

Policy consultation Dutch Minister of Foreign Trade and Development Cooperation
22 March 2018

It ‘takes three to tango’ on the path towards the SDG Investing

Bringing in local communities in the planning phase of large investment projects as actors in their own right will prevent adverse human rights, social and environmental impacts to occur, hence contribute to de-risking of the investment environment, and will facilitate the identification of opportunities for additional positive impacts.

Goal Ministry of Foreign Affairs (with reference to the consultation paper AVT18/BZ125068A, pg. 2):
Sustainable supply chains and inclusive economic development.
Free trade must be fair, and our trade system must become more sustainable.

Consultation Question 6:

How can the government help ensure that international trade and investments contribute to the achievement of the SDGs?

Recommendation:

Facilitate the set-up of a *Support Facility for Local Leadership in Sustainable Development (LLSD)*.

Primary SDG:

LLSD will primarily contribute to *Policy Coherence for Sustainable Development (Target SDG 17)* at the level of host communities of large (foreign) investments.

The **Support Facility for Local Leadership in Sustainable Development (LLSD)** facilitates Local Communities and Local Authorities to envision a sustainable future for their locality, based on local resources and local aspirations + opportunities and risks of (potentially upcoming) large investments in the area.

A broadly shared vision on sustainable development opportunities in the local community, facilitated by the local authorities, creates a solid base for communities to participate effectively in the development of formal Local & National Development Plans and in the development of Company Impact Management Plans as well as the creation of Shared Value. Upfront negotiated Impact Management Plans, and potentially Local Development Facilities, are a baseline for potential future negotiations on Remedy and Grievance management along the project cycle.

In line with the United Nations Guiding Principles on Business and Human Rights (UNGP BHR), Free, Prior, Informed Consent (FPIC) and contributing to the Sustainable Development Goals (SDGs), **a Support Facility for Local Leadership in Sustainable Development (LLSD):**

Enables and capacitates local communities & civil society and local authorities;
to negotiate effectively with national government and foreign investors on conditions for investments;
in order to ensure a sustainable future for their locality;
mitigating potential adverse human rights, social and environmental impact;
enhancing peace and stability in the investment area, and;

Consequently reducing risks for investors.

Justification for a Support Facility for Local Leadership in Sustainable Development:

The African Studies Center Leiden (ASCL) and the Partnerships Resources Centre (PrC) of the Rotterdam School of Management make a case for Dutch Sustainable Diplomacyⁱ. Sustainable diplomacy ‘adds the representatives of civil society’ to the equation, and focusses on sustainable development, human rights, ecology and the provision of global public goods. Sustainable diplomacy is an ‘add-on’ to Traditional Diplomacy, focusing on peace-making, defence and culture, as well as to Economic Diplomacy, which has as its primary goal to serve economic interests of the Netherlands. Their second plea is to align the efforts of the Dutch foreign policy, Dutch investors and Dutch civil society in time and placeⁱⁱ, in order to enhance effectiveness of the contributions of each actor to the Sustainable Development Goals.

An example of Sustainable Diplomacy is the **Dutch Banking Sector Agreement** on responsible business conduct regarding Human Rightsⁱⁱⁱ (IMVO Covenant Bankaire Sector, 2016). By means of this agreement, the Parties and the adhering banks aim to achieve a material positive impact for people (potentially) facing adverse human rights impacts (related to the activities of clients of the Dutch banking sector) and to search for solutions to address problems that an adhering bank cannot solve by itself. This agreement offers each of the adhering banks the opportunity to work with the government, unions and NGOs to address specific complex problems in a structured and solution-oriented manner.

Among the identified challenges are mentioned the lack of adequate and easily available information on actual and potential human rights impacts, and a lack of insight in the value chains of specific high-risk sectors and on how to use or increase leverage to prevent or mitigate adverse human rights impacts.

This Agreement constitutes an important contribution to the on-going discussion over the role of the financial sector in respecting human rights and is internationally perceived as putting forward **a unique innovative agenda of research and collaborative engagements** to address some of the most critical challenges facing the financial sector when dealing with human rights risks.

A theme that is rising for commercial and development banks in regard to human rights, is the concept of **de-risking**. In order to meet the needs of communities *and* achieve the SDGs, de-risking for environmental, social and human rights aspects issues needs to occur in order to make development projects more attractive for mainstream investment.

In 2015, the Addis Abeba Action Agenda for a comprehensive, global strategy towards a fair, stable and sustainable society was agreed. A \$5-7 trillion in capital is needed each year to finance the Agenda. It is estimated that development banks have roughly 2% of the capital required to meet existing development needs. **De-risking therefore becomes paramount in order to attract the required investment capital from the commercial sector.**

Financial institutions have expressed a clear interest in finding avenues to ensure positive impact **with and for the people in the communities** directly, alongside avenues that work with (international) organisations that represent these communities. Engagement with local leaders and authorities can be a key vehicle for meeting the needs of communities.

A Support Facility for Local Leadership in Sustainable Development can be seen as one of the needed solutions in the development ecosystem which needs to be created. Creating the right ecosystem is one of the topics that banks are discussing, though currently only in the context of remedy and grievance. **By ensuring communities are well-informed of their rights in advance of a project, or at least in the planning phase, and are united in a common vision for their sustainable future, it is more likely that any concerns could be discussed and solutions found before an adverse impact occurs (i.e. de-risking).** More room also occurs for creating opportunities for additional positive impacts, and to achieve SDGs.

By supporting the set up of a Support Facility for Local Leadership in Sustainable Development the Dutch Ministry of Foreign Affairs helps to create an enabling environment for SDG Investing. Aligning the effort with the Dutch Banking Sector Agreement of 2016 and other Dutch development activities collaborative approaches will further showcase the truly innovative nature of the Dutch investment / business and human rights agenda.



How does the Support Facility work?

The idea driving the initiative for a LLSD is that Dutch Investors (companies and financial institutions) in low and middle income countries will contribute most effectively to *inclusive economic development – mitigate potential adverse human rights, social and environmental impacts and contribute to inclusive economic development* -, if conditions for their investments are set **through negotiations with well prepared local community leaders, civil society and local authorities**.

Well prepared means, among other things, that:

- Local communities (LC), civil society (CS) and local authorities (LA) have set out their priorities for local sustainable development, based on local aspirations, local resources and the opportunities and risks of the foreign investment, and;
- LCs & CS + LA have the space and the capacities to negotiate effectively with the National Government and Companies
- LCs & CS, facilitated by Local Authorities, can have a more equal place at the negotiation table if they have the means and mandate for local Natural Resources Management (NRM). This would require alignment of Local NRM, Local and National Development Plans and aligned Company Policies.

LLSD facilitates the planning and capacity building through tools and methodologies for impact assessment and management, that provide information and data compatible with the data used by the private and public sector. This in turn will contribute to adequate communication on specific challenges.



Contribution of Dutch Foreign Trade and Development Cooperation to the Support Facility

The Dutch policy on Foreign Trade and Development Cooperation can help *to create a more fair and sustainable trade system, hence to ensure that international trade and investments contribute to the achievement of the SDGs through:*

- Investing in the set-up of a Support Facility for Local Leadership in Sustainable Development
- Support the alignment with the Dutch Banking Sector Agreement (2016)

Investments in Knowledge and Capacity Building in communities and civil society in areas with large scale investments are currently being made by the Dutch Ministry of Foreign Affairs under the Strategic Partnerships and the support for Knowledge Platforms^{iv}. Another example is Dutch Ministry funded community empowerment programme in the gold sector (The Golden Line), targeting the economic empowerment of women living in and around gold mining communities in Ghana and Tanzania^v. The proposed *Support Facility for Local Leadership in Sustainable Development* will take stock of these and other experiences and results. The LLSD will enable stable engagement with local communities, civil society and local authorities along project cycles, and contribute to the institutionalization local Natural Resources Management, so that the LLSD support will become dispensable. The set up of a support facility for LLSD will allow for scaling up and potentially develop into a global clearing house for best practices, tools and methodologies (comparable to the sector related efforts such as for example ICCM and IPIECA).

The Business Case for Socio-economic Equity in relation to the Extractives Sector

The costs of conflict in terms of human lives and safety are well documented, but the risks that conflicts also pose to corporate operations are becoming increasingly evident. There is mounting consensus that a 'social license to operate,' defined as 'acceptance or approval by local communities and stakeholders', is paramount to the financial success of any resource project. John Ruggie, who authored the UN Guiding Principles on Business and Human Rights, told Business Ethics that 'for a world-class mining operation...there's a cost somewhere between \$20 million to \$30 million a week for operational disruptions by communities.' Environmental Resource Management's research of delays at 190 of the world's largest oil and gas projects found that 73% were caused by 'above-ground' or non-technical risk. This financial reality is an impetus for companies to seek more effective and innovative strategies for engaging with communities and creating long-term socio-economic benefits from operations. This shift mirrors the evolution of thought among actors in the broader development sector, where long-term models, like community foundations, are gaining traction as viable solutions^{vi}. **The LLSD can be seen as a key avenue towards stronger, capable and engaged community foundations and community leaders.**

Contribution of a Support Facility to the SDGs:

By nurturing Local Communities and Civil Society as the Guardians of Policy Coherence for Sustainable Development (Target SDG 17), the Support Facility for Local Leadership in Sustainable Development also contributes to the following SDGs and Targets:

SDG 1: No Poverty: End poverty in all its forms everywhere

- Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions

SDG 8: Decent work and economic growth: Promote inclusive and sustainable economic growth, employment and decent work for all.

- Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead

SDG 10: Reduced inequalities: Reduce inequality within and among countries

- By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

SDG 11: Make cities inclusive, safe, resilient and sustainable

- By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries

SDG 12: Responsible consumption and production: Ensure sustainable consumption and production

- Implement the 10-year framework of programmes on sustainable consumption and production, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries
- By 2030, achieve the sustainable management and efficient use of natural resources
- Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle

SDG 16: Peace, Justice and Strong Institutions: Promote just, peaceful and inclusive societies

- Ensure responsive, inclusive, participatory and representative decision-making at all levels

SDG 17: Partnerships for the goals: Revitalize the global partnership for sustainable development

- Enhance policy coherence for sustainable development
- Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries
- Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships

ⁱ Tulder, R. van; Dietz, T. (2017), *Een Pleidooi voor Duurzame Diplomatie*, Rob van Tulder, Ton Dietz, ACSL Working Paper 136 / PrC Working Paper 2017, African Studies Centre Leiden / The Partnerships Resources Centre, Rotterdam School of Management, Erasmus University.

ⁱⁱ Tulder, R. van; Osmoachescu, E.; Vink, Nel de (2014), *Africa 2014 – African Studies Center. The challenge of Dutch sustainable diplomacy*. Poster. African Studies Centre Leiden / The Partnerships Resources Centre, Rotterdam School of Management, Erasmus University.

ⁱⁱⁱ SER (2016) Dutch Banking Agreement on international responsible business conduct regarding human rights. Ministry of Foreign Affairs, Ministry of Finance, Dutch Banking Association, CNV, FNV, PAX, Oxfam Novib, Amnesty International.

^{iv} Examples: 1) IUCN NL (2016-2020) Shared Resources, Joint Solutions. IUCN NL, WWF. The Netherlands Commission for Environmental Assessment (Commissie mer) work provides capacity building in this Strategic Partnership.

2) Milieudefensie (2016-2020) Green Livelihood Alliance. Milieudefensie, Tropenbos International and IUCN NL.

3) Cordaid (2016-2020) Empowering People in Fragile Contexts.

4) LANDac – Land Governance for Equitable and Sustainable Development

^v Simavi / Solidaridad/ Healthy Entrepreneurs (2016-2020).

^{vi} Fifield, M.; Hodgson, J.; Pelosi, N. (2017), *An Untapped Resource? The Extractives Industry and Community Self-Management of Assets*. Global Fund for Community Foundations, January 2017.