Belgium: more with less

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Overview

In a recent statement the Belgian Minister of Development Cooperation maintained, "the 0.7% remains important, but we must ensure that this discussion does not compromise other relevant questions. What results does Belgian development policy want to achieve?".[1]The Minister contends that efficiency and quantity are mutually exclusive. However, it could be argued that they should be seen as fully compatible and that it is crucial to focus on both efficiency and a robust budget for achieving the SDGs.

1. **The decline of Belgian ODA:** The OECD-DAC predicts Belgium will spend only 0.38% of GNI in 2019, down from 0.64% in 2010. Development cooperation is, of course, more than just a question of money. But how can Belgian cooperation continue to be relevant with such a drastic reduction in its budget allocations for ODA? Public finance for public goods such as education, health, and social protection is still necessary. Nonetheless, there is a need for a strong focus for development cooperation on poverty eradication and the fight against inequality.

2. **More challenges with less ODA, the case of international climate finance:** Belgium is addressing increasing numbers of global challenges with its ODA. One of these is climate change. The majority of Belgian contributions to international climate finance are paid with resources intended for development cooperation. Revenues from the European Emission Trading System (ETS) allocated for international climate finance in 2016 could, for instance, be considered as additional resources. However, their inclusion in ODA reporting conceals a decreasing development budget (for example in the case of the Flanders government). In fact, the resources provided for global challenges are not really increasing. However, since the Belgian contribution to international climate finance is relatively low, the impact on the development budget is not (yet) high.

3. **Belgian focus on the role of the private sector and its ability to lever ODA:** Following changing trends in development finance, Belgium is increasingly focusing on the potential of the private sector for reaching the SDG's. In 2017, Belgium launched the first 'Humanitarian Impact Bond', promoting a result-based approach to increase both efficiency and overall development impact. However, these types of bond represent a relatively small niche, as their potential in developing countries still face many challenges. In terms of additionality, which is ultimately the goal, current evidence suggests this is a key issue. In the context of declining ODA, it is important to ensure that the overall cost of new instruments does not lead to a further reduction of public budgets for development.

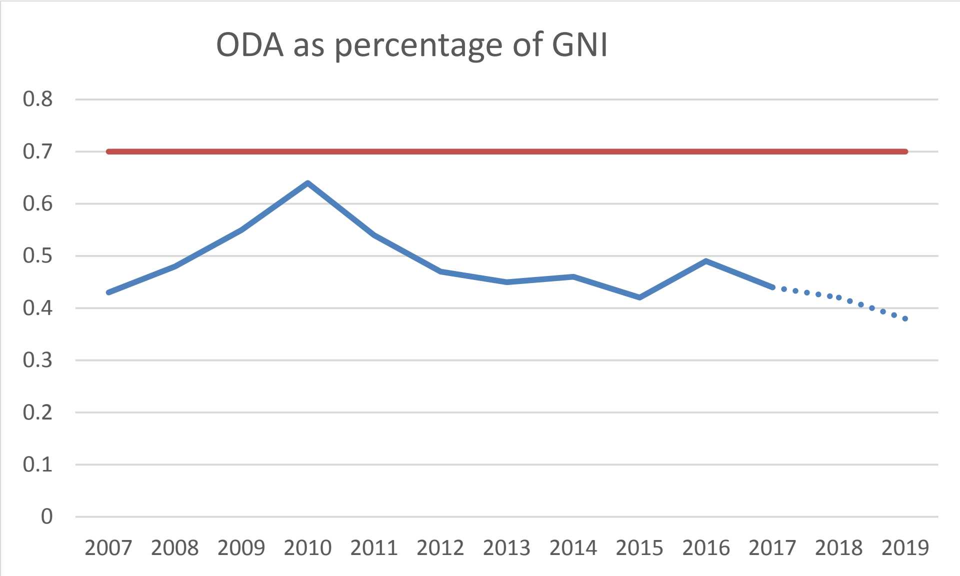
1. The decline of Belgian ODA and the role of development cooperation

Far away from internationally committed standards

Although it is a legal obligation in Belgium, the 0.7% goal is certainly not a priority for the current Belgian government. Linear cuts were decided on in 2014 (€1,125 billion), and there have been increasing levels of under-spending in the budget (€560 million to date). As a result, in 2017, Belgium contributed only 0.45% of its GNI to ODA. The OECD-DAC predicts this performance will fall to only 0.38% of GNI by 2019, down from 0.64% in 2010.

Belgium is thus further than ever from the objective of contributing 0.7% of its GNI to development aid. Despite this performance, it committed itself to this goal in 1970, 2002, 2005, 2011, 2013, 2014 and 2015. No plan to reach the 0.7% goal has ever been defined. Belgium is also moving away from being a member of the leading group of donors at the global level.

The Belgian Federal Council for Sustainable Development has representatives of various social groups): environmental organisations, development cooperation organisations, consumers', employees' and employers' organisations, youth organisations and the academic world. The Council made a clear statement in the run up to the United Nations High Level Political Forum in New York in July 2017: "With just below 0.5% of gross national income currently spent on official development assistance Belgium still has some considerable catch-up effort to make in order to reach the internationally set 0.7% target which was recommitted to in the context of the 2030 Agenda."[2]



In a more welcome move, Belgium's budget for humanitarian aid has recently increased from €102 million in 2014 to €177 million in 2016. While this is highly important, Belgium must ensure that it also maintains financing of long-term development programmes, especially in the least developed nations, which make up the majority of Belgium's 14 prioritized partner countries. In 2016, 21% of the budget of the development administration (DGD) was spent on humanitarian activities, primarily in Syria and neighboring countries.

Discourse about impact less and less credible

The proportion of Belgian aid spent by government departments other than the Department for Development Cooperation (DGD) has continued to grow in recent years. In 2016, the DGD was responsible for managing only 55% of Belgian ODA, down from 67% in 2013. The main reason is the increased spending of ODA by the Federal Agency for the Reception of Asylum Seekers (Fedasil). This accounts for almost 17% of the total ODA in 2016 - five times its volume in 2010. In 2017 it is still 14,3% and Belgium is one of 9 of the 29 OECD-DAC countries contributing more than 10% of its ODA in 2017 to in-donor refugee costs. Since 2015, the strong increase of in-donor refugee costs made Belgium the first beneficiary of its own development aid.

Given this combination of disproportional savings on international solidarity in Belgium (€1.5 billion since 2014) and the increasing use of ODA to tackle challenges not directly linked to development cooperation, the Development Minister's political discourse on the importance of aid effectiveness and impact is becoming less and less credible. His statements could even seem contradictory, as aid effectiveness itself depends on the availability of sufficient and predictable budgets to support long-term development strategies. Without sufficient budgets, the results-oriented policy advocated by the Minister for Development Cooperation will remain wishful thinking.

Development cooperation as an instrument of foreign affairs

In 2016 the Belgian government approved a new strategy paper (the so-called *comprehensive approach*) to ensure that the different instruments of foreign policy, including development cooperation, demonstrate improvements in coherence and efficiency. The link between the methodology and the aims of this approach, however, is unclear. It does little to safeguard and sustain the crucial objectives of development cooperation and to retain developing countries' and their citizens' leadership of their development processes. Given the trends at the EU level, there is a legitimate concern that instrumentalising development cooperation to meet security, commercial and migration objectives risks undermining the fight against global poverty as the primary objective for development cooperation, as stipulated in the Lisbon Treaty's global development objectives and in the Belgian Law on Development Cooperation. The wish to increase collaboration amongst different departments does not discharge Belgium from its responsibility to guarantee policy coherence for development, as anchored in the law.

2. The case of international climate finance

At the Paris Climate Conference in December 2015, Belgium pledged to spend €50 million annually for international climate finance for the next five years, until 2020. This is the same yearly amount as provided during the Fast Start period for climate finance (2010-2012). In practice this means that Belgium did not actually promise an increase, as was agreed internationally in the 2009 Climate Conference agreement in Copenhagen. In fact €50 million is low compared to contributions by other countries and what was agreed to internationally (US$100 billion annually by 2020).

In Belgium, all the regions (Walloon, Brussels and Flanders) and the federal government contribute to climate finance. In 2016, both Flanders and the federal government – which accounts for the largest part of Belgian contribution –used portions of their development budget to fund their commitments to international climate finance.[3] This analysis will focus on 2016, as official reporting on international climate finance in 2017 will not be published until September 2018. We argue that Belgian international climate finance is insufficient and is not additional to its commitments to development finance.

Increase in 2016

The reported amounts for climate finance have varied considerably from one year to the next. In 2016 it just exceeded €100 million for the first time. Two factors led to this increase. Firstly, this increase was the result of an agreement reached in 2015 between the regions and the federal government, in which the regions pledged to contribute to climate finance. There was therefore a significant increase in the contributions from the regions. This agreement also affected the distribution of ETS revenues. Part of these revenues, which had been blocked since 2009, was finally made available to the regions in 2016. Without the 2017 expenditures, it is difficult to estimate whether this represents a structural increase. However, seeing that the regions spent most of their ETS revenues budgeted for international climate finance in 2016, and that the Belgian commitment stays the same, it is unlikely that Belgium's contributions will exceed €100 million in 2017. The final numbers of the Flanders region for 2017, which are already available, show a sharp decrease in contributions for climate finance compared to 2016. Belgium needs to commit to a structural increase in its climate finance objectives.

More challenges with less resources

As discussed above, Belgian ODA is decreasing. In addition, there have been increasing challenges to the protection of this budget for its original purposes. One of these challenges relates to climate change finance. In 2016 Belgium reported 83.3% of its climate finance commitments as ODA. This reporting takes two forms.

Firstly, Belgium scores development projects with Rio Marker purpose markers as 0 (no climate objectives) 1 (significant climate objectives) or 2 (primary climate objective) in relation to their climate finance purposes. While the federal level (which delivers most of the climate finance) uses a strict methodology for this scoring,[4] it can hardly be argued that it complies with the criteria of 'new and additional' climate finance. Furthermore, this method was never approved under the UNFCCC as a way of accounting for international climate finance. The OECD developed it for another purpose – tracking the mainstreaming of climate relevance in development projects. The OECD does not represent all parties to the UNFCCC, only the rich, donor countries.

Mainstreaming the climate challenge in development cooperation is important for sustainable development, but to comply with international agreements on climate finance, additional resources should be made available.

The second issue relates to Belgium's contributions to multilateral climate funds such as the Least Developed Countries Fund (LDCF), Adaptation Fund (AF) and the Green Climate Fund (GCF). The majority of these contributions are paid with the decreasing budget of development cooperation. In this case, the contributions can legitimately be classified as 'new' but not as 'additional'.

Because the Belgian commitment for international climate finance is low, the impact on the development budget is not (yet) high. However, if Belgium gradually increases its contribution to be closer to its fair share of the promised US$100 billion by 2020, without budgeting additional resources, the impact on other development priorities such as education, health and poverty eradication could be substantial.

Belgium blends its promises and obligations for development cooperation and international climate finance in ways that can be confusing and misleading. This is risky business. Both development cooperation and international climate finances are important for sustainable development and global security. It is especially incoherent for a minister who claims humanitarian aid is one of his priorities, as there is a direct link between climate impacts and increasing humanitarian needs. Given this stance, it should also increase its contributions to international climate finance independent of resources that have already been allocated for development cooperation. Belgium should take its historic responsibility for the climate problem seriously.

ETS revenues for climate finance

One positive trend is that part of the Belgian revenues from the auctioning of allowances under the European Emission Trading System has been allocated for international climate finance. In principle this allocation could lead to real additionality. Unfortunately, this did not prove to be the case in 2016. There are two factors to consider.

Firstly, the amounts dedicated to international climate finance were not enough to comply with Belgium's promises to climate finance. This meant that only a part of international climate finance was paid with ETS revenues and were therefore additional. For the federal government, there is a big gap between what is available (€32.6 million in total for the period 2015-2020) and what was promised (€25 million per year until 2020). The remaining part to fulfill the commitment is once again paid by using the development budget.

The second issue is that, by including these resources in Belgium's official ODA reporting, the government is concealing a decreasing development budget. This situation is especially visible at the Flanders level, where the share of climate finance in official ODA reporting went up from 13% in 2015 to 33% in 2016 because of the ETS revenues (and decreasing core budget for aid). Belgium should increase the amount of ETS revenues used for international climate finance, and make a clear separation in reporting of these amounts. It should also increase its core development budget.

3. Impact bonds: Looking for social investors for sustainable development

In September 2017, Belgium launched the first *Humanitarian Impact Bond* (HIB) with the International Committee of the Red Cross. This Bond created €23 million to support rehabilitation programs in Mali, Nigeria and the DRC.[5] This kind of innovative finance is considered necessary in the reality of an increasing number of humanitarian crises. At the same time, there is growing support for a results-oriented approach, with well-defined and measurable outcomes. But pertinent questions remain. How can investors be convinced to finance high-risk projects in conflict and fragile countries? Is it possible to guarantee that these instruments will succeed in providing *additional funding* when considering the overall cost?

Changing trends in development finance

There has been a real paradigm shift in the debate and practices of development finance. Following the commitments made by the *Addis Ababa Action Plan*, development finance has become more diverse, with a strong emphasis on domestic resource mobilization in developing countries. There is also a growing support for private finance to focus on achieving the Sustainable Development Goals. Innovative financing instruments such as impact bonds are increasingly promoted as a way to increase the efficiency and effectiveness of development funding.[6]

Impact investment is primarily aimed at "social impact investors" who are seeking more than just financial benefits in their investments. Instead they aim to realize both positive social impact and financial returns. According to recent data from the Global Impact Investment Network (GIIN), impact investment continues to grow with an expected increase of 18% per year among currently active impact investors.[7]

Introduced in the UK in 2010, 'social impact bonds' have been used to finance social projects with assistance from private investors to relieve the pressure on government budgets. So far, the UK and the US are the front runners in the use of these bonds. In Belgium, this type of investment has kicked in although to date the number of projects is limited.[8] Exploiting the potential of impact bonds for development finance is a more recent phenomenon. While still relatively uncommon in developing countries, the quest for additional finance has brought impact investing within the radar of donors and other development actors. This is where development and humanitarian bonds have been introduced.[9]

Development and humanitarian impact bonds

Development or humanitarian impact bonds are variations of social impact bonds and the key principles are more or less the same. They set up public-private partnerships to mobilize private investors to finance projects where the return is linked to clear and measurable results. Service providers, usually social organizations or multi-actor groups, are expected to deliver these results. The 'outcome funder', which is usually the donor government, compensates the investors when predefined results have been obtained. For the donor government, this externalizes risks, which is, of course, a good thing. In practices it means that the risk is borne by the private investors, who lose their money in case of disappointing results.

In the recently issued humanitarian impact bond, the International Committee of the Red Cross (ICRC) is the service provider while the Belgium government is one of the group outcome funders.[10] To prove their efficiency, the International Red Cross will have to deliver results. If the new rehabilitation centers do not perform well, they too risk losing money, as they will have to refund part of the costs to the investors.[11]

Innovation for more impact?

The HIBs and DIBs respond to the rising appeal for multi-stakeholder partnerships to increase overall (development) impact. A critical question is whether they will serve as a catalyst for additional funding for development. The humanitarian impact bond brings in €23 million, which is a rather small amount compared to the US$1.7 billion ICRC's annual budget.[12]

Other questions must also be examined. If the cost of time required to create this kind of innovative finance is included, its benefit in a developing context is not self-evident.[13] By law, the maximum duration of Belgian humanitarian programs was two years. To finance the bond, a change in the law was necessary. For assuming the risks, investors can expect a return up to 7% when the project succeeds. Adding management and evaluation costs, this inevitably raises questions on the degree of additionality in finance.[14]A second concern is how to avoid crowding-out effects. For example, when private capital comes from philanthropic foundations, there is a potential risk that any 'additional' money will be compensated by a reduction in grants for NGOs, thus establishing a *substitution* rather than an *addition* of funding. Early data suggests that raising additional capital for developing countries is a key issue.[15]

A similar concern relates to the identification and measuring of additional (development) impact. With an increased emphasis on measurable results as well as private investors' being wary of high risk ventures, chances are that funding will be primarily allocated to projects that are likely to deliver measurable outputs with minimum risks. Though results are certainly important, overall development impact is difficult to assess and often only visible a considerable time after a project has ended. Impact bonds are therefore not likely suited to 'quick fixes' for development issues, or to important areas involving high risk, and should not be promoted as such.

Whether impact bonds will move from their experimental phase as an instrument for development remains to be seen. Transparency, monitoring and evaluation, will be key components to assess whether there is a development impact. Any involvement of private actors must include clear regulations to avoid scarce resources being wasted. Civil society organizations have highlighted the need to ensure new instruments aimed at mobilizing private finance should not be considered a silver bullet. Public finance remains crucial to guarantee social services such as health care and education.

Conclusion

Belgium will hold federal elections in May 2019. It is crucial that the new government focuses on efficiency and a robust budget for achieving the SDGs. This means honouring its commitment to spend 0.7% of GNI for development assistance. Belgium should respect this commitment, which is consistent with the Belgian law on development cooperation and OECD aid directives, both of which are dedicated to tackling poverty and inequality.

On climate finance the Belgian government should take their historic responsibility seriously and increase their contributions without touching the resources allocated for development cooperation. Belgium should also increase the amount of ETS revenues used for international climate finance and make a clear separation between development cooperation and international climate finance in its reporting.

In its search for new types of financing for development, Belgium must ensure that private instruments such as impact bonds provide additional sources of funding. New financing instruments should always meet transparency rules and be able to prove their effectiveness to achieve development goals. Most importantly, the use of impact bonds must not divert scarce public resources for the repayment of one-sided investments. While results and measurable outputs are important, development impact requires that projects are locally demand-driven and have the potential to be self-sustainable over time.

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[1] De Croo, Algemene beleidsnota 2016, p.5.

[2] Pathways to sustainable development. First Belgian Voluntary Review on the Implementation of the 2030 Agenda, https://www.sdgs.be/sites/default/files/publication/attachments/nrv_belgium_english.pdf July 2017, p 64.

[3] The following discussion of Belgian climate finance is examined as a whole, without the distinctions between the different entities.

[4] 11.11.11 (2016). Creatief met klimaat: hoe landen hun beloftes voor het Zuiden uithollen. http://www.11.be/downloads/doc_download/1927-11-dossier-creatief-met-klimaat

[5] https://diplomatie.belgium.be/en/newsroom/news/2017/humanitarian_impact_bond

[6] https://www.cgdev.org/sites/default/files/investing-in-social-outcomes-development-impact-bonds.pdf

[7] https://thegiin.org/assets/GIIN_Roadmap%20for%20the%20Future%20of%20Impact%20Investing.pdf

[8] https://www.brookings.edu/blog/education-plus-development/2018/01/17/paying-for-social-outcomes-a-review-of-the-global-impact-bond-market-in-2017/

[9] https://www.mo.be/de-ontwikkelaars/ontwikkeling-met-priv%C3%A9geld-wordt-duur-betaald

[10] Other outcome funders are Switzerland, The UK, Italy and the “La Caixa” foundation.

[11] See:
https://www.dekamer.be/kvvcr/showpage.cfm?section=qrva&language=nl&cfm=qrvaXml.cfm?legislat=54&dossierID=54-b068-863-0435-2015201608150.xml

[12]https://www.economist.com/news/finance-and-economics/21728627-social-investors-aid-donors-and-humanitarian-organisations-join-forces-new-bond

[13]https://www.economist.com/news/finance-and-economics/21728627-social-investors-aid-donors-and-humanitarian-organisations-join-forces-new-bond

[14]https://www.dekamer.be/kvvcr/showpage.cfm?section=qrva&language=nl&cfm=qrvaXml.cfm?legislat=54&dossierID=54-b068-863-0435-2015201608150.xml

[15]https://www.brookings.edu/research/impact-bonds-in-developing-countries-early-learnings-from-the-field/