

Five golden opportunities for Dutch foreign trade & development cooperation

The Dutch ambition for engagement with international development and the intensive interlinkages of the Dutch economy with the world market explain to a large extent the long-term commitment for addressing global issues. This commitment is only partly based on funding and is far more rooted in expertise and approaches that Dutch stakeholders can provide to support local innovation and responsiveness. Some reforms in the organization of aid & trade programs might be helpful to improve effectiveness.

1. Dovetailing Aid & Trade 2.0

The current portfolio is based on a distinction between aid or trade, and several embassies are even involved in a process “from aid to trade”. It might be more productive to identify opportunities where aid and trade can reinforce each other on a more permanent basis. Therefore, particular areas of synergy between aid and trade need to be identified.

There is a lot of confusion regarding the specific roles that Aid and Trade play for the fulfilment of particular public and private goals. Table 1 could be helpful to identify **complementarities between aid and trade** instruments. Current programs mostly focus on areas where aid and trade operate in public and private domains respectively (upper left and lower right quadrants) , but aid can be rightfully used to enhance particular modalities of trade and private investments (upper right quadrant) and where trade is assisted by regulatory public activities to safeguard common interest (lower left quadrant).

Table 1: Interactions between Trade and Aid in the Public and Private Domain

Objectives → Instruments ↓	Public	Private
Aid	Investment Climate (Aid 4 trade) Supporting sustainability Reducing transaction costs	Innovation Alliances (Dutch Diamond) Foster Inclusiveness De-risking investment
Trade	Grades & Standards/Certification Food Safety Market competition (antitrust)	Quality upgrading Value Added generation Pricing strategies

Traditionally, aid is used for supporting public (common) goals and trade is limited to the private (market) domain. This remains a relevant distinction in many settings and justifies continuous reliance on – larger or smaller amounts of – aid in countries that face institutional constraints. With better local governance in place, aid can be directed towards wider objectives (growth, employment, inclusion, innovation) that represent important pathways towards subsequent private investments.

Important **crossovers** can be identified where public aid is used to influence particular private sector activities (i.e. those that also realize a public payoff) and where market activities are tailored towards satisfying public goals. These areas might require temporary support and tend to be based on mixed public and private contributions and blended finance. It should be recognized that actions in these areas are vital for generating inclusive and sustained growth based in local business alliances and innovation networks. The public benefit outcomes justify investments from aid and tax sources. Aid could be used to support the market level playing field, however It should be avoided to modify competitive market relationships of to support particular industries or enterprises.

2. Hubs for Poverty Reduction & Food Security

Dutch development cooperation gives priority to poverty reduction and food security. Most programs are still centrally managed whereas decentralised aid through Embassies only represents 10% of all expenditures. The landscape of poverty, income inequality and malnutrition is rapidly changing. Fast growing **megacities** (with > 10 million inhabitants) and **regional corridors** shape to a large extent the economic and political environment for addressing these challenges. City Corporations and Regional Investment Boards become key players and new potential partners.

There are several good reasons to focus more on metropolitan development and regional hubs. It enables a more integrated attention for underlying root causes of poverty, related to both market and institutional failures. Urban malnutrition (including obesity) presents a new threat occasioned by deficient housing and sanitation, uncertain employment and limited health and education services. In these settings, engagement in crime and violence and incentives for migration tend to increase.

Effective programs for poverty alleviation should focus simultaneously on **investing in opportunities and in people**. Dutch agencies are particularly capable in combining supply- and demand side approaches and linking investments in hardware (infrastructure), orgware (institutions) and software (knowledge). The Dutch approach to food and nutrition (also successfully applied in the water sector) can be particularly helpful to mobilize innovative small- and medium-size enterprises and new supply chain knowledge (e.g. blockchain, quality sensing, robotics) for co-investments in emerging economies. More than trade, this requires intensive local linkages and business support through decentralised instruments.

3. Blending with Multilateral Banks

A substantial part of Dutch aid (up to 25-30% ODA) is channelled through international organizations (UN, EU) and multilateral development banks, including the World Bank (and IFC) and the African and Asian Development Banks. These organisations play a key role in addressing fundamental constraints to development: they invest in infrastructure and energy, support the business climate and create conditions for national and regional integration. The same holds for EU programs (especially the European Development Fund) that play a key role in funding large-scale development initiatives.

The Netherlands participates in the global governance of these organisations, but maintains much distance from daily operations. The professional expertise and effectiveness in delivering results from development banks is generally acknowledged. But some multilateral organizations have been criticized because civil rights and local participation are not always adequately respected.

Earlier experiences with 'earmarking' funds for particular purposes proved little successful. Given the current SDG challenges, Dutch contributions could become more effective by focussing on blending mechanisms for particular priorities (like agriculture & food, water, climate resilience and stability). This could also enable broader participation of private sector and civic stakeholder in multilateral programs. Current bilateral funding programs (Dutch Good Growth Fund, Dutch Trade & Investment Fund and some funds at the FMO) could become more effective when these resources are used as counterpart funds to support Dutch engagement with multilateral financial programs.

4. Supporting resilience & stability

There are good reasons to believe that climate change and conflicts contribute to uncertainty and instability. Large shifts in location and yields of agricultural production and in patterns of human settlements are foreseen in the very near future. Key cultivation areas for tree crops (coffee, cocoa)

are shifting due to changes in rainfall and temperatures, affecting millions of people. In addition of efforts for increasing production, we need to support the resilience of rural and urban livelihoods. Resilient development strategies lay the foundations for more dynamic competitive advantages.

Enhancing resilience and stability is usually based on understanding of the linkages between natural and social systems. This enables to identify key entry points for influencing the system dynamics. Dutch knowledge and experience with system approaches enables to identify innovative and creative solutions. Some problems (like post-harvest food losses) need to be addressed upstream the supply chain, whereas payoffs are captured at downstream level; therefore technical solutions need to be accompanied by financial contracts to support widespread adoption. Similarly, it is far more effective to address the health and disease burden in emerging economies by improving nutrition systems. And this may also deliver important payoffs in terms of reproductive health behaviour.

Dutch support to international climate funds and regional (post)conflict protection programs is still rather fragmented and tends to focus mostly on short-term mitigation efforts. More attention might be given to coordinated efforts for increasing resilience at system level. This implies that interventions not only focus on problems, but also address upstream or downstream causes. Institutional cooperation is required to guarantee complementarities between different instruments.

5. Mobilizing societal resources

Development cooperation has always been deeply rooted in Dutch society. A large number of NGOs is mobilizing substantial voluntary support (both donations and time) for development programs, as well as for the reception and integration of refugees in The Netherlands). Dutch society is also conscious about requirements for fair, responsible and sustainability trade in tropical commodities.

While the possibilities for mobilizing civic contributions for international cooperation have become more limited, it is possible to identify other opportunities for creating multipliers. New initiatives for Crowdfunding campaigns, impact investment and Incubator programs are already generating important civic and private investments.

Mobilizing new resources from existing capital funds towards investments that also satisfy societal goals is increasingly recognised as a key strategy. This refers both to Pension and Insurance Funds as well as to Venture Capital that may be challenged to invest part of their resources in activities that contribute to SDGs. Capital assets of Dutch pension funds are some €1.224 billion, representing more than 200 times the Dutch ODA budget. From this perspective, mobilizing only a tiny part of these resources for investments abroad will substantially enlarge the resource base for supporting SDGs.

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