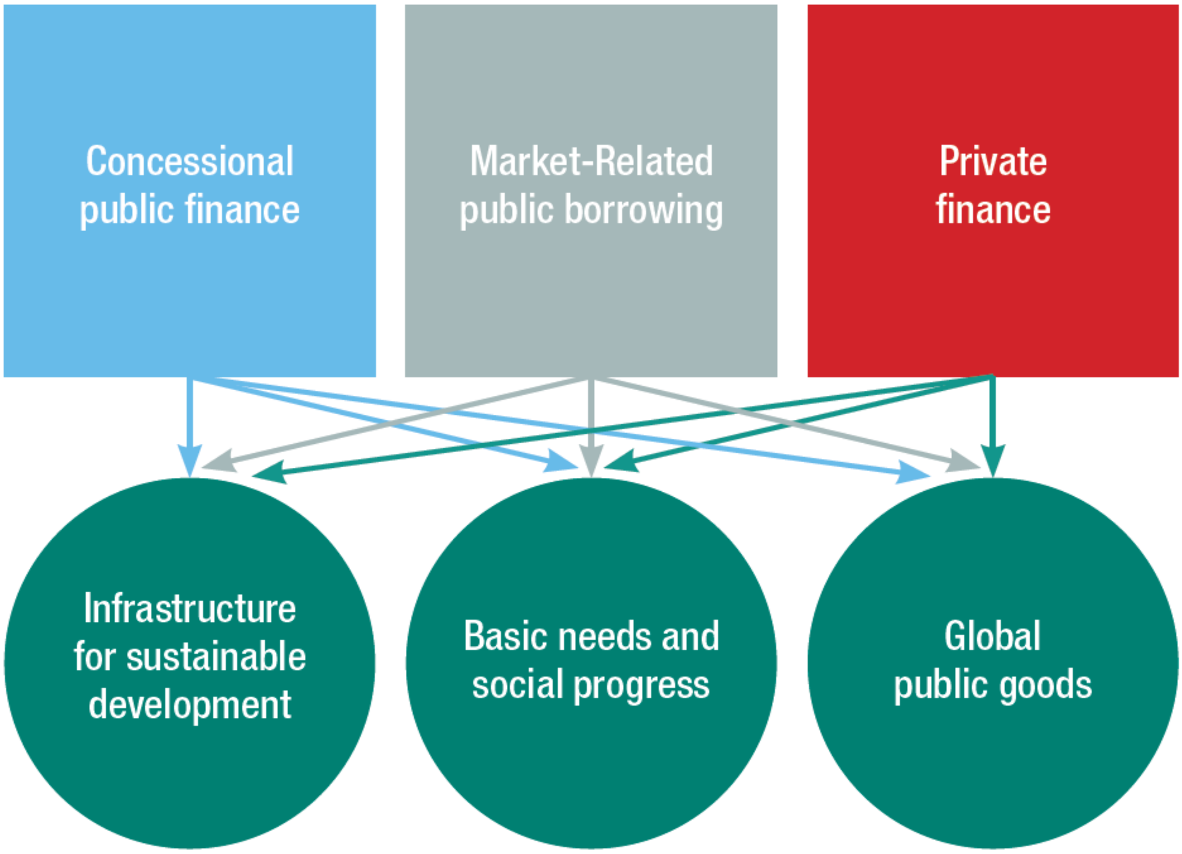



**Figure 9.** Finance flows and development goals (Kharas, Prizzon & Rogerson, 2015)

# 4. PUBLIC OPINION IN THE NETHERLANDS

**Summary**

- 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: two out of five Dutch citizens agree that there is a direct relationship between poverty in the developing countries and global challenges such as climate change. Transnational issues such as security, climate, and migration are low down the priority list.
- Despite a narrow view on preferred activities and spending by the Dutch government (ODA), the public does acknowledge a more inclusive form of developmental assistance in general. Private sector companies, NGOs and private individuals can all make an effective contribution to poverty reduction.
- 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.

Development assistance is financed with taxpayer money. For reasons of democratic legitimacy, it is therefore important to ascertain the extent to which citizens of the Netherlands support the objectives of development cooperation and the relevant expenditure. Previous research confirms that the Dutch show a high level of international solidarity. Two out of three Dutch citizens consider it important to help people in developing countries, a figure that has remained stable for several years (Boonstoppel & Van Elfrinkhof, 2014). However, support for government expenditure on development cooperation has been under strain. The stringent cutbacks announced in 2012 met with general approval, or at least little opposition (Carabain, Hoeks, Boonstoppel, & Hogeling, 2013). We therefore see that support for the principle of helping people in the developing countries is not the same as support for actually *spending* by the government on development assistance.

For this study, we conducted a survey of 1002 respondents.[4] The findings will give insight to which extent the beliefs of the public overlap with those of experts and the international community, indicating a possible gap between public and private sphere.

## 4.1. Goals: What should be the Objectives of Dutch Development Policy?

Within the international discussion on development assistance, there is large consensus about the fact that investing only in health care and education will not automatically reduce poverty. Real progress in poverty reduction and sustainable development also relies on solving transnational problems like climate change. The experts interviewed also agreed on the inextricable link between development and global issues. At the same time however, there is no consensus with regard to which themes should be financed from the development cooperation budget and which should not. Asked to state the themes which Dutch development policy should address, the Dutch public opted for a relatively narrow approach (Figure 10). Themes with a clear relationship to poverty reduction and improving living standards were by far the most popular. The traditional themes of education, health, and food

[4] Responses have been weighted by gender, age, region, education, and size of household to arrive at a representative reflection of Dutch society.

security were selected by one in every two respondents. Objectives which relate to sustainable economic development, such as political stability and capacity building, were selected with somewhat lower frequency. By far the least popular are the broad themes addressing the global public goods: security (9%), climate (6%), and in particular migration (2%) are priorities for only a very small number of respondents. The citizens' priorities therefore only partially correspond with those of current government policy. While government policy is largely concerned with promoting economic development, the public favour an approach in which the traditional social development themes are dominant.

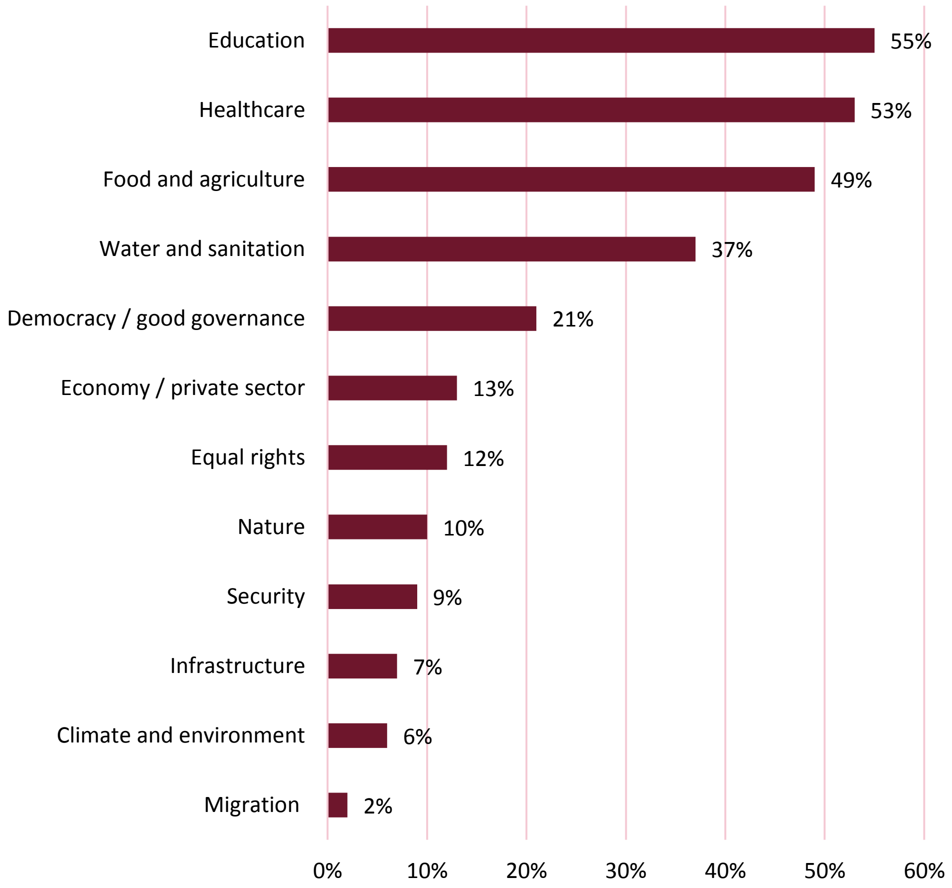



**Figure 10.** What should be the priorities of Netherlands' international development policy? You may select up to three themes (n=1002)

This narrow approach could possibly be explained by a concern about the 'dilution' of ODA: a fear that the budget is used to finance activities which are not directly relevant to development. Another possible explanation is however that not everyone shares the belief that reducing poverty relies in part on resolving larger, transnational issues. A supplementary question reveals that only two in every five respondents (42%) agree that there is a direct relationship between poverty in developing countries and global issues such as security and climate change (Figure 11).[5] This link—which is so evident to the experts and the international (political) community—is not clear to the general public, which may indicate a need for better information. The public seems to be unaware of the current dilemmas within the international (political) discussion about the future of development cooperation. This may indicate a lack of democratic legitimacy. Furthermore, since a broad approach of development demands input

[5] Further analysis reveals however, that even those respondents who do acknowledge a link are no more likely to select the global public goods (other than climate) as a priority of policy.

from all sectors of society, including that of citizens in their everyday behaviour, this unawareness might be extra worrisome.

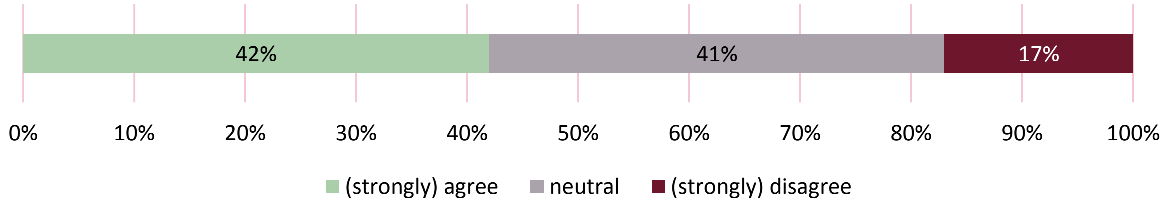



**Figure 11.** "Poverty in developing countries can NOT be regarded as unrelated to global issues such as climate change and international security " (n=1002).

**Box 9 The Dutch in the International Context**

Compared to those of other nationalities, Dutch people feel a strong sense of engagement with international affairs. The Eurobarometer survey finds that 88% of Dutch citizens consider it important to help people in the developing countries, compared to the European average of 85% (European Commission, 2015). However, only a relatively small number believe that poverty reduction should be among the top priorities of the national or European government. Personal willingness to help reduce poverty is high. Alongside the Swedish, the Dutch are most likely to pay more for Fairtrade products from the developing countries. The Dutch also lead the field in terms of individual action, whether donating to good causes or volunteering. Their generosity is confirmed by the World Giving Index, a ranking in which the Netherlands is in 12th position out of a total of 135 countries (Charities Aid Foundation, 2014).

***4.1.1. Focus: How should Government Development Assistance Funds be Spent?***

Respondents were also asked to select the specific activities to which government funds should be devoted. ‘Emergency relief following natural disasters’ and ‘building schools and hospitals’ gain the most support, with three in four respondents agreeing that it is appropriate to use government funds in this way (Figure 12). It is interesting to note that ‘climate change’ and ‘migration’ are also selected by a majority of respondents, although these themes are not high on their list of policy priorities as seen in Figure 9. Over half (57%) approve of government resources being used to mitigate the negative effects of climate change, while three out of four respondents approve spending on resettlement services for refugees in their own region. The reception of refugees here in the Netherlands, on the other hand, is one of only two aspects which the majority of respondents believe should not attract any government funding. Less than a third (29%) has no objection to resources being spent in this way. As seen, some experts also questioned why the reception and resettlement of refugees should qualify as ODA. The deployment of the Dutch armed services on peacekeeping missions also attracts relatively little support. Although the broader themes such as climate and migration attract somewhat more support than the ranking of policy priorities (Figure 10) would suggest, we once again see that respondents regard direct poverty reduction and emergency relief as the top priorities for the Dutch government. It seems that the Dutch citizen favours a relatively narrow definition of ODA, with a clear focus on social development.

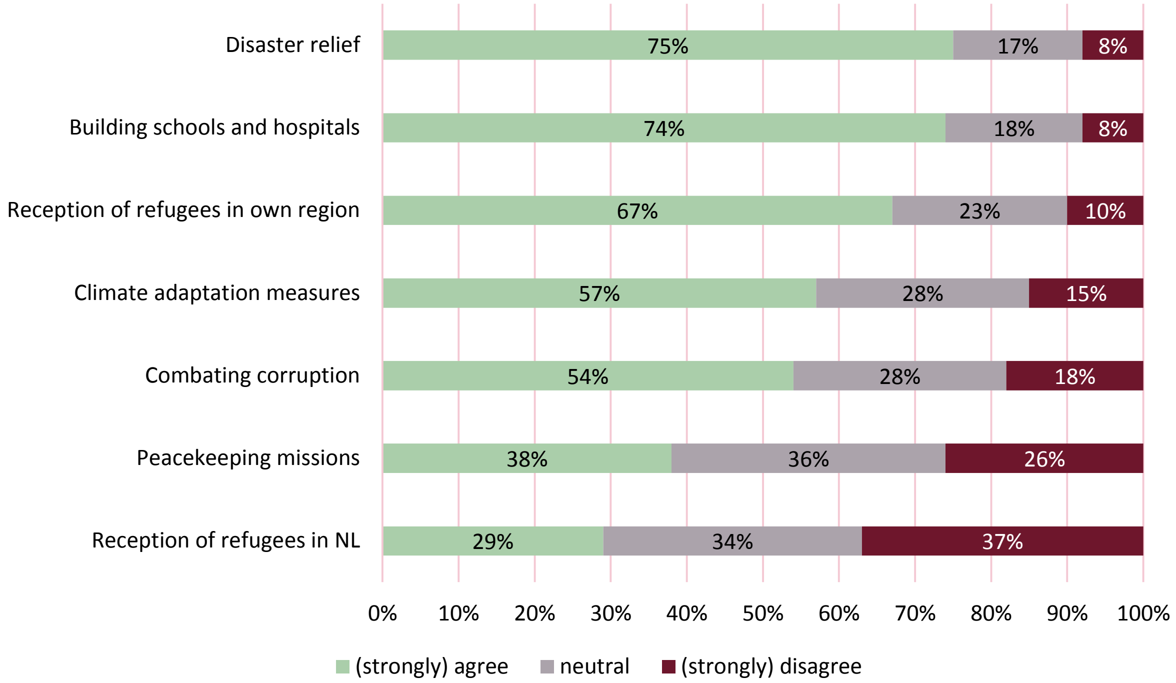



Figure 12. The Dutch government should devote the development assistance budget to the following activities (n=1002)[6].

#### *4.1.2. Locus: Where should Government Development Assistance Funds be Spent on?*

The preference for a narrow definition also applies, albeit to a slightly lesser degree, to the locus of development assistance spending. It seems the public disapproves the trend that the amount of official development assistance spent on least developed countries is falling, while the amount being spent on middle-income countries is increasing. Just over two out of every five respondents (44%) believe that the government's budget must only be used to assist the very poorest, least developed countries (Figure 13). A comparable number (41%) believe that the Netherlands must not provide financial support to a country whose economy is expanding (Figure 14). In both cases, we see a relatively large group of 'neutrals': respondents with no strong opinion one way or the other. Respondents are less ambivalent with regard to countries which are now in a position to give development assistance to others. A clear majority (68%) believe that they should no longer be eligible for any financial support from the Dutch government.

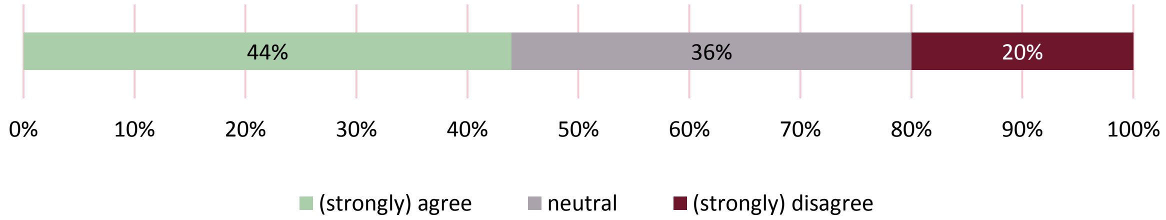



**Figure 13.** "The Dutch government's development assistance budget should only be used to support the very poorest, least developed countries" (n=1002).

Respondents are somewhat more casual with regard to the receipt of remittances. Only 24% find these grounds to withdraw financial assistance.

[6]Although the survey questions used a multi-point scale, the intermediate response categories '(slightly) agree', 'don't know/no opinion' and '(slightly) disagree' have been combined into the new category 'neutral' for the sake of clarity.

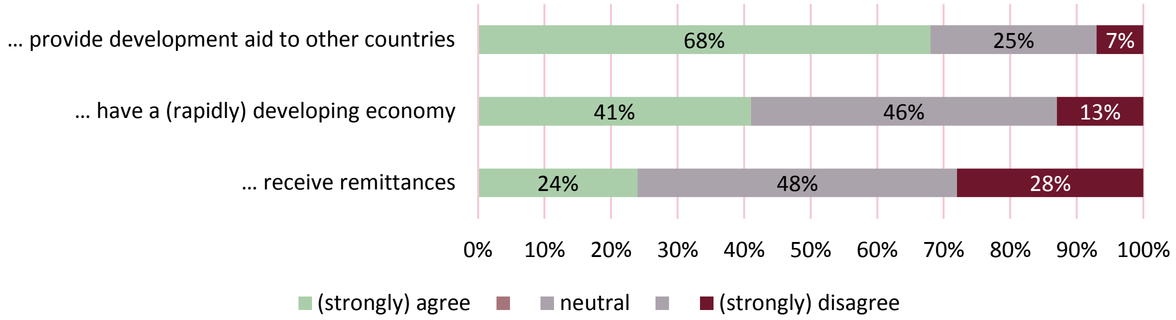



**Figure 14.** "The Netherlands must not give money to countries which..." (n=1002)

### 4.2. Instruments

As described in Chapter 2, there exist different types of financial flows within development assistance. Also within ODA itself, the government can opt to distribute assistance funding through several channels. In 2013, bilateral aid accounted for 24% of the total, while 34% was distributed through multilateral organizations, 20% through NGOs and 9% through the private sector (NCDO, 2012). It looks like the Dutch public would prefer to see a different allocation of resources. Just as the experts, the public seems to value the notable feature of the Dutch development approach in which a relatively large share of the budget is channelled through NGOs and other development organizations. They see the Dutch non-governmental aid organizations as the most appropriate channel, favoured by 42% (Figure 15). This form of financing form has been under great pressure in recent years due to severe budget cuts (see Chapter 2).

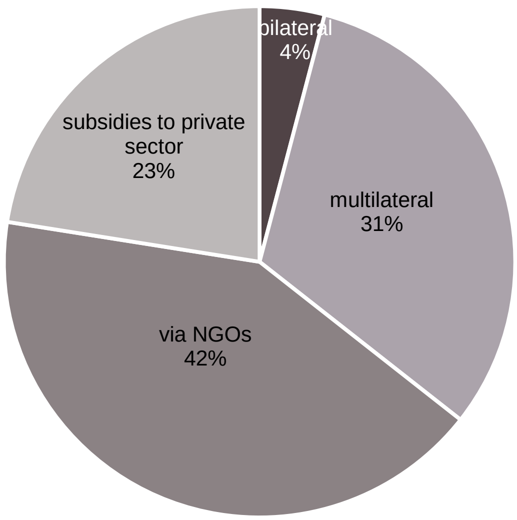



**Figure 15.** "Through which channel should the Dutch government distribute development assistance funding?" (Select 1) (n=1002)[7]

Almost one third of respondents (31%) believe government funding can best be distributed via the international multilateral organizations such as the WHO and the UN. Subsidies to private sector companies which invest in developing countries are favoured by 23%. Government-to-government assistance (shortened to 'bilateral' in the graph of figure 15) enjoys little support: only 4% would prefer government funds to be allocated directly by the government to partner governments, although in practice this channel represents approximately a quarter of the government's development assistance

[7] Bilateral aid is defined as money that is directly provided by the Dutch government to partner governments.

spending. This finding may be due to the popular perception of fraud and corruption on the part of foreign governments (Carabain et al., 2013). It is hardly surprising that respondents would oppose handing over public funds directly to (allegedly) unreliable parties.

Among the public, there is less agreement on the positive role of trade and private sector involvement within Dutch policy compared to the opinion of experts. Supplementary questions reveal that 50% of public support the distribution of development assistance in the form of subsidies to Dutch NGOs, while 34% has no objection to subsidies being given to Dutch companies, which invest in developing countries (Figure 16). Subsidies given to private sector companies to reduce environmental impact in developing countries find favour with 38% of respondents. A similar number (37%) support the allocation of funds to local societal organizations (such as trade unions) in the developing countries.

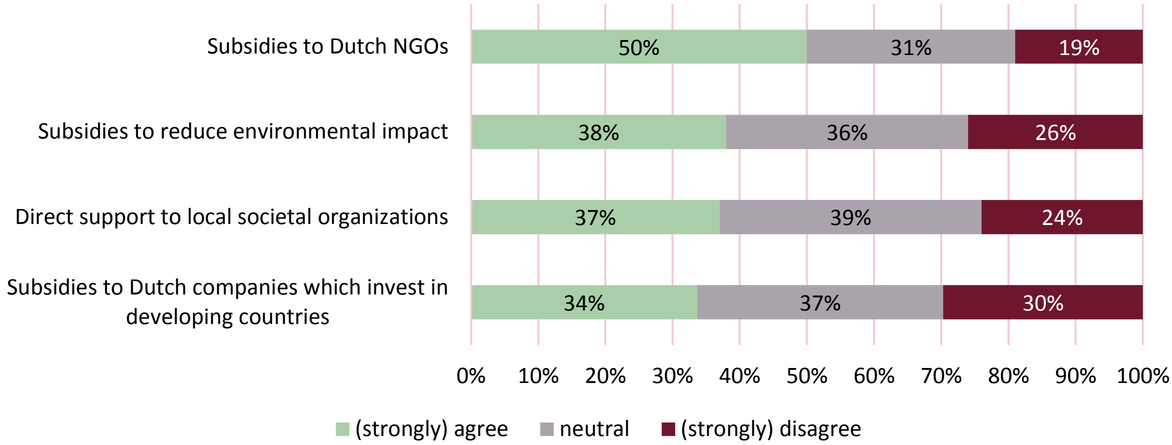



**Figure 16.** "The following activities represent a good use of the Dutch government's development assistance funding." (n=1002)

Where a third of respondents are in favour of any particular allocation of funds, it must be remembered that this does not mean that the remaining two thirds are opposed. Once again we see a large group of 'neutrals', outnumbering those 'strongly disagree' in each case. It could be that the public is still largely unaware of the fact that trade and cross-sectoral partnerships have been given greater emphasis within Dutch development assistance policy since 2012.

### *4.2.1. Loans and Debt Cancellation*

Various experts pointed out the advantages of loans. According to their views, it's more efficient and it creates a more equal and more enduring relationship. Among the respondents in our survey, however, it is one of the least favoured forms and is seen as rather ineffective. Of all types of assistance, only the reception of refugees in the Netherlands itself can count on less support. A minority of respondents (16%) favour the cancellation ('forgiveness') of debt further to loans extended in the past, while 39% do not (Figure 18). The remaining 45% are undecided or have not strong opinion one way or the other.

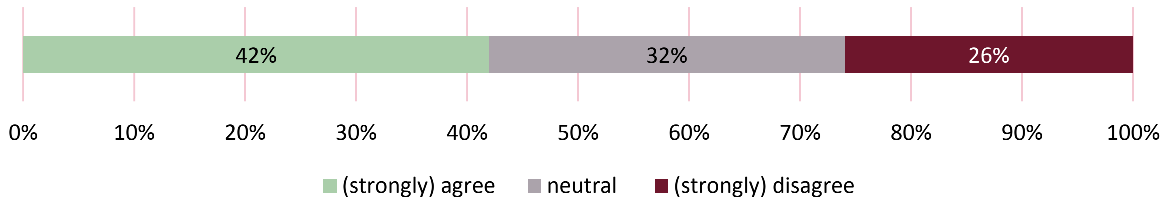



**Figure 17.** "Extending a loan to a developing country is an effective form of development assistance" (n=1002)

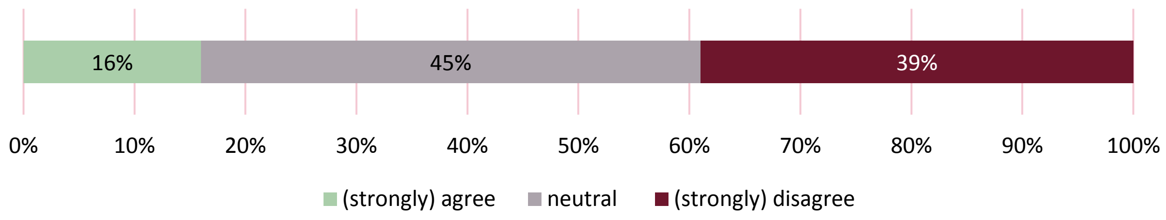



**Figure 18.** "The rich countries should cancel the debts of the developing countries". (n=1002)

### 4.3. Donors

As seen in Chapter 2, the UN recognizes four types of financing flows: domestic and international public flows, and domestic and international private flows. Thus far, we have focused on one form of international public financing: Official Development Assistance (ODA) by the Dutch government. This flow now represents an ever shrinking share of the 'external' financing for development, having been overtaken by other flows. Do the Dutch citizens consider this other financial flows to be development assistance? It is clear that most people see development assistance as broader than ODA alone. Private financing flows are also recognized as such. Almost two thirds of respondents (64%) regard projects financed with private funds (or funds raised through appeals and suchlike) as development assistance (Figure 19). Somewhat fewer (45%) believe that remittances fall under the definition.

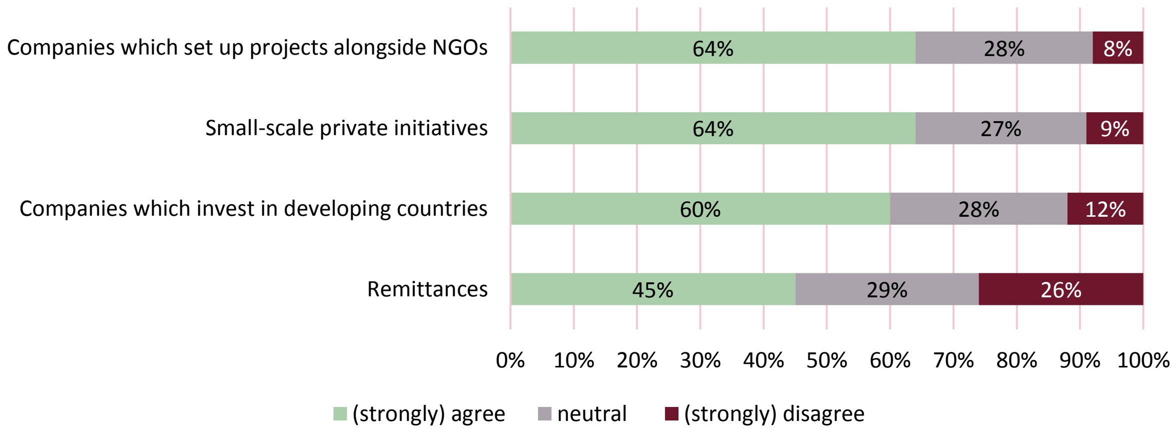



**Figure 19.** "Can the following activities be seen as a form of development assistance?" (n=1002)

The respondents not only acknowledge the role of private initiatives in development assistance, they also acknowledge the role that private sector companies can play. Almost two thirds (64%) regard partnerships between private sector companies and NGOs as development assistance, and only slightly fewer (60%) see private sector investments in the same light. Overall, the Dutch public acknowledges an inclusive approach in which various actors have a (financial) contribution to make. This is in line with current policy and reflects the desire for a fully inclusive, society-wide approach proposed by various experts.

### 4.4. Effectiveness

Within the international discussion about ODA, there is a growing emphasis on results (see Chapter 2). The idea that development assistance should represent value for money is shared by the Dutch public. It holds firm views, asserting that government funds must be allocated to projects which are known to be effective. Over two thirds (70%) state that funds should *only* be devoted to forms of development assistance which has been 'tried and tested' and which have produced good results in the past. Previous research have shown that ineffectiveness and the belief that money ends up in the wrong hands partly explains why Dutch citizens support budget cuts on development aid (Carabain et. al, 2013). The survey presented several possible forms of development assistance, of which 85% of respondents consider ‘training local farmers’ (whereby they will become self-sufficient) as the most effective (Figure 20). Almost three quarters (73%) regard ‘building schools and hospitals’ as an effective means of reducing poverty. Less traditional activities also find favour with the respondents: almost two thirds (60%) agree that private sector investments in the developing countries are potentially effective, while slightly more (63%) see the virtue of joint projects between private sector companies and NGOs.

Some forms of development assistance attract greater support when proposed in the context of effectiveness rather than when respondents are asked only whether they should be funded by the Dutch government. For example, we have seen that only one third of respondents support government subsidies to private sector companies, yet twice as many believe that private sector investment is an effective form of development assistance. This is in keeping with the standpoint of several experts, who contend that the private sector certainly has a role to play in development assistance, but this role should not necessarily be financed from ODA. Private financing should be over and above the government’s contribution.

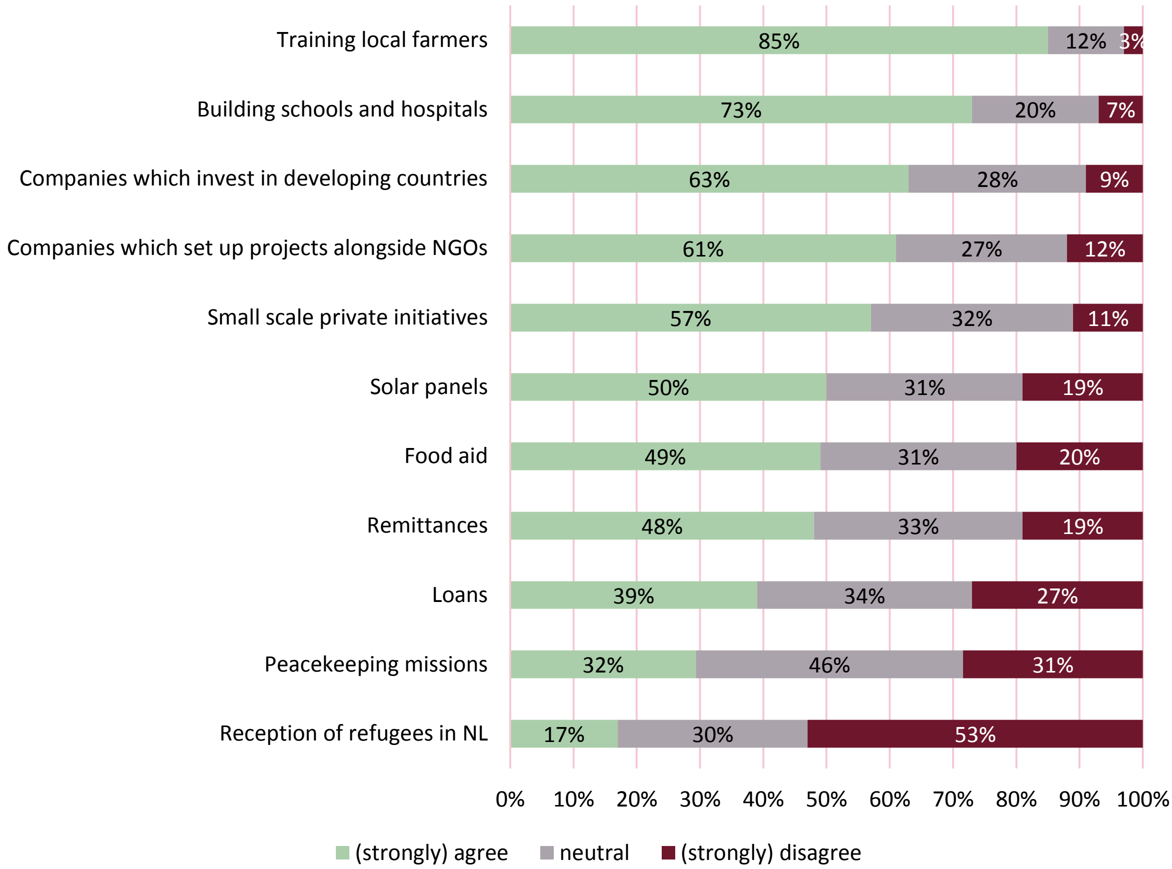



**Figure 20.** Do you agree that the following activities can help to reduce poverty in developing countries? (n=1002)

### 4.5. A New Target?

As seen in Chapter 2, the current 0.7% target is under pressure. There is a lack of commitment to meet this target. Plans for alternative international agreements are now being made. Some say such a prescribed target has no value at all. What does the Dutch public think of such international agreements? The majority (54%) agrees that it is important that (rich) countries make agreements on how much money should be spent on development assistance. Only 14% disagree.

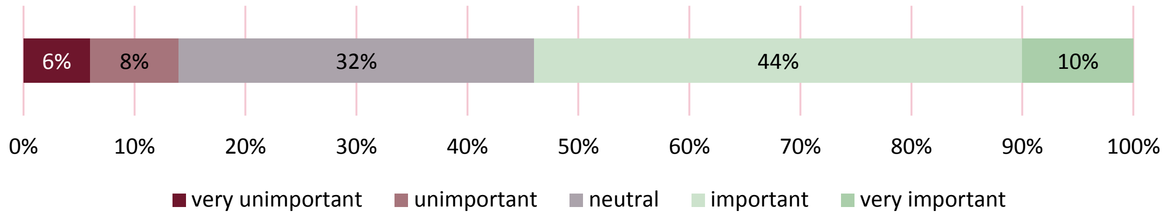



**Figure 21. "**How important is it to you that the wealthy countries decide together how much they should spend on development aid?" (n=1002)

The answer given most often by the supporters of such agreements is that these international agreements work as a forcing mechanism. Just like most experts, the public believes that without agreements some countries would feel no responsibility to contribute towards development. It is a way of securing international solidarity. A target by means of a percentage of GDP can also secure a proportional share by each country.

Those who oppose international agreements mostly fear that countries may lose their flexibility. In times of national economic hardships for example, countries must have the freedom to adjust the percentage being spent on development assistance. According to other opponents of agreements, every country should decide by itself how much of the governmental budget is devoted to helping poor countries. Following this, others explicitly say that the Dutch government should use this money to combat poverty *within* the Netherlands. Others say they oppose every form of development assistance, regardless of international agreements.

In sum, the Dutch find that ODA itself should be used mainly to create basic provisions for the very poorest people in the world. Traditional themes such as education and health should have priority.

Due to a lack of belief and knowledge about the interlinkages between development and global issues that can affect the Netherlands too, the public is unaware of the importance and future consequences of the current international debate on a new definition for ODA. As a result, they might not see the need for spending part of the development assistance budget on these broader topics once a broader definition of ODA is agreed on, thereby possibly undermining support for development assistance by the Dutch government in general.

# 5. IMPLICATIONS FOR THE NETHERLANDS: FINANCING DEVELOPMENT NOW AND IN THE FUTURE

**Summary**

- The Dutch historic leadership role in development cooperation is widely acknowledged, just as their progressive role when it comes to private sector development.
- The Netherlands has a strong basis to take (even more) leadership in the financing for development process and when it comes to internationally advocating innovative financing for development in general.
- Experts see 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 dimension would enable the Netherlands to take the following steps that contribute to the realization of a successful and adequate international framework to finance poverty reduction and sustainable development:
  a. Pressing for fully inclusive international agreements;
  b. Calling for policy and financial coherence for development in international policy while providing a good example in its own national policy;
  c. Acknowledging that various other actors, such as private sector companies, NGOs, and consumers can each make a unique and complementary contribution to poverty reduction and sustainability;
  d. 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. This will also release ODA resources so that more assistance can be provided to the least developed countries (in the form of grants or concessional loans);
  e. Addressing the problem of inequality in the middle-income countries. Strengthening the local civil society is an effective and relatively inexpensive way of doing so;
  f. Remaining in dialogue with the recipient countries and taking their requirements, preferences and wishes fully into account, while also ensuring due accountability; and
  g. Seeking ongoing cooperation with the private sector, not only through instruments such as the DGGF, but by acknowledging and leveraging the unique, (potentially) positive role of multinationals in particular and private sector in general.

Chapters 2, 3 and 4 provided an overview of the current international discussions on financing for development, the views of experts on the (inter)national debate and policies on the future of development financing, and the extent to which Dutch citizens share these views. This chapter looks at the implications of the current Dutch approach towards the financing for development process and the possible scenarios that the Netherlands might be heading towards, depending on the choice for specific priorities. We do this by developing a SWOT analysis of the Dutch role in the financing of development and by building on the literature and interviews to extrapolate the directions in which the Dutch approach could develop. This chapter does not pretend to be comprehensive. Various alternative scenarios exist for the financing of the Netherlands' development cooperation in 2025. The general view of the experts is that there will inevitably be changes: "We have reached the end of development cooperation as we know it." Sustainable development challenges require urgent and holistic action and the acknowledgement that official development assistance in its current form is not up to the challenges that the world faces.

## 5.1. The Role of the Netherlands

In the past, the Netherlands has been a fervent champion of international solidarity, often going beyond the requirements of international agreements. Over the past five years, the Dutch approach to development has changed: the policy focus has shifted from social development to economic development, with a stronger emphasis on enlightened self-interest. Due to the economic crisis, the ODA budget has fallen below the 0.7% target from 2013, although this has been communicated as a temporary measure that will be undone once the economic situation improves. The Netherlands has taken steps to modernize development policy, especially by targeting aid on a smaller number of countries, by combining trade and aid with hopes of more coherence and by stimulating private sector involvement for development. So, what is unique, positive and/or negative about the Dutch role in development aid and its financing?

Box 10 presents a SWOT analysis of the factors revealed by the interviews: the strengths, weaknesses, opportunities, and threats, which help to determine the Netherlands' role in international financing for development. In the past, that role has been strong, and the Netherlands has enjoyed extremely high credibility as a donor country. However, the Dutch approach has also been somewhat introspective. In political circles, the short-term interests sometimes appear to take precedence over the transnational, long-term requirements thereby constraining future-proof coherent policies. Because the Dutch have already let go of the 0.7% target, but are still respected in the international development community, the current momentum for broader and more universal financing agreements provide an opportunity for the Netherlands to assume a new kind of leadership role. As Box 7 shows, overall, the Dutch role in development assistance and its financing is rather positive and there are many opportunities to be identified.

**Box 10: SWOT Analysis of Dutch Policy**

**Strengths**

- History of 'good donorship' and adherence to the 0.7% target;
- Leadership role of Minister Ploumen;
- Relatively high level of untied aid to least developed countries and fragile states, demonstrating international solidarity;
- Relatively large donor;
- Front runner in the field of partnerships and in involving the private sector;
- Effective evaluation process.

**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;
- Little coherence and coordination within government policy;
- Political climate.

**Opportunities**

- Combined portfolio: International Trade and Development Cooperation that could result in increased coherence;
- Prominent role in Global Partnership for Effective Development;
- A successful DGGF can reaffirm the Netherlands' leadership role;
- Existing cross-sectoral partnerships;
- Make more use of Innovative financing;
- The expertise of NGOs is used more by policy makers, especially with regard to fragile states where official infrastructure is lacking;
- Stronger focus on least developed countries and fragile states;
- More attention for security and climate change;
- Combining poverty eradication and sustainable development;
- Recipient countries might obtain more independence in form and use of assistance;
- Potential positive role that the relatively large financial sector in the Netherlands could play for development and its financing.

**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;
- Further budget cutbacks could undermine the Netherlands' credibility and influence;
- Current opportunistic role of the financial sector.

The direction Dutch development cooperation now takes depends very much on the economic situation in Europe, the domestic political situation, and the number and nature of binding international agreements. Political leadership will be crucial, since policy in areas such as coherence and human rights does not rely solely on the economic situation. The experts underscore this stating that political leadership and greater alignment between policies and finance measures[8] will determine:

1. how the Netherlands takes the interests of the developing countries into consideration when financing the global challenges;
2. how partnerships for development assistance will be formed in the Netherlands; and
3. the priority given to the least developed countries within national policy.

### 5.2. Global Influences

Besides internal developments that influence the Dutch approach in the financing for development process, there are several external developments that are likely to determine the future form of financing for development in the Netherlands. Firstly, the economic situation in Europe will continue to have a significant influence. Despite the shifting balance of economic influence in the world, the EU and its member states accounted for 42% of all Official Development Assistance (ODA) in 2014 (Organisation for Economic Co-operation and Development, 2015a). Furthermore, the EU has a long history of promoting development as part of its foreign policy. Many experts therefore see the European leadership on development issues as well as the economic future of Europe as a decisive factor in whether the (alternative) targets can be met. If the economic malaise continues (or recurs), the ‘negative crisis narrative’ will remain dominant, and Europe is likely to take little action. Should the economic situation improve, then there will be an opportunity to make up for lost ground. The vast majority of experts believe that ODA will continue to exist for the coming ten years irrespective of the economic situation.

Secondly, the problems in the world will increasingly be expressed in terms of ‘global challenges’ such as climate change, resource scarcity, financial stability, security, fair trade, and global health. Development assistance will be seen as part of the solution, but it will certainly not be considered the ‘silver bullet’. In the future, the focus is likely to shift to the *effective* financing of action to resolve the global challenges, with due regard for the interdependence between all countries, rather than the provision of assistance for purely moral motives.

Thirdly, an increasing number of actors will become involved in addressing the global challenges (and in poverty reduction efforts). Some large multinational companies are already playing a more significant role in terms of sustainable development, partly because they are in a better position than governments to increase the sustainability of the global supply chains. As a result, the governmental financing flows via ODA will decrease in importance compared to other flows, such as direct foreign investment.

Fourthly, it must be acknowledged that poverty *reduction* is partially possible. Despite all good intentions, the international campaigns for getting poverty to zero and the expected major improvements in the middle-income countries, most experts however agree that the *eradication* of poverty is not possible within the foreseeable future, particularly in the least developed countries and fragile states.

### 5.3. Dimensions of the Future Dutch Approach

Based on these four main considerations, the SWOT analysis presented above, and the dynamics of the international debate, it can be concluded that the Netherlands must adapt its future financing arrangements to:

1. address the global challenges;
2. to accommodate the multiplicity of actors; and
3. to recognize the ongoing need to support the poorest <u>countries</u> in the world.

[8] In line with what the European Report on Development (2015) advocates.

Because the Netherlands is highly dependent on the economic development of Europe as a whole, this is considered to be the prime factor (alongside non-financial considerations such as political support and the possibility of arriving at international agreements) which will determine whether and how the Netherlands increases its financial commitment. The other prime factor influencing the Dutch role in financing for development, now and in the future, is the political and societal leadership. The case of the UK for instance has shown that neither the economic situation nor the liberal political climate have to be excuses to decrease the financial support for development. The Dutch role with regard to the financing of development has several dimensions that are not mutually exclusive. The Netherlands should find a balance between focusing on coherence, partnership, and solidarity with the least developed nations. Below we discuss the opportunities that these different dimensions provide and the risks associated with them.

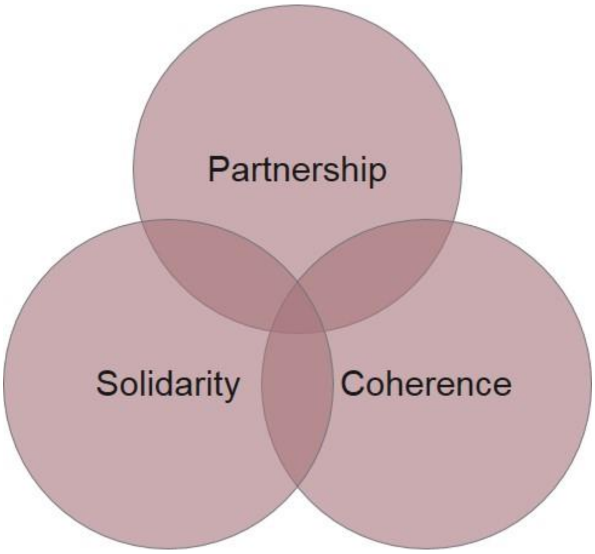



**Figure 22.** Required dimensions for a balanced and constructive Dutch role in development spending.

**Coherence Dimension**

It seems highly likely that by 2025 the Dutch government will not only be concerned with ‘aid and trade’ (with a ministerial portfolio combining international trade and development cooperation), but also with development assistance that will be linked to various other global challenges. Several experts mention a ‘minister of policy coherence and coordination’ or a ‘minister for global public goods’. It would therefore be good, in line with the WRR report (2010) to have policy coherence units in every ministry (Van Lieshout, Went, & Kremer, 2010). Other areas of policy and expenditure, such as agriculture, fiscal matters, defence, and climate, would then take into account the potential consequences for the very poorest people elsewhere in the world. The financial ‘fences’ between ministries will be dismantled in order to create a government-wide budget with which to tackle the global challenges.

It would be possible to ‘mainstream’ development assistance within the policy of all ministries where relevant to the global challenges. The danger of doing so is that the ‘development perspective’—the interests of the developing countries themselves—will be obscured because there is no central point at which those interests are upheld. Because the richer, larger middle-income countries have a major impact on global challenges such as climate change, this is where the lion’s share of investment will be directed, some experts believe. That investment is likely to include ODA resources, which will not be available for poverty reduction elsewhere. One expert speaks of a ‘trade-off’ between ODA and other global challenges. “The more [money] we devote to climate, the less ODA can increase, and *vice versa*.”

**Partnership Dimension**
The Netherlands has long enjoyed a reputation as a country in which societal organizations are invited to take part in decision-making and financing processes. It has a culture of inclusive consultation: the famous 'polder model'. This tradition serves to explain the high level of interest in partnerships as a component of development assistance policy. The experts express the hope that 'there will be a more natural cooperation between financing flows' and that 'the enormous amounts of money that are available will be used in a more adept manner.' As a trading nation and 'gateway to Europe', the Netherlands has close relations with many countries worldwide and has considerable experience in cross-sectoral cooperation, not only in development assistance. It can also claim a high level of expertise in measuring effectiveness. In this scenario, the Netherlands adopts a leadership role in collecting, processing, and publishing open data to reveal full information about the financing flows. It will create greater transparency with regard to the 'Other Official Flows' and this knowledge will be used to further enhance cooperation and coherence. The experts state that the success of this scenario is conditional on stability of policy, since actors such as the private sector and NGOs can only play their part if the rules and regulations remain consistent.

The possible downside of this dimension is marked by mistrust between the partners, leading to opposition and obstruction. This would be grist to the mill of the politicians and media commentators who accuse development cooperation of being 'ineffective'. Blame will be apportioned and there is likely to be a succession of scapegoats, with various actors being held responsible in turn. The position of the development sector itself is seen as crucial. If the NGOs fail to move with the financing flows for global challenges, cooperation will be much more difficult. The experts predict that it will be more difficult for the NGOs to obtain financing anyway, since an increasing number of financing instruments and subsidy procedures require projects to be designed as a 'business case'. At the same time, the experts acknowledge that it would be inappropriate to make the promotion of the private sector a sole priority of Dutch development assistance policy. Resources cannot be used efficiently if the partners do not trust each other, or where the financing flows offer no incentives for effective development.

**Solidarity Dimension**
In a better economic situation there will be more development finance available and more resources can be reserved for assistance to the very poorest people in the world. In keeping with UN proposals, development assistance will become a sort of 'global social protection floor' whereby the Netherlands will attempt to ensure that the poorest people have an income and proper amenities, such as water and sanitation. The allocation system will be context-specific: in other words, assistance will be tailored to the specific needs of the recipients. The private sector also has a role in this solidarity scenario: the 'bottom billion' is seen as the consumers of the future, who given the resources will wish to use the products and services offered by companies. In this dimension, the private sector does also take more responsibility with regard to labour circumstances and sustainable value chains, thereby becoming a contributor to sustainable development instead of a threat.

According to many of the consulted experts, the latter will be the dominant dimension of the Dutch focus in development financing. Whether it (and other scenarios) can actually be put into effect depends on several factors, including the economic situation in Europe and any strong international agreements. The significance of the Netherlands' role in international cooperation will also depend on political will. Aside from questions of budget and international agreements, the Netherlands can make certain choices which will either strengthen or undermine the coherence of international policy, and will either help to resolve the global challenges or make matters even worse. Minister Ploumen has already demonstrated her political will and influence by putting pressure on the international garment industry to improve working conditions in factories and workshops in the developing countries. As the experts point out, this type of action has enormous impact while requiring no major investment.

The experts believe that the Dutch public will continue to show ‘broad consensuses’ with regard to the desirability of helping the people in the least developed countries. What is less certain is whether the development cooperation budget will show similar resilience. In a negative economic situation in which there is little political support, further reductions to the development assistance budget are possible, and/or that budget could be used to further geopolitical and trade interests rather than to help those living in poverty—which has little immediate return on investment. As our research confirms, the Dutch public would prefer to see government funding devoted to social development, such as education and healthcare projects. The experts believe that the focus on the Netherlands’ own national interests will lead to a widening divide between public opinion and political policy. Only ‘emergency relief’ funding will be reserved to help the very poorest people in the world. In this scenario, it is likely that the private sector, under pressure from consumers, will take a more prominent role in promoting sustainable development than the government itself. The experts also see risks in terms of the future of development cooperation policy and its financing. The pursuit of coherence could lead to the dilution of policy; the various actors might compete with each other rather than present a united front, and concern for the least developed countries and the very poorest people in the world could be overshadowed by trade interests.

The Netherlands now stands at a crossroad. It would certainly be possible for our country to take a progressive, leading role at the international level. To do so, however, calls for ambition and commitment, neither of which can be taken for granted in the current political and economic climate. In today’s world, with its seemingly intractable poverty, greater inequality and numerous sustainability challenges, the Netherlands can once again take its place in the vanguard of global change if it is able to balance a focus on solidarity, coherence, and partnership, without getting caught in the negative aspects of these dimensions. The global challenges that the world faces today are so much all-encompassing and urgent that a holistic approach is needed in order to ensure more equality and justice in the world and to warrant the Dutch interests abroad.

# 6. CONCLUSIONS – TOWARDS A NEW AND FUTURE-PROOF DUTCH NARRATIVE ON DEVELOPMENT FINANCING?

2015 is a crucial year for poverty reduction and sustainable development. Without clear agreements about the adequate mobilization and use financial resources, both poverty reduction and the solutions to global challenges such as climate change, security, and financial stability are doomed to fail. It is for this reason that the Sustainable Development Goals summit in September and the Climate Summit in December are to be preceded by the Financing for Development Conference, to be held in Addis Ababa in July 2015.

National debates about development assistance (and finance) are indispensable to clarify process, focus, and outcomes of international debates (Vanheukelom et al., 2012). Therefore, the (inter)national debate about the future of development financing has been a central topic in this report. It focuses on the expected implications of the changing notion of global development finance for the Netherlands and its possible future role, building on desk research, interviews with experts, and survey research.

This study, based on a combination of qualitative research, opinion surveys, and a review of the literature, examines the current status of the discussion about financing for development. It attempts to set out the dilemmas surrounding the future of financing for development and the role that the Netherlands can play in this regard. The key research questions are therefore the following:

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?*

By comparing this perspective with the evolving international discussion on development finance, this study seeks to stimulate and nurture the Dutch political and professional debate on the future of financing development. For this study, we stood on the shoulders of giants, generously using the perspectives already provided in other reports from the Netherlands and abroad. This study advances, complements, and confirms insights from the existing reports through its specific focus on the Netherlands, by presenting unique insights from public opinion research and by providing specific insights on the modernization of the ODA/GNI target in relation to other forms of finance. It should be noted that the latter does require further research and elaboration for a better understanding of what new and broader targets for development financing would mean in practice.

### 6.1. Development Finance is more than ODA and a 0.7%-target

The financing arrangements for development are in urgent need of revision. The 0.7% target of the Official Development Assistance (ODA) from 1970 is an important focal point of attention. ODA is also a small but precious form of finance, dedicated to development and with a possible catalysing role. Nevertheless, the small focus on the 0,7% target and effectiveness in the Netherlands is diverting attention away from the five most important international dilemmas around development finance.

Firstly, we now know that poverty is not merely the result of a lack of resources, but 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. It is especially important that there is policy coherence for development.

Secondly, 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 (remittances and foreign direct investment for example) 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. For Low Income Countries and fragile states, ODA still is of utmost relevance and 0.25% (or more) GNI reservation is necessary.

Thirdly, 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.

Fourthly, cost effectiveness is widely considered as relevant but difficult to measure and focused on negative outcomes.

Fifthly, the (ODA) definition and (0.7%) target is out-dated and an input target rather than output oriented. While the precious dedicated definition is acknowledged the international (financial) commitment to the target is waning. Probably a (2%) target focused on financial commitment to solve global challenges would be of additional value, combined with an ODA ‘guarantee’ of 0.25% GNI for the low income countries and fragile states. However, further research is necessary to calculate the required financial resources for global challenges and poverty reduction. In this way the relevant targets are not only based on political compromise, but also with firm foundation in research.

### 6.2. Dutch Debate is Concentrated on a Small Amount of Topics with Politicians Notably Absent

The Netherlands has recently seen the publication of various advisory reports about the future of development finance, many produced by the official advisory councils to the Dutch government such as the WRR and AIV. Also the Dutch Ministry of Finance took the lead in an interdepartmental (IBO) review of the ODA definition. ECDPM has also been active, especially outside of the Netherlands. Many of them point to the importance of ‘global issues’ in financing a new development agenda, with some of them focusing on ‘ODA guarantees’ for the poorest and/or policy (and financial) coherence for development. From the NGO sector, there is a preference to stick to the 0.7% target, but the new ‘buzz’ is around to ‘monitor’ policy coherence for development.

The AIV (2015) advises the Dutch government to stand strong for ‘financial coherence’ and transparency of all financial flows in Financing for Development. According to the Advisory Council, it might be necessary to strengthen international tax regulation on tax avoidance and evasion, and illicit financial flows. Furthermore, the AIV proposes that the monitoring and coordination of financial flows is more explicitly taken up at a multilateral (UN) level; for example, by means of annual conferences including IMF, the World Bank, and UNCTAD.

Public and political interest in the evolving topic of Financing for Development is however extremely low. The average Dutch citizen endorses the concept of global solidarity somewhat selectively. He or she has a relatively narrow view on poverty reduction, and many Dutch people prefer development assistance resources to be spent on the ‘traditional’ policy themes such as health, food, water, and disaster relief, with a focus on the least developed countries. Transnational issues such as security, climate, and migration are given lesser priority, as is assistance to countries which are experiencing economic growth. Less than half of the respondents surveyed for this study acknowledge a direct link between poverty on the one hand and global issues such as climate change and international security on the other. Although support for the *principle* of helping people in the developing countries has remained high, support for actually spending public money to do so has recently been under some strain.

More problematic is the very little attention from politicians, 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—by the media. The forthcoming Sustainable Development Goals (SDGs) seem to be shrouded in secrecy, if not apathy. As the experts point out, this seriously undermines the Dutch position of Financing for Development. Important international agreements which will affect everyone in the Netherlands are about to be made without due discussion or even consideration by the people's elected representatives.

### 6.3. More Rigorous Debate Needed on Future Dutch Development Financing

The Netherlands has established a high international reputation as a relatively large, genuine donor with decade-long adherence to the 0.7% target. It is seen as a skilful donor, an innovator in areas such as measuring effectiveness and inclusion of the private sector and NGOs, and a leader in placing potentially sensitive topics such as sexual health and rights on the development agenda. Minister Ploumen's assertive co-chairmanship of the Partnership for Effective Development has been widely praised, as have her efforts to improve conditions for workers in the international garment industry. Internationally, its decision to abandon the 0.7% target has slightly undermined the Netherlands' credibility in the international arena. Even so, its opinions on development assistance continue to carry great weight in the international arena.

Nevertheless, the national debate in the Netherlands is only partly focused on the 'real themes' around financing for development. And the debate only takes place in small professional parts of Dutch society. However, the qualitative and quantitative research in this study indicates quite some public support for the Netherlands to play a leadership role in the new 'trending topics' around financing for development.

The WRR report on the 'future of aid' in 2010 gave birth to a new debate on development cooperation which in practice mostly led to a renewed focus on economic development and cost effectiveness. A new narrative with more focus on the 'global issues', policy (and financial) coherence for development while taking into account the traditional (ODA) solidarity mechanisms for the poorest and fragile states, would likely contribute to a more robust debate and more future-proof policies in the Netherlands. The national debates on development, foreign affairs and budgetary matters are currently at crossroads. With key upcoming international events on development finance, sustainable development goals and climate financing in 2015 a momentum for change to advance new national debate is shaped by the international environment. In addition to considering what responsibilities different types of stakeholders (NGOs, private sector, academia, government) have in modernizing the Dutch development finance debate, it could also be useful in the conclusion to highlight the key upcoming moments when there will be opportunities to advance this debate, whether in conjunction with international conferences or parliamentary discussions dealing with foreign affairs or budgetary matters.

### 6.4. The Netherlands as a Future Frontrunner in Development Finance

The Dutch historic leadership role, their longstanding expertise in development cooperation, and the Dutch progressive role when it comes to the role of the private sector in development, provide an excellent basis to fulfil an even more leading role in the financing for development process. The economic and political climate of the Netherlands has however somewhat constrained such a role over the last decade or so. The future domestic economic developments and the stability of the European Union will be some of the decisive factors when it comes to the Dutch approach in the financing for development process.

In the research process, seven steps were identified that can be instrumental for the Netherlands and other actors aiming to contribute future-proof financing for development policies:

1. Press for fully inclusive international agreements.
2. Call for policy and financial coherence for development in international policy while providing a good example in its own national policy
3. Acknowledge that various non-official actors, such as private sector companies, NGOs, and consumers can each make a unique and complementary contribution to poverty reduction and sustainability
4. Make 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. This will also catalyse ODA resources so that more assistance can be provided to the least developed countries (in the form of grants or concessional loans).
5. Address the problem of inequality in the middle-income countries. Strengthening the local civil society is an effective and relatively inexpensive way of doing so.
6. Remain in dialogue with the recipient countries and taking their requirements, preferences, and wishes fully into account, while also ensuring due accountability.
7. Seek ongoing cooperation with the private sector, not only through instruments such as the DGGF, but by acknowledging and leveraging the unique, (potentially) positive role of multinationals in particular and private sector in general.

Overall, this study acknowledges the need for a strong future Dutch approach to financing for development. Just as the SDGs are the result of a search for a more modern and universal agenda for development, the Netherlands is repositioning itself with regard to international cooperation. No longer one of the traditional patrons of development, but still a fore fighter of a just and sustainable world, the Netherlands needs to balance three policy dimensions: working in partnership with others, being effective and efficient through coherent policies while putting solidarity above direct self-interest. Not only experts support such an approach, Dutch society supports this role as well.

### 6.5. In Conclusion

It is not only international development policy itself that is at a crossroads due to the changing circumstances and challenges; The Netherlands is also at a junction when it comes to its role in development cooperation. It has the knowledge and experience needed to make meaningful contributions for a sustainable future and to be at the forefront of international efforts, assuming (or resuming) progressive leadership. It can play a major part in bringing about the essential innovation and modernization of development cooperation and the financing arrangements. To do so, however, calls for ambition, astute investments and political will, none of which can be taken for granted in the current political and economic climate. Nevertheless, it is clear that financing for development and the manner in which assistance is provided to other countries are already changing.

Whether the Netherlands continues to lead the way in international development cooperation is largely a question of political will, political leadership, and the decisions it makes with regard to the global challenges, partnerships, and safeguarding assistance to the least developed countries. As a small trading nation, the Netherlands has close ties with the rest of the world. There is a high degree of mutual dependency and its own interests are served by ensuring sustainability, welfare, prosperity, and stability elsewhere in the world. The Netherlands has much to gain and much to offer in terms of the modernization of financing for development. An essential precondition is a Dutch debate adapted to the 21$^{st}$ century needs on development finance which would acknowledge or re-confirm solidarity, mutual dependency, and policy and financial coherence, and is able to look ‘beyond the dikes’.

# METHODOLOGY

Kaleidos Research (part of the NCDO Foundation) carried out this study using three different research methods; desk research, survey research among the Dutch public, and semi-structured interviews with 16 key experts from knowledge institutions, national government, political parties, NGOs, and companies.

1. The desk research focused on relevant publications (policy documents and academic literature) from renowned sources. It enabled us to contextualise the empirical findings in this study and to offer the reader a more comprehensive overview of the financing for development debate. Publications were selected based on their relevance, recentness, and the importance of the author or source. The desk research did not aim to include all relevant publications, as it is impossible to do justice to all available sources.
2. The semi-structured interviews were conducted in January, February, March, and April 2015. Key stakeholders were identified, using a landscape and stakeholder analysis. The interviews were analyzed in a structured and replicable manner; based on literal transcriptions and using content analysis software. In the preparatory phase of the research (end of 2014), four additional experts were interviewed for exploratory purposes.
3. The survey was conducted online among 1002 respondents in February 2015, using the Computer-assisted Web Interviewing (CAWI). The fieldwork was done by TNS NIPO (Amsterdam, the Netherlands). In order to have a sample that was representative for the entire population of the Netherlands, the data were aggregated based on gender, age, region, education, and size of family.

Questions about this publication and the research methodology can be directed to the authors through: info@kaleidosresearch.nl.

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# ANNEX 1

**Annex 1: Consulted experts**
The research team conducted interviews with the following experts.

**Research institutes**
- Prof. Mirjam van Reisen - Professor International Social Responsibility at the University of Tilburg and Director of Europe External Policy Advisors (ESSEPA)
- Prof. Rolph van der Hoeven - Institute of Social Studies (ISS), Erasmus University Rotterdam (EUR)
- Prof. Hans Opschoor - Professor of Economics of Sustainable Development (ISS and EUR)
- Dr James Mackie - European Centre for Development Policy Management (ECDPM)
- Dr Robert Went - Scientific Council for Government Policy (WRR)

**Government**
- Peter Schuurman - Dutch Permanent Representation to the Organization for Economic Cooperation and Development (OECD), DAC Delegate
- Wim Jansen and Kim Solberg - Dutch Ministry of Finance, International Financial Institutions

**International Organizations**
- Wilem Luijckx and Frans Lammersen - Organization for Economic Cooperation and Development (OECD)
- Simon Dennison - European Commission, International Cooperation and Development
- Prof. Age Bakker - Former Executive Director International Monetary Fund (IMF)

**Politicians**
- Thijs Berman - Former Member of the European Parliament, PvdA

**Private sector**
- Herman Mulder - Executive Fellow Duisenberg School of Finance, True Price Foundation
- René de Sevaux - Financing Corporation for Development (FMO)

**Civil society**
- Youssef Rahman - Oxfam Novib
- Jeroen Kwakkenbos - Eurodad

**Other**
- Antoon Blokland - Bureau for Policy Research (BBO)

In preparation for this study, exploratory interviews were conducted with:
- Jan Bade and Margriet Kuster - Ministry of Foreign Affairs
- Koos de Bruijn - Partos (Dutch association of NGOs in international development)
- Prof. Arie de Ruijter - Tilburg University, Advisory Council International Affairs (AIV) and NCDO.