Belgium

Qualitative reforms, despite declining aid expenses

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Overview

- In 2013, Belgian ODA was €1,731 million (US$2,275 million) or 0.45 % of gross national income (GNI). This represents a 3.9 % decline compared to 2011, when ODA amounted to €1,800 million (US$2,365 million).
- Belgium's aid disbursements have been in continuous decline since 2010.
- Austerity measures have resulted in €787 million (US$1,020 million) cuts in aid from 2012 and 2014.
- Belgium's genuine or "real" aid rose between 2012 and 2013, from €1,410 million (US$1,850 million) to €1,520 million (US$2,000 million).
- The amount of ODA spent by the Development Co-operation Department was 67% in 2013, higher than in 2012 (57%), but the same level as in 2011.
- 68% of the aid provided by the Development Cooperation Department (DGD) goes to 10 low-income partner countries in Africa, while 56 % of its aid goes to fragile states.

From frozen to evaporated aid budget

Belgium's official development assistance has been in steady decline since 2010, when it peaked at 0.64% of GNI. In 2011, ODA decreased to 0.53% of GNI. The new Belgian government, which came into power after a long political crisis in December 2011, declared that it wanted to freeze the aid budget, referring to the economic crisis and budgetary constraints. However, it said that it was still committed to the UN target of 0.7% of GNI.

In reality, the budget freezing was turned into a succession of budget cuts. In 2012 and 2013, the

Table 1: Belgian aid levels, 2004-2013

Year	Total ODA in € million	Spent by development cooperation department (% of total ODA)	Total aid (ODA/ GNI ratio)	Real aid (ODA/GNI ratio)
2004	1,178	58%	0.41%	0.36%
2005	1,571	54%	0.53%	0.40%
2006	1,573	53%	0.50%	0.38%
2007	1,425	59%	0.43%	0.37%
2008	1,654	66%	0.48%	0.43%
2009	1,863	67%	0.55%	0.50%
2010	2,268	58%	0.64%	0.48%
2011	2,011	67%	0.53%	0.48%
2012	1,801	57%	0.47%	0.37%
2013	1,731	67%	0.45%	0.39%

total development aid budget cuts amounted to €687 million (US$905 million), or almost 20% on a total two-year budget of €3,531.82 million (US$4,640 million). For 2014, €100 million has already been cut. ODA disbursement in 2012 and 2013 were respectively 0.47% and 0.45% of GNI. Belgium is well off the aid target of 0.7% of GNI, which is integrated in the new 2013 development cooperation law.

The decision of the federal Belgian government in October 2012 and September 2013 to cut all "non-necessary spending" – spending not necessary for the functioning of the state – strongly affected development cooperation and is responsible for €240 million (US$315 million) of the aid budget cuts.

One glimmer of hope is the fact that genuine or "real" aid increased between 2012 and 2013. This is largely due to a €200 million (US$265 million) decrease of commercial debt relief. Genuine aid amounted to €1,520 million in 2013 (US$2,000 million), compared to €1,410 million in 2012 (US$1,850 million).

The Belgium development cooperation is very active in low-income countries. Sixty-eight percentage (68%) of the aid provided by the DGD goes to 10 low-income partner countries, which are all in Africa. Moreover, 56% of DGD aid goes to fragile states.

A year of reforms

With the formation of a new government in December 2011, Belgium's 541-day political crisis — during which the country was in state of "current affaires," meaning that no new policies and initiatives could be elaborated — came to an end. The conclusion of the crisis meant that some long-expected reforms could be put in place, such as a new law on the Belgian Investment Company for Developing Countries (BIO) and new institutional framework on policy coherence for development (PCD).

A new law on development cooperation

Belgium is one of the few donor countries with a law on international cooperation. In December 2007, the Minister of Development Cooperation announced that the law on international cooperation had to be revised to adapt it to the Paris Declaration aid effectiveness framework. Finally, in April 2013, the new law was adopted by Parliament.

Rather than a substantial reform, the new law is an adaption to new international priorities in development cooperation. The law refers to the five principles of the Paris Declaration, and explicit attention is given to fragile states. The level of fragility has become one of the selection criteria for partner countries. Human rights, state-building and decent work are put forward as priority themes.

Interestingly, the 0.7% ODA target is mentioned in the law. Therefore, efforts to reach this target does not only stem from an international commitment, but also from a juridical obligation. Nevertheless, no deadline is mentioned.

Policy coherence for Development

For many years, NGOs have asked that policies in fields such as agriculture, trade, foreign policy, defence and taxes be aligned with development objectives. Such coherence is necessary in order not only to contribute to these objectives, but also to avoid policies that thwart efforts in the field of development cooperation. The 2010 OECD Peer Review called upon the Belgian government to "develop an explicit policy statement on policy coherence" and to "identify the institutional framework and tools Belgium will use to implement and monitor the coherent use of all policy levers for development, and to report on it."[1]

The new Belgian government was willing to step up its efforts in favour of policy coherence for development (PCD). The 2013 development cooperation law advanced the principle of PCD. At the end of 2013, an institutional framework was created to ensure a coherent policy for development. The framework consists of several instruments that should help to ensure PCD, such as an impact analysis, an inter-departmental commission, and an Advisory Council related to the Minister of Development Cooperation.

Through the Dutch and French-speaking coalitions of development NGOs, civil society is involved in the process through their representation on the Advisory Council. The coalitions will also take the lead in setting up a platform of indirect actors to furnish the Advisory Council with expert and technical information and analyses. In May 2014, on the eve of new elections, the Prime Minister, as well as the Minister-Presidents of the regional governments, signed a declaration in which they called for an inter-ministerial conference that would ensure that development objectives would be taken into account in each policy field, as well as better coordination between the federal and regional levels of government.

Although the creation of this new institutional arrangement is a clear sign that PCD has been accepted on a policy level, time will show whether it is effective or not. It will be a challenge for the new Minister of Development Cooperation to make sure these instruments show their relevance for the whole of government. The political will of the entire government is needed to use this framework to pursue its aim for more coherent policies for development. Moreover, in order to resolve policy incoherencies, politicians must put development objectives at the forefront, even though it could mean competition with other Belgian interests.

Reform of the Belgian Investment Company for Developing Countries (BIO)

In February 2012, the Flemish coalition of development NGO's 11.11.11 launched an evaluation of the Belgian Investment Company for Developing Countries (BIO). The Report questioned the development relevance of BIO's investments. It was very critical that a significant part of the investments went through tax havens, and pointed to the weak collaboration with other stakeholders in Belgian development cooperation. The Report was extensively discussed in the Belgian parliament and led to a reform of the investment company.[2]

By law, BIO is obliged to make profit. This is difficult to align with its objectives in the field of development cooperation, as it makes it unlikely that BIO will invest in businesses that do not have access to private capital. Despite these criticisms regarding its profit orientation in 11.11.11's Report, the profit requirement was maintained after the reform.

One positive change in the reform has been the curtailment of the use of tax havens by BIO. Since these reforms, BIO is only allowed to invest in countries that have a nominal tax rate of at least 10% and that respect international regulations on fiscal transparency. Moreover, measures are taken to avoid the transfer of profits to tax havens in order to avoid taxes, through so-called transfer pricing. With all these measures, BIO is ahead of other development banks such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the World Bank (WB). Belgium is profiling itself as an advocate against tax avoidance. However, some issues remain, as it is still possible to invest through tax havens with tax rates above 10% such as Mauritius, Luxembourg or the American state of Delaware.

An important observation of the 11.11.11 Report was that BIO stood outside the framework of development cooperation, rather than being a part of it. With the reform, BIO assumed new management, which had knowledge of and experience in development cooperation. BIO also strengthened its internal knowledge of development. Moreover, collaboration with other actors in Belgian development cooperation, such as the Belgian Development Agency (BTC) has been strengthened. Time should tell whether these reforms enhance the development relevance of BIO's activities.

Although the reforms are definitely a step in the right direction, some issues remain. More effort is needed to reach out to local small businesses. Monitoring and evaluation mechanisms should be enhanced in order to better estimate the development impact of investments.

New strategic notes

Belgian development cooperation has developed strategic notes to guide its development policies on particular themes. Several new notes were published in 2012 and 2013. Although these notes are valuable instruments for strategy and execution, they are not always extensively applied in the field. A gap exists between theory and practice, and more effort is needed to operationalise these notes.

Three notes are described briefly below: on middle-income countries, on fragile states, and on the private sector.

Middle-income countries

During the last decades, several developing countries have "graduated" from low-income country status to middle-income countries (MICs). Although big differences exist between these countries on the political, economic and social level, they share a level of economic growth and social evolution, which often goes together with growing inequality and environmental problems. These specific problems require a particular approach for these countries.

The Belgian strategic note focuses on global public goods (particularly the environment), inclusive growth and redistribution. The latter, with a special emphasis on social protection, is an essential lever to ensure that growth benefits the whole population.

The note deals with a number of important topics for MICs and discusses relevant arguments for a new partnership. According to the strategic note, the government wants to decrease aid to MICs in favour of low-income countries. It wants to spend 80% of governmental aid in this latter category after 2015, which will result in a 50% reduction of the aid to MICs.[3] The note provides no arguments to rationalize this decision to cut aid to MICs, which continue to have profound issues of poverty and inequality.

Moreover, new Belgian cooperation programs in two middle-income partner countries — Algeria and Bolivia — have shown that the strategic note did not bring forth major changes in the field. The cooperation programs are largely a continuation of previous programs. The program for Algeria pays little attention to support for democracy and an independent civil society, which are important instruments to tackle inequality and to foster inclusive growth.

More problematic is the fact that many of the alternative instruments and proposals presented in the MIC strategy are still not in place (September 2014), while an evolution towards a new partnership is expected in Belgian cooperation with these countries. As long as the alternatives are not developed, it is hard to evolve a new relationship.

Fragile states

According to Peter Moors, director-general of the Development Cooperation Department, "For a donor with the DNA of Belgium, the poorest and the most fragile countries in Africa should be the focus. That's where our added value is."[4] Six of the eighteen Belgian partner countries are fragile states, and over 56% of Belgium's bilateral aid went to these states in 2013.

A strategic note on fragile states, aimed at strengthening the state, the population and their mutual relationships, was approved by the Belgian Minister of Development Cooperation in early 2013. It is largely based on international guidelines such as the ten fragile states principles from the OECD Development Cooperation Committee (DAC) and the five "peace-building and state-building goals" that were elaborated in the framework of the "New Deal for Engagement in Fragile States." It adds some specific Belgian elements such as the emphasis on capacity strengthening of the state aimed at economic regulation and social protection. Time will show whether the new note will make a difference on the field.

The Private sector

In May 2014, a new strategic note on support for the private sector in developing countries was published. It focuses on the financing and capacity building of local businesses, in particular, small and medium enterprises. As such, the Belgian approach deviates from the European one in that the latter is more focused on large enterprises. The strategic note also emphasizes policy coherence for development. The local private sector can only be strengthened if measures are taken in the field of equitable fiscal policy and trade.

A real evaluation of the note can only be made once it is implemented. The coalition of development NGOs expects an important role to be played by the "Platform for Entrepreneurship for Development," which is foreseen in the note and wherein NGOs will participate. Such a platform could be a valuable instrument to enforce policy coherence for development in Belgian policies.

Conclusion

Belgium's development assistance has been in decline for three years, moving further away from the UN target of spending 0.7% of GNI on aid. Austerity measures caused €687 million (US$905 million) aid cuts in 2012 and 2013, almost 20% on a total two-year budget. This year (2014), €100 million has already been cut.

Despite dropping aid levels, the end of the political crisis in December 2011 has allowed some important reforms to take place in Belgium. With a new law on development cooperation, a new institutional framework on policy coherence for development, the reform of the Belgian Investment Company for Developing Countries, and several new strategic notes, Belgium is clearly willing to improve the quality of its development assistance.

However, to sustain a focus on global challenges such as poverty, inequality and climate change, Belgium will have to step up its financial efforts, while continuing to improve the quality of its interventions.

Endnotes

1 OECD Peer Review, 2010, http://www.oecd.org/dac/peer-reviews/belgium2010dacpeerreview-mainfindingsandrecommendations.htm

2 See Jan Van de Poel, "What's in it for development? Assessing the Belgian Investment Company for Developing Countries' (BIO) Development Outcomes," 11.11.11 – Coalition of Flemish North South Movement, in 2012 Reality of Aid Report: Aid and the Private Sector: Catalysing Poverty Reduction and Development? Accessible at http://www.realityofaid.org/?roa_report=aid-and-the-private-sector-catalysing-poverty-reduction-and-development.

3 http://diplomatie.belgium.be/fr/binaries/MIC_note_strategie_tcm313-243803.pdf, p. 13

4 Peter Moors at ODI-conference 'What future for 'traditional' development agencies in a changing world?', May 2013. http://www.odi.org.uk/events/3163-future-traditional-development-agencies-changing-world.