



To the President of the House of Representatives
PO Box 20018
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To the Minister for Foreign Trade and Development Cooperation
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Date

13 March 2024

Subject

Advisory letter: A stable and predictable ODA budget

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Dear President, dear Minister,

The budget for Official Development Assistance (ODA) is an important means for enabling the achievement of the objectives of the Netherlands' foreign policy and for complying with international agreements. In this advisory letter the Advisory Council on International Affairs (*Adviesraad Internationale Vraagstukken*, AIV) aims to contribute to a budgeting system that will ensure the availability of sufficient ODA resources for the set objectives in a way that guarantees stability and predictability. This will improve the efficiency and effectiveness of public expenditure and put the Netherlands in a position to be a reliable international partner.

A solid ODA budget is therefore in the national interest. Not only does it contribute to tackling cross-border problems that also affect Dutch society, it also opens the door to closer political and economic cooperation with countries in the Global South. This is becoming increasingly important in the current geopolitical context, in which emerging major powers are gaining influence.

The Dutch ODA system is premised upon the internationally agreed target of 0.7% of gross national income (GNI). However, this amount is not in its entirety available for regular Dutch development cooperation activities. First, planned and previously agreed budget cuts are deducted and spending increases are added, in order to reach a final budget (the ODA ceiling), which in recent years has consistently been below 0.7% of GNI. Then, various other items of expenditure may be attributed to the ODA budget, in accordance with international rules drawn up by the Organisation for Economic Co-operation and Development (OECD). These include a portion of the administrative costs of the Ministry of Foreign Affairs (MFA), a portion of the Dutch contribution to the European Union (EU) and the first-year hosting costs incurred for asylum seekers in the Netherlands (in-donor refugee costs). What remains after deducting these attributions is available for expenditure on development cooperation under the responsibility of the Minister for Foreign Trade and Development Cooperation (*Buitenlandse Handel en Ontwikkelingssamenwerking* - BHOS).

This budgeting system means that there is a direct relationship between the various attributions and the foreign trade and development cooperation (BHOS) budget. On several occasions in the recent past, the government and members of the House of Representatives have called for consideration of the potential negative consequences of this budgeting system.¹ In this advisory letter, the AIV will, based on its mandate, attempt to provide greater clarity and identify possible solutions. In-donor refugee costs attributed to the ODA budget have risen rapidly in recent years and this trend seems likely to continue in the years ahead, although this will of course depend on the actual inflow of asylum seekers. If the current projections prove to be accurate, in 2026 almost a quarter of the ODA budget will be spent on hosting asylum seekers in the Netherlands. This prospect has led to a general cut of 7% to the 2024 BHOS budget, with negative implications for achieving the goals of Dutch foreign policy, including migration partnerships, poverty reduction and fulfilment of the Sustainable Development Goals (SDGs).

Besides the attributions, Dutch support for Ukraine could also have implications for other BHOS expenditure. This is because the non-military support for Ukraine, a middle-income country, may be reported as ODA. Unless the total ODA budget is increased, it will come at the expense of resources for low-income countries. Furthermore, additional support for Ukraine by the European Union could in the long run lead to a higher EU attribution, which would also affect the Dutch BHOS budget.

The attributions made to the ODA budget have implications not only for the size of the BHOS budget, but also for its predictability. In particular, the strongly fluctuating nature of in-donor refugee costs can lead to unpredictability of other ODA expenditure, thereby affecting the efficiency and effectiveness of Dutch policy. In October 2023 the five-yearly OECD-DAC peer review report on Dutch development cooperation was published. The first recommendation calls on the Netherlands to mitigate the effects of fluctuating in-donor refugee costs on other ODA expenditure and maintain the positive trajectory towards 0.7% of GNI.²

The importance of a solid ODA budget

International cooperation is indispensable in enabling the Netherlands to tackle the major societal challenges facing the country in an effective and coherent manner. It is therefore a matter of enlightened self-interest. Investing in international cooperation not only contributes to development elsewhere, but also benefits ourselves.³

In a recent advisory report the AIV stressed that coping with the effects of climate change and achieving the goals of the Paris Agreement will require supporting countries that lack the resources to invest in the green transition.⁴ The COVID-19 pandemic demonstrated how health problems elsewhere can also have a deep impact on Dutch society. Economic development, employment and poverty reduction in developing countries are essential for fostering trade, political stability and international security. International cooperation is also very important in relation to migration and asylum, including through considerable investment in hosting refugees in their region of origin, as underlined by the State Committee on Demographic Developments 2050.⁵

The SDGs, to which the Netherlands and 191 other countries committed themselves in 2015 constitute a robust and internationally agreed framework for these and other policy objectives.



In the field of international cooperation, the Netherlands has had a strong reputation for a long time. This has positioned our country to participate, more than would otherwise have been the case, in international consultation forums such as the G20. Furthermore, the acquired goodwill has contributed to new opportunities in bilateral relations for political and economic cooperation.

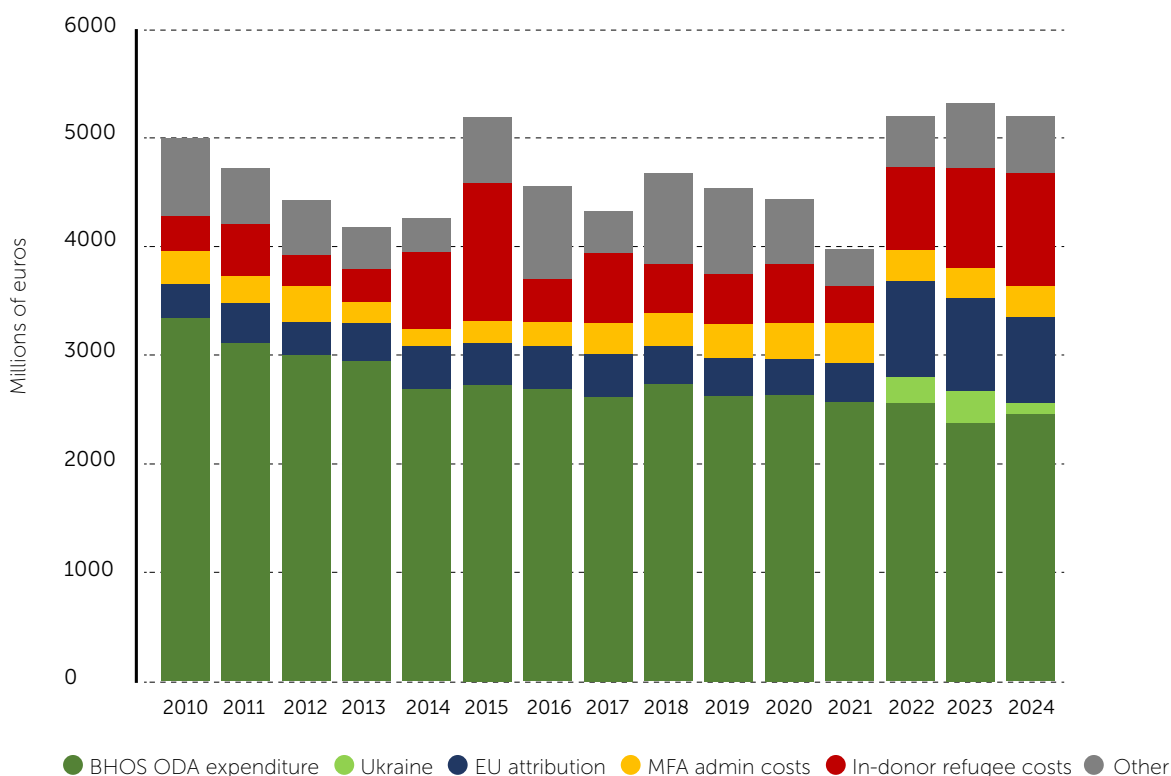
It cannot be taken for granted that this position will endure. More than ever before, the countries of the Global South are not simply following Western positions, as has been demonstrated in connection with the war in Ukraine. On the one hand, alternative partners are available for political and economic cooperation, such as China, Russia and countries in the Middle East. At the same time, Western countries are increasingly regarded as unreliable partners who apply double standards and do not stick to international agreements. The failure to comply with the norm that rich countries should allocate 0.7% of their GNI each year to ODA expenditure for the development of poorer countries is one example.⁶ This contributes to the risk of losing our trustworthiness and reduces our capacity to work with the necessary sense of joint purpose on solutions to major societal challenges.

Dutch ODA expenditure

From the mid-1970s onwards, the Netherlands was part of the group of countries, alongside Denmark, Norway and Sweden, which consistently met the 0.7% agreement. That changed in 2013 when the Netherlands' ODA percentage fell below 0.7% for the first time. The downward trend continued until 2021 (0.52%). The current forecast is that the percentage will be around 0.66% in the years ahead.⁷

Figure 1 illustrates Dutch ODA expenditure as of 2010 in absolute terms, at constant prices.⁸ After 2010, total ODA expenditure remained reasonably stable despite the falling ODA percentage, due to the growth of the GNI. The increase since 2022 is mainly related to additional spending arising from that year's coalition agreement and an increase in the ODA ceiling to accommodate the higher EU attribution. This recent trend has brought total ODA expenditure (at constant prices) back to the 2010 level.

Figure 1. Dutch ODA expenditure at constant prices, 2010-2024



Source: AIV, based on BHOS budgets and Homogeneous Budget for International Cooperation (HGIS) annual reports NB Adjusted for inflation using the data series 'price gross domestic product' of the Netherlands Bureau for Economic Policy Analysis (CPB) (base year: 2015)

A closer examination of the underlying expenditure categories enables a number of observations to be made: first, the strong fluctuations in the in-donor refugee costs. The arrival of more refugees in 2015 immediately caused in-donor refugee costs to reach a peak of more than EUR 1 billion, equivalent to 23% of that year's total ODA expenditure. In subsequent years, partly as a consequence of the COVID-19 pandemic, the percentage declined, falling to 8% in 2021. Since 2022 in-donor refugee costs have been rising again, partly due to the worsening situation in a number of countries, including Afghanistan, Syria and Yemen. In 2022 the Netherlands used the ODA budget to fund a one-off amount of EUR 150 million for hosting Ukrainian refugees.⁹ The remaining costs for Ukrainian refugees were funded from other sources than the ODA budget.

The figure also shows that higher in-donor refugee costs in a particular year do not seem to translate directly into a reduction in development cooperation expenditure on the BHOS budget (indicated in green on the graph; henceforth referred to as the BHOS budget). In years with high in-donor refugee costs, such as 2015, 2022 and 2023, total ODA expenditure was also relatively high.

This can be explained in part by the use of ad hoc solutions, such as bringing forward future ODA expenditures. While mitigating the immediate impact of higher asylum costs on the BHOS budget, this leads to cutbacks in later years. The higher ODA spending in 2022 and 2023 originates from the increased resources announced in the coalition agreement (EUR 500 million), intended for worldwide vaccination programmes, support for developing countries' climate mitigation and climate adaptation efforts, and for regional hosting of refugees. However, this extra funding appears to have been absorbed by higher in-donor refugee costs and support for Ukraine.

In addition, the EU attribution related to the part of the Netherlands' general contribution to the EU that is used for European development cooperation in third countries, has more than doubled since 2021. This has brought the attribution more in line with the actual ODA portion of the EU budget, which has increased gradually over the past ten years. The AIV considers this to be a positive development, partly in view of the EU's geopolitical ambitions.¹⁰ In order to prevent the higher EU attribution to the ODA budget from 2022 onwards from being completely at the expense of ODA-spending under the direct responsibility of the Minister for Foreign Trade and Development Cooperation, the government has increased the ODA ceiling.

Although such ad hoc solutions have managed to prevent excessive annual fluctuations in the BHOS budget, figure 1 shows that, at the same time, there is a displacement effect in the long term. At constant prices, the size of the (three) attributions to the ODA budget more than doubled between 2010 and 2024, while the amount of BHOS expenditure (the green portion) fell by 20% over the same period. That includes the expenditure on support for Ukraine in terms of humanitarian assistance and the reconstruction of infrastructure (the light green portion), which can be reported as ODA because Ukraine is a middle-income country.

If we add the EU attribution, which does after all reflect spending on development objectives, to BHOS expenditure, the joint total (*in figure 1: the green plus the blue portions*) still decreased by almost 10% between 2010 and 2024. This is despite the ODA budget being linked to a growing GNI.

This decrease is problematic because it means a structural decline in the funds available for the core aims of Dutch policy in this area: addressing the root causes of poverty, climate change, terrorism and irregular migration.¹¹ In addition, the BHOS budget is essential for honouring bilateral agreements and maintaining the Netherlands' reputation as a reliable international partner, as well as enabling investment in enhanced engagement and new partnerships, which are of increasing geopolitical importance.

Given the expectation that both in-donor refugee costs and support for Ukraine will remain high in the years ahead, it would be advisable to maintain the link between ODA and GNI at a sufficiently high level in order to prevent rising attributions from causing a further decline of the BHOS budget, which would leave policy objectives out of reach and weaken the Netherlands' international position.

Unpredictability

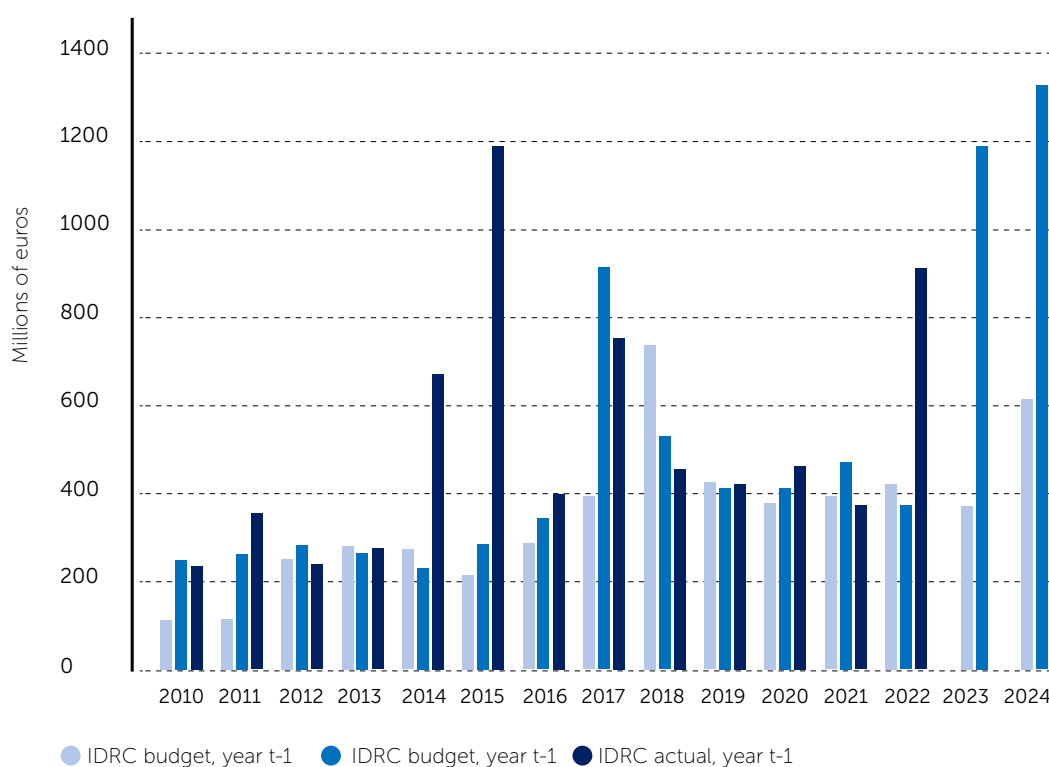
In addition to the gradual displacement effect, the current ODA budgeting system also leads to unpredictability of the BHOS budget. The reasonable level of stability shown in figure 1 is partly attributable to ad hoc interventions to mitigate sudden impacts. This means that the relatively stable outcome conceals a great deal of underlying unpredictability.

The link between total ODA expenditure and GNI stems from an important international agreement that fosters confidence and stability in international affairs. Inevitably, GNI projections always involve a degree of uncertainty. Between 2011 and 2022, the final GNI figure was higher than had been estimated in that year's budget in six cases, and lower in the other six cases. The average (positive or negative) deviation in this period was 3.1%. The outliers were 2020, when GNI was eventually 4.7% lower than projected in the budget due to the COVID-19

pandemic, and 2014, when the final GNI figure was 6.6% higher than had been estimated. Under the current system, after the budget has been adopted, the amount of available ODA funding is adjusted on two occasions each year – at the time of the Spring Memorandum and the Autumn Memorandum – on the basis of the latest forecasts. This leads to additional transaction costs and brings unnecessary uncertainty to the budget.

A second, more urgent, cause of unpredictability in the BHOS budget arises from the strong fluctuations in attributions, particularly for in-donor refugee costs. Figure 2 shows that the final in-donor refugee costs often deviate considerably from the projection made in the budget. The most extreme case was 2015, when the budget projected around EUR 300 million, whereas the final amount was almost EUR 1.2 billion. The difference in 2022 was also considerable: around EUR 350 million had been budgeted, whereas final in-donor refugee costs were EUR 900 million. The difference is equivalent to 10% of the entire ODA expenditure budgeted for that year.

Figure 2. In-donor refugee costs (IDRC) reported as ODA 2010-2024: budgeted vs. actual



Bron: AIV, based on BHOS budgets and Homogeneous Budget for International Cooperation (HGIS) annual reports

This high level of unpredictability is problematic because it undermines the quality of the Netherlands' spending on development cooperation. Achieving an enduring impact in this field requires properly prepared multi-year programmes and a high level of predictability. As a result, suddenly opening or closing the funding tap is not without consequences. Besides damaging the quality of spending, unpredictability also harms the Netherlands' reputation as a reliable partner. If partner organisations, such as government institutions or local NGOs in partner countries, prepare programmes in anticipation of future funding, only to learn

at a later date that the funding is not available after all, this can lead to wasted investment, frustrated expectations and diplomatic (reputational) damage.



For example, as a result of the budget cuts in the period 2023-2026, the objective to provide an extra four million people with better access to water by 2030 has been abandoned. Consequently, governments and other partners in the countries in question are facing a shortage of funds to achieve the goals. The intention to scale back planned spending increases on migration partnerships (for example aimed at supporting refugee-hosting in the region) in eight key countries, including Lebanon, Jordan and Uganda, makes clear that such cuts can also undermine Dutch policy objectives related to migration.¹²

Towards a more predictable budget

The letter to parliament of August 2023 on fluctuations in the ODA budget contains a thorough exposition of different options for increasing predictability.¹³ It is important to note that the Netherlands has had a buffer article in the budget since 2017 (subarticle 5.4) meant for unexpected setbacks not to trigger an immediate need to make cuts to planned expenditure. A portion of ODA funding is not assigned to specific subjects or programmes but instead placed under this article. This mechanism generally functions well and is regarded by the OECD-DAC as an example for countries that work on the basis of an ODA ceiling.

There are two caveats to take into consideration: when fluctuations are so large that they exceed the buffer, the need to make cuts still arises, as was the case with the budget for 2024. In addition, using a buffer is not without costs; the funds cannot be set aside for multi-year programmes and must be allocated during the course of the year. Furthermore, the fluctuations are not always negative. As figure 2 shows, in-donor refugee costs sometimes end up being less than what had been estimated. For example, in 2021 the budget assumed EUR 500 million, whereas ultimately only EUR 350 million was needed. Although it is possible to find alternative uses for the remaining sum (in this case EUR 150 million) during the course of the year, such last-minute increases are not conducive to the predictability of Dutch activities and the rush to ensure the money is spent may come at the expense of quality.

In the AIV's opinion, the essence of the current Dutch ODA budgeting system can be retained, but a number of adjustments would be desirable in order to mitigate fluctuations. The greater predictability resulting from these adjustments would also create scope for reducing the size of the buffer, which may benefit long-term planning.

First, there are various conceivable ways to curb the impact of GNI fluctuations. Denmark, for example, recently made a change that essentially means that the 0.7% target need not be achieved each individual year but instead as a rolling average over multiple years. The Independent Commission for Aid Impact (ICAI) recommended to the UK government that it also use a multi-year rolling average to guide achievement of the ODA target.¹⁴

The Netherlands could adopt a variant of such a mechanism, so that adjusting the budget during the year on the basis of the latest GNI estimates of the Netherlands Bureau for Economic Policy Analysis would no longer be needed. This would mean greater stability for the ODA budget. In due course, after the final GNI figure has been determined, the difference could still be offset against a future budget.

With respect to the fluctuating in-donor refugee costs, the AIV would value the possible introduction of a cap, as a complement to the buffer. Sweden recently introduced such a cap on in-donor refugee costs, amounting to 8% of total ODA expenditure. This improves predictability. The ICAI therefore recently recommended to the UK government that it introduce a similar cap.¹⁵ The Netherlands too should introduce a cap on in-donor refugee costs as a proportion of the ODA budget.¹⁶

Various choices then need to be made in relation to implementation, starting with the level of the cap. The Swedish decision to opt for 8% is in line with the call by the OECD to follow a conservative approach in relation to counting in-donor refugee costs as ODA. In the Netherlands, it may also be logical to use a long-term average. Between 2010 and 2022, in-donor refugee costs amounted on average to 11% of the Netherlands' ODA expenditure.

In order to guarantee maximum stability, the extra funds available in years when the limit is not reached could be set aside to be used in years when the limit is exceeded.

Recommendations

Public funding for international cooperation, in conjunction with other foreign policy instruments, will be indispensable in the years ahead to enable progress to be made on the major transitions facing the world, such as inclusive economic development, sustainability, political stability, migration policy, promoting human rights around the world and reducing poverty and inequality.

In order to keep the ODA budget at a level that suffices for achieving the goals that have been set and in order to help bring maximum predictability and stability to the budget, the AIV recommends that the following steps be taken:

- 1. Maintain the link between the ODA budget and gross national income (GNI) at such a level that the country's own goals remain within reach, using the 0.7% international agreement as the point of reference.** The link between ODA expenditure and GNI must be maintained at a sufficiently high level to reduce the risk in the years ahead that increasing budgetary attributions and expenditures (e.g. in relation to Ukraine) will, within a short timeframe, have a further displacement effect in relation to the BHOS budget for development cooperation. That budget is of great importance in enabling the Netherlands to pursue its foreign policy goals and act as a reliable partner.
- 2. Interim adjustments to the ODA budget should no longer be made on the basis of new GNI forecasts for the current budget year.** When ODA expenditure is linked to GNI, making frequent adaptations based on continuously changing economic growth forecasts brings unpredictability to expenditure and instability to the BHOS budget. Ending the practice of making adjustments to the adopted budget on the basis of new forecasts will bring greater stability. Any differences between the final GNI and the forecast may be offset against the next budget.



- 3. Introduce a cap on the attribution to the ODA budget of in-donor refugee costs for hosting refugees during their first year of stay, following the Swedish model.** A cap on the attribution of in-donor refugee costs of no more than 11% of total ODA expenditure, in accordance with the long-term average, would prevent a sudden increase in the number of asylum seekers leading to sudden cuts in BHOS expenditure. If desired, use the funds 'left over' in years when the cap is not reached to help cover shortfalls in years when the cap is breached.

Yours sincerely,

Professor Bert Koenders, Chair

This advisory letter was prepared by council members Bram van Ojik, Professor Annelies Zoomers and Tanya van Gool; and by Professor Marleen Dekker (committee member) and Jorrit Oppewal (council adviser).

Endnotes

- 1 See: Government of the Netherlands (2023) [Kamerbrief met reactie op motie over fluctuaties ODA-budget](#), 31 August 2023 and House of Representatives (2023) [Motie Thijssen c.s. 36435-XVII-11](#), 26 October 2023.
- 2 OECD (2023). [OECD Development Cooperation Peer Reviews: Netherlands 2023](#). Paris: OECD Publishing, 2 October 2023.
- 3 Government of the Netherlands (2024). [Kamerbrief over verzoek vaste Kamercommissie voor BuHa-OS over nationaal belang ontwikkelingssamenwerking](#). 26 January 2024.
- 4 Advisory Council on International Affairs (2023). [The necessity of global climate justice](#). AIV advice 125. The Hague: Advisory Council on International Affairs, October 2023.
- 5 State Committee on Demographic Developments (2024). [Gematigde groei – rapport van de Staatscommissie Demografische Ontwikkelingen 2050](#). The Hague, January 2024.
- 6 This norm was established in UN-resolution 2626 (XXV), adopted by consensus by the General Assembly in 1970.
- 7 Government of the Netherlands (2023). [HGIS-nota 2024](#), bijlage 6. Kamerstuk 36 411, nr 1. The Hague: Ministry of Foreign Affairs, 19 September.
- 8 Constant prices correct for inflationary effects, leading to a more consistent comparison of expenditure throughout the years.
- 9 In figure 1, this EUR 150 million has been included in the in-donor refugee costs.
- 10 According to OECD data, ODA spending by EU institutions, at constant prices, increased from USD 13.2 billion in 2010 to USD 19 billion in 2021.
- 11 Government of the Netherlands (2023). [Vaststelling van de begrotingsstaat voor Buitenlandse Handel en Ontwikkelingssamenwerking voor het jaar 2024](#). Memorie van Toelichting. The Hague: Ministry of Foreign Affairs
- 12 Government of the Netherlands (2023). [Begroting Buitenlandse Handel en Ontwikkelingssamenwerking](#), Memorie van Toelichting, pag. 14 -16.
- 13 Government of the Netherlands (2023) [Kamerbrief met reactie op motie over fluctuaties ODA-budget](#), 31 August 2023
- 14 ICAI (2020). [Management of the 0,7% ODA spending target: a rapid review](#). London: Independent Commission for Aid Impact, November 2020.
- 15 ICAI (2023). [UK Aid to refugees in the UK: a rapid review](#). London: Independent Commission for Aid Impact, March 2023.
- 16 This is also one of the recommendations of the February 2024 report by the Office for the Senior Civil Service (Algemene Bestuursdienst) on the asylum system. See Government of the Netherlands (2024). [Bouwstenen voor het asielbeleid en asielstelsel](#), Office for the Senior Civil Service, Ministry of the Interior and Kingdom Relations.