

Question 1

Nexus between development cooperation and foreign trade

Through their trade, investment and market position, Dutch businesses can play a key role in tackling some of the major challenges facing the world today. The focus of Dutch policy vis-a-vis the private sector will be on the 'twin transitions' of digitalisation (including artificial intelligence) and sustainability – both of which will be key to achieving the Paris and Glasgow climate goals in the years ahead. We must achieve these goals not only in the Netherlands, but across the world as a whole. While Dutch expertise and investment funding are in great demand, we also see that more may be needed when it comes to getting Dutch companies involved in these transitions in low- and middle-income countries.

1. How can we increase the involvement of Dutch companies in the twin transitions in low- and middle-income countries?

There is a fundamental lack of adequate market data to enable private sector investments and activity that can facilitate increased trade, especially in the low-income market. While, new digital technology offers a robust data centric systems approach to private sector development, robust market data is critical to further expand investments and trade. Without this, it is impossible to make sound investment decisions. UNCDF MAP Programme examples include data analysis to identify opportunities to strengthen cooperatives in West Africa using livelihoods data to identify community cooperatives, MFI's and channels for Rabobank, and Data analysis to inform better investments and identify increased market opportunity for FMO's Nasira fund to surface opportunities to work with women and youth led SMEs in East Africa.

Multi-stakeholder forums focussed on market solutions for the low-income with an explicit focus on the SDGs are missing. Opportunities can also be realised working with regional bodies like the AU under the auspices of the ACFTA agreement, to partner with export oriented SMEs in Africa to provide investment and business support, as well as the push for clean energy investments – working with SMEs to facilitate access to cleaner energy through access to finance for SMEs and investing directly in clean energy initiatives. However, in order to realise these opportunities and to create the connective tissue with existing institutions and processes (SDG 16), multi-stakeholder processes are required so that key institutions can work together, identifying complementarities to avoid unnecessary duplication of resources. Initiatives need to be highly focussed with an explicit mandate on the low-income, with the ensuing technical skills for undertaking this work with Governments.

By utilising nationally representative demand side data to identify the real economic needs of households and SMEs, including their behaviour and use of financial services to realise these needs, opportunities to invest in boosting productivity and access to finance can be identified. In addition, opportunities to leverage digitisation to increase access to finance can also be surfaced.

Further opportunities for digital are discussed under question 6, while further opportunities for sustainability are discussed under question 2 and 9.

Question 2

The Netherlands has a long tradition of public-private partnership. As the global challenges grow ever bigger, it is important to deepen and accelerate these partnerships. The Sustainable Development Goals were presented in 2015 as a plan of action for governments, companies, knowledge institutions and private individuals to achieve sustainable development worldwide.

2. How can government, the private sector and knowledge institutions work together better to achieve the Sustainable Development Goals?

The SDGs are a system of values to bring together actions of Governments, companies and private institutions (SDG 16), but high level institutions with the technical knowledge that can enable the thinking and measurement systems are needed on the ground (also see question 9 response). There is yet limited connective tissue to ensure that activities speak to each other and to bring key institutions together to knit back the social fabric. Without this linking mechanism, the SDGs will not be met, markets for trade will not be expanded, and the private sector will cherry-pick only the most profitable segments, thus creating both market and social instability. Two tools need funding and focus to advance the SDGs especially for the low-income market:

- **DFA and INFF:** Countries generate development finance assessments (DFAs) that feed into their integrated national financing frameworks (INFFs). These link to the multilateral system, but identifies all sources of domestic and foreign financing (both current and potential), including private and public funding, that can be leveraged to fund sustainable development in the context of the SDGs. The INFFs provide a channel for international development partners to work with Governments to directly fund sustainable development outcomes, parallel to a range of other investment sources utilised by Governments, offering additional leverage to development funding.
- **Financial inclusion:** With its potential to actively engage the low-income segment of the market into both the formal economy and the formal financial system, financial inclusion contributes to growing domestic financing by supporting the increase of economic activity which leads to increased monetary flows through the economy, as well as increasing the facilitation of the formal financial system and existing money flows. Mobilising and aggregating these (mostly informal) flows for formal investment contributes to increased availability of domestic finance, potentially to fund more sustainable development. Financial inclusion also changes the dynamics of finance in a national context and could change the way that sustainable finance is practiced in the future by empowering new sets of stakeholders and actors in financing for the low-income. Interventions in this space though, need to be targeted and directed towards achieving sustainable development outcomes, and require stakeholder coordination amongst multiple key players.

Question 3

The Netherlands has had an action plan on policy coherence for development since 2016. The aim of policy coherence is to reduce the negative effects on developing countries caused by policies in areas other than development, and to strengthen synergies and cooperation. The action plan, which was revised in 2018, identifies five Dutch policy themes that can enhance developing countries' opportunities for development: (1) combating tax avoidance/evasion, (2) development-friendly trade agreements, (3) a development-friendly investment regime, (4) more sustainable production and trade, and (5) combating climate change.

3. How can the Netherlands' efforts to achieve policy coherence for development be further strengthened or enhanced?

To foster Dutch policy coherence, a detailed understanding of interrelationships between actors and desired outcomes in partnering with developing countries is required, including identifying where power and mandate resides for particular policies and SDGs, and the driving national objectives and mechanisms for implementation. Embedding a systems approach to development allows for the creation of the connective tissue for stakeholder engagement, supporting increased development coordination, informed by the power dynamics and objectives within partnering countries and the development system as a whole. This allows engaging with perspectives from multiple stakeholders and interventions that speak to different stakeholder objectives while contributing to the same end goals. Coupled with an in depth understanding of consumer behaviour through data, and longevity of engagement to ensure policy momentum, ensures practically landing initiatives within local policy and demand side realities, and a greater chance for success, in contribution to the SDGs.

Policy coherence can also be enhanced through regional structures for engagement and coordination, and locating national initiatives within regional policy structures. This allows for tracking of progress at a regional level, which has proven an effective mechanism to apply pressure for national level implementation, enabling countries to benchmark and compete against each other. Creating the connective tissue between key stakeholders, institutions and the poor is also key. Allow space for a coordinating mechanism in interventions, backed by strong technical work that can help to carry a multi-stakeholder conversation, allow for oversight and convening different stakeholders, is used to deliver tangible results, and insist on accountability. The SDGs can be used to coordinate policy coherence from a thematic perspective, providing a guiding narrative for individual interventions.

Furthermore, there are strong links between poverty reduction through financial inclusion, and the fourth and fifth policy themes in the 2016/2018 action plan. The two biggest obstacles to SMEs in LDC's are access to electricity, and access to finance. Any intervention aimed at addressing more sustainable production and trade need to address these barriers in order to be successful, although access to electricity also directly links to combatting climate change, if addressing this can result in the use of greener energy sources.

Question 4

Foreign trade

International trade and investment are crucial to prosperity and jobs in the Netherlands.

International trade accounts for a third of our national income and is linked to a third of our jobs. But our international competitiveness faces risks posed by the twin transitions (digitalisation/innovation and climate/sustainability) and the shifting geopolitical balance of power. It is therefore vital for the Netherlands to strengthen its earning capacity, both now and in the future.

Strategic and sustainable trade policy

Other states are also anticipating the above-mentioned transitions and geopolitical shifts, and are adjusting their national and international policies accordingly, for instance by pursuing their international objectives through more aggressive economic diplomacy and the use of economic instruments of power. The Netherlands cannot afford to fall behind. Our country's interconnections with the rest of the world are both greater and more fragile than ever. The Netherlands will therefore focus on strategic and sustainable trade policy as part of its coherent foreign policy.

4. How can the government strengthen Dutch companies' sustainable earning capacity abroad?

A deep understanding of the local and political context in a given region is integral to strengthening Dutch companies' sustainable earning capacity abroad. This requires significant multi-stakeholder engagement and interfacing directly with the multi-lateral system to feedback into the Dutch private sector so that they too can evolve their business models and stakeholder engagements within the political and economic context of the countries they operate in, with the support of the Dutch development cooperation system.

However, the increasing shift to use foreign trade policy to secure scarce energy and food resources poses a risk to small developing countries that lack an abundance of national resources. Neglecting to include such countries in favourable trade policies run the risk of undermining their poverty reduction and economic development policies, which in turn could impact on individuals in those countries looking for opportunities elsewhere through means of irregular migration. This could be balanced through a deliberate focus on poverty reduction and economic development outcomes within the aid packages to such countries, to ensure that strategic trade policies does not undermine interventions aimed at sustainable development.

Another tool to strengthen cooperation is to work with regional bodies that link to national level objectives and policy making to ensure policy implementation and strengthen cooperation between countries and among regions – and through this strengthen the role of the Government of the Netherlands. The MAP Programme has used this tool successfully to strengthen national level implementation and relationships by working with regional regulatory platforms for financial inclusion like the SADC and ASEAN secretariats, and in particular the financial inclusion working groups within those bodies. By serving as a mechanism to convene policy makers across the region, peer pressure among countries serves to amplify the effectiveness of national level implementation. Additionally, such platforms serve as a knowledge sharing and capacity building platform among member states in a particular region.

Also see discussion on regional trade development in question 6.

Question 5

Themes and sectors of the future

The focus of companies, governments and knowledge institutions is changing in light of the global transition to ensure a bright future for current and future generations.

5. In which themes or sectors do you see opportunities for international enterprise?

There are opportunities in the areas of clean energy, inclusive finance, and basic services provision. Addressing these opportunities can simultaneously support strategic trade, international operations of Dutch businesses, and combatting climate change and irregular migration:

Clean energy: At a country level, leverage the existing household spend on energy sources for various energy needs. Decentralised provision of clean energy is a practical solution to bridging the energy divide while also addressing climate change objectives. Leveraging existing household spend, combined with access to finance to make household expenditure on clean energy appliances (like cookstoves) more affordable, allows for the achievement of clean energy objectives in a way that leap frogs the need for infrastructure investments to reach the entire population. Countries need adequate support on how to make this happen practically and the private sector needs mechanisms to engage with public sector provisioning of services.

Inclusive finance for productive SMEs: The finance gap for MSMEs in developing countries remain vast, with the majority of economic activity and financial mechanisms utilised remaining in the informal sector in most LDCs. Therefore, there will be large opportunities in the space of inclusive finance in developing countries to identify and fund productive SMEs, which in turn can contribute to inclusive growth objectives as well as the SDGs. Again, these needs specific and targeted identification on the ground at country level.

Basic services: New technologies allows for new solutions for providing better access to basic services e.g. pay as you go solutions for clean energy allows for energy access without large public sector infrastructure investments, access to communal water and water in public facilities using modern technology, etc is a powerful new way of expanding access to basic services and supporting both Government and the private sector to come together. Going forward, there would be increasing need to surface and identify these opportunities through in depth data and analytics focused on the real needs of households, and for investments aimed and directed at strengthening and expanding basic services provision like education, healthcare, water and sanitation, and telecommunication with the commensurate responsibilities from the identified institutions and national structures.

Question 6

Public-private cooperation and role of SMEs

A successful approach to international trade requires cooperation between the public, companies, civil society and government. It is also useful to align with market demand. What would help companies, and SMEs in particular, to increase their export performance and innovative capacity?

6. How can the government better support companies (and SMEs specifically), that are doing or wish to do business abroad?

- a) What type of support do companies need in order to achieve international success in the areas of digital innovation (innovation partnerships) and sustainability?
- b) For what countries, regions or markets should the government provide private sector support?
- c) What type of trade promotion activities should the government stop doing?

SMEs need basic support and access to finance to achieve international success. MAP data shows the majority of MSMEs are survivalist and not geared for growth, although a small group of SMEs are more entrepreneurial and has potential for growth, while more likely to be involved in exports. The key challenges for these SMEs include access to finance and electricity, along with business support services. SMEs need support because SMEs' lack managerial and bookkeeping capabilities, but also because small businesses fail – a lot. Business support that nurtures and grow SMEs to be sustainable and viable also strengthen the entire SME sector, making it an important tool for poverty reduction and to fuel economic growth. Building institutional support for business growth e.g. business councils, small business export promotion, labelling, etc. can enhance impact beyond value-chain development.

These fundamentals don't change for digital innovation, which have seen limited success as most developing countries are simply not ready for simplistic implementation of digital technology. Other than specific instances involving the manufacturing industry (where digitalisation can, for instance, decrease the cost of and time required for imports and exports – a key barrier in landlocked countries like Lesotho and Nepal), the digitalisation of value chains has largely not been implemented in the SME space, and remain limited to payments for small businesses, especially in the agricultural value chain (e.g. smallholder farmers). Digitalisation alone is unlikely to solve the access to finance problem on its own, or engage in deep-rooted systemic change, but look at opportunities to leverage digitisation to provide a combination of business support, like increased access to finance, information, and to improve business support services that can also be surfaced to enable growth at country level.

For effective trade promotion, ensure a balance of support between low-income and middle income countries, linked to a region. More developed countries tend to bring along the less developed in their regions, similar to the concept of how neighbours work. By linking trade to a region, it becomes easier to focus on systemic change and allows for more integrated development of private sector cooperation for Dutch businesses. Also see question 4 on balancing strategic trade policy with sustainable development objectives.

Question 7

Dutch development cooperation activities

The Netherlands is actively pursuing a number of policy themes in the area of development cooperation. For example, we're investing in efforts to advance the Sustainable Development Goals (SDGs), reception in the region, access to vaccines, and climate adaptation and mitigation. The Netherlands will continue its efforts in areas where progress is being made and will focus on its strengths, such as linking diplomacy and development. For more information about Dutch development policy, go to www.nlontwikkelingssamenwerking.nl.

7. In your opinion, what are the Netherlands' strengths when it comes to development cooperation? In which policy themes could the Netherlands play a leading role?

Inclusion and reducing inequality, in addition to climate change, is the biggest challenge of our times. All other policy themes stem from these root causes. The Netherlands Development Cooperation has a deep understanding of the multi-lateral system which allows for linkages in approaches between the various partners that could be leveraged more to enable deeper partnering, efficiency in resource deployment and speaking with a singular voice, with a multi-pronged toolset at country level;

The Netherlands is a well-oiled, sophisticated development co-operation team that functions very effectively in multiple areas of the global sphere – which makes the small funding of the Netherlands very effective. However, given the large and highly effective Dutch private sector as well as the financing space, this could be leveraged more effectively with development cooperation especially in the fields of technology and financing low-income markets, especially in relation to systemic change and the role of the private sector in how it works with Government and the development system. The ESGs could be an effective measurement tool, within the context of the SDGs to better embed this relationship in an objective manner.

Question 8

Innovative development cooperation

Dutch international cooperation is flexible and knowledge-intensive. We are also innovative, developing new ways of working and new types of partnership that are subsequently adopted or scaled up by others, like the European Commission and the World Bank. In this respect, Dutch international cooperation is like a creative and knowledge-intensive incubator. We are a relatively small donor, but as an EU member state and through bilateral aid we can make EU aid more visible and generate additional, relevant capital flows.

8. In what other ways and areas could Dutch development cooperation innovate more?

Through development cooperation, the Dutch Government has a powerful tool to strengthen relationships with the private sector in developing countries as well as to surface opportunities for private sector cooperation and investment. This can be achieved through a data centric systems approach to private sector development. Having a coherent strategy and a deep technical analytical basis to use the data is important to achieve the SDGs and to explore the public/private sector nexus for sustainable human development.

Systems change is about people and shifting narratives, relationships, structures, and power in order to solve today's most complex problems and foster equity. It's not systems change if it's non-relational or if it does not result in shifting power to enable inclusive growth and addressing inequality of access and opportunity. It is therefore crucial to understand what you are trying to change and who the key stakeholders are to make that happen, and to test this through application and experimentation. This also requires placing technology solutions and innovation secondary to people and relationships, and to empower, activate, mobilize, and support change leaders in their own lived environments, to stimulate a focused conversation and to change how people think and work together. Bring in the technology once the problems are identified and the solutions agreed.

There is a crucial need for increased facilitation to connect different parties for strategic partnerships, based on an embedded understanding of stakeholder objectives and mandates at a country level. This requires implementation of longer term systems change type interventions with active country presence and engagement to build trust and foster local ownership.

To realise strategic opportunities, there will be an increased need for both market data and representative livelihoods data to inform evidenced based policy making, and to identify and surface opportunities for private sector based on the lived realities of households and SMEs in developing countries. This requires increased investment into data generation, but also increased capacity for data analysis to better fit the needs of financing and understanding of business models to serve the low-income in developing countries. Increased data generation, in turn, has the positive externality of increasing data availability for measuring progress, a critical need identified by the SDGs.

Question 9

A bold donor

Dutch international efforts can be characterised as bold, because we link financial investment to diplomatic efforts and expertise. We will continue our work on themes where we have always added value: sexual and reproductive health and rights (SRHR), water, food security, and security and the rule of law. We will also make better use of the diplomatic weight of the EU. To ensure we achieve the SDGs by 2030, we will invest in systemic change, i.e. tackling the structures that maintain poverty and inequality.

9. In what ways or areas could the Netherlands, as a donor, be even bolder?

Funding the SDGs places donor governments in a position to use returnable capital to facilitate economic diplomacy, along with traditional trade agreement leverage to develop markets and strengthen governance. Ensure sufficient catalytic funding that can enable a systems based approach with the required stakeholder engagement, relationship building, longevity, and local ownership of the agenda. This provides for soft power, working with countries to achieve the aims of their own national objectives rather than a donor funder that pushes for simple outputs.

The ESGs are a tool for holding the private sector accountable for the value-systems of the SDGs in a objective manner. Adequately addressing inclusion of the low-income market can strengthen both financial and social stability, promote more resilient economies, through an active inclusive growth agenda. High levels of financial exclusion indicate more dysfunctional systems and high inequality, which is a red flag for increased social instability.

Achieving the SDGs requires an increase in evidenced based policy making, tracking implementation success and failures through inclusive data – making the informal and low-income market directly visible. Partnering with knowledge institutions to provide the data and analysis for evidence-based policy making and monitoring implementation progress is key, as is a coherent strategy for data that can enable systemic change and the technical tools to dismantle the structures that maintain poverty and inequality. Create better incentives and enabling mechanisms for the multi-lateral system to share data and collaborate on tools development especially around financing for the low-income.

MAP data confirms society's deep disparities and unequal access to opportunities and resources, and highlight the most excluded of the excluded in individual countries. Designing policies, interventions and investments to target vulnerable populations for improved access to resources requires understanding not only of consumers' challenges and needs but also their real-world workarounds for meeting those needs as it relates to the context in each country. A bold vision is required to understand business models for the low-income market, inventing new metrics, stabilising institutions and financing structures for hard to reach vulnerable markets and developing more robust financing for the middle income that can provide better social stability.

Question 10

General closing question

10. Are there any other points that you believe should be included in the new policy document?

At its heart the Coalition Agreement 2021-2025, “Looking out for each other, looking ahead to the future”, embraces a focus on making real improvements in people’s lives, built on a bedrock of socioeconomic security for all and offering the prospect of progress in life and society.

The comments and feedback provided above are based on real world experiences in working on the ground with evidence-based data from multiple countries working with the MAP Programme. There is growing agreement globally that the economy, the market system, and business should serve people while protecting the planet, and that people and the planet should not be sacrificed purely for growth. This is also at the essence of the SDGs. Without good fundamentals in terms of accountability, transparency and good governance, anything that is attempted will be less effective. Thus, a new policy document needs to ensure both a commitment to good governance, and a commitment to make the market work as efficiently as possible, but with the ultimate goal to benefit as broad and inclusively as possible a shared prosperity for all people, while not sacrificing the planet.

These principles can be adopted by countries, to various degrees, regardless of their political or economic ideology, as long as the intention is to improve the lives of people, and to protect the planet – a common and shared social contract in the global community.