



Ministry of Foreign Affairs of the  
Netherlands

# A World to Gain

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*A New Agenda for Aid,  
Trade and Investment*

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Trade and Investment*

April 2013



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## Summary

The Netherlands wants to move forward in the world, and move forward with the world. We are involved in global problems. Ours is one of the most open countries in the world. We depend on other nations' development for our own wellbeing and prosperity. Sustainable, inclusive growth is in our own interests and in the interests of others.

In 1981, 1.9 billion people were living in extreme poverty. By 2010, this figure had dropped to 900 million, and it will probably drop even further – to 600 million – by 2015. This means that the Millennium Development Goal of halving extreme poverty by 2015 will have been achieved. And achievement of other MDGs – for example on access to water, sanitation and primary education – is within reach. But this is not true of every MDG. We are still lagging far behind in reducing infant, child and maternal mortality rates, and in increasing access to reproductive health care.

Nearly three-quarters of the people living in extreme poverty are to be found in middle-income countries. They are not yet reaping the benefits of their countries' economic growth. The people in question are mainly women and members of other vulnerable groups. Here the emergence of a middle class is important to put pressure on the government in these countries, thereby promoting democracy, the rule of law and women's empowerment. Income inequality has however increased in many middle-income countries. The situation in fragile states and countries in conflict is extremely alarming. These countries are in danger of falling far behind the rest of the world – politically, socially and economically. They also pose a threat in terms of regional stability, radicalisation and terrorism, cross-border crime, and illegal migration, trade flows and supplies of raw materials.

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Asia, Africa and Latin America are the engines driving the world economy. They are expected to account for nearly 60% of the global economy by 2030. Asia and South America's economic power is also reflected in global political relations. China and India have claimed their seats at international negotiation tables. And countries like Indonesia and South Africa are represented in the G20, while the Netherlands is no longer invited. Conversely, many European countries have seen their economies contract and rates of unemployment rise sharply in the wake of the financial crisis.

Nowhere is globalisation more readily apparent than in world trade. Between 1950 and 2007, world trade grew by an average of 6.2% a year, and global GNP by 3.8%. More and more countries have joined global production networks. The advantages of further integration in these networks are the greatest for low- and middle-income countries. But international interconnectedness also has a downside. The credit crisis and the European debt crisis have shown how problems in one country can spill over to the rest of the world. What is more, global population growth and the worldwide increase in Gross Domestic Product have led to sharply rising demand for energy, food, water and raw materials. This in turn is leading to scarcity, and rising and wildly fluctuating prices.

The influence of the Netherlands as a country is decreasing due to the emergence of new actors on the world stage. Increasingly, we are exerting our influence through the European

Union. Our relations with low- and middle-income countries are on a more equal footing now than an increasing number are not only recipients of aid but also trading partners. It is becoming increasingly difficult to use aid to exert influence on poverty and equity issues. Recipient countries are taking a much more assertive attitude towards the aid they receive; and new actors like China, India and Brazil are providing aid under different conditions. What is more, the aid budget is shrinking, while income from private sources is growing in poor countries. Companies are increasingly active in developing countries. Both companies and research institutions are actively involved in seeking solutions to global problems relating to food security and water. Members of the public too are increasingly taking action against world poverty by, for example, adopting more sustainable patterns of consumption or setting up their own development projects.

The Netherlands will continue to stand by the poorest people. World poverty might be decreasing, but by no means everyone is benefiting. Nine hundred million people worldwide still live below the poverty line. Each year, 300,000 women die in childbirth. Women's and workers' rights are still under severe pressure. Low- and middle-income countries have few opportunities to choose their own path to growth. That is why we will continue to fight for an equitable world. That is why we will continue to strive for sustainable, inclusive growth. And that is why we are working on issues such as food security, water, security, migration, climate and trade. Poor countries have much to gain from a global approach.

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The market is not perfect. And yet it is indispensable in the fight against poverty. That is why this government encourages investment and trade activities that benefit both people and the environment, create employment opportunities, and, preferably, are accompanied by the transfer of knowledge and skills. The Netherlands is failing to connect with economic growth in Asia, Africa and South America. Trade still focuses on our neighbouring countries. Yet, thanks in part to our longstanding aid relationships, we often have close contacts with growing Asian, African and South American economies. These contacts present opportunities, because these countries are increasingly seeking a relationship with us based on equality.

These developments call for a new aid, trade and investment agenda. At international level, we are pursuing three important aims. First, to eradicate extreme poverty ('getting to zero') in a single generation; second, sustainable, inclusive growth all over the world; and third, success for Dutch companies abroad.

In the field of aid and trade, we can identify three types of bilateral relationship, within which we will continue to focus mainly on our current partner countries (aid) and focus countries (trade). Of course, we are engaged in a dialogue with these countries on what the relationship should entail.

### 1. *Aid relationships*

Here, the focus is on countries that are unable to solve their poverty problems singlehandedly. This category includes conflict-affected and post-conflict countries, fragile states and countries with insufficient capacity to reduce poverty effectively without assistance. The countries in this category are Afghanistan, Burundi, Mali, the Palestinian Territories, Rwanda, South Sudan and Yemen. Where possible, a regional approach will be taken in the Great Lakes Region and the Horn of Africa.

## 2. *Transitional relationships*

Here, the focus is mainly on low- and middle-income countries with burgeoning economies. In a transitional relationship, a combination of aid and trade can benefit both the developing country and the Netherlands. Apart from poverty reduction programmes relating to the four priorities (see below), we will also support these countries in increasing their market access and improving their business climate. We will adopt this strategy in Bangladesh, Benin, Ethiopia, Ghana, Indonesia, Kenya, Mozambique and Uganda. Apart from this specific group, we will of course remain active in other low- and middle-income countries by means, for instance, of private sector programmes, economic diplomacy, or aid through the European Union and multilateral institutions such as the World Bank.

## 3. *Trade relationships*

Here, our main aim is to promote trade and investment, with activities that contribute to economic growth and employment in the Netherlands. The focus is on Australia, Belgium, Brazil, Canada, China, Colombia, France, Germany, the Gulf States, India, Iraq, Japan, Malaysia, Mexico, Nigeria, Poland, Romania, Russia, Singapore, South Africa, South Korea, Turkey, the UK, Ukraine, the US and Vietnam.

We fight extreme poverty out of solidarity with people. We encourage trade and investment mainly in our own interests. Where aid and trade meet, we will act out of both solidarity and enlightened self-interest. Where such diverse motives play a role, conflicts of interest may arise. We will carefully weigh the different interests at stake, taking sustainable, inclusive growth as our guiding principle. After all, growth and equitable distribution do not automatically go hand in hand. Our aim in the longer term is to build a trade relationship with as many countries as possible.

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In the interests of those countries with which we maintain an aid relationship, we will invest in a global development agenda to follow up the Millennium Development Goals. Apart from the four priorities of Dutch policy – women’s rights and sexual and reproductive health and rights (SRHR), water, food security, and security and the rule of law – the Netherlands wants sustainability and a minimum level of social rights to be included in this new agenda. The four priorities are still current and will be given more attention in Dutch policy. They are relevant to global poverty reduction efforts and to the Netherlands’ economic and other interests. In devising and implementing policy, we will make use of the knowledge and expertise gained through development cooperation, the technological and other knowledge of the leading Dutch sectors, research institutions and the expertise of civil society organisations. The purpose of the new international security budget is to protect civilian populations, prevent and manage humanitarian crises and promote sustainable security and stability in poor countries. The Netherlands will continue to be one of the main donors in the field of humanitarian aid.

We plan to increase access to international and regional markets for low- and middle-income countries with which we maintain a transitional relationship. We will do so by, for example, concluding partial agreements within the Doha Development Round. We will also improve support to entrepreneurs through, for instance, the Dutch Good Growth Fund.



This instrument provides funds for entrepreneurs in low- and middle-income countries and for Dutch companies wanting to set up ventures with them. Dutch entrepreneurs seeking funding for exports to low- and middle-income countries may also apply to the fund. We will work towards equal opportunities and sustainable value chains, by for example promoting international corporate social responsibility.

In countries with which we maintain a trade relationship, we will work towards the conclusion of free trade agreements – with the US, for instance. We will also work to create a level playing field for international finance, attract foreign investors and protect Dutch investors abroad. We will also encourage the Dutch private sector, small and medium-sized enterprises in particular, to internationalise. We will simplify our regulations and procedures so that entrepreneurs can navigate them more easily. And we are going to help Dutch companies win contracts put out to tender by international institutions.

International public goods play a major role in every part of our policy. Because they are transnational in nature, countries can only pursue them by working together. We will focus on trade, security, food security, water, climate and migration, areas where the Netherlands can make a real difference. What is more, these IPGs largely dovetail with the four priorities of our policy. In international organisations we will not only represent our own interests, but also call for low- and middle-income countries to be given a place at the negotiating table as fully-fledged partners.

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In our new policy, the European Union, the private sector and research institutions will continue to be major partners. We will form new coalitions and partnerships with various actors. Civil society organisations continue to be indispensable. We will focus on strategic partnerships that provide scope for these organisations to launch adventurous, innovative initiatives, and we plan to substantially reduce the administrative burden on them. We will also provide financial support to those organisations that are important to our policy priorities. It is essential to give greater emphasis to the non-governmental nature of civil society organisations.

This new policy is being launched within a context of shrinking budgetary frameworks. As a result of the Coalition Agreement, the ODA budget will be cut by €1 billion over the next four years. At the same time, the government has decided to free up extra funds for the international security budget and the revolving Dutch Good Growth Fund. The government will promote the interests of developing countries in other fields, including taxation and climate. But clear choices need to be made. We will focus our aid, trade and investment efforts on the priorities of food security, water, women's rights and SRHR, and security and the rule of law. With the exception of women's rights and SRHR, these priorities will unavoidably be hit by spending cuts, given that the Netherlands wishes to respect current commitments wherever possible, and needs to set aside funds for international expenditure on climate. The trend up to 2017 in the budgets for the priorities will partly depend on trends in our national income. The same applies to spending on improving the business climate in low- and middle-income countries (private sector development). The budgets for the crosscutting themes of good governance, the environment and education in low- and middle-income countries will be phased out more quickly; contributions to multilateral

organisations will be reduced and earmarked expenditure to civil society organisations will be lowered when the cofinancing programme MFS II ends in January 2016. Where relevant, these three themes will be reflected in the implementation of the priorities.

## Financial table

Cuts compared to the budgetary framework of the first Rutte government (2013 Explanatory Memorandum). Amounts are in millions of euros.

	2014	2017
Food security	-60	-40
Women's rights and SRHR	0	20
women's rights	0	0
SRHR	0	20
Water, the environment and climate	-150	-65
water	-50	-25
environment and climate	-100	-40
Security, the rule of law and good governance	-125	-155
security and rule of law	-95	-120
good governance	-30	-35
Emergency aid	0	0
Private sector development	-105	5
Civil society*	0	-230
Multilateral expenditure**	-60	-140
Other expenditure	-70	-145
education and research	-65	-125
culture, public support, etc.	-5	-20
Deferral	-180	0
Not yet allocated in 2013 Explanatory Memorandum	0	-250
<b>TOTAL</b>	<b>-750</b>	<b>-1000</b>
Excluding:		
Dutch Good Growth Fund***	250	
International security budget	250	250

\* new funding system for NGOs from 2016 (after MFS II)

\*\* reduction in general contributions in areas outside the four policy priorities

\*\*\* €250 million per year from 2014 to 2016 inclusive

## Introduction

### *A new world ...*

The old world order of two political and economic power blocs has been replaced by a multipolar world of new power blocs. Besides flexing their muscles economically, emerging economies like China, India, Brazil and South Africa are making their regional and international political presence felt. Countries that not so long ago we thought of as poor are developing faster than expected. Ghana, Vietnam and Ethiopia – to name just three – no longer want their relationship with the Netherlands to be founded on aid. They are seeking a trade relationship with us based on equality.

### *... new patterns of poverty ...*

Poverty has declined throughout the world and considerable progress has been made in achieving the Millennium Development Goals. Thanks in part to Dutch aid, the incidence of diseases such as malaria and HIV/AIDS has fallen sharply, more children are going to school and more people have access to clean drinking water. Less progress has been made in other areas such as reducing maternal mortality and the unsustainable use of natural resources. Some 900 million people still live below the poverty line; three-quarters of them live in middle-income countries, especially India and China. The importance of Official Development Assistance (ODA) has fallen sharply in these countries, while that of investments, remittances, trade and private funds has grown. In many low-income countries, too, the relative importance of ODA is declining, but it remains a significant source of income.

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### *... and a new position for the Netherlands ...*

The Netherlands is an economic power. We are the seventh largest importer, the fifth largest exporter, the 11th largest investor and the second largest agricultural exporter in the world. Furthermore, we rank ninth among the recipients of foreign investment. Our business community enjoys a good international reputation, living up to its corporate social responsibility. To strengthen our position, we must adapt. Our trade is still strongly oriented towards neighbouring countries. The Netherlands is not benefiting as much as it could from the economic growth in Asia, Africa and Latin America, even though our long-standing aid relations have helped us establish good contacts with emerging countries on these continents. Our good contacts represent opportunities, especially as these countries are seeking a relationship with us based on equality. We must seize these opportunities, particularly given Europe's disappointing economic growth.

### *... call for a new approach ...*

These developments call for a new agenda for aid, trade and investment that contributes to global justice. It is our task to encourage investment and trade that benefit people and planet, create jobs and, preferably, are accompanied by the transfer of knowledge and skills. The new agenda is consistent with one of the key pillars of the coalition agreement: working for sustainable growth. We are adding inclusivity to this pillar, since growth and equitable distribution do not automatically go together. At the same time, the coalition agreement entails a considerable cut in the ODA budget.

*... call for solidarity ...*

When we weigh the interests at stake we must acknowledge the underlying motives. We combat extreme poverty principally out of solidarity. We encourage trade and investment principally out of self-interest. Trade can provide an important contribution to growth. Where aid and trade coincide, we act both out of solidarity and enlightened self-interest. Countries cannot alleviate their own poverty unless they grow. But growth does not benefit everyone. Emerging markets present an opportunity for our business community, especially in sectors where the Netherlands is an international leader. The combination of aid and trade can be mutually advantageous. But conflicts of interest can arise where diverse motives play a role. The Netherlands thinks sustainability is important, for example, but sustainability criteria make it more difficult for low- and middle-income countries to sell their products in our markets. In such cases we will carefully weigh the different interests at stake, taking sustainable and inclusive growth as our guiding principle.

*... call for new relations ...*

We are shifting from an aid to a trade relationship with ever more countries, opening up our markets to each other and supporting local authorities and entrepreneurs. Since trade and investment do not by themselves lead to sustainable and inclusive growth, we will continue to combat inequalities, emphasise sustainability, invest in the rule of law and support civil society organisations in their pursuit of human dignity for all. We will also remind Dutch businesses of their responsibilities. It is in all our interests that international supply chains are made sustainable. At international level, we are pursuing three important aims. First, to eradicate extreme poverty ('getting to zero') in a single generation; second, sustainable, inclusive growth all over the world; and third, success for Dutch companies abroad.

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*... and call for good international cooperation.*

Countries are becoming ever more closely bound together. It is in all their interests to have good international trade agreements and to address transnational problems such as conflicts, migration, water scarcity, climate change, malnutrition and food insecurity. A global and regional approach to the corresponding international public goods (IPGs) is essential. Our aim is to give low- and middle-income countries a place at the international negotiating table as fully-fledged partners when these problems are discussed. These countries are the most vulnerable to such transnational problems.

*Contents of this document*

This document is made up of the following chapters. Chapter 1 describes the trends, developments and lessons learned. Chapter 2 outlines the new approach in that changing context. Chapter 3 connects the approach to activities (including activities for IPGs). Chapter 4 looks at the consequences of our policy for cooperation with our partners. Chapter 5 presents the budgetary framework, including the spending cuts.



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# Trends, developments and lessons learned

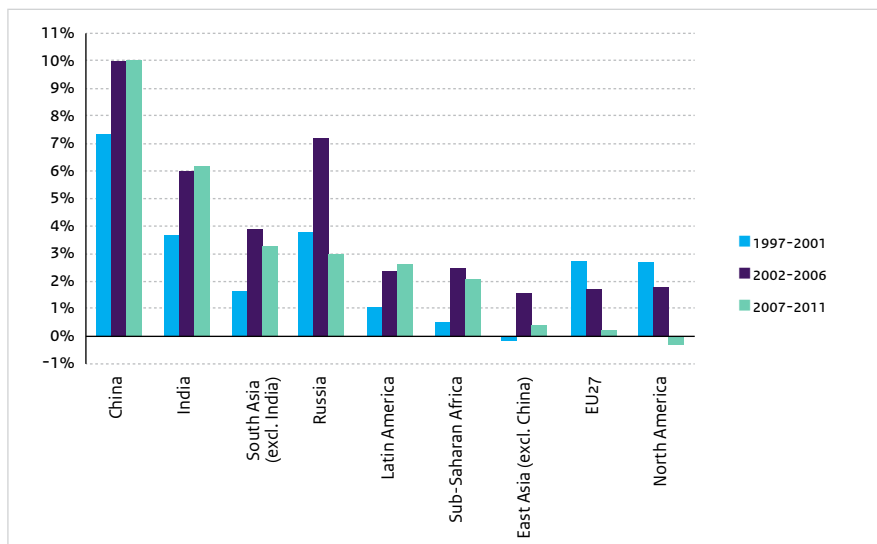
This chapter outlines the relevant trends, global developments and main lessons learned about trade and aid.

## 1.1 Shifts in global power relations

### *Rapidly emerging countries ...*

Asia, Latin America and Africa (see also figure 1) are the engines driving the world economy. And with their fast-growing populations, they will remain so for the foreseeable future. They are expected to account for nearly 60% of the global economy by 2030. China is forecast to overtake the USA and become the largest economy in the world in 2016. In Latin America, Brazil is performing particularly well however Colombia and Chile are also growing quickly. In Africa, Ethiopia (7% growth in GDP in 2012), Mozambique (8%) and Ghana (8%) are expanding rapidly. The IMF has predicted that within five years Africa will be home to no fewer than seven of the top 10 fastest growing economies.

**Figure 1** *Per capita GDP growth*



Source: calculations based on World Development Indicators

### *... and the economic problems in the EU ...*

Many European countries have seen their economies contract and unemployment rise sharply since the start of the financial crisis. More than a quarter of the people in Spain and Greece are jobless. In the Netherlands, more than 600,000 people are unemployed. Our economy went into recession again at the end of last year. A recovery is foreseen for 2014 and subsequent years as world trade picks up again. Thanks in part to the good connections with the hinterland provided by our major transport hubs, the Dutch economy will benefit significantly from any recovery.

*... are causing rapid shifts in global power relations.*

The economic power of Asia and South America is also reflected in global political relations. China and India have claimed their seats at international negotiation tables. And countries like Indonesia and South Africa are represented in the G20, while the Netherlands is no longer invited. The new global power relations obviously affect how international institutions and bodies operate, and how the Netherlands operates within them.

## 1.2 Increased global interconnectedness and interdependence

*The importance of integration in global supply chains is increasing ...*

Nowhere is globalisation more evident than in world trade. Between 1950 and 2007 world trade increased annually by 6.2% on average and global GNP by 3.8%. More and more countries are becoming linked up to the global supply chain and gaining easier access to new knowledge and technology as a result. Low- and middle-income countries benefit most from integration into the supply chain. They have seen their share in the chain increase from 20% in 1990 to 30% now. Their share in the services sector has nearly doubled in the same period: from 11% to 21%. This is due chiefly to trade between low- and middle-income countries. Trade between Africa and China, for example, increased from USD 10 billion in 2000 to USD 166 billion in 2011.

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*... and global issues are becoming more pressing.*

There is also a downside to international interconnectedness. The credit crisis and the European debt crisis show how problems in one country can spread to the rest of the world. Furthermore, demand for energy, food, water and raw materials has increased sharply owing to the growth of the world's population and global GDP. This is leading to scarcity, upward pressure on prices and wide fluctuations in prices. At the same time, the pressure on our environment is increasing, with climate change, environmental degradation and loss of biodiversity as a result. Supply chains must be made more sustainable. Historically, there is a link between scarcity and the outbreak of conflicts. Trade and the financial system, climate, food and water and certain aspects of migration, security and stability are sometimes referred to as international public goods because they affect us all. Low- and middle-income countries often suffer the most from global problems and have the fewest opportunities to withstand them.

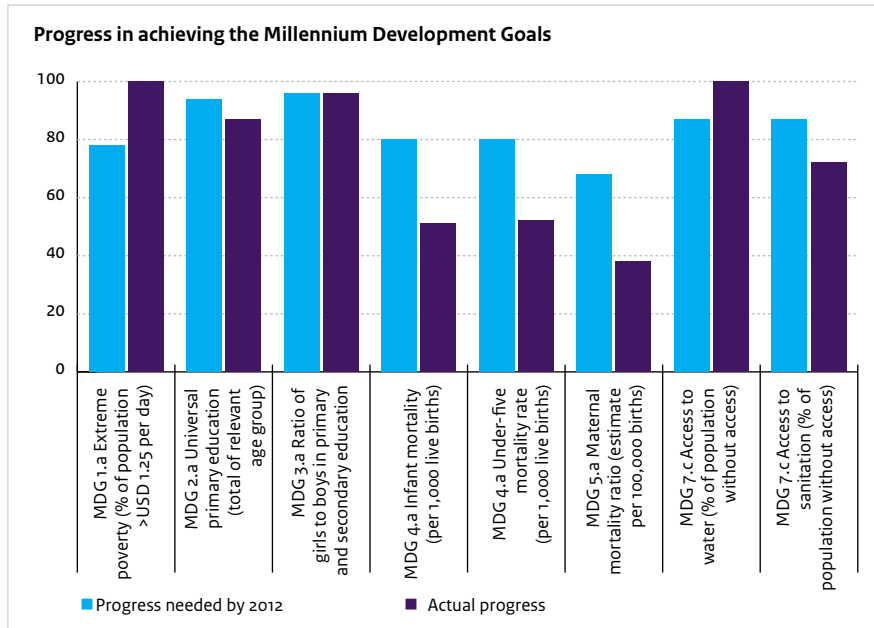
## 1.3 Changing patterns of poverty

*Extreme poverty is gradually declining throughout the world ...*

The heads of government of 189 countries adopted eight Millennium Development Goals in 2000 to reduce poverty, disease and hunger before 2015. Significant progress has been achieved in recent years (see figure 2), especially with the goal to halve extreme poverty. In 1981, 1.9 billion people lived in extreme poverty; by 2010 the number was 900 million and it will probably fall to 600 million by 2015. And achievement of other MDGs – for example on access to water, sanitation and primary education – is within reach. But this is not true of every

MDG. We are still lagging far behind in reducing infant, child and maternal mortality rates, and in increasing access to reproductive health care.

Figure 2 Progress towards the MDGs



*but not everyone is benefiting from increased prosperity ...*

Nearly three-quarters of the people living in extreme poverty – mainly women and members of other vulnerable groups – are to be found in middle-income countries. They are not yet reaping the benefits of their countries’ economic growth. Income inequality has increased in many middle-income countries. Between 1990 and 2007, the Gini coefficient, a measure of income inequality, rose in China from 0.36 to 0.47, in Indonesia from 0.29 to 0.36 and in Ghana from 0.34 to 0.43. The higher the Gini coefficient, the greater the income inequality.

*... owing to a lack of opportunities ...*

Sustainable development requires a fair distribution of opportunities. Economic growth does not automatically trickle down to all levels of the population. In many middle-income countries, there is little if any political attention for the interests of poor men and women. The emerging assertive middle class is exerting pressure on governments and facilitating democracy, the rule of law and the empowerment of women. Positive social processes must be nurtured to increase prosperity and equality. Greater purchasing power at the lower end of the social scale increases business activity and promotes economic dynamism. Economic growth by no means always leads to jobs, access to clean drinking water and equal rights for women. Furthermore, many people – especially women – still work in the informal sector. This makes them vulnerable and difficult to reach. Two billion women do not work in a productive sector, even though a large proportion of them want paid employment.



*...which can lead to social exclusion and instability.*

Rapid population growth is exacerbating the problem of unemployment. In 2020, the number of jobs in sub-Saharan Africa must be at least 50% higher than in 2005 to hold the official unemployment rate at the same level. In South Asia, East Asia and Oceania, a million jobs would have to be created every month. High unemployment can lead to social disorder and instability, especially in rapidly expanding cities. Half the population of low- and middle-income countries will live in cities in 2020.

*Basis for growth lacking in fragile states.*

The situation in fragile states and conflict countries gives cause for concern. These countries are in danger of being left far behind the rest of the world politically, socially and economically. They also represent a threat in terms of regional stability, radicalisation and terrorism, transnational crime, and illegal migration, trade flows and supplies of raw materials. One and a half billion people in these countries face a difficult if not impossible task to break free from poverty. A positive development is that the number of deaths in conflicts has declined from 180,000 in the 1980s to 50,000 between 2000 and 2010. But without peace, security and the rule of law, the prospect of a better future is slim. It is thought that two-thirds of poor people will live in fragile states and conflict countries in 2025.

## 1.4 Changing roles

*The Netherlands will play a different role in the world ...*

The influence of the Netherlands as a country is decreasing due to the emergence of new actors on the world stage. Increasingly, we are exerting our influence through the European Union. Our relations with low- and middle-income countries are on a more equal footing now that an increasing number are not only recipients of aid but also trading partners. It is becoming increasingly difficult to use aid to exert influence on poverty and equity issues. Recipient countries are taking a much more assertive attitude towards the aid they receive; and new actors like China, India and Brazil are providing aid under different conditions. What is more, the aid budget is shrinking, while income from private sources is growing in poor countries thanks to trade and investment flows, remittances by migrants, tax revenue and income from raw materials. Only in the case of low-income countries and fragile states does ODA remain the main external source of income.

*...and the role of businesses, civil society organisations, research institutions and citizens is growing.*

Businesses are becoming more active in developing countries, not only as trade partners but also as investors in projects that transfer knowledge and technology to support local authorities and entrepreneurs. Businesses and research institutions are also actively involved in the search for solutions to global problems such as food security and water. More citizens are taking action to eradicate global poverty, for example by consuming more sustainable products or by carrying out their own development projects. Private donations by philanthropic institutions to low- and middle-income countries amount to about USD 55 billion per annum, nearly half of all ODA provided every year by all the members of the

OECD Development Committee. Civil society organisations remain important, especially in areas where it is difficult for the government to work and as promoters of citizens' rights in low- and middle-income countries at local, national and global level.

## 1.5 Lessons learned

### *Development lessons ...*

A good balance must be struck between social, economic and ecological development. Social development has an intrinsic value from a human rights point of view but is not tenable without sustainable economic development. Conversely, economic development requires long-term investment in social sectors. Growth is not sustainable if it is accompanied by great inequality and exclusion. Development has proven possible in a variety of political systems, but political participation by a country's citizens is an important condition for lasting social cohesion. This calls for good leadership, an open political system and a willingness to reform and innovate. The state must play an active role, by gradually opening up to world markets and through social policy.

Only people and countries can 'develop' themselves. External aid is seldom decisive but it is often indispensable at a low income level. Development is country specific. There are no universal recipes but certain principles are nearly always important. Macroeconomic stability and an effective policy against inflation, for example, are essential. A sustainable agricultural sector makes a significant contribution to development. Industrialisation did not really take off in Southeast Asia, for example, until there had been a significant reduction in rural poverty. The rule of law is also a condition for the safeguarding of development.

In the field of security, our experience with the integrated approach has been favourable in recent years. The idea is that development is not possible without security and, conversely, long-term security is sustainable only if there is a prospect of development. To this end, a range of instruments in the fields of development, defence and diplomacy (the '3D approach') are being implemented in conflict-affected countries.

### *...aid...*

Important lessons have also been learned with regard to *aid*. Many of them relate to effectiveness and have been laid down in the Paris Declaration (2005), which was later elaborated upon in the Accra Agenda for Action (2008) and the Busan Declaration (2011). All these lessons highlight the importance of better cooperation: country-specific strategies (ownership), the participation of local institutions, harmonisation of donor procedures, the measuring of results and mutual accountability for them. Several other principles are also important, such as predictability: multiyear cooperation agreements with the prospect of continuity and clear phasing-out provisions. Frequent changes in the aid pattern can reduce the effectiveness of aid. This is one of the reasons to maintain the current priorities and not to change the list of partner countries until their development gives cause to do so. Aid must remain focused. Fragmentation (across countries and/or themes) creates inefficiencies owing to the donors' high fixed management costs and higher transaction

costs for the recipients. To prevent dependency, aid must complement local efforts. Financing must be shared wherever possible so that risks are shared.

*...and trade...*

International trade increases productivity. Companies active on the international market often employ more people and pay higher wages than those that are not. To encourage international business, the government must minimise its use of grants. Again, 'aid' should be both a stimulus and, above all, a complement to local efforts. If markets do not work efficiently, the government can help by, for example, offering businesses export credit insurance. The government is a dominant actor in many emerging markets. The Dutch government must use advice and economic diplomacy to help businesses open doors that would otherwise remain closed. Trade does not automatically reduce poverty. The impact is the greatest in countries that make additional reforms – appropriate investments in education, a stronger financial sector and good governance – enabling them to cope with the international competition. Trade 'aids' a developing country when improvements to its starting position are accompanied by the removal of barriers to trade and by corporate social responsibility.





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## A new approach

A different role in the world calls for a different approach. We are going to pay closer attention to the coherence between policy fields. We will seek a new definition of ODA, transparent financial and non-financial data and new forms of financing and cooperation. This new approach will be worked out against the background of an economic crisis and thus substantial spending cuts.

## 2.1 Policy coherence

Policy coherence for development means that the consequences of our policy for low- and middle-income countries will be taken into account in our decision-making. The Minister for Foreign Trade and Development Cooperation is responsible not only for the coherence of development policy but also for the coherence of foreign trade policy. Combining aid and trade can be mutually beneficial. Larger volumes of trade between the Netherlands and low- and middle-income countries will benefit us both. Nevertheless conflicts of interest can arise, for example with regard to how quickly markets are opened up, the enforcement of product standards and sustainability requirements. A number of concrete examples are provided below.

It is in the Netherlands' interests to gain rapid access to the markets of low- and middle-income countries. Yet it is uncertain whether these countries have developed strongly enough to compete on the international market. In the EU, we are a strong advocate of long transitional periods and complementary measures to help low- and middle-income countries develop their private sectors further.

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Dutch companies that maximise their profits by employing contrived tax avoidance arrangements can damage low- and middle-income countries. Low taxes for individual companies do not weigh up against the unintended loss of tax revenue in low- and middle-income countries. Together with the Minister of Finance, we are studying whether tax treaties concluded by the Netherlands with a number of developing countries are in line with the memorandum on Dutch tax treaty policy of 2011.<sup>1</sup> In doing so, we will see whether these treaties have unintended effects. That would be the case if, for example, the treaty with the Netherlands presents more opportunities than treaties with other countries to erode the tax base in developing countries. Should that prove to be the case, we are prepared to enter into dialogue with those countries. Of course, treaty partners themselves may launch a dialogue with the Netherlands on the treaties. The Netherlands is actively supporting an OECD action plan to combat tax avoidance and the erosion of tax bases. Products traded on European markets are subject to strict safety, sustainability and packaging standards. The standards are a barrier to products from low- and middle-income countries. They protect our consumers but indirectly give our manufacturers a competitive advantage. Rather than lowering our standards, we will encourage producers from

<sup>1</sup> Parliamentary Papers, House of Representatives 2010-2011, no. 25 087, no. 7

developing countries to comply with them, for example through the Centre for the Promotion of Imports from Developing Countries (CBI).

We want farmers in low-income countries to be able to sell their produce on international markets. To this end, the interests of farmers in OECD countries must be brought more into line with the interests of farmers in low-income countries. This means that markets must be opened up more, for example by phasing out import tariffs. In comparison with other OECD members, the EU has long provided access to farm products from low-income countries. The Netherlands wants the reform of the common agricultural policy to lead to a further phasing out of grants that distort trade. The Netherlands also supports measures to combat food dumping by abolishing export support and by phasing out support to farmers in other OECD countries.

The revision of the EU annual accounts directive will introduce a requirement for mining and logging companies to disclose the payments they make to the governments in the countries where they operate. Transparency as regards earnings from raw materials is an important means to combat corruption in countries with a wealth of natural resources. Transparency better enables citizens to hold their governments to account for their use of revenues. The potential downside of transparency is that some governments would not be prepared to accept investments by companies that are required to disclose the payments they make. European – including Dutch – companies therefore have less freedom and a more onerous administrative burden than those not required to disclose these payments. Nonetheless, the government expects that once a critical mass of companies and countries comply with this reporting requirement, fewer countries will claim infringements of national prohibitions on disclosing payments. The US Dodd-Frank Act contains a similar provision on transparency. As indicated in two previous letters to the House of Representatives,<sup>2</sup> for this reason the Netherlands recently called for no exceptions to be made to the reporting requirement. Negotiations with the European Parliament on the directive are at an advanced stage, and agreement is expected to be reached between the Council, the Commission and the European Parliament in the near future. It will then be up to the Commission to monitor correct implementation of the annual accounts directive by the member states.

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It has become clear in recent years that the production of first-generation biofuels is detrimental to the production of food, can lead to degradation of the ecosystem and displacement of the local population. Furthermore, the contribution from biofuels to reducing CO<sub>2</sub> emissions is less favourable than initially assumed. The blending obligation has been revised but more is needed. We do not want our biofuel blending to have negative consequences elsewhere. Together with the Ministry of Infrastructure and the Environment and the Ministry of Economic Affairs I will seek the formulation and introduction of criteria for the sustainable production of biofuels in both an EU and an international context.

<sup>2</sup> [Letter to Parliament of 8 February 2013 on exceptions to the reporting requirement on payments to governments \(House of Representatives 2012-2013, 21 501-30, no. 303\)](#) and [answers to the question posed by members Bram van Ojik, Marit Majj and Mei Li Vos on the Dutch position on financial transparency in the commodities sector \(House of Representatives 2012-2013, Annexe 1566\)](#)

The trade section of the association agreement with Central America includes agreements to improve access to each other's markets. Dutch insurers, for example, have better opportunities on Central American markets and Dutch dredging companies can compete for public contracts on the Panama Canal. In exchange, the EU has improved access to its markets for sugar, beef and other products. In this instance, the interests of Dutch dredging companies in Central America conflict with the interests of sugar manufacturers in the Netherlands because in exchange for the opportunity to dredge the Panama Canal, the EU has opened up its sugar market. In such cases we opt for the solution that delivers the best result for the Dutch economy.

These are only a few examples of the assessments we have to make. If interests conflict, the government must make clear and measured choices in each individual case, guided by the principle of sustainable and inclusive growth.

## 2.2 New forms of cooperation

We will work in a different way with our partners. In accordance with the recommendations of the Advisory Council on International Affairs (AIV) regarding the interaction between the actors in international cooperation, we believe the traditional division into channels (bilateral, multilateral, civil society organisations and the private sector) is becoming less relevant today. Cooperation is becoming more 'hybrid'. Increasingly, new forms of cooperation are required with companies, research institutions and NGOs, such as the Global Alliance to Improve Nutrition. We will also enter into new alliances with countries and philanthropic institutions to tackle problems at national and international level. We will retain the country list for bilateral cooperation, however but will increase its flexibility by reviewing it more frequently. We will opt more often for a regional approach as the best means to tackle problems such as instability and food insecurity.

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Trilateral cooperation is growing in importance in our direct poverty reduction initiatives. In such alliances, the Netherlands works with an emerging middle-income country in order to support the development of a low-income country. We seek contacts with new players that have their own agenda and specific expertise, for example in combating poverty, like Brazil.

Civil society organisations have lost none of their relevance. They are vital to identify social and economic injustices. Civil society organisations in low- and middle-income countries have grown stronger in recent years. At the same time, in many countries NGOs are not guaranteed political freedom. We will therefore work in strategic partnerships with civil society organisations, seeking forms of cooperation between organisations both here in the Netherlands and in developing countries that have clear added value and are more aligned with Dutch policy priorities. We will also support civil society organisations politically. Restrictions on their freedom of action will be specifically addressed in our bilateral contacts.

Companies and research institutions will be given a new role. The trade and investment domain provides opportunities for sustainable and inclusive growth in low- and middle-income countries. Companies and research institutions are essential development partners



on account of their knowledge, technology and networks. The internationalisation initiatives of the leading Dutch economic sectors show that the business community wants to work in developing countries and in strictly regulated sectors such as energy, logistics, water, horticulture and propagation materials, and agrifood. Here too, research institutions support policy on the leading Dutch sectors: by teaching and doing targeted research they help to develop and expand knowledge within them. We will invite companies and research institutions to take part in our missions. Further support will be provided in the form of private sector instruments (see section 4.4). Trade must play a bigger role in bilateral aid relations, subject to certain conditions. Companies must commit themselves to sustainability and corporate social responsibility criteria, including compliance with the applicable EU rules on country-by-country reporting.

Our relationship with international organisations is changing. We will focus aid more sharply on international organisations that are engaged in areas where Dutch companies, research institutions and civil society organisations are among the best in the world and that are at the heart of Dutch policy. We will increasingly participate in international initiatives involving a variety of players, such as the Aid for Trade Agenda of the OECD and WTO, the agrichain and food security initiatives of the World Economic Forum and the Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM). This will increase effectiveness.

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In a world of radical change and new challenges, the Netherlands needs European cooperation above all else. Through the EU we can make our voice heard in such areas as trade politics and investment protection and incorporate sustainability into international trade and investment treaties. We will also work more often in an EU context in respect of other IPGs. Within the EU, we will improve the coordination of our aid efforts with those of other member states. We will also carry out more joint programmes. Furthermore, we will raise sensitive issues such as human rights and good governance through the EU wherever possible. By doing so, our voice will be better heard and our efforts will have a higher return.

## 2.3 New forms of financing, definition of ODA and transparency

We will make greater use of new financing mechanisms, such as guarantees and venture capital. This will enable us to tap new funding sources, including banks and companies. We will continue existing initiatives such as The Currency Exchange Fund (TCX). By hedging exchange rate risks, this fund helps prevent entrepreneurs in developing countries being saddled with risks they cannot bear. We will introduce two new instruments: the Dutch Good Growth Fund (previously known as the Revolving Fund) and the International Security Budget. The Dutch Good Growth Fund will help finance entrepreneurs both in developing countries and in the Netherlands, especially small and medium-sized enterprises that want to trade with and invest in low- and middle-income countries. An initial presentation of the fund is provided in section 3.4. The international security budget is considered further in section 3.3. This budget will strengthen cooperation between the various parts of the 3D policy (Development, Defence, Diplomacy).

Innovative financing instruments are not always compatible with the official definition of ODA. Other, often substantial, development-related initiatives that contribute to prosperity and economic growth also fail to meet the definition. This is undesirable. In the international debate on the future of ODA to be held in the OECD and elsewhere in the years ahead, we will call for a broader definition that embraces innovative financing mechanisms and other development-related expenditure. We will take a close look at subjects that are currently covered by the ODA definition but have little relevance to development. Turkey and China, for example, are on the ODA country list. The interministerial policy review to modernise the definition of ODA will present its recommendations before the summer.

We will make our own activities and expenditure more transparent. We will take part in open data initiatives such as the International Aid Transparency Initiative (IATI). This initiative makes data on Dutch development policy accessible to a wider public and enables us to share and re-use data with third parties, for example through the [www.openaid.nl](http://www.openaid.nl) website and the 'Where does my aid go?' app of the OneWorld magazine. Initiatives such as IATI are directed at people and organisations in the Netherlands and at people in low- and middle-income countries. Under the banner of the IATI, we will publish more data, including data from our implementing organisations. We will publish data at country and activity level and data on ODA flows that are not the responsibility of the ministry, development-related expenditure classified as Other Official Flows, and private contributions in the form of investments, grants and loans. We have a responsibility to show the taxpayer what we do and what we achieve.

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## 2.4 Spending cuts

The one-billion-euro cut in the development budget over the next four years will force us to make choices. We will concentrate our aid and trade efforts on the priorities of food security, water, women's rights and SRHR, and security and the rule of law. The government has also decided to release additional funds for the international security budget and the Dutch Good Growth Fund.

With the exception of women's rights and SRHR, spending on the priorities will be cut because the Netherlands wishes as far as possible to respect current commitments and release funds from the development budget to finance international climate expenditure. Changes in the budgets for the priorities between now and 2017 will depend in part on the growth of national income.

Spending will be cut principally by reducing expenditure on the crosscutting themes of good governance, the environment and education faster than planned and integrating them into the priorities where relevant, by reducing contributions to multilateral organisations and by reducing earmarked expenditure on civil society organisations after the end of MFS II on 1 January 2016. The budgetary framework of this letter is considered in chapter 5.



3

## Changing relationships

## 3.1 Background

Our relationships with other countries are changing in the wake of global developments. The aid, trade and investment agenda focuses on three groups in particular, i.e. countries whose relationship with the Netherlands is primarily based on aid; countries with which we have a transitional relationship, in which both aid and trade play a role; and countries with which our relationship revolves around trade and investment.

We will be focusing on a limited number of countries in each of these three groups. In deciding which, we took the following into account: income levels and levels of poverty, UNDP's Human Development Index, the activities of other donors, the knowledge and expertise the Netherlands has to offer, opportunities for the Dutch private sector and the historical relationship with the Netherlands. In order to increase the effectiveness of past and current efforts, we have aimed for a degree of continuity in our choice of countries. At the same time, however, we also need to ensure sufficient flexibility to enable us to respond to economic and political developments. For this reason, we will regularly take a critical look at the country lists presented below. We will enter into dialogue with each country to decide what our relationship should entail.

### 1. *Aid relationships*

This category includes conflict-affected and post-conflict countries, fragile states and countries with insufficient institutional capacity to reduce poverty effectively without external assistance. The list of countries with which we have a mainly aid-based relationship includes Afghanistan, Burundi, Mali, the Palestinian Territories, Rwanda, South Sudan and Yemen. In these countries, we link action to reduce poverty to activities in the field of security and diplomacy. Since problems relating to issues such as security and the environment are not confined to single countries, we are increasingly adopting a regional approach, in the African Great Lakes region and the Horn of Africa for instance. Each of the countries targeted by the Central America Programme (MAP) – Guatemala, Honduras, Nicaragua and El Salvador – has the status of low-to-middle income country. The relationship with this region is increasingly moving towards trade and investment. Aid to this region will therefore be phased out in the years to come.

### 2. *Transitional relationships*

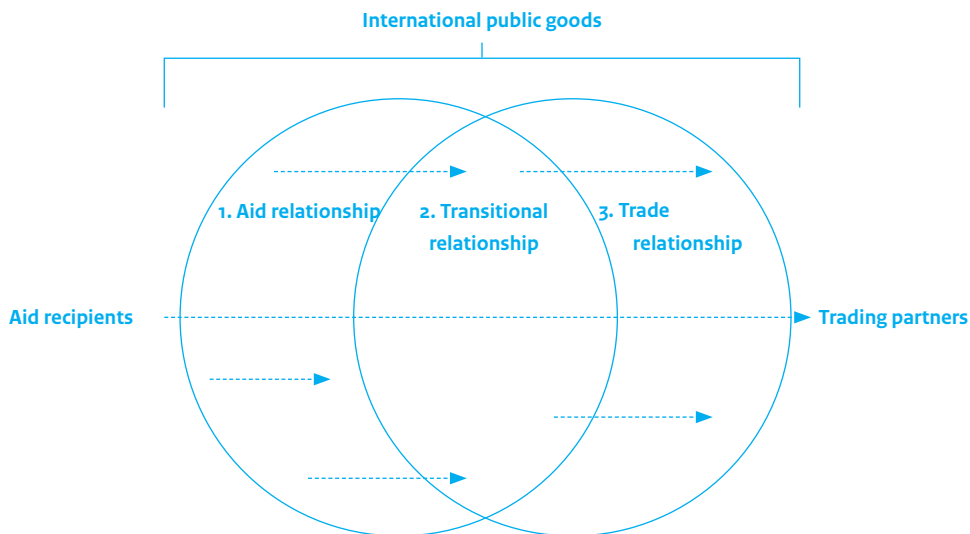
In this category are countries with which our relationship is based on both aid and trade, i.e. Bangladesh, Benin, Ethiopia, Ghana, Indonesia, Kenya, Mozambique and Uganda. The need for direct intervention to reduce poverty will decline as we build or extend our trade and investment relations. The pace at which this will occur will differ from country to country. In low-income countries like Mozambique and Ethiopia our work will mainly centre directly on poverty reduction in the next few years, while in countries like Ghana and Indonesia the aid relationship can be phased out.

We will enter into a multi-year bilateral aid relationship with a larger development budget (delegated funds) with the 15 countries with which we have chosen to maintain an aid or transitional relationship. This does not mean to say that Dutch development funds will no

longer be invested in any other countries. The EU, multilateral institutions and civil society organisations are active in many low- and middle-income countries. The private sector programmes, the Stability Fund and the scholarship programmes are open to a greater number of countries. In implementing these programmes, we will focus ODA funds on low- and low-to-middle income countries. A special transition facility is available for countries where the aid relationship is moving towards a trade relationship. The ties we have forged with these countries through our aid relationship can be used to strengthen our trade and investment relationship.

3. Trade relationships

Relationships with countries in this category are primarily based on trade and investment. We will focus our efforts on our relationship with Australia, Belgium, Brazil, Canada, China, Colombia, France, Germany, the Gulf States, India, Iraq, Japan, Malaysia, Mexico, Nigeria, Poland, Romania, Russia, Singapore, South Africa, South Korea, Turkey, the UK, Ukraine, the US and Vietnam. Activities will aim to facilitate the success of Dutch companies abroad. For example, we are working hard on an offensive to internationalise our leading sectors. There is enormous potential for the Netherlands in sectors such as energy, agrifood and water, where our companies and research institutions are international leaders. We will also mainly focus on countries undergoing rapid development, where it is important for the Netherlands to win a share of the market, especially in view of disappointing growth in Europe.



The relationship between the Netherlands and other countries may change in the wake of economic and political developments. If low-income countries develop quickly, the need for aid will decline and reciprocal trade-related interests will increase. We will move from an aid to a trade relationship with these countries. That does not mean that aid will become unnecessary. Economic growth does not automatically lead to better opportunities and more quality of life for everyone. We will therefore continue to be committed to inclusive growth – a more equitable distribution of income and equal opportunities. In addition, we may also trade with and invest in countries with which our relationship is primarily based on aid. In other words, there are no watertight divisions between the three elements of policy. If development proceeds as desired, the number of countries in the right-hand circle in the figure above will increase, and the number in the left-hand circle will decrease. The four priorities – water, food security, security and the rule of law, and women's rights and SRHR – are still current, and will be given more attention. Many activities under these priorities are now beginning to bear fruit and it would be inefficient to nip positive developments in the bud. But of greater importance is the fact that these priorities are relevant to poverty reduction and to the Netherlands' economic and other interests. In working on the four priorities we will make as much use as possible of the technological and other knowledge of the leading Dutch sectors. The added value brought by the Netherlands to the themes identified as priorities is internationally recognised, thanks partly to the knowledge possessed by our private sector, civil society organisations and research institutions. The Netherlands has many years' experience of water management, which we can use to help other countries solve their water problems. We have an outstanding agricultural sector and food processing industry. We have much experience of agricultural and other logistics, enabling us to contribute to global food security. The Netherlands' 3D (Defence, Diplomacy and Development) approach to the theme of security and the rule of law has received international acclaim, and The Hague is the legal capital of the world. Lastly, the Netherlands has long had robust civil society organisations working to promote women's rights and SRHR.

### 3.2 Global issues: international public goods (IPGs)

This new agenda will be rolled out within an international context in which transnational problems are looming ever larger. Every country stands to benefit from safeguarding international public goods (IPGs) such as food security, climate and security. Our new agenda cannot be implemented without reliable agreements between countries on these goods. Pursuing and enforcing sensible management of IPGs is a collective interest and is thus in the Netherlands' own interests.

We are therefore working at various levels – multilateral, regional and bilateral – and with various partners – international institutions, countries, civil society organisations and companies – to conclude international agreements. We are committed not only to protecting our own interests, but also to ensuring that low- and middle-income countries have a greater say in international negotiations. The EU will be the primary conduit by which we will seek to further our aims. We will focus mainly on achieving results in relation

to trade, security and the rule of law, food security, water, climate and migration. The Netherlands can make a difference in these areas, given that companies and research institutions in the leading Dutch sectors can make a very valuable contribution. Reasonably well-developed international forums in which most countries are represented already exist in the field of trade (WTO) and security (United Nations and NATO). However, global governance of the other IPGs often falls short. A recurring problem is that low- and middle-income countries have too little voice in the international forums in which decisions are taken on IPGs. These countries are often ill-prepared to use the methods and procedures needed to exert influence effectively. That is an unfortunate state of affairs: international organisations can only function properly if they are sufficiently representative.

The report to be issued by the Advisory Council on International Affairs (AIV) later this year on global challenges in the field of food, energy, water and climate, will help us shape policy on these IPGs. We will inform parliament of our further plans in relation to these themes after the report has been issued.

### *Our agenda*

#### **3.2.1 Trade**

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The WTO negotiations on a comprehensive agreement on liberalising world trade have reached deadlock. A major theme of these negotiations, based since 2001 on the Doha Development Agenda, is that low- and middle-income countries should benefit from the growth in world trade. During this government's term in office, we will attempt to achieve a breakthrough on some themes and conclude partial agreements. The Netherlands is, for example, committed to concluding a partial agreement on trade facilitation. According to studies conducted by the World Bank, the actual introduction of better rules on trade facilitation could lead in both developed and developing countries to improvements in welfare amounting to tens of billions of euros. Trade procedures – for example customs procedures – need to be harmonised and simplified in order to reduce the costs of trade. African countries, and countries like China, India and Brazil, say that trade facilitation calls for expenditure – investment in ICT, for example – which developing countries cannot afford. The Netherlands, the EU and other donors, will meet the need for technical assistance and capacity building. Low- and middle-income countries may also implement agreements at their own pace, and do not need to implement them in their entirety from the outset. The extent to which low- and middle-income countries may take a flexible approach to implementing the agreements is one of the hot issues in the negotiations. Here, emerging markets, led by India, are at odds with donor countries. Moreover, countries like India and Brazil want to link trade facilitation to discussions on agriculture. The aim is to conclude an agreement on trade facilitation at the Ministerial Conference in December 2013.

The members of the WTO have equal voting rights. But having equal voting rights does not by definition mean exerting equal influence. That calls for knowledge, of both the trading system and its requisite procedures and the problems local companies encounter in selling their products in international markets. The Netherlands supports low- and middle-income countries in acquiring the necessary knowledge. We were, for example, among the

countries supporting the launch of the Advisory Centre on WTO Law which helps in the settlement of disputes. We will continue to support this initiative. We also wish to enable talks on trade liberalisation, based, of course, on a reliable analysis of the wishes of the private sector in low- and middle-income countries.

### 3.2.2 Climate

Climate change and the exhaustion of natural resources (environment, soil and biodiversity) impose limits on the social and economic development of both poor and rich countries. Climate change is a major cause of natural disasters, such as floods. Drought pushes up the price of food and environmental degradation leads to destruction of our natural production base and loss of ecosystems. The very poorest people, women in particular, are hit first and hardest. For this reason, too, it is important for the Netherlands to focus its efforts to mitigate the effects of climate change on low- and low-to-middle income countries, wherever possible. The Netherlands will also work for an ambitious climate policy in which international agreements are reached on the reduction of CO<sub>2</sub> emissions and for policy to prevent the exhaustion of natural resources. We are now working to achieve these aims in close cooperation with the Ministry of Infrastructure and the Environment.

In international negotiations, the Netherlands has pledged to contribute to the extra costs of mitigation and adaptation to climate change in developing countries. Depending in part on the progress of the international climate talks, the Dutch contribution may rise from €200 million in 2013 to €1.2 billion in 2020, and comprise both public and private funds. Climate is a perfect example of an area where closer cooperation with the private sector can be sought, ultimately leading to a stronger Dutch commitment. Given the considerable knowledge and expertise the private sector possesses in these fields, it can play a highly significant role. Ultimately, this contribution should go hand in hand with the seizing of opportunities in the sectors relevant to climate and the environment, such as the agriculture and water sectors. Given the relationship between climate change and natural disasters, the Netherlands will make a stronger commitment to disaster risk reduction and disaster resilience.

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Climate change has repercussions for many other themes: drought puts food security under pressure, floods increase the importance of water management, the degradation of soil and forests hits women first, and the exhaustion of natural resources can lead to conflicts. Ecological degradation is also strongly related to inequality between the richer and poorer parts of the world. Frontrunners in the private sector are aware of these threats, and are already taking measures. It is therefore becoming increasingly necessary to mainstream climate within the policy priorities, for example within sustainable water management and food security programmes.

### 3.2.3 Food security

Food security is developing into a global issue. Climate change and wildly fluctuating prices on the commodity market are major factors threatening food security. Poor countries that import food are particularly vulnerable, since they are most severely hit by the fluctuating food prices. Though the Millennium Development Goal of halving the proportion of people in the world suffering from hunger by 2015 is within reach, one person in every eight is still



chronically hungry/undernourished. In Africa that figure is one person in every four. Achieving food security calls for the commitment of the entire agricultural production and trade chain. We must not only increase food production, but also improve the quality (nutritional value) and distribution of food without harming our living environment and the climate. The agriculture sector is not only affected by climate change, but is itself responsible for emissions of greenhouse gases.

The Minister for Foreign Trade and Development Cooperation will work closely with the Minister for Agriculture in the search for solutions, on the basis of their respective responsibilities for the different facets of food security. Dutch companies and research institutions in our leading sectors (e.g. agrifood, horticulture and propagation materials, logistics and water) possess exceptional knowledge and technology that could be used to bring global food security within reach. We are sharing our knowledge within international knowledge networks such as the Consultative Group on International Agricultural Research (CGIAR). Dutch companies and research institutions are also involved in public-private partnerships, for example to improve food security in Ethiopia (see section 3.4). We will devote particular attention to strengthening the role of women in agriculture. Studies show that if women had the same access as men to sources of production, hunger in the world would decrease by between 12% and 17%.

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The distribution of food also needs to be improved. Through inefficiency in the production and trade chain, 30% of the food produced never reaches the consumer. The cause is not only poor harvesting and production methods, but also badly organised trading systems. That is why we are also focusing on issues such as promoting trade facilitation and encouraging regional trade, in Africa for example. The Netherlands is promoting these issues in international organisations such as the FAO, WFP, IFAD and the World Bank. The Netherlands is also involved in G20 and G8 food security initiatives.

### **Climate-smart agriculture**

Climate change is severely affecting the development of smallholder agriculture in vulnerable areas. More robust forms of land and water use are urgently needed to cope with drought, heavy rainfall, shifting seasons and other increasingly frequent occurrences. With its Adaptation for Smallholder Agriculture Programme (ASAP), the International Fund for Agricultural Development (IFAD) is improving smallholders' resilience to climate change. ASAP integrates resilience to climate change within every agriculture programme run by IFAD with government authorities, local organisations and the local private sector in developing countries. This programme is enabling vulnerable smallholder agriculture to adapt to climate change, while supporting sustainable agricultural development in the future, and thus local food security. The Netherlands is also a driving force behind climate-smart agriculture, i.e. highly productive agriculture which is resilient to climate change and emits less CO<sub>2</sub>. To put this subject on the international map, the Netherlands organised two international conferences, the second in and with Vietnam in September 2012. The Netherlands will press ahead with its efforts in pursuit of this aim.

### 3.2.4 Water

In its Global Risks 2013 report, the World Economic Forum cites water security as one of the greatest social, political and economic challenges of our time. This encompasses water scarcity, flooding and pollution. By 2030 global demand for water will outstrip supply by 40%. In North Africa and the Middle East, groundwater levels are sinking so rapidly as to threaten regional stability and security. Where water governance fails and water problems are tackled inadequately, major ecosystems, crucial services and economic interests come under pressure – urban drinking water supplies, energy supplies, agriculture and industry. Water can then become a major cause of regional conflict.

We will therefore contribute to transboundary water management in seven international river basins in Africa, the Middle East and Asia. Working with international financial institutions such as the World Bank, the Netherlands plans to promote cooperation between upstream and downstream riparian states.

### 3.2.5 Security and the rule of law

Problems such as radicalisation, terrorism, cross-border crime and illegal trade and imports of raw materials pose an increasing threat to stability in fragile states, and also to the Netherlands and Europe. Pirates off the coast of Somalia are a threat to commercial shipping, while instability in West Africa presents opportunities for illegal trafficking in drugs, weapons and raw materials.

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We will therefore work towards a better global approach to peace and security. We will do so at international level by making tangible agreements on international security, and supporting their implementation. In the UN and NATO, the Netherlands will champion causes such as the protection of civilian populations, the inclusion of peace and security in the post-2015 development goals, and UN Security Council resolution 1325 on women, peace and security. The Netherlands will call for implementation of this resolution in EU and NATO missions and support women's active participation in peace and reconstruction processes in six conflict-affected and post-conflict countries. Within the EU, we will call for more cohesion between the activities of EU institutions in crisis areas.

This government is also committed to promoting the international legal order. A strong international legal order is essential to ensure justice, peace and prosperity in the world. The Netherlands' commitment to promoting the international legal order is enshrined in its Constitution (article 90). It is in our interests for other countries to respect the core values of the rule of law. This government's policy therefore aims to embed countries wherever possible in the multilateral system, and to support countries in developing the rule of law.

We will give specific support to the capacity of leading organisations in the field of peace and security, including the UN, the World Bank, NATO and regional organisations. Examples include UNDP's programme for mediating in conflicts and UNDP's Global Programme for Rule of Law, Justice and Security, which supports 25 countries in developing the rule of law and transitional justice processes. The African Union will receive support in setting up and

operating its own regional security organisation. Working with NGOs and research institutions, the Netherlands will contribute to the collection and destruction of small arms and light weapons.

### 3.2.6 Migration

More than 214 million people are international migrants. People migrate for economic reasons, to flee war or to avoid persecution. The Netherlands first seeks to protect and shelter refugees in their regions of origin. That is why we support UNHCR.

Migration calls for transnational cooperation between the governments of countries of origin, transit and destination. We will take account of the rights of migrants and of the interests of the various countries concerned. Migrants admitted to the Netherlands will be expected to seize the opportunity to integrate into Dutch society. The Netherlands will seek at both bilateral and EU level to ensure that migration has a greater impact on development. The government will therefore fund projects that help countries of origin build their migration management capacity and projects that enhance the contribution of migrant communities to development in their countries of origin.

Migrants residing illegally in the Netherlands, including failed asylum seekers, will return to their country of origin. The Netherlands will pursue an active policy on returning migrants not entitled to stay here. We will put pressure on countries to readmit nationals who have been refused admittance to the Netherlands and will employ the option of conditionality in our trade and development relationships with countries to help achieve the return of their nationals.

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## 3.3 Aid relationships

Fighting poverty in low-income countries, fragile states and conflict-affected and post-conflict countries is one of the main elements of our policy. The Netherlands will focus in particular on Afghanistan, Burundi, Mali, the Palestinian Territories, Rwanda, South Sudan and Yemen. These countries are not in a position to deal with poverty themselves because they are either embroiled in – or emerging from – conflict.

We will support these countries by investing in basic services relating to our priorities of water, food security, women's rights and sexual and reproductive rights, and security and the rule of law. We will also be making a contribution to the international debate on a new post-2015 poverty reduction agenda to follow up the Millennium Development Goals. We will provide humanitarian assistance to countries in emergency situations.

Focusing on individual countries is not always enough. Problems in one country may have a huge impact on the development of another. The refugee problem and water-related issues in Africa are a case in point. Where relevant, and where the Netherlands brings added value, we will adopt a regional approach, as we are doing in the African Great Lakes region and the Horn of Africa.

## Our agenda

### 3.3.1 Investing in a global development agenda

The Millennium Development Goals are tangible, measurable aims for poverty reduction. A new international poverty reduction agenda to replace the MDGs after 2015 is of great importance in setting further concrete goals for efforts to fight poverty and inequality in the future. The UN High-Level Panel, which is currently working on a framework, plans to present a proposal in May 2013. The consultation process, in which the views of many experts and interested parties are being heard, is in full swing. The Netherlands is contributing by consulting the private sector and members of the public, by facilitating an international conference on water in the Netherlands, and through the EU and other international forums.

Though the post-2015 agenda will probably focus less sharply on the social sectors than the current framework, poverty reduction will continue to be the main theme. The main aim put forward in the letter to the House of Representatives setting out policy on the post-2015 development agenda was the eradication of poverty within a single generation – ‘getting to zero’. Improving people’s income position is therefore important, but other aspects of poverty should not be ignored. Everyone should be able to rely on a certain basic level of social protection – a social protection floor. This includes protection against the consequences of illness, and the right to decent work and a properly functioning labour market. We will look at how the experience acquired by the Netherlands in the field of social protection can contribute. Apart from the social dimension of poverty, other subjects should be included in the new framework, for example the priorities of water, food security, women’s rights and SRHR, and security and the rule of law, as well as sustainable growth, human rights and access to financial services. We will give you further information on the Dutch position once the High-Level Panel has published its report.

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Of exceptional importance to the post-2014 agenda are the Sustainable Development Goals (SDGs). The 2012 Rio+20 conference on sustainable development agreed that these new goals, which mainly relate to the environment and sustainable development, should be worked out in more detail. The Netherlands is a member of the working group tasked with developing these SDGs. We believe that it is important for the SDGs to be included in the global development agenda. In the years after 2015 we would then be able to work with a single set of goals comprising both the updated development agenda and the SDGs.

### 3.3.2 Investing in basic services

#### Investing in water

Water is inextricably linked to the availability and production of food and energy. An integrated, sustainable approach is therefore needed to secure future supplies of water, food and energy. Water security is vital to poverty reduction and economic growth. Without it, poverty will be perpetuated. Access to safe drinking water and sanitation is a condition for escaping poverty. The same applies to protection from flooding and pollution. Poor people are exposed to the greatest water risks: slums are often the first areas to be affected

by flooding, and contaminated waste water threatens the health of large numbers of people. Population groups that depend on good water management, such as fishermen and small-scale livestock farmers are often among the poorest. Their water security is often the first to be threatened. With better water management, the interests of these groups would be taken on board in decision-making on water distribution.

In the water programmes that the Netherlands supports, we are pursuing three specific goals: (i) 25% higher water productivity in agriculture; (ii) better river basin management and safe deltas; and (iii) better access to safe drinking water and sanitation for 25 million people. We are contributing with this third goal to achieving a human right: the right to safe drinking water and sanitation.

Between 2000 and 2010, Dutch investments in drinking water supplies and sanitation gave 20 million people access to a safe source of drinking water, and more than 35 million people access to adequate sanitation. We want to provide safe drinking water for another 25 million people, and sanitation for the same number in the 2010 to 2015 period. To achieve these aims, we will be stepping up the water programmes in the countries where we are active, and supporting a number of multilateral programmes. In Bangladesh, for example, we are supporting the Bangladesh Rural Advancement Committee (BRAC), a large NGO which, with the help of Dutch funding and Dutch experts, focuses on people living in remote areas. In late 2012, the Netherlands entered into a programme with UNICEF that aims to provide drinking water and sanitation to five million people in nine countries – mainly fragile states – in West and Central Africa.

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### Investing in food security

To ensure everyone has sufficient food with sufficient nutritional value we need to take account of population growth, climate change, changing patterns of consumption, urbanisation, price speculation and demand for biofuels. The role of local producers, especially women, is important. They must be able to provide sufficient food not only for themselves but also for the growing urban population. This is a precondition for further economic diversification and growth. Agricultural logistics and the food processing industry will therefore become important elements of policy. In the relatively poor, mainly agrarian economies in sub-Saharan Africa, we will work on developing agriculture sustainably and increasing access to nutrition.

A good example is Dutch participation in the global Scaling Up Nutrition Alliance. Thanks to campaigns led by this alliance in the past few years, malnutrition is now high on the international agenda. Everyone agrees that interventions should focus on the first 1,000 days of a child's life, because it is here that the greatest gains can be made. Together with UNICEF, the Netherlands has drawn up a plan to improve the nutritional status of nine million children in Burundi, Ethiopia, Mozambique and Rwanda.

### Investing in equal rights for women and sexual and reproductive health and rights

Women's rights are still being violated on far too great a scale. The Millennium Development Goals on reducing infant, child and maternal mortality have still not been

achieved. What is more, the international consensus on equal rights for men and women and on sexual health and rights is under severe pressure. That is why the Netherlands will invest in alliances with other progressive countries. Themes such as equal rights for men and women and sexual rights should be included in the new post-2015 poverty reduction agenda which will replace the Millennium Development Goals. Equal rights for women and sexual and reproductive health and rights will also be identified as priorities in the letter setting out human rights policy, which the Minister of Foreign Affairs will send to the House of Representatives this spring.

The Netherlands wants to make a difference in the lives of women. The eradication of violence against women is a priority of both the Minister for Foreign Trade and Development Cooperation and the Minister of Foreign Affairs, and is a condition for women everywhere in the world to be active in political, economic and social life. By contributing to funds such as FLOW (Funding Leadership and Opportunities for Women), NAP 1325 (the National Action Plan on Resolution 1325) and Women in the Frontline, and working with UN Women, the Netherlands hopes to achieve better legislation, more effective prevention mechanisms and better access for women to legal aid.

The Netherlands is committed to preventing both forced marriage (child brides) and sexual violence, which is why – for example – it is participating in the international campaign ‘Girls not Brides’. Child marriage cannot be condoned, even for reasons of culture, tradition or religion. Forced marriages are a violation of the right to self-determination. Sexual violence against women is still frequently used in conflict situations as a means of disrupting communities. This practice is unacceptable. That is why we will work with partners such as the UK and the US to implement existing resolutions which are still very much paper tigers (e.g. UN Security Council Resolution 1325). With its National Action Plan on Resolution 1325 (NAP1325), the Netherlands wishes to help national governments, civil society organisations and local communities fight impunity, bring culprits to justice and strengthen legal systems.

In the transition countries in the Arab region, the rights of women are at risk of being severely curtailed. In our relations with other countries, in international organisations, and with the new Women in the Frontline fund, we will push for greater political participation for women. Our aim is to increase the capacity of women and their organisations, enabling their involvement in drafting new legislation based on international agreements. We are investing in sexual health and rights (including HIV/AIDS prevention) because these are fundamental rights. The spread of HIV/AIDS can be brought to a halt only if everyone – including young people, gays, prostitutes and drug users – has access to health care. The number of teenage pregnancies will decrease only if young people receive good sex education. The abortion rate will drop only if the 220 million women who want to use contraceptives have access to them. And pregnancy will no longer be a potential death sentence only if women receive adequate obstetric care. In all of these cases, an accessible, effective healthcare system is a prerequisite. The Netherlands is working to achieve this in partnership with the Global Fund, WHO, UNAIDS and UNFPA, and with NGOs and the private sector.

### Telemedicine

Application of new technologies can lead to better, cheaper health care in low- and middle-income countries. One of the organisations active in the field of telemedicine or 'e-health' is the Connect4Change consortium. With financial support from the Netherlands, the consortium provides information using mobile telephony. Mothers in Malawi, for example, are sent text messages with information on preventing and treating childhood illnesses. In Uganda, texting is used to inform pregnant women of opportunities to give birth in a clinic. People with HIV and TBC are sent reminders to take their medicine. In East Africa, where there is little specialist health care, PharmAccess, the Medical Credit Fund and the Health Insurance Fund, working with Dutch support and in collaboration with local companies, use modern technology to address the shortage of doctors. Using a video link, for example, doctors and nurses can give diagnoses and advise on treatment.

### Investing in security and the rule of law in fragile states

Of necessity, the development agenda for fragile states and conflict-affected and post-conflict countries is different than for other countries. This was reaffirmed during the Fourth High Level Forum on Aid Effectiveness, held in Busan in 2011, where a coalition of conflict-affected countries, donors and international organisations agreed the New Deal for Engagement in Fragile States, an agenda comprising activities in the field of defence, diplomacy and development. Flexibility, risk awareness and long-term commitment are decisive for this integrated 3D approach.

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We are investing in political reform, restoration of the rule of law, and establishment of a police force and army, proceeding on the basis of local circumstances and capacity. Dutch advisors are, for example, working closely with the authorities in Burundi to reform the security apparatus. The primary aims are to ensure that the police – and not the army – are responsible for public safety; that soldiers and police officers are trained in ethical issues and women's rights; and that the general population and civil society organisations have a clearer idea of the structure and activities of the police force and the army.

This policy will be fleshed out in the next few years. It constitutes a joint agenda of the Minister for Foreign Trade and Development Cooperation and the Minister of Foreign Affairs, working in close cooperation with the Ministers of Defence and of Security & Justice to support crisis management operations, security sector reform, and police and justice programmes. Wherever possible and necessary Dutch military intervention in fragile states will be harmonised with Dutch programmes specifically geared to development of the rule of law, legitimate governance and reconstruction. The international security budget will help to strengthen cohesion between the various elements of 3D policy (see box). Special attention will also be given to conflict prevention. The challenge is to translate information on smouldering and escalating conflict into immediate action. In the coming years we will also devote extra attention to strengthening the rule of law in fragile states. We will be investing in transitional justice, preventing violence against women in conflict-affected countries, and protecting land rights. We will devote specific attention to the positive role women can play in conflict situations, for example in settling disputes, and in reconstruction and peacekeeping.

### **International security budget**

As announced in the Coalition Agreement, a new permanent budget of €250 million will be established for international security from 2014. The Minister for Foreign Trade and Development Cooperation will decide how it is spent, in close cooperation with the Minister of Foreign Affairs and the Minister of Defence. We will look at political and military factors, adhering to the principle that activities must be relevant to development and contribute to solving the problems faced by the country or region in question. This means that Dutch interventions must contribute to protecting the civilian population, preventing or managing humanitarian crises, and promoting lasting security and stability. Where possible, activities will be embedded in long-term strategies and will focus on the relevant factors of conflict, security and instability in the country or region in question, partly from the viewpoint of human security. We will build on the experience and lessons learned in Afghanistan, South Sudan and Burundi, guided by the principles underpinning the New Deal for Engagement in Fragile States.

The Netherlands need not be involved directly in every part of the integrated approach. It may also contribute indirectly, through the UN or the EU, for example. The international security budget complements the resources earmarked for security and the rule of law. This priority focuses on the underlying causes of conflict, instability and exclusion, as well as on prevention and on support for the positive forces in society. There are five goals, namely security for citizens, a functioning legal order, inclusive political processes, legitimate and capable government and the peace dividend/employment opportunities.

The ministries involved will send a separate letter with further details of the international security budget.

### **3.3.3 Attention for emergency aid and resilience**

Natural disasters have risen in number in the past decades to an average of almost 400 a year. As a result of urbanisation, climate change, exhaustion of natural resources and increasingly complex conflicts, the impact of disasters has also become more severe. People in poor countries in particular are bearing the brunt.

The Netherlands is one of the world's biggest humanitarian aid donors, and it therefore has an important voice in international discussions on emergency aid. In international organisations, we push for humanitarian aid to be organised as effectively as possible. Coordination, particularly at EU and UN level, is important. And expenditure must be accounted for, to both donors and recipients.

It is crucial for humanitarian aid workers to have free access to the areas affected. In complex conflict situations, this is becoming an increasing challenge, with the warring factions using aid provided by other countries for their own political and military ends. In providing emergency aid, the humanitarian principles of independence, neutrality and



impartiality are paramount. We believe that aid workers should operate with due regard for the local situation, to ensure that aid goes to those most in need.

We are attempting to prevent disasters, wherever possible, by investing in self-reliance and resilience. The Netherlands Senior Expert Programme (PUM), for example, gives low- and middle-income countries access to the knowledge of senior experts. However, we are planning to launch new initiatives in this field. We will use the specific knowledge of the Dutch water sector to help prevent water-related disasters and to help countries reconstruct. The UN and the EU, the coordinators of aid to countries in need, can make good use of Dutch water management expertise, for example in the field of delta technology. In addition, we are going to improve disaster risk identification in countries where the Netherlands also provides aid. We can spend our money more effectively if risks are taken into account in planning other aid activities.

### 3.4 Transitional relationships

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We are going to build a trade relationship with Bangladesh, Benin, Ethiopia, Ghana, Indonesia, Kenya, Mozambique and Uganda, and gradually phase out aid. The pace at which this will occur will differ from country to country. In Mozambique and Ethiopia, for example, we will most certainly continue to focus on poverty reduction in the coming years. And because trade and investment do not automatically lead to sustainable, inclusive growth, we will promote equal opportunities and sustainability. It is our aim to encourage investment and trade activities that are good for both people and planet, create employment opportunities, and, preferably, are accompanied by the transfer of knowledge and skills. We will also support NGOs and trade unions in these countries in their efforts to promote human rights and good working conditions.

Building a trade relationship starts with opening up markets and promoting private sector development. Entrepreneurs in low- and middle-income countries will then be able to sell their products on European and Dutch markets, while, in the long term, Dutch entrepreneurs will gain access to their markets. For trade to be possible, the conditions enabling investment and enterprise need to be in place. For this reason, we will contribute to a good investment and business climate in low- and middle-income countries.

Our mission is to combine aid and trade activities to our mutual benefit. We can use the expertise of Dutch companies to develop ports and construct roads. In return, the Dutch private sector will gain a toehold in growth markets. Private sector development will increasingly be achieved through knowledge transfer and the efforts of the private sector itself. But support will be needed if technological knowledge and cutting-edge business solutions are to be used to solve problems in poor countries. The government must facilitate, and companies must comply with the guidelines for sustainable and socially responsible business.

*Our agenda*

### 3.4.1 Improving access to international and regional markets

Access to each other's markets is essential for a fully-fledged trade relationship. This can be achieved through the WTO (see section 3.2) and by concluding interregional trade agreements like the Economic Partnership Agreements (EPAs). However, help for entrepreneurs in low- and middle-income countries wanting to export their products is possibly even more important. The Centre for the Promotion of Imports from Developing Countries (CBI) helps them in marketing their products for Western Europe. Various organisations and companies work together in the CBI. Trade Mark East Africa (TMEA), an initiative launched by the Netherlands and other donors such as the UK, works with local authorities to streamline customs procedures, reform tax administrations and create one-stop border posts. Trade costs are extremely high in East Africa, so that trade between the countries in the region is developing only very slowly. Opportunities to develop through regional trade and economic integration are thus being lost.

#### **Economic Partnership Agreements (EPAs)**

In the past, EU countries' former colonies had preferential access to the European market. At the same time, they were allowed to protect their markets from European products. This kind of positive discrimination contravened WTO law: every country with the same development status must have the same market access. At the request of and in consultation with 78 countries from Africa, the Caribbean and the Pacific Group of States (the ACP countries), the EU is therefore working on new economic partnership agreements, or EPAs. The EPAs provide far-reaching access to European markets, and require the ACP countries to open up their markets gradually. We regard the further integration of these countries into the production and trade chain as a major advantage of these agreements. EPAs are geared to the development of countries and therefore include agreements on cooperation. Countries also receive technical assistance. Certain products can be exempted from liberalisation, for example to ensure food security. The intention was to have concluded an EPA with each ACP region by 1 January 2008. To date, however, the EU has only concluded an agreement with the Caribbean region.

Negotiations on the EPAs are proving to be slow and difficult. This has to do with the diverse nature of the regional partnerships with which we are negotiating. They include middle-income countries and LDCs (Least Developed Countries). These LDCs already enjoy tariff-free and quota-free access to the EU markets, and feel they have little to gain from an EPA. At the same time, many countries are concerned about the consequences of the EPAs – whether their private sector can compete with companies from the EU. The European Commission therefore commissioned an Impact Assessment of the EPAs. The analysis showed that there is enough scope to exempt vulnerable sectors from liberalisation. However, this has not allayed concerns. To meet the wishes of the low- and middle-income countries, a provision may be included in the EPAs giving them a maximum of 25 years to liberalise their markets. Where products are exempted from liberalisation, the EU assesses whether they are essential for the development of the country in question.

The EPA with the Caribbean region is a good example of how agreement can be reached. The EU has opened its market to all products from Suriname, Jamaica and 13 other Caribbean states. The only exception is sugar, the market for which will open in due course. The Caribbean states will in turn open their markets to 87% of EU products within the next 25 years.

The Netherlands believes that it is important to break the deadlock with the other regions. In our role as honest broker, we want to bring the EU and the ACP countries closer together. For this reason we will enter into dialogue with the ACP countries, and identify the main problems. We will also explore the extent to which WTO rules provide room for manoeuvre, enabling us to allay the concerns of the ACP countries, without needlessly putting other countries at a disadvantage. A separate letter on trade policy with further information on this subject will be sent to the House of Representatives before the summer.

### 3.4.2 Supporting entrepreneurs and government authorities

We support countries in developing their private sector. The missions will play an important role in implementing the programmes that focus on this aim. It is important to remove obstacles in the production and trade chain, with due regard for people and planet (see section 3.5.2). The more obstacles that are tackled at once, the higher the effectiveness of our activities. We can help farmers by providing improved seed that is more resistant to disease, but the yield will be limited if crops cannot be harvested in time or transported to markets because of lengthy customs procedures.

Together with companies, research institutions and civil society organisations we will help governments achieve the conditions needed to enable enterprise. They include the effective rule of law, transparent legislation, an adequate infrastructure and access to finance. To make our efforts more effective, we will dovetail with international initiatives wherever possible. For example, we are working with the logistics sector – one of the leading Dutch sectors – and the World Bank to set up infrastructure projects and our ORIO programme (Infrastructure Development Facility) supports Dutch companies in building bridges and developing ports. The Netherlands is playing a pioneering role in improving the financial infrastructure for poor people. For example, we are involved with the Entrepreneurial Development Bank (FMO) in Equity for Africa, a programme which enables small-scale entrepreneurs to apply for loans in kind for machinery and tools. Dutch companies and research institutions in the leading sectors of water, agrifood, horticulture and propagation materials, and logistics possess the knowledge with which farmers in developing countries can sustainably raise their production, improve the quality of their produce and guarantee its safety. Dutch research institutions and companies are closely involved in raising food security in Ethiopia (see box).

### **Food security in Ethiopia**

Dutch research institutions and companies are closely involved in improving food security in Ethiopia. Knowledge acquired by Wageningen University and Research Centre is being used to enable farmers in Ethiopia to raise their productivity. Our private sector is a major investor in agriculture, often in the first place with support from the government through the Private Sector Investment Programme. In the past few years, however, companies have increasingly been entering into public-private partnerships. Within these partnerships, they are providing products, services and practical solutions to remove obstacles in the Ethiopian supply chain. Examples include import of seed, poultry, dairy products and oil seed. The private sector is also helping Ethiopia organise the export of agricultural produce. The support of our embassy in Ethiopia is complementary to the financial programmes available to the private sector. It is important to have reliable contacts, both in bidding for tenders and to draw attention to problems caused by legislation. Dutch companies are bringing innovation to Ethiopia, and access to international markets. The latter is crucial for a country like Ethiopia with its many poor people and large trade deficit. Dutch companies are chiefly active in the Ethiopian horticulture, services and food production and processing sectors.

### **A more accessible private sector instrument**

Various instruments are available to Dutch entrepreneurs for international and development-relevant activities. These private sector instruments provide information and advice, and also funding for activities. A number of changes are planned to improve services for entrepreneurs. The House of Representatives will be informed of these changes in a separate letter to be sent before the summer.

The government has various instruments to support both Dutch entrepreneurs wishing to engage in international trade and investment and entrepreneurs in low- and middle-income countries. Dutch research institutions, too, can use certain instruments such as the Sustainable Business and Food Security Facility (FDOV) and the Sustainable Water Fund (FDW) if they are part of a consortium in which the private sector and/or civil society organisations are also represented. These instruments all have different help desks/portals and this is an obstacle to adequate service provision for entrepreneurs. As a result, the scope they provide for companies to internationalise is not being used. The same applies to opportunities to support entrepreneurs in low- and middle-income countries, and to improve the business climate there. For this reason, the private sector instruments will be made more accessible, and services will be more widely publicised. They will be more demand-driven, with customised solutions and a focus on the entrepreneurs themselves. Entrepreneurs will identify the countries and sectors they want to trade or invest in, and possible risks – financial risks, but also risks relating to the environment, working conditions and human rights – will be discussed with them. We will then be able to give them information or advice specifically tailored to their situation, or provide a loan if there are problems finding finance for activities. We will also look at ways in which entrepreneurs can contribute to improving the local business climate, or whether they can support local

counterparts. Groups of companies and research institutions looking to set up joint trade and/or development activities could also be given guidance.

To make services more transparent, the private sector instruments will be grouped into three modules. The first module will include information provision and advice for SMEs wanting to operate at international level. Services will include a market scan, advice on taking the first steps towards export, and information on potential partners in the export market. They will be provided in part by NL Agency. The second module will contain financial instruments for entrepreneurs seeking funding for export and foreign investments. Their number will be considerably reduced. Existing programmes such as Finance for International Business (FIB), the Emerging Markets Fund (FOM), FOM/OS, MASSIF, the Private Sector Investment Programme (PSI) and the Infrastructure Development Facility (ORIO) will be incorporated into the new Dutch Good Growth Fund (see below) as far as possible. ORIO will also be modernised. Resources from these existing programmes can be added to the fund with a view, for example, to making concessional loans or implementing supporting measures. As a result of these changes, some instruments may cease to exist as independent schemes. The list of eligible countries will tie in as far as possible with the list of countries to which the private sector instruments apply. In consultation with the State Secretary for Finance, an assessment will be made to see whether more can be done concerning the funding of export transactions, for example by creating a level playing field with other countries. The findings of the high-level working group on export financing will be taken on board.

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The third module will comprise assistance and support to groups of companies and research institutions. Together with embassies, business support offices and implementing organisations, these groups will draft a plan of approach to achieve their aims in, for example, setting up development-relevant activities. They will receive further support from, for example, an economic mission, the embassy and government-to-government cooperation to help remove any obstacles they encounter.

### **The Dutch Good Growth Fund**

The new cohesive approach to trade and development cooperation calls for a new form of funding. The Dutch Good Growth Fund is therefore being developed in consultation with the Ministries of Economic Affairs and Finance, the private sector and civil society organisations.

It is difficult for entrepreneurs to obtain funding for activities in emerging markets and developing countries, because of the relatively high risks they entail. Financiers want security, and this cannot always be given. This amounts to a market failure. The fund will fill the gap.

Activities financed from the Fund must be socially responsible and sustainable. They must meet a single set of criteria for International Corporate Social Responsibility, based on the OECD guidelines and, depending on the size of the company and risk of non-compliance with CPR standards, the IFC performance standards. The OECD Guidelines for Multinational

Enterprises incorporate the UN Guiding Principles on Business and Human Rights (Professor Ruggie's 'Protect, Respect and Remedy' Framework) and the ILO Core Labour Standards. Companies that do not meet all these criteria when funding is provided will be given the opportunity to introduce the necessary changes step by step, on the basis of a pre-agreed plan.

The Dutch Good Growth Fund will provide customised forms of funding for entrepreneurs with good investment plans. It will focus on funding for direct, innovative investments involving a substantial element of risk in low- and middle-income countries, Dutch companies wishing to engage in activities with their counterparts in low and middle-income countries and Dutch entrepreneurs wanting to export to developing countries and emerging markets. The split of funds among these three target groups will not be determined in advance.

This is a revolving fund, which means that resources will largely be repaid, and can be used again. To raise the fund's financial and social returns, it will be accompanied by supporting measures in the form of technical assistance, help drafting a good business plan, or market scans. Supporting measures will not be financed from the fund. The fund is also designed to leverage private investment. The countries on which activities must focus to be eligible for funding will be specified in a flexible list, which will tie in as far as possible with the list of countries to which the private sector instruments (e.g. the Private Sector Investment Programme (PSI)) apply. See the full list of countries in the annexe to this document. Consultations are currently taking place with various parties including the State Advocate concerning the management and implementation of the Fund. Responsibility for these tasks will not in any event fall within the remit of the Ministry of Foreign Affairs.

### 3.4.3 Promoting equal opportunities

From both a social and economic viewpoint, an equitable distribution of income is important for the development of countries. Economies benefit if everyone participates to the full in the labour market, without being hindered by tradition, social taboos or legislation. That is why we encourage Dutch companies doing business with local partners to ensure equal rights and opportunities for women. We also support the International Land Coalition (ILC) which is working to improve access to land rights for the poorest people, and to strengthen the position of women in farmers' cooperatives. With the further implementation of the ILO's Decent Work Agenda, we will work to achieve a living wage for everyone who works, social security systems with a social protection floor for the 80% of the world population without any social safety net, and safe, decent working conditions, with space for trade unions and worker participation. Combating child labour will continue to be a priority. Children who do not work but attend school are a social investment in the future of developing countries.

### 3.4.4 Encouraging International Corporate Social Responsibility

International Corporate Social Responsibility is a prerequisite for sustainable, inclusive growth. The onus is on companies to take responsibility for their actions in this area, and we hold them to account. We expect them to comply with the OECD guidelines and the UN's

Guiding Principles on Business and Human Rights proposed by its Special Representative Professor John Ruggie and to act in accordance with the due diligence principle by taking measures to prevent abuses in their supply chains in relation to working conditions, child labour, the environment, corruption and human rights. Companies that practise corporate social responsibility can also set an example to governments in low- and middle-income countries, encouraging them to take their responsibility. The Dutch private sector has a good international reputation for CSR. But we want to take further steps. This spring, therefore, the government will be presenting its Ruggie Action Plan on Business and Human Rights. And we are going to work with the private sector, civil society organisations, the Social and Economic Council's International Corporate Responsibility Committee and ministries including the Ministry of Economic Affairs to identify risks in the supply chain and decide where action is needed. We will then conclude voluntary agreements with the sectors concerned. The Business, Economy and Ecology Platform set up by the Ministry of Economic Affairs under the Green Deals initiative can make a major contribution to protecting biodiversity. We have also given MVO Nederland (CSR Netherlands) a grant for an ambitious project to support Dutch SMEs in making their business operations in developing countries sustainable. Before the summer of 2013, the House of Representatives will receive a letter from the Minister of Economic Affairs and myself with information on the new CSR policy. In his letter on human rights policy, the Minister of Foreign Affairs will discuss human rights and the private sector. The Sustainable Trade Initiative (IDH) will also play an important role in ensuring sustainability in production and trade chains. As its partner and co-financer, we will support IDH in attracting more donors, improving measurement of impact on development and strengthening certification programmes.

#### **Colombia: sustainable banana production**

In Colombia, we are working on a successful combination of sustainable enterprise and links with the Dutch market. Together with the Colombian private sector, the Netherlands supported efforts to ensure sustainable banana production, with local authorities investing in infrastructure. This public-private partnership, in which Augura – the Colombian Banana Growers' Association – played an important role, was awarded the Colombian peace prize for enterprise in 2009. The initiative also won the National Export Prize in 2010 for the most successful inclusive business model. The bananas have been on sale in Plus supermarkets since 2010. This was the first supermarket chain to change over completely to fair trade bananas from Colombia. Spar and Coop supermarkets also sell them. Thanks to companies like Plus and banana exporter Fyffes, Colombian banana growers now have access to the Dutch market and receive a fairer price for their products, while the export of sustainably produced bananas has more than doubled.

### 3.5 Trade relationships

We want to help Dutch companies be successful abroad. For Dutch companies, trade is the way out of the crisis. Foreign trade creates jobs at home. Our aim is to increase both the number of companies – SMEs in particular – that are internationally active and the level of exports to and investment in emerging economies. Foreign markets also present opportunities for sustainable, socially responsible enterprise, a field in which the Dutch private sector is a frontrunner. There is, for example, considerable market potential for companies that provide sustainable production solutions. Very few Dutch companies operate in the middle-income countries in Asia and sub-Saharan Africa that have huge growth potential. We also want to attract foreign companies and investment to the Netherlands to strengthen our leading sectors. These are the sectors in which the Netherlands excels and in which the government works with the private sector, universities and research centres to promote knowledge and innovation. The sectors are horticulture and propagation materials, agrifood, water, life sciences and health, the chemical industry, high tech, energy, logistics and the creative industry. We want to achieve our aims through free trade agreements, economic diplomacy and better services for SMEs.

The European market is a good first step for SMEs wanting to export their products. This is true not only of our neighbours Germany and Belgium but also of fast-growing markets like Poland and Turkey. The barriers to more remote markets in middle-income countries are currently too great for smaller businesses to overcome. It often takes far more time and effort to gain a toehold in Ghana or Vietnam, for example, than in Germany or France. We want to give extra support to ambitious entrepreneurs who wish to move into these new markets.

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Economic diplomacy is becoming increasingly important, in both policy on private sector internationalisation and the work of the mission network. A characteristic feature of markets outside Europe is the government's prominent or increasingly prominent role in the economy. Economic diplomacy can open doors for companies operating in sectors such as energy and water in which the Netherlands is strong and foreign governments are closely involved. Companies wishing to enter markets far from home also face numerous barriers. The mission network can act as troubleshooter, helping solve the many practical problems companies run into. We will strengthen our trade and investment relationship with the following countries: Australia, Belgium, Brazil, Canada, China, Colombia, France, Germany, the Gulf States, India, Iraq, Japan, Malaysia, Mexico, Nigeria, Poland, Romania, Russia, Singapore, South Africa, South Korea, Turkey, the UK, Ukraine, the US and Vietnam. The decision to select these countries was informed by their size and the opportunities they present for growth, the aims of the leading sectors, and the degree to which the government can help overcome obstacles to trade.



*Our agenda*

### **3.5.1 Concluding free trade agreements**

We are committed to securing new free trade agreements to increase access to foreign markets. We will work with business and civil society organisations in this endeavour. At European level, preparations have recently begun for negotiations with the US on a free trade agreement. Trade between the EU and the US amounts to €455 billion a year. This will be the biggest trade agreement ever, with a very ambitious deadline: it must be completed before the end of President Obama's second term in office. The agreement is also ambitious in terms of content. The EU is aiming for convergence and/or mutual recognition of standards. This will cut through a great deal of red tape. Through the EU, we will also be starting negotiations on a free trade agreement with Japan, the third biggest economy in the world, and the second biggest non-EU investor in the Dutch economy in terms of job creation.

In the near future, we will also be working on agreements with emerging economies. Talks with Thailand are about to begin. We want to move forward with the negotiations with the Gulf States, India, Malaysia and Vietnam, and we are exploring the opportunities for agreement with Brazil. The Netherlands is involved, through the EU, in talks with Mercosur, an economic partnership of several Latin American countries. However, these talks have reached deadlock. We would like to explore the desirability of and scope for continuing talks with Brazil bilaterally via the EU.

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Services are accounting for an increasing share of Dutch exports. We are therefore working on a General Agreement on the Trade in Services with a large number of WTO countries. Whether it will prove possible to conclude such an agreement is unclear as yet. The negotiations are still at the exploratory stage.

### **3.5.2 Promoting internationalisation of the Dutch private sector**

We are supporting individual companies and groups of companies in internationalising their operations. Economic diplomacy is becoming increasingly important in providing Dutch companies with access to markets – such as water and energy – which are often dominated by governments, and to markets in more remote low- and middle-income countries. Each year we will organise several trade missions to enhance opportunities for the Dutch private sector and research institutions in foreign markets. The economic diplomacy conducted by our embassies is crucial. This will be taken into account when decisions are made on cutbacks to the mission network. Destinations will be chosen in consultation with the leading Dutch sectors and the Dutch Trade Board (DTB). We will report on the economic missions to the House of Representatives and discuss the results twice a year at parliamentary committee meetings. We will also support the leading Dutch sectors at international trade fairs abroad.

### **Economic diplomacy in Turkey and Brazil**

The economic mission to Turkey under the leadership of Prime Minister Mark Rutte in November 2012 included a large delegation of eighty small and medium-sized enterprises and twelve CEOs of major companies. During the mission, a Dutch company entered into a joint venture with a Turkish law firm. Royal HaskoningDHV has been given the go-ahead to use its geotechnical know-how in a major infrastructure project, and agreement was reached with the Dutch firm Farm Frites to market French fries in Turkey. In November 2012, the Prince of Orange and Princess Máxima visited Brazil with a delegation of 157 companies, research institutions and representatives of the creative industry. The many meetings with ministers, governors and other authorities and representatives of the private sector focused attention on what the Netherlands has to offer Brazil. The visit produced numerous deliverables and leads. As the Netherlands had long hoped, Agriculture Minister Mendes Ribeiro Filho announced that Brazilian inspectors would be visiting the Netherlands to assess our inspection system for dairy products. Approval of this system will make it much easier to export dairy products (cheese in particular) to Brazil. The Netherlands also signed an agreement with a number of research organisations on the subject of the biobased economy, and the Amsterdam Arena will be involved in building football stadiums for the World Cup in 2014.

We will provide support to SMEs wishing to become active in emerging markets in the form of feasibility studies, market research and demonstration projects. We will support companies seriously wanting to invest in emerging markets by participating in small high-risk transactions and providing funding through the Entrepreneurial Development Bank (FMO) in the case of larger investments. The new Dutch Good Growth Fund provides customised funding not only to Dutch companies wanting to operate in developing countries but also to Dutch entrepreneurs wishing to export to developing countries and emerging markets. Money from the fund will only go to development-relevant activities. In consultation with the State Secretary for Finance, an assessment will be made as to whether more can be done to help fund export transactions, in part by creating a level playing field with other countries. We also want to make it easier for entrepreneurs to find the services provided by the government for internationalisation. The House of Representatives will be informed of plans for the further development of private sector instruments before the summer (see section 3.3).

Finally, we will help Dutch companies win contracts with major international institutions. Every year, these institutions spend billions of euros on projects in sectors where Dutch companies are among the international leaders in their field. The Netherlands will seek to simplify and shorten tendering procedures, and adapt the assessment system, which focuses too little on the quality at which the Netherlands excels. NL Agency and embassies will advise companies on ways of enhancing their opportunities to win contracts awarded by major international institutions such as the World Bank. It is to these institutions' advantage to put Dutch expertise to use at an early stage in developing projects.

### 3.5.3 Attracting foreign investment

In the coming years, we aim to attract many foreign companies and much foreign investment to the Netherlands. In doing so, we will work together with the Ministry of Economic Affairs and the Netherlands Foreign Investment Agency (NFIA). Activities will focus on companies that bring high-grade knowledge and technology, and thus strengthen our leading sectors. They will be implemented by project teams, in which academic and professional knowledge is grouped by sector in order to establish what kind of foreign company could strengthen that sector. Companies meeting this profile will then be sought abroad, again in partnership with research institutions. The Netherlands will then enter into talks with them. Apart from factors such as an attractive business climate, the Netherlands can also offer the strengths of the leading sector in question. A strategic approach to attracting foreign investment has proved successful in leading sectors such as the chemical industry and agrifood. We wish to repeat this success in other sectors, too. This will call for a change to the work of NL Agency. It will need to build up more sectoral expertise to enable it to provide services to the leading sectors.

### 3.5.4 Protecting Dutch investment abroad

The Netherlands is one of the biggest investors in the world, partly because it has concluded nearly a hundred Bilateral Investment Treaties (BITs). BITs protect investors on both sides from, for example, expropriation. Under the Lisbon Treaty, the power to conclude investment treaties has been transferred to the EU. Within the EU, we are lobbying for treaties with the same high level of protection as we are accustomed to. We are also working on new agreements with investment partners such as China. We will take account of the greater role played by emerging economies, and of the increasing need for an integrated approach to our aims in the field of sustainable development. At EU level, we will remain committed to the inclusion of a sustainability clause in investment treaties.





4

## Cooperation

In our approach to global problems and in our aid and trade relations, we will work with a variety of strategic partners. We will seek cooperation through our bilateral relations with countries. Civil society organisations and research institutions will remain important partners. Businesses in low- and middle-income countries and in the Netherlands are important partners in supporting countries pursuing sustainable development. We will work to strengthen and modernise multilateral forums. The EU is becoming increasingly important in terms of promoting the Netherlands' interests, including its aid and trade interests. We will seek a new relationship with all these actors, tailored to today's needs.

## 4.1 Bilateral relations with countries and regions

The agenda for aid, trade and investment focuses on three groups of countries. The first consists of countries with which we chiefly have an aid relationship because the basic conditions for development are lacking or because of conflict or instability. The second consists of countries with which we have a transitional relationship. These are countries where we wish to build up or expand our trade relationship and where the need for poverty reduction is declining. The third group consists of countries where our relationship is based chiefly on trade or where there are significant opportunities for Dutch businesses. A limited number of countries have been selected in each of these three groups. The three groups are described elsewhere in this document (see section 3.1)

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## 4.2 Civil society organisations

Civil society organisations and popular movements give citizens a voice, locally, nationally and internationally. They strengthen the rule of law and the inclusiveness of social and economic development and combat environmental degradation and loss of biodiversity. The participation of civil society organisations in local, national and international policy processes is essential to ensure that policy is inclusive and effective. By increasing the government's public accountability and legitimacy, they bring about social cohesion, more open and stronger democracies, a better response to environmental problems and a more favourable business climate. Civil society organisations must also maximise the transparency and accountability of their own operations.

Civil society organisations have grown stronger in low- and middle-income countries in recent years despite the growing political pressure. A reappraisal is therefore needed of the relationship between the Dutch government and Dutch civil society organisations. We must prevent Dutch civil society organisations competing with local organisations. However, Dutch civil society organisations can strengthen their counterparts in low- and middle-income countries. Needless to say, cooperation should be based on added value. Added value for organisations in low- and middle-income countries differs from that for Dutch organisations. The relationship will be founded on the following three pillars:

1. Strengthening civil society organisations in low- and middle-income countries by means of financial and technical support so that they can optimise their functions as watchdogs,

service providers or guardians of peace and political stability. The focus will be on the four priorities. We will set up an Accountability Fund to provide funding for local civil society organisations to fulfil their monitoring and watchdog functions.

2. Connecting national and global agendas for direct poverty reduction, economic cooperation and international public goods. Dutch organisations and those in low- and middle-income countries have their own roles to play in providing a counterweight to governments and businesses and in mobilising citizens to connect these agendas.
3. Relieving the political pressure faced by civil society organisations in many low- and middle-income countries. Donors must provide political as well as financial support: without political support, there is little point in financial and technical support.

When MFS II ends, we will support civil society organisations through strategic partnerships in four ways. Firstly, by providing support for the general strengthening of civil society organisations in developing countries through their Dutch counterparts and through embassies. Secondly, by supporting civil society organisations in their roles as watchdogs and implementing organisations in the priority areas of women's rights and SRHR, water, food security, and security and the rule of law. Thirdly, by helping civil society organisations raise global issues, provide a counterweight to governments and businesses, and mobilise citizens. Fourthly, by facilitating the innovative strength of civil society organisations and private initiatives by financing innovative and adventurous proposals.

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The civil and non-governmental nature of these organisations must become more pronounced. For this reason and in view of the size of the spending cuts, the overall budget currently available for MFS II will be reduced, although part of the financing will be channelled through the priorities.

A key priority in these new partnerships will be a sharp fall in the regulatory burden. I will explain the implementation of these strategic partnerships with civil society organisations and my position on private initiatives in a separate letter in the summer.

### 4.3 The private sector

The Dutch business community is an important development partner. Through trade and investment, Dutch companies contribute to the development of local economies by creating local jobs and production capacity and by transferring knowledge, establishing partnerships with local entrepreneurs and training and educating people. Dutch businesses also provide solutions to problems in low- and middle-income countries, for example in the fields of clean drinking water, infrastructure and food security. A large number also play a key role in making international trade networks more sustainable. A group of Dutch multinationals known as the Dutch Sustainable Growth Coalition is setting the tone. These companies actually go further than required by the corporate sustainability guidelines.

### **The Dutch water sector and sustainable development**

The Netherlands has a good reputation in the field of water and water management. It has a strong knowledge infrastructure, a water sector enjoying a high international profile and a civil society of acknowledged quality. The Dutch model of water management and control attracts interest throughout the world. The water companies, with their public shareholders and private management, are an example to many low- and middle-income countries. Dutch innovative strength is recognised internationally, for example in the field of water treatment and the processing of satellite data into management information for agriculture and water safety, and its centres of water education are held in high regard.

The water sector and the government will introduce low- and middle-income countries to Dutch water technology. Dutch SMEs are international leaders in the development of information services such as remote sensing to map out environmental problems. Low- and middle-income countries can make good use of such technology, for example by making more efficient use of water in agriculture and by monitoring the safety of river deltas. Another example is the Young Experts Programme (YEP), which trains local water experts to tackle water-related problems. Dutch know-how and expertise will also be provided to tackle water-related disasters (disaster risk reduction, reconstruction or disaster prevention). They will be provided in close cooperation between the Ministry of Foreign Affairs, the Ministry of Infrastructure and the Environment and knowledge providers from this leading Dutch sector.

## **4.4 Research institutions**

Our academic and research institutions are very active internationally. The Netherlands ranks fifth among the world's knowledge-based economies. Together with Dutch research institutions we are conducting research in the fields of aid (through the knowledge platforms), trade and investment (through the Top Consortiums for Knowledge and Innovation (TKIs)). We offer educational programmes to students from low- and middle-income countries and we seek improved access to knowledge and information, for example by financing research from aid funds.

The knowledge platforms and the TKIs are important drivers of transnational research in the field of aid and trade. The knowledge platforms bring together public authorities, businesses, think tanks, universities, international institutions and civil society organisations to collaborate on a common knowledge and research agenda for development. The government will release additional research funds for them. On the basis of the platforms' research agendas, calls for research proposals will be issued via the Netherlands Organisation for Scientific Research (NWO). Research institutions will be able to submit proposals, usually in consortiums with other parties. They may also submit bids in response to calls for proposals under the policy priorities. There are five knowledge



platforms: one for each of the priorities and an overarching platform to study how economic growth in Africa can be made more inclusive and sustainable. The knowledge platforms must grow into independent networks in which the Dutch government is just one of the partners. In the TKIs, entrepreneurs and academics work together on the development of innovative products and services. The new agenda for aid and trade will link the knowledge platforms to the TKIs to increase the effectiveness of both initiatives. Dutch research institutions also play a key role in this policy as providers of higher education programmes to students from low- and middle-income countries. They include institutions of higher professional education and universities and the six institutions for international education and research. The programmes address the lack of qualified personnel in low- and middle-income countries. With the aid of scholarship programmes funded by the Dutch government, such as the Netherlands Fellowship Programme and the MENA Scholarship Programme, professionals from a variety of countries are educated in the Netherlands. These international students are the CEOs, ministers and diplomats of the future. Quotas for female participants in scholarship programmes are an important means to increase women's empowerment in low- and middle-income countries.

Finally, we will improve access to knowledge and information. We will promote free access to information on aid activities and research financed from aid. The Netherlands will apply instruments that give low- and middle-income countries better access to knowledge and technology that is protected by intellectual property rights. This will require flexibility in the implementation of international treaties such as TRIPS (Trade-Related Aspects of International Property Rights) and UPOV (International Union for the Protection of New Varieties of Plants), an open access policy for academic publications and research data and the use of Humanitarian Use Licences in publicly-funded research.

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## 4.5 The European Union

The EU is the natural multiplier of Dutch ideas and interests. European aid programmes are an important complement to our bilateral policy, particularly now that the Netherlands must cut expenditure on aid and the mission network. The EU is active in many countries in which its member states have strategic interests (owing, for example, to their geographical location) but in which they have few if any bilateral programmes. This is the case, for example, for southern members of the EU in countries in the Middle East and North Africa. The EU is well represented and applies a wide range of instruments in fragile states such as the Central African Republic. Its development programmes, special representatives and civil missions in the fields of security, police and justice are a source of stability in many countries. In most cases where the Netherlands' programmes in social sectors (such as education and health care) are being phased out, the EU will remain the main donor. The EU is better positioned than others to conduct an integrated external policy. It has great influence on low- and middle-income countries as an economic and trading partner and through political dialogue, security policy and many other policy areas – from trade to agriculture, from the environment and climate to energy and migration. We can exercise more influence as a member of the EU than we can alone. That is why for us the EU is the most relevant framework within which to conduct a coherent policy.

The Netherlands wants the EU to spend its member states' development budgets carefully, transparently, coherently and efficiently. To this end, the EU must seek to link up more with new partners. A more detailed consideration of our policy on EU development policy is presented in a letter to parliament of 11 December 2012 regarding the government's position on EU development cooperation policy. The letter considers the steps that have been taken to adapt EU aid policy to the changing international context and to the demands of this new reality. The EU will, for example, focus on fewer themes, seek a greater role for innovative financial instruments and evaluate its policy on budget support.

## 4.6 International organisations

International organisations are playing a greater part in resolving transnational problems that countries cannot address successfully unless they work together, such as climate change and financial instability. International organisations help set the agenda by means of groundbreaking reports such as the World Development Report (World Bank) the Human Development Report (UNDP) and the World Populations Report (UNFPA). They also contribute to the sustainable economic development of countries by, for example, investing in infrastructure to improve the business climate. International organisations play an important role in direct poverty reduction. They invest in basic services for the very poorest, help defuse conflicts, resolve disputes, coordinate peace operations, care for refugees and develop local government.

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The Netherlands is a fully committed member of several international organisations and supports their work financially. The Netherlands is standing for the Human Rights Council (2015-2017) and the Security Council (2017-2018), and is a major donor to the UN and an important shareholder of the international financial institutions. In addition to compulsory contributions, the Netherlands supports funds and UN programmes and contributes to the development banks. This support is provided chiefly to organisations that promote women's rights and SRHR, food security, water, and security and the rule of law. We will concentrate further on these areas in the period ahead, in part on account of budgetary restrictions. The Netherlands wishes to work with international organisations that are active in fields in which Dutch companies, institutions and civil society organisations rank among the best in the world.

An efficient network of international organisations is vital. The network, however, does not always work as well as it might. International organisations must share and coordinate their work effectively. UNDP, UNICEF and the World Bank must play a strong coordinating role. The Netherlands attaches great value to the multilateral system and will work to increase its efficiency and effectiveness. Furthermore, international organisations must generate added value for Dutch policy. Management remuneration is often too high and the public procurement policies of international organisations could be better and more sustainable. Every two years, the effectiveness and efficiency of the various UN organisations, funds and programmes are reviewed by means of scorecards, as is their contribution to the Dutch government's objectives. A new review will be carried out this spring. The House will be informed by letter before the summer. The letter will also consider the Netherlands' financial contributions to international organisations.



5

## Funding

## 5.1 Integrated budget for foreign trade and development cooperation

The government has opted to strengthen the policy and budgetary coherence of foreign trade and development cooperation. A new budget will be prepared for foreign trade and development cooperation as from 2014 (budget chapter 17); the first will be presented next Budget Day. In the near future the House will receive a proposal from the government regarding the new budget's organisation into policy articles and subarticles. In anticipation, the 2013 budgets for development cooperation and foreign trade have been combined in a separate statement in the Ministry of Foreign Affairs budget. The trade promotion budget (€89 million in 2013, of which €87 million non-ODA) has been transferred from the Ministry of Economic Affairs. The coalition agreement also provided for the establishment of the Dutch Good Growth Fund. This revolving fund will receive €250 million a year between 2014 and 2016. The structural funding of the international security budget will total €250 million as from 2014.

Trade and development cooperation expenditure in millions of euros					
	2013	2014	2015	2016	2017
<b>Total gross ODA, Rutte II</b>	<b>4,240</b>	<b>3,816</b>	<b>3,990</b>	<b>3,975</b>	<b>3,846</b>
Non-ODA (including trade promotion)	125	113	104	102	96
Dutch Good Growth Fund		250	250	250	
Budget for peace and security		250	250	250	250
<b>Total</b>	<b>4,365</b>	<b>4,430</b>	<b>4,594</b>	<b>4,577</b>	<b>4,192</b>

## 5.2 Cuts in development cooperation expenditure

The coalition agreement includes a substantial cut in the development cooperation budget. Between 2014 and 2016 the ODA budget will be cut by €750 million a year and by €1 billion a year as from 2017. Furthermore, there will be a significant budget reduction – rising to nearly €300 million in 2027 – on account of the disappointing GNP estimates. The table below shows the consequences for the ODA budget and annual net ODA in millions of euros.

ODA budget in millions of euros					
	2013	2014	2015	2016	2017
Gross ODA draft budget 2013	4,340	4,701	4,912	4,950	5,142
Rutte II coalition agreement cuts		-750	-750	-750	-1,000
GNP adjustment since 2013 draft budget	-100	-135	-172	-225	-296
Gross ODA, Rutte II	4,240	3,816	3,990	3,975	3,846
less repayments/receipts	-85	-81	-77	-77	-77
Net ODA, Rutte II	4,154	3,735	3,913	3,898	3,769
Net ODA as a percentage of GNP	0.68	0.59	0.60	0.59	0.55

NB Owing to the repayment of development cooperation loans (included in repayments/receipts), net ODA is lower than gross ODA expenditure. Both the new international security budget and the Dutch Good Growth Fund consist of a mix of ODA and non-ODA expenditure. The ODA component in these instruments is not known in advance and has not been included in the table above. The ODA percentages will therefore be higher than shown.

Any decision on the spending cuts must take account of the fact that a large proportion of the ODA budget is fixed. There are fixed allocations for the reception of asylum seekers from DAC countries during their first year, the EU, debt forgiveness (export credit insurance) and overhead costs. Together, these allocations total about €1 billion a year. A significant proportion of the budget is also earmarked for commitments that have already been made. The coalition agreement, moreover, states that international climate expenditure will be funded from the ODA budget. This, too, increases the pressure on the remainder of the budget.

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### Principles

The spending cuts will be based on the following principles:

- We will concentrate our aid, trade and investment efforts on the priorities of food security, women's rights and SRHR, water, and security and the rule of law. With the exception of women's rights and SRHR, the priorities will inevitably be hit by spending cuts.
- Our expenditure on private sector development helps countries gain access to markets and improves the business climate. In comparison with the budgetary framework under the first Rutte government, funding for private sector development and trade promotion will be €105 million lower in 2014; in comparison with 2013, this represents a cut of around €35 million.
- Given the importance of donor reliability, ongoing contracts and commitments will be respected in so far as possible. This means, among other things, that the current contracts with the World Bank and MFS II organisations will not be broken.
- Emergency aid will not be cut. Humanitarian aid is essential for people in emergency situations.

- The budgets for the crosscutting themes good governance, environment and education in low- and middle-income countries will be phased out more quickly. Where relevant, these three themes will be reflected in the implementation of the priorities. The scholarship programme, however, will be spared.
- The Dutch contribution to international climate financing consists of public and private funds. The aim is to finance as much as possible privately.
- Funds will not be allocated to financing channels in advance. Partners will be selected for the effectiveness and efficiency of their operations, not because they belong to a particular channel.
- There will be no successor to MFS II. Civil society organisations can apply to the priority programme budgets for funding. A slimmed down budget will be available after 2015 for activities to strengthen civil society organisations and the watchdog function for global issues.
- The general contributions to multilateral organisations will be cut. Multilateral organisations can also apply to the priority budgets to fund their theme-based activities.

The table below shows where spending cuts will be made in 2014 and 2017 in comparison with the budgetary framework under the first Rutte government (2013 Explanatory Memorandum) in millions of euros.

	2014	2017
Food security	-60	-40
Women's rights and SRHR	0	20
women's rights	0	0
SRHR	0	20
Water, the environment and climate	-150	-65
water	-50	-25
environment and climate	-100	-40
Security, the rule of law and good governance	-125	-155
security and rule of law	-95	-120
good governance	-30	-35
Emergency aid	0	0
Private sector development	-105	5
Civil society*	0	-230
Multilateral expenditure**	-60	-140
Other expenditure	-70	-145
education and research	-65	-125
culture, public support, etc.	-5	-20
Deferral	-180	0
Not yet allocated in 2013 Explanatory Memorandum	0	-250
<b>TOTAL</b>	<b>-750</b>	<b>-1000</b>
<b>Excluding:</b>		
Dutch Good Growth Fund***	250	
International security budget	250	250

\* new funding system for NGOs from 2016 (after MFS II)

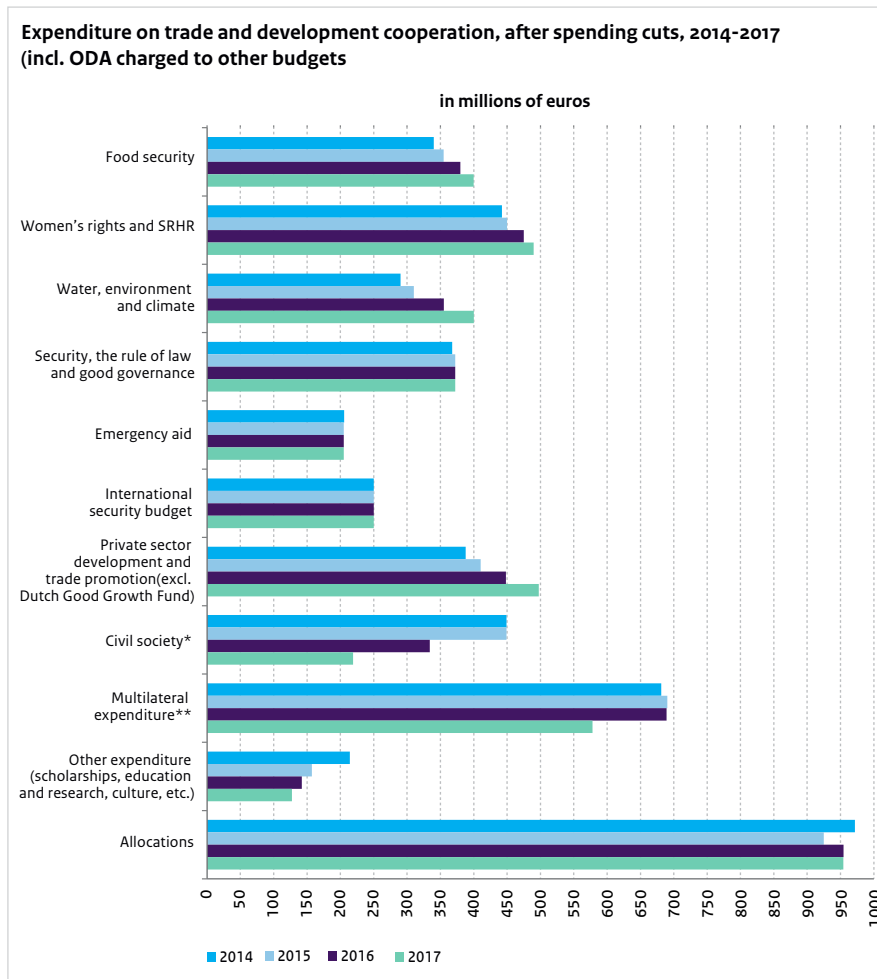
\*\* reduction in general contributions in areas outside the four policy priorities

\*\*\* €250 million per year from 2014 to 2016 inclusive

The table above does not take account of the downward GNP adjustment after adoption of the coalition agreement. This reduction will be recognised in the 2014 draft budget based on GNP estimates at the time. The spending cuts at instrument level, including the consequences for the country budgets, will follow in the 2014 draft budget.

### 5.3 Towards the 2017 budget

The figure below shows the breakdown of expenditure on foreign trade and development cooperation in the period 2014-2017 after the spending cuts but before GNP adjustments (NB ODA expenditure charged to other budgets is also included). The proportion of expenditure on the four priorities (including the international security budget) and private sector development/trade promotion will increase during this period from 51% to 57%. The proportion of expenditure on civil society in the Netherlands, education in low- and middle-income countries, good governance, culture and public support will fall from 16% to 11%. Annual allocations will amount to some 20% of the budget.



\* A new funding system will be introduced in 2016 (MFS II will expire at year-end 2015). In addition to the budget indicated, NGOs may also receive funding from the budgets for the priorities from 2016.

\*\* Budget for general contributions, replenishments, debt relief, etc.; multilateral organisations may also receive funding from the budgets for the priorities.



## Expenditure

### *Food security*

This includes bilateral programmes and contributions via the multilateral channel, public-private partnerships and investments in knowledge and research. After the spending cuts have been accounted for, the budget will increase in 2014-2017.

### *Women's rights and SRHR*

This includes the budget to eradicate HIV/AIDS, the budget for the WHO, UNFPA, GFATM and bilateral programmes to promote SRHR, and the budget to strengthen women's rights. The government considers gender equality to be a priority in foreign policy.

### *Water, environment and climate*

The priority water and expenditure on the environment and climate are combined under this heading. The budget will increase between 2014 and 2017, chiefly on account of higher climate expenditure owing to our international commitments.

### *Security, the rule of law and good governance*

This includes the central programmes for reconstruction being carried out in, for example, South Sudan and Afghanistan, the delegated budgets for the priority of security in the partner countries and the Central America programme. Between 2014 and 2017, the overall budget for security and the rule of law will remain unchanged.

### *Private sector development, trade promotion and the Dutch Good Growth Fund*

This includes budgets to improve the business climate in partner countries, the private sector instruments and infrastructure funds. After the spending cuts, the private sector development budget will increase by €110 million between 2014 and 2017 before accounting for the contribution to the Dutch Good Growth Fund. The budget includes contributions to the Dutch Good Growth Fund only for 2014-2016; no account has been taken of investment reflows and reinvestments.

### *Civil society*

This category includes expenditure on MFS II partners and SNV. The contracts with these organisations expire at the end of 2015, after which a new funding system will be introduced and the available budget will be lowered. The organisations concerned can also apply for funding from the priority programme budgets.

### *Multilateral expenditure other than priorities*

This includes expenditure for the World Bank, the regional development banks, the European Development Fund (EDF) and the general voluntary contributions to UNDP and UNICEF. This expenditure will be cut by €60 million in total in 2014, rising to €140 million in 2017.

### *Other themes (scholarships, research and education, culture, etc.)*

Development-related education and research activities in low- and middle-income countries will be phased out more quickly; by 2017 only the scholarship programme and a small budget

for research and capacity building will remain. The ODA contribution to research institutions on the Ministry of Education, Culture and Science budget will be cut by €5 million a year in the 2014-2016 period, and by €10 million a year from 2017. Agreements will be reached with institutions for international education and research to focus more sharply than at present on the priorities.



## Dutch Good Growth Fund country list

Afghanistan	Maldives
Albania	Malawi
Algeria	Mali
Angola	Moldova
Armenia	Mongolia
Bangladesh	Morocco
Benin	Mozambique
Bhutan	Myanmar
Bolivia	Nepal
Bosnia and Herzegovina	Nicaragua
Burkina Faso	Niger
Burundi	Nigeria
Cambodia	Pakistan
Cape Verde	Palestinian Territories
Colombia	Peru
Djibouti	Philippines
DRC	Rwanda
Egypt	Sao Tomé
Eritrea	Senegal
Ethiopia	Sierra Leone
Gambia	Somalia
Georgia	South Africa
Ghana	South Sudan
Guatemala	Sri Lanka
India	Suriname
Indonesia	Tanzania
Jordan	Thailand
Kenya	Tunisia
Kosovo	Uganda
Laos	Vietnam
Libya	Yemen
Macedonia	Zambia
Madagascar	Zimbabwe

## Abbreviations

3D	Defence, Diplomacy, Development
ACP	African, Caribbean and Pacific Group of States
ASEAN	Association of Southeast Asian Nations
BIT	Bilateral Investment Treaty
GDP	Gross Domestic Product
Cariforum	Caribbean Forum of African, Caribbean and Pacific (ACP) States
CBI	Centre for the Promotion of Imports from Developing Countries
CSR	Corporate Social Responsibility
DTB	Dutch Trade Board
ECOWAS	Economic Community of West African States
EKI	Export credit insurance and investment guarantees
EPA	Economic Partnership Agreement
EU	European Union
FIB	Finance for International Business
FMO	Entrepreneurial Development Bank
FOM/OS	Development variant of the Emerging Markets Fund
GFATM	Global Fund to fight AIDS, Tuberculosis and Malaria
IATI	International Aid Transparency Initiative
ICSR	International Corporate Social Responsibility
IFAD	International Fund for Agricultural Development
ILC	International Land Coalition
ILO	International Labour Organization
IMF	International Monetary Fund
IPGs	International Public Goods
LDC	Least Developed Country
MDGs	Millennium Development Goals
Mercosur	Common Market of the South
MFS	Cofinancing system
SMEs	Small and Medium-sized Enterprises
NFIA	Netherlands Foreign Investment Agency
NGO	Non-Governmental Organisation
NICHE	Netherlands Initiative for Capacity Development in Higher Education
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
ORIO	Infrastructure Development Facility
PPP	Public-Private Partnership
PSI	Private Sector Investment Programme
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SRHR	Sexual and Reproductive Health and Rights
TCX	Currency Exchange Fund
TMEA	Trade Mark East Africa
TRIPS	Trade-Related Aspects of International Property Rights

UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNDPA	United Nations Department of Political Affairs
UNFAO	United Nations Food & Agriculture Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNWFP	United Nations World Food Programme
UPOV	International Union for the Protection Of New Varieties of Plants
WEF	World Economic Forum
WRR	Advisory Council on Government Policy
WTO	World Trade Organisation
YEP	Young Experts Programme

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