

Our common concern

Investing in development
in a changing world



Buitenlandse Zaken
**Ontwikkelings
samenwerking**



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Investing in development
in a changing world

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Contents

| | |
|---|-----------|
| Introduction | 5 |
| 1 Development cooperation in a globalising world | 9 |
| 1.1 The changing world: six major developments described | 9 |
| 1.2 Changes in development cooperation: four factors described | 13 |
| 1.3 The choices for 2008 and beyond: from description to priorities | 16 |
| 2 Four enhancements in the focus of policy | 21 |
| 2.1 Security and development | 21 |
| 2.2 Growth & equity | 26 |
| 2.3 Gender and sexual and reproductive health and rights | 31 |
| 2.4 Sustainability, climate and energy | 34 |
| 3 Development cooperation with partner countries | 37 |
| 3.1 Working with profiles | 37 |
| 3.2 The profiles | 38 |
| 3.3 Further information on each profile | 40 |
| 3.4 Further information on phasing out and other countries | 45 |

Introduction

We live in an age of rapid change that is having a major impact on the daily lives of people all over the world. Globalisation is making the world both smaller and richer. People, companies and countries are seizing the opportunities presented to them by new technologies (particularly communication technologies), the division of labour, and demand for new products. Global wealth has grown to hitherto unknown proportions. But not everyone has an equal chance of sharing in that wealth or of making their voice heard. And not all growth is equally sustainable. The costs and benefits of globalisation are very unevenly divided. Two and a half billion people in the world still have to live on less than two dollars a day. The majority of poor people are women. Lack of decent work and a decent income almost always goes hand in hand with inadequate access to education, health care, safe drinking water and other basic services. Climate change and environmental degradation impact most severely on the poor. Full, productive employment and effective services are a key factor in sustainable poverty reduction. It is equally important that poor people have the opportunity to participate in decision-making, that the legal system functions properly and that people are protected from conflict, economic shocks and natural disasters. The Millennium Development Goals (MDGs) represent a broad agenda for development, but on current performance many countries will not achieve them. Countries in sub-Saharan Africa and, more especially, in conflict areas, have fallen furthest behind.

Divisions in the world – not only economic, but also political, cultural and religious – are becoming sharper. And the Netherlands is no exception. This means that we face certain choices. The Dutch government has chosen not to withdraw behind the country's dikes, but to try and bridge the divide. To work for more equitable economic growth and distribution – of welfare, voice, the ecospace and security, particularly for those with the fewest opportunities.

Globalisation poses difficult choices for development policy. This does not mean that we need to reinvent the wheel, however. The Netherlands' development policy is constantly evolving, and is in many ways considered an example for other donors. Initiatives put forward by the Netherlands and others have led to international agreements on ownership of the development agenda by the developing countries themselves. Poor countries and poor groups within countries must decide for themselves how they put this agenda into practice and what contribution international donors can make. In October 2007, the Netherlands again came first among the world's richest countries in terms of support for policy that benefits poor countries. This index considers not only the quality of our aid effort, but also things like fair trade, adequate investment, the environment and human security. Policy coherence, in other words. Development cooperation as an element of and the driving force behind a broad agenda for international cooperation. The government is rightly

proud of this achievement. However, given the scale of the problems, modesty is called for. There are new and bigger players in the field of development cooperation, and there is no panacea. Development cooperation is about using opportunities, about learning from past performance – good or bad – and working with others to enhance the effectiveness of aid. New coalitions can be forged with the private sector, civil society and innovative funds for knowledge, growth and development.

The Dutch government has worked to achieve the Millennium Development Goals ever since they were first agreed on, as evidenced once more by its Agenda 2015¹ and the Explanatory Memorandum to the 2008 Budget. The government as a whole is committed to bringing about a powerful common strategy to reduce the backlog in achieving the MDGs, and will focus more attention on social and economic development for the poorest section of the world's population. Long-term economic growth will not be possible without integrating poor people into the economy. Everyone in developing countries must be able to benefit from economic development. The human rights approach to development cooperation is key, and is based on the indivisibility of political and socioeconomic human rights. The equal distribution of wealth should be at the top of the world's political agenda. Development experts have rightly pointed out that poverty is the Achilles' heel of globalisation.

This policy letter sets out in more detail the Government Agenda 2015 and the 2008 Explanatory Memorandum for development cooperation. It is certainly not intended as a comprehensive policy document. Its purpose is to present the choices that the government has made in its effort to contribute to the achievement of the Millennium Development Goals. Chapter 1 outlines a limited number of global developments that need to be addressed, leading us to make more pronounced choices within development cooperation. It presents a brief interpretation of the key contextual factors that we must be aware of if we are to enhance the effectiveness of development cooperation on the broadest possible terrain. To this end, the chapter considers both a number of crucial global changes and several important changes in the role of aid itself (such as aid architecture, bureaucratisation and aid dependency). Chapter 2 then turns to the four themes on which policy is to be stepped up in response to the analysis presented in the first chapter. These themes, which are already reflected in the 2008 budget, are as follows: (i) security and development, (ii) economic growth and equity, (iii) more rights and opportunities for women, with a special focus on sexual and reproductive health and rights, and (iv) climate, sustainability and energy. Chapter 3 explains why the same strategy is not to be adopted for all partner countries. The issues in these countries vary too much, as does their rate of progress towards the MDGs. There is no 'one size fits all'. The partner countries have therefore been divided into three groups with different policy profiles that require a tailor-made approach by donors and international organisations.

This letter outlines the general framework for development cooperation. The government will issue a follow-up memorandum examining the implications for the multilateral and non-governmental channels. The government also intends to issue a series of memoranda elaborating on certain specific aspects. The Minister for Development Cooperation will draft a memorandum on agriculture, rural entrepreneurship and food security with the Minister of Agriculture, Nature and Food Quality, a memorandum on corporate social responsibility with the Minister for Foreign

¹ Government Agenda 2015 for the achievement of the Millennium Development Goals. Parliamentary Papers 31 105, no. 1, 29 June 2007

Trade, a memorandum on environment and sustainable energy with the Minister of the Environment and Spatial Planning, and a memorandum on development cooperation and sport with the State Secretary for Health, Welfare and Sport. The House of Representatives will be informed separately on efforts to combat corruption, on migration in relation to development cooperation, and on the Netherlands' efforts in fragile states. The House has already been promised a policy response to the evaluations of the programmes targeting higher education (to be drafted with the Minister of Education, Culture and Science), HIV/AIDS and sexual and reproductive health and rights.

Poverty reduction is a matter of common concern to us all. New partners and new coalitions are now tackling global poverty. Development cooperation is emerging from its foxhole, as illustrated by the first pillar of the government's policy and the Pact of Schokland. The government wants to take the lead with a coherent foreign policy. Development cooperation as a catalyst for development must become more political, with a greater focus on human rights, particularly those of women, and a more integrated approach to resolving conflict. Greater effort is needed in international negotiations on trade and the environment to ensure that developing countries and poor people enjoy their share of global economic development.

1 Development cooperation in a globalising world

1.1 The changing world: six major developments described

a. Rapid growth offers many opportunities, but the gap between haves and have-nots is widening and stragglers are falling even further behind

Globalisation is making the world smaller and richer. But it is also becoming more unequal.² Global economic growth in the 1990s was significantly stronger than in the 1980s, and this trend continues. The opening up of the global market, the growth of the private sector as an engine of development, opportunities for export-led development and the global division of labour have allowed many countries and hundreds of millions of people, particularly in Asia, to break free of poverty. The world and its citizens can benefit from liberalisation. There are many winners, but there are also many losers: those who have been left behind – the poorest of the poor – are finding it very difficult to share in the benefits of growth. Wealth and income differences are increasing worldwide. Competition is increasing and the global market places high demands on the quality of products and creditworthiness. The prices of industrial goods have also fallen, thanks among other to the low labour costs in China and India. However, the rapid growth of China and India is also raising demand for energy and other resources, pushing up the prices of raw materials and food. So, while there are certainly opportunities for newcomers to the global marketplace, in practice they are finding it difficult to actually exploit them.

These developments have had a major impact on our partner countries in Africa and elsewhere. They are benefiting from the rise in the price of natural resources and the falling costs of imports. Some African countries are experiencing economic growth running at 6%, generated largely by exports, mainly of raw materials and crops. However, rapid population growth has meant that per capita income and purchasing power have increased very little, and poverty reduction is very slow. Though consumers in Africa are benefiting from the rise of China and India, formal employment has barely increased. Africa runs the risk of losing the competition battle to China and India, not only because of the extremely low wages in these two countries, but also because they have a much better infrastructure and workers there are much healthier and better educated. Furthermore, wage costs are often low because fundamental labour standards are not respected or because manufacturers employ child labour.

2 The Gini coefficient of inequality between countries rose between 1980 and 2000 from 0.46 to 0.54 (Source: World Development Report 2006).

Besides facing competition from countries in other parts of the world, the majority of African countries face the problem of insufficient capacity in their own small domestic market to allow economies of scale and cost reductions. They lack the industrial base to cope with rapid urbanisation, and as a result urban poverty is increasing. Poor infrastructure drives costs up, curbing export growth opportunities for agricultural products. The Asian development model, which is based on export promotion to generate capital for investment in the development of domestic markets, thus has little chance of succeeding in Africa at the moment. Agriculture and the informal sector play an important role in pro-poor growth because they are the main sectors employing the poor. However, the African agriculture sector faces competition from countries with higher labour productivity. Trade restrictions and subsidies to producers in OECD countries also have a negative impact on the African economy. Major investments are needed in agricultural research, infrastructure, health care, education and properly functioning public and private sectors to enable Africans to exploit market access elsewhere. The AIDS epidemic has hit the continent hard, particularly its working-age population, making it difficult for Africa to seize the opportunities offered by the global economy, and many are simply excluded.

Globalisation is also leading to changes in financial markets and therefore in the scope for investment. This often requires adjustment, which can be costly, as the Asian crisis of the late 1990s showed us. Countries that had liberalised their financial markets, thus exposing them to the international financial markets, attracted mainly speculative investments rather than investments that would raise production in a sustainable manner. Established domestic interests, legal protection structures and impenetrable, informal conflicts of interest prevented these countries from introducing the requisite investment conditions quickly enough. Many poor countries, particularly in sub-Saharan Africa, have barely opened up to international financial markets. Nevertheless, private capital plays a growing role in their economies. Some countries, like Ghana and Cape Verde, are already benefiting because their nationals work abroad and send remittances to their families back home. In countries like Angola, Zambia and Sudan, money is being invested in the exploitation of natural resources. However, this new financial flow will act as a catalyst in these countries only if domestic markets perform better and governance becomes more transparent and effective. For now, most poor countries remain dependent on development cooperation to fund efforts to boost their economies and so achieve further development.

b. The impact of environmental degradation and climate change: major risks for the poorest countries

Global economic growth and climate change are placing a heavy burden on fragile ecosystems. Several recent reports show that deforestation, desertification, flooding and exhaustion of agricultural land and natural resources are taking on alarming proportions. Poor countries are hit hardest by environmental degradation. The most vulnerable population groups, who barely benefit from economic growth, are under the greatest threat. They tend to live in dry areas that will receive even less rainfall, along rivers that are set to flood more frequently and in coastal areas that will be hit by cyclones and hurricanes. Safe drinking water and fuel are becoming more and more scarce. Natural resources are being depleted. Research has shown that climate change will increase the incidence of diseases like dengue fever and malaria, as well as the number of people suffering starvation. Migration flows are also forecast to grow. Environmental degradation and climate change are thus making it more difficult to achieve all the Millennium Development Goals.

At the same time, the growing focus on climate change presents major opportunities for new synergies in the fight against poverty: the attention being focused on energy issues and the dangers of deforestation, the trade in emission rights, the growing demand for biofuels and higher prices for agricultural produce and raw materials all offer potential for action. However, these issues also pose new risks. The growing demand for biofuels impacts on food security and causes dilemmas concerning the use of land and the preservation of biodiversity in producing countries. Attention will need to be focused on this issue to prevent negative effects on the environment and food security and stop local elites or foreign investors gaining a monopoly on production and natural resources extraction to the exclusion of poor population groups.

c. Energy, development and conflict: a risky combination

Poor people have little access to the energy sources that are vital to development and economic growth. Accessible energy sources are also becoming more scarce, raising the price of oil and gas imports, in particular, for all countries. Developing countries cannot escape the need for a structural transition to energy saving and sustainably produced energy any more than developed countries can. Sustainable alternatives such as solar and wind energy will be available to only a limited extent in the short term, however. Furthermore, supplies of oil and gas are under pressure as a result of political tensions and instability in the Middle East, Nigeria and between Russia and its neighbours. In energy-producing developing countries the exploitation of oil and gas supplies tends to be in the hands of an elite who use the profits from exports for consumption, rarely investing them in their own economy or in improving government services. This has led to social tensions, as in Bolivia, where the unequal distribution of income from gas is a source of political conflict. In African countries like Sudan control of oil and gas reserves is a source of armed conflict. Political interventions by the West, and also China, to secure supplies of oil and gas, have exacerbated this process and may stand in the way of sustainable solutions to poverty, conflict and environmental degradation.³

d. The Millennium Development Goals: the need for action

The 2005 UN summit underlined once more how closely security, development and human rights are interconnected. This can also be seen in the progress towards the Millennium Development Goals. Globally, good progress has been made on MDG 1 (reducing extreme poverty and hunger by half), MDG 2 (all boys and girls attending school) and MDG 7 (sustainable environment) as regards drinking water. However, there has been little or no progress on MDG 3 (equal rights for men and women) in terms of the number of women in paid work and numbers of female members of parliament, MDGs 4 and 5 (reduction of child and maternal mortality) and MDG 6 (reversing the spread of malaria and HIV/AIDS). Sub-Saharan African is lagging farthest behind, followed by South Asia.⁴ The shortfall is particularly great in fragile states. But within countries, too, there is great inequality, preventing hundreds of millions of people from benefiting from economic growth, including in China. These people are in poorly paid jobs, if any, have barely any access to land and credit and are exposed to all aspects of poverty, from inequality of opportunity and an absence of women's rights, to lack of education and environmental degradation. In short, they are left standing on the sidelines, devoid of hope.

3 See Mary Kaldor, *Oil Wars* (Pluto Press, 2007).

4 Paper on Dutch Development Cooperation and the Millennium Development Goals, Ministry of Foreign Affairs, June 2007.

e. Quality of political and economic governance: the need for deepening and strengthening

The failure to achieve the Millennium Development Goals is certainly not only caused by external factors. It is also connected with the quality of governance. Although more and more countries are holding democratic elections, the interests of the political and economic elite often still determine the agenda. Poor people, particularly women, lack the resources to inform and organise themselves to influence government services and a more equal distribution of economic growth and prosperity. In many developing countries informal patronage systems are still more influential than formal democratic institutions. Parliaments are still too often a platform for specific interests, whether regional, ethnic or other. At the same time, in many countries patronage is the only system that provides political and social cohesion. Institutional reform and democratisation could allow a larger proportion of the population to participate. The strengthening of independent social initiatives, often supported by partners from the Netherlands, plays a role in this process. Attempts by outsiders to replace existing systems with Western models of government can however unintentionally lead to greater instability, particularly where there is no economic growth or financial investment.

f. Fragile states: a permanent phenomenon

All over the world, there has been a fall in the number of conflicts between states. Millions of people are however the victims of intrastate conflicts. Fragile states are lagging farthest behind in achieving the Millennium Development Goals. Characterised by political instability and governments that are barely able to function, if at all, these states often relapse after a period of relative progress. The causes of this failure to sustain progress are complex and manifold, and include abuse of power and political manipulation by elites, religious or ethnic tension, corruption and the use of violence by the armed forces, police or rival clans. As a result, the basic conditions for development and investment simply do not exist, with all the disastrous consequences that entails. Over a third of all child and maternal mortality occurs in fragile states. Conflicts also inevitably lead to violations of civil liberties, freedom of expression and human rights. Women are in a particularly vulnerable position, as evidenced by the horrific sexual violence and rape seen in the eastern Democratic Republic of Congo. The large-scale recruitment of child soldiers illustrates how vulnerable children are in countries like Sudan, Uganda and Sierra Leone.

Fragile states are a threat to us all. Now that the world has become smaller, terrorism, refugees, migration flows and drug-related crime can all too easily affect other countries. For all these reasons, it is important that we give fragile states like Afghanistan and Burundi substantial aid to support their reconstruction.

g. New players and challenges to international governance

The rise of economies like China, India, Brazil, Mexico and South Africa has led to a new division of power in the world. International companies and civil society organisations are playing an increasingly important role. International organisations are expected to give leadership. However, countries are reluctant to give these organisations a clear mandate and the requisite resources. No agreement has yet been reached on new voting arrangements at the UN and the Bretton Woods institutions that reflect the new political reality. Reform is needed if we are to tackle global problems effectively. However, the gap between what the United Nations is able to do and what is needed has grown. The current World Trade Organisation negotiations are also dogged by

divergent positions that are proving difficult to reconcile. The importance of regional organisations has grown over the past decade. The European Union is the clearest example, although countries in Africa and Asia are also moving towards closer economic and political cooperation and cooperation in the field of security, as in the African Union and ASEAN. Informal and more exclusive international fora such as the G8 and G20 are gaining in importance at the expense of the UN agencies. It is essential to forge new coalitions around international public goods and to further debureaucratise, strengthen and democratise international organisations.

h. Sharper political, cultural and religious divisions: the need for bridge-builders

So the world has become smaller and more unequal. There is huge potential for growth, investment and better governance. But those who have fallen behind are often unable to bridge the gap and join the globalising world. The ever-growing gap is also reflected in political, cultural and religious polarisation, which has been magnified by the terrorist threat. Since 11 September 2001 some in the West have come to regard Islam as an ideology that justifies violence. Proportional measures against terrorism demand repressive steps, but that is not all. They also require analysis and efforts to tackle the causes of polarisation – the interaction between political, economic, social, cultural and religious differences that can lead to extremism. Some governments have seized upon the fight against terrorism to enforce a state of emergency and further restrict civil liberties. In some countries, this has been at the expense of women's rights. Stability and development require an unblinkered view coupled to debate and engagement. Confrontation, particularly in the form of religious polarisation, is not compatible with development. Fear and mistrust feed on polarisation. Knowledge of other cultures and religions helps overcome fear and suspicion, and collaboration increases the chances of success even further. Alongside the measures being taken to combat and contain extremism, there is a clear role for development cooperation in fostering openness towards moderate forces, in order to protect human rights and promote democracy.

1.2 Changes in development cooperation: four factors described

a. Changing aid structures: different funding sources and more players

Poverty reduction is back on the international agenda. The signing of the Millennium Declaration and the international effort to achieve the Millennium Development Goals by 2015 provide the best evidence of this. There are also many private initiatives, ranging from small projects to major initiatives like corporate social responsibility, that point in the same direction. Official development aid (provided by the 22 countries in the OECD/DAC) grew from 60 billion dollars in 1997 to over 100 billion in 2006. But the doubling of aid to sub-Saharan Africa over a five-year period, as promised by the G8, has not materialised. It is easier to make promises on paper than to keep them, particularly when it comes to issues that affect domestic politics, such as trade or migration.

The traditional donors in the OECD/DAC are not the only players in the world of development. China is playing an increasingly important role in many African countries, largely from economic motives, with the environment and human rights often playing a secondary role. New global foundations, such as the Bill and Melinda Gates Foundation, tend to target specific issues or development goals, and they each have their own way of working. The global funds for health, for example, focus on achieving one specific goal, such as reversing the spread of HIV/AIDS – often to

great effect, though they can have a negative impact on health care systems since primary care seldom benefits from the investments made by these funds in resources and qualified staff. Private and commercial aid flows are increasing in importance relative to traditional donors. Migrants are also sending more and more money to relatives back home – 200 billion dollars in 2006, with totals in some countries exceeding the amount given in official development aid to the government or NGOs. This does not generally apply to the poorest countries, incidentally, which by contrast benefit very little from emigration. These developments call for a new, more clearly defined position for development cooperation and more consultation with these new actors.

b. The Paris Agenda for effective aid: the need for political leadership and less bureaucracy

The need for more effective ways of providing aid has long been recognised. The 2005 Paris Declaration on Aid Effectiveness, in which OECD/DAC countries agreed to coordinate policy, ownership and multi-year financing, was a milestone in that respect. In return, the developing countries agreed to improve governance and financial management and to involve parliaments and civil society more closely involved in drawing up and implementing development policy. It was also agreed that developing countries and donors would be accountable to each other for their policies. This has led to substantial changes in the way aid is given in fifteen partner countries: joint financing of sectors like education and health, often in the form of budget support. However, there has still been too little progress towards a division of labour among donors. Joint financing has led to greater predictability and clearer objectives. Budget support has provided more scope for improvements to government services and capacity building in terms of staffing and organisation. Some results, particularly in the field of education, give reason for hope. Many more children are now attending school, for instance.

While this is good news, the signatories to the Paris Agenda still view matters in different ways. Better coordination of aid is not a goal in itself, though it is sometimes treated as such. Too much attention is focused on how aid is provided, and too little on what it achieves. Partner countries need to be held more accountable for how they use aid. The Paris Declaration refers to government-to-government aid. Aid to productive sectors, particularly agriculture, is lagging behind, and support to local civil society organisations has declined. This has also been the Netherlands' experience. With the sector-wide approach, all the attention has focused on the policy dialogue with governments concerning budgets, planning and control at national level. The more a country depends on foreign aid, the more time it spends on talking to donors, and the less on its own parliament and people. Donors, in their turn, do too little in the way of talking to civil society organisations, local authorities and the private sector about the government's national development plans.

Those plans are often too ambitious, failing to set out clear choices, or to take account of the limited capacity to implement them. They are also hampered by excessive bureaucracy and a lack of political will on the part of those involved. Nevertheless, much has been achieved, even if the high expectations prompted by the plans have not been fulfilled. The policy dialogue must be used more to help donors and governments sharpen up analyses and ascertain to what extent the things that society really wants from government can be expressed in verifiable targets. If policy really is to make a difference to poor people, governments will have to involve their own parliament and people in their plans for services, and be accountable to them for their implementation.

c. Increased demand for results and accountability

There is a broad consensus not only that enough money must be provided to tackle poverty effectively, but also that results must be achieved. Development cooperation is thus on the right track,⁵ which is essential for maintaining the support base. Open communication about how development cooperation works is important, as for example in the case of budget support, the results of which are often not immediately apparent. Development cooperation means investing in difficult circumstances. Involvement in conflict-affected countries entails risks, and they must be identified and made explicit. We must constantly be aware of the fact that to achieve sustainable results economic and social processes must be set in motion which will rarely yield immediately obvious results. In uncertain situations, in particular, we need to establish what changes and results have been achieved in order to determine where we stand and whether we have struck out in the right direction. This also helps maintain people's confidence in development cooperation. Evaluations help improve our knowledge, provided we know enough about the initial situation, the changes achieved and the efforts made. Findings must be discussed and should where necessary lead to different or more clearly defined choices. This requires political debate on those choices and results, in the Netherlands, and also – and above all – in partner countries. Account must also be rendered to national parliaments and people in developing countries for the results of aid, the efforts made and the lessons drawn from evaluations. The achievement of results and accountability are therefore shared interests.

d. More emphasis on modesty

Donors and development workers work within narrow margins. It is easy to forget that outside interventions such as more aid, better market access or humanitarian interventions are only part of the solution. The structural causes of poverty are related to historical developments, climate, the country's geographical position, cultural factors and global power relationships, and above all the initiatives undertaken in the country itself. There is no single path to development, and more scope is needed for countries to make their own choices, and to cater for different starting situations. Development cooperation must never divorce itself from the specific circumstances of each individual country or region. Development aid can be a catalyst, given the right conditions, as more and more experts are coming to agree. They include Pritchett and Woolcock⁶ and, more recently, the leading economists Dani Rodrik⁷ and William Easterly.⁸ This realisation calls for modesty and realistic ambitions. The key thing is for the 'searchers' in the field to gain better access to the 'planners' at the top.

5 Results in Development, Ministry of Foreign Affairs, May 2007

6 Solutions when the Solution is the Problem: Arraying the Disarray in Development. Lant Pritchett and Michael Woolcock, Centre for Global Development, Working Paper no. 10, September 2002.

7 Goodbye Washington Consensus, Hello Washington Confusion? Dani Rodrik, *Journal of Economic Literature*, Vol. XLIV (December 2006), pp. 973-987.

8 *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. William Easterly, London, Penguin Press, 2006.

1.3 The choices for 2008 and beyond: from description to priorities

As discussed above, a number of trends are affecting efforts to achieve the Millennium Development Goals by 2015:

- economic growth is strong, but wealth is unevenly distributed
- increased competition on the global market and a shift in the international division of labour
- accelerating climate change, which is hitting developing countries particularly hard
- a greater struggle for scarce energy and other resources, including oil and water
- poor countries and poor people, particularly women, being left on the sidelines
- geopolitical interests and local conditions hampering the resolution of intractable conflicts
- lack of good political and economic governance
- the devastating effect of HIV/AIDS
- high population growth
- lack of coherence between trade policy and development policy on a global scale
- new developments in the aid architecture (more players, implementation of the Paris Declaration, more emphasis on accountability, risk spreading and realistic ambitions).

This description of the setting in which development cooperation currently operates leads us to the following conclusions:

A good balance between continuity and innovation

Sectors like education, health, HIV/AIDS, water, environment, private sector development and good governance remain key to development cooperation. In education, for instance, the progress made in recent years will receive further support, particularly in countries that are failing to achieve the Millennium Development Goals. After all, investing in children is investing in the future. Active measures will be taken to improve access to water and sanitation, not least because the Netherlands can provide added value in this area.⁹ This is why major investments are being made in multi-year programmes in all these fields, as seen in the 2008 budget. There is thus no need to reinvent the wheel here.

This policy letter looks mainly at what is to change, both within existing programmes and in the form of several enhanced focuses in policy and new priorities. Sometimes this will involve extra money, but it will mainly be a matter of working differently. More political development cooperation, focused on more equitable distribution of resources and decent work and better access to education, health care, social services and water, with a greater focus on sustainability, without leaving the poor to pay the bill. Parliaments and political parties in developing countries must play a greater role in policy, along with civil society organisations and the private sector.

Partly by means of enhanced policy focuses...

The four enhanced policy focuses announced in the Government Agenda 2015 and the Explanatory Memorandum are based on the analysis in section 1.1 and insufficient progress towards achieving the Millennium Development Goals. They concern:

⁹ See Safeguarding our Future: the government's vision of water policy. Parliamentary paper 27625 no. 101, 14-9-2007.

- (i) Focus on **fragile states** because these countries are lagging furthest behind on the MDGs and the implications of the developments outlined above are felt most keenly there. The government maintains its belief in the importance of good governance for sustainable poverty reduction. The emphasis that donor countries have placed on good governance has however led to a situation whereby the countries that need help the most do not receive it because they do not meet the criteria for programme support. A focus on results must not lead us to select only those countries that are successful in achieving their development goals. The government has therefore taken a deliberate decision with other donors to include fragile states in the list of partner countries to be supported (*see table 1, section 3.2*).
- (ii) A greater focus on **equal rights and opportunities for women** and sexual and reproductive health and rights (SRHR). There has been virtually no progress on MDGs 3 (equal rights for men and women) and 5 (reducing maternal mortality and more access to SRHR). Equal rights and opportunities for women and girls are an absolute priority for the government and a vital precondition for achieving all other MDGs. The trends described in chapter 1 underline the importance of this priority.
- (iii) Greater emphasis on **growth and equity** to help bridge the gap between rich and poor, both between and within countries. Developing countries must be encouraged and helped to take part in the world trade system. Sustainable growth must move up the agenda. Within countries, the focus must be on promoting pro-poor growth in the private sector and growth in the agricultural and informal sectors, which are particularly important to the poor. Many partner countries with which the Netherlands maintains a bilateral development relationship have hardly benefited at all from global economic growth and are being excluded.
- (iv) Greater recognition of the importance of **environment and energy** in achieving all Millennium Development Goals and of the impact **climate change** will have. The current emphasis on climate change and biomass should provide new opportunities for developing countries, but it must not reduce poor people's access to scarce resources, biodiversity and energy. It is all about sharing the global ecospace fairly.

The background to and substance of these enhanced policy focuses are explained in chapter 2.

... and partly through a different approach within existing programmes

In the light of the analysis, efforts under current programmes will be given a more pronounced political edge (*see section 1.2*). Aid must become more effective, though the principle will still be that poor countries should control their own development process. Donor coordination and programme aid are first and foremost a means of achieving development. Current development cooperation practice is still too supply-driven, despite the incentive to change in the Paris Declaration. The focus on planning and implementation also still tends to mask the political nature of the underlying decision-making process.¹⁰ Reform plans still take too little account of the demands of the population, political resistance and vested interests. Sustainable development calls for political choices, including in developing countries. True accountability means revealing political choices and opening the matter up to debate. The political, cultural and economic causes of poverty, such as the lack of property rights of women, should be on the agenda for which government is held accountable. The same applies to corruption.

¹⁰ In this connection, the Strategic Governance and Anti-Corruption Assessment has been developed to supplement existing analysis instruments, with effect from 2007.

The Netherlands has its own responsibilities in all this. Accountability for our expenditure as a donor must not undermine political accountability in the partner country. This means that our efforts must be geared more to the active participation of local stakeholders: local authorities, civil society organisations, companies and trade unions. They are the ones who should set priorities, not donors. And they must call their government to account if it fails to provide good, affordable services and administrative openness. The voice of the poor must not be forgotten, even though they are often not directly represented. This means that donors must focus on 'good political governance'. Any opportunities to promote political change and equal rights must be seized – in Africa, Asia and Latin America, and also in the Middle East. The government will set up a fund for democratic reform in the Arab region. This modest fund will support activities that tie in strategically with local change processes.

In development cooperation, all kinds of agreements and procedures regulate and streamline relations between partner countries. But the relationships are not equal, and donors continue to impose their wishes on their development partners, despite all that has been agreed about ownership. It would be a sign of maturity in the relationships between development partners if both parties were prepared to be called to account over aspects of the relationship that may be unclear, prompt questions or even cause resentment. In future the government will work more with 'development contracts', whereby the Netherlands – and other donors – will provide multi-year aid for the development priorities of poor countries. Agreements will be made concerning good governance, involving the local population in setting priorities and monitoring the implementation of policy. This is not a new precondition, but a broadening of the concept of ownership as laid down in the Paris Declaration. Examples of contracts such as this include the memorandums of understanding setting out joint donor efforts. In the spirit of the Paris Declaration, it is not so much a matter of bilateral agreements as of laying down the mutual obligations of several parties, of monitoring whether they are met and of partners being able to call each other to account. Even where there is no joint framework with other partners, bilateral relationships will be shaped along these lines, with modifications to take account of the form and substance of each. The government will also examine whether an ombudsman-type instrument, adapted to the field of intergovernmental relations, might play a role in restoring the balance in donor-recipient relationships.

Collaboration with partners

The Dutch government will work as much as possible with like-minded donors and international organisations seeking to improve the position of people, entrepreneurs and organisations. This collaboration might be financial, but it might equally be political, involving organisations such as the Netherlands Institute for Multiparty Democracy (NIMD), the Institute for Democracy and Electoral Assistance (IDEA) or the Organisation for Security and Cooperation in Europe (OSCE). Strengthening political parties and parliaments is a good way of achieving good governance. The Social and Economic Council of the Netherlands (SER), the Netherlands Development Organisation (SNV) and the Association of Netherlands Municipalities (VNG) help support local governance and participation by local parties.

As international issues become increasingly interwoven and the diversity of organisations and forums grows, coalitions become ever more important, starting in the Netherlands. The Ministry of Foreign Affairs will work more closely with the other ministries to face the challenges presented above more effectively. Civil society partners and the private sector will also be involved, as under

the Pact of Schokland. The Millennium Development Goals cannot be achieved without the private sector. It is important that the experience, knowledge and skills of private actors can be exploited and deployed to promote sustainable development and poverty reduction. That is why the government is working to get the Dutch private sector more closely involved."

New alliances are being forged at international level, too. The International Health Partnership, which was launched in London on 5 September, is a coalition of developing countries, multilateral organisations, global funds and bilateral donors that have joined forces to improve health care, reduce child mortality, improve maternal health and combat infectious disease. Health is after all a global public good which is important to the achievement of the Millennium Development Goals. The Ministry of Foreign Affairs and the Ministry of Health, Welfare and Sport are pooling their expertise in this area. In June 2007, they organised the High Level Forum on neglected and emerging infectious diseases with the World Health Organisation and the OECD. The Noordwijk Medicines Agenda agreed at the Forum is a set of international guidelines intended to improve innovative research into and production of priority medicines for developing countries. The two ministries will work more closely together in the next few years.

Strategic collaboration is most urgently needed on matters that require a clear change in attitude, such as sexual and reproductive health and rights. A constructive dialogue with those who would disagree is essential, with no dilution of internationally agreed principles.

Multilateral institutions like the World Bank and UNDP set the necessary rules of the game in international forums, act as important channels for aid and as centres of expertise, and provide a platform for critical dialogue with other development actors. At the same time, however, they can be cumbersome and bureaucratic. It is vital to influence their course so that they function more effectively in future. This requires the Netherlands to take an active approach and to forge coalitions with Dutch and international partners. Recent policy developments have made the EU a more interesting framework for collaboration. The EU Member States have reached a number of important agreements, including on an increase in aid to at least 0.7% of GDP by 2015 and a common policy framework (the European Consensus on Development and the EU Code of Conduct on Division of Labour). The EU also provides openings for a more political approach to development cooperation with its focus on policy coherence and the Cotonou Agreement. The details will be set out in a separate memorandum on the use of multilateral channels.

Country-specific policies and country profiles

The Netherlands consciously distinguishes between different types of partner country. There are too many differences in the nature of development problems and quality of governance for a 'one size fits all' approach. The same applies to the degree to which the MDGs are being achieved. Three country profiles are described in chapter 3, one where the focus is on accelerated achievement of the MDGs, one where the link between security and development is the priority, and one in which a broad range of policy instruments is being used alongside development cooperation. These profiles will roughly determine the focus of the Dutch effort, the scale of financing and the choice of funding channels and partners. The Dutch government will focus in its general development cooperation policy on achieving all the Millennium Development Goals. At

11 Private sector development in developing countries, Parliamentary Papers 30800V, no. 110, 29 June 2007

country level and within the profiles, however, it will adopt a tailored approach with realistic priorities. Though the existing Dutch input and output targets, and the most effective way of deploying Dutch aid will be taken into account, the Netherlands cannot decide which sectors will receive support without consulting the partner country and the other donors who are active there. The Paris Agenda will serve as a guide.

2 Four enhancements in the focus of policy

2.1 Security and development

Urgency

In a conflict-sensitive society, the government often lacks capacity and/or legitimacy. This compromises the core tasks of government, such as the adequate protection of people and property, maintenance of public order and security, provision of basic services and maintenance of economic stability. To promote security and development, this fragility needs to be addressed. Conflict-sensitive fragile states are characterised by:

- little or no progress towards the MDGs. One in three of the world's poorest people live in such countries, though they account for only 10% of the world's population;¹²
- actual or potential regression into conflict, with devastating effects on the population; and
- security risks to other countries in the region.

In some countries, such as post-conflict Democratic Republic of Congo (DRC) and Afghanistan, fragility is the main problem. But security can also be compromised in countries with a stronger government and less open forms of conflict. In Colombia, decades of conflict were sparked by armed protest against the highly unequal distribution of wealth and political power. The fighting is currently being perpetuated by the drugs trade. In Guatemala, parallel structures involving former armed forces personnel and lawlessness pose a threat to the country's security and development. In the African Great Lakes region, the Horn of Africa, Afghanistan, the Middle East and the Western Balkans, too, fragility is a major impediment to security and development.

To promote security and development, the international community must not only resolve conflicts, it must also attempt to prevent them. Resolving conflicts and reconstruction in post-conflict countries have proved risky, difficult and costly, as we have seen in Afghanistan. At the same time, Afghanistan also demonstrates that integrated policy can achieve rapid results (albeit modest). Using the ink-spot strategy, the Netherlands has provided basic security in small but expanding areas and – despite the difficult circumstances – has made a start on reconstruction projects. It is thus important to work above all with like-minded countries. The government has made conflict prevention a priority, preferring to work in close collaboration with the international community. This requires an integrated approach involving a broad range of actors, with a role for

12 Source: World Bank LICUS initiative

diplomacy, development aid and sometimes armed intervention. The main principle will continue to be only to use armed force where strictly necessary. Addressing a country's fragility is often a long-term affair, as evidenced by the Netherlands' long-standing efforts in Afghanistan, the Balkans, Burundi, Democratic Republic of Congo and Sudan. Ways of promoting security and development differ from country to country and from conflict to conflict. It takes a joint international effort for a thorough understanding of the issues.

The debate up to now

The close link between security and development is receiving more and more international acknowledgement.

- The 2005 UN summit emphasised how closely security, development and human rights are connected. It prompted the setting up of the Peacebuilding Commission (PBC) with Sierra Leone and Burundi as pilot countries. The concept of the responsibility to protect was also acknowledged, indicating that the international community has a responsibility to act if a government is failing to protect the human rights of its citizens. The concept of human security found less agreement during the summit, although it is being used more and more to underline the importance of focusing on the population and not just on the state. The UN is attempting to act in a more effective and integrated way by putting together peace missions with a mandate for both security and development, and by setting up funding instruments like the CERF¹³ and multi-donor funds for post-conflict countries. The UN report 'Delivering As One' (2006) called for UNDP to act as the contact point within the UN for post-conflict countries and regions. Political awareness of the negative impact of violence on development is reflected in the Geneva Declaration on Armed Violence and Development (2006).
- Reports by the World Bank and OECD/DAC provide a starting point for policy and implementation guidelines, including the OECD/DAC Principles for good international engagement in fragile states and situations and the Low Income Countries Under Stress (LICUS) concept. The principles are concerned mainly with 'do no harm' (outside intervention must not drive the parties in conflict further apart) and with the importance of a tailored approach, integrated efforts, coordination and priorities. Governments must also involve all relevant ministries in the development and implementation of security policy. The OECD/DAC is also working on a Guidance on Armed Violence Reduction.
- In recent years there has been growing interest in the different roles that men and women play in avoiding, prompting, controlling and resolving conflicts and in reconstruction. The United Nations Security Council adopted a special resolution on this matter in 2000: resolution 1325 on women, peace and security. There is now broad consensus that good security policy should distinguish between men and women.
- The EU is an important player, given the presence of the European Commission and Member States in fragile states and the wide range of instruments at its disposal, including the African Peace Facility and the Stability and Development Instruments.
- Some international initiatives target the role of the private sector, including the EITI (Extractive Industries Transparency Initiative), which aims to promote greater openness about the use of income from the exploitation of resources.
- A growing number of bilateral donors, including the Netherlands, are recognising the need to work more on security and development in fragile countries. Multilateral frameworks and

13 United Nations Central Emergency Response Fund

collaboration with other partners are vital here. In the spirit of ‘learning from each other’, collaboration must also be sought with civil society partners. The agreement signed at Schokland for a knowledge network on fragile states is one example.

It has become clear in recent years that work on security and development is needed on several fronts at once. Humanitarian relief can temporarily provide for people’s basic needs. Reconstruction/reform of the security sector and demobilisation can help improve security. Efforts to enhance the legitimacy and capacity of government and to foster observance of human rights should help to build basic services and trust. Working on socioeconomic reconstruction brings countries closer to the Millennium Development Goals and reinforces the economic basis for security and development. The Netherlands has experience of coordinating activities on all these fronts. The Dutch have helped with the demobilisation and integration of the army in Burundi, with an integrated approach to security, governance, reconstruction and construction as part of the International Security Assistance Force (ISAF) in Afghanistan, with demobilisation and the setting up of a new army in the Democratic Republic of Congo, and with the security sector and reconstruction in Sudan (through funds involving several donors). The Netherlands plays a leading role in the use of and debate on funds for development in post-conflict countries. It has helped speed up the deployment of humanitarian assistance by calling for the UN to take a stronger coordinating role and for more flexible use of finances.

The following points must be taken into consideration:

- **Link between humanitarian aid and reconstruction:** The transition from the humanitarian relief phase, with strong external coordination, little local ownership and rapid intervention, to a phase of development, where expectations of a weak government often run high, is difficult. A stronger support role for the UN and coordination through more efficient use of joint donor funds might help ease the transition.
- **Effective instruments of prevention:** Although a concept like responsibility to protect gives the international community more say, the sovereignty of states limits the potential for international intervention.¹⁴ However, prevention can be boosted by sharper analysis at international level, the use of EU and UN envoys, and timely political initiatives. Lessons can be learnt from the efforts of the OSCE High Commissioner on National Minorities and from the funding of peace talks.
- **Balance between legitimacy and effectiveness of government:** Early elections in post-conflict countries where social structures and democratic principles are still weak seldom generate support and often cause the country to fall back into conflict. The timing of elections is therefore crucial. Better results are achieved if the government provides basic services effectively. The international community must take the time to maintain a presence in this construction phase. The human rights situation in many conflict-sensitive countries gives cause for concern, all the more so given that all parties need to cooperate for conflict to be resolved. A balanced approach by all parties is important.
- **Development challenges in the face of very low capacity:** When the government lacks capacity it is often sensible to give aid directly to those who need it. However, an effort must be made not to undermine the capacity and legitimacy of the government even further.

14 Letter to the House concerning an adequate mandate under international law, 22 June 2007.

Dutch effort

The Netherlands' main aim will be to help create the conditions in which security and development can flourish, including respect for human rights. More ownership, effectiveness and legitimacy on the part of the government in performing its core tasks is key.

The Netherlands already has experience of using instruments to implement security and development objectives. They include humanitarian relief, which largely goes to fragile states, on the basis of humanitarian need; support for good governance and human rights (including transitional justice); support for reform of the security sector to enable it to provide elementary security; and support for socioeconomic reconstruction.

Ownership in the country concerned is vital. When the government is weak, it is not always enough simply to rely on government ownership. Active involvement from all parts of society will be needed.

The Dutch effort involves an integrated approach deploying financial and human resources in diplomacy, defence and development cooperation (3Ds). The police and the judiciary are also important actors. The Netherlands is therefore keen for all relevant parts of government, civil society and the private sector to be involved in formulating and implementing policy. Dutch development cooperation has an important role to play. The civilian side of stabilisation missions (international or otherwise) must be strengthened, with construction, fair governance and human rights the key factors determining success. The Netherlands' key aim is to create international frameworks and mandates, with multilateral commitments, and a mainly supplementary role for bilateral efforts. Further to the memorandum on post-conflict reconstruction, a memorandum on security, development and fragility will be submitted to the House in due course.

Multilateral base

Security and development in fragile states require a major commitment from the international community, a multilateral framework and in some cases a mandate under international law (in the case of UN peace missions). The UN and, in the reconstruction phase, the World Bank, can direct the efforts of the international community, which coalitions of countries can support. Joint exploratory missions can help identify need, while donor conferences and multi-donor funds bring the international community together. The Netherlands will work hard to promote action at multilateral and EU level, and continue its support for joint action against small arms and for demining. It is important in this connection that the trend towards joint integrated analysis and strategising continue, and that the international community take a balanced approach to security, governance, socioeconomic development and respect for human rights.

The Netherlands will work actively with the above organisations to improve the instruments available, make the organisations more effective and build bridges between the development, political and security dimensions. In more specific terms, the following steps will be taken:

- Partnerships with international organisations will be strengthened.
- The possibility of making funding and manpower available, and of building expertise within international organisations, will be explored.
- Multilateral instruments such as assistance with conflict resolution by another state or international body (good offices) will be improved, needs will be identified jointly and multi-donor funds will be made more flexible.

- UNDP will be clearly highlighted as the contact point for post-conflict countries at the UN. This will include more support for the UNDP Bureau for Crisis Prevention and Recovery.
- There will be support for and cooperation with EU and UN envoys.
- Closer collaboration between the EU's first and second pillars will be fostered in the field of security and development in fragile states.

Bilateral effort

The Netherlands either acts as a catalyst or complements the efforts of others, based on an assessment of its added value and clearly formulated priorities.

We must also have ambitions at bilateral level, as the need in these countries is so great, and a great deal can be achieved by improving security and development (regional or otherwise). Alongside a clear international commitment, the intensive efforts in these countries is in line with the Netherlands' current policy focus and past experience. With its limited resources and manpower, the Netherlands must concentrate on engagement in a limited number of countries and regions. The effort in Afghanistan, the African Great Lakes region, the Horn of Africa, Colombia and Guatemala will at any rate continue, and will be deepened where possible.

- In its prevention work, the Netherlands will be guided by multilateral efforts. The Netherlands can help in partner countries which, though not fragile states, are struggling with conflict-sensitivity. Though fragility is not the main problem here, it can be a factor leading to tension.
- In conflict situations, the Netherlands might where necessary consider catalytic interventions if they dovetail with the response of the international community.

The Netherlands has experience of providing humanitarian relief, encouraging good governance, reforming the security sector and fostering socioeconomic development in a number of post-conflict countries. It has several years' experience of employing a workable integrated policy (based on the memorandum on post-conflict reconstruction), has a flexible financing policy, is prepared to take political risks and can switch with relative ease between multilateral and bilateral policy. The Netherlands also has armed forces, a police service and justice authorities that can be deployed for international tasks, including security sector reform.

The Netherlands will include support for and through civil society organisations, both in the provision of elementary social services and in counterbalancing the government in the practical implementation of its policy. To this end it will work closely with other actors, including civil society organisations, universities, the Netherlands Institute for Multiparty Democracy (NIMD), the private sector and faith-based organisations.

The potential for enhancing policy focuses will be exploited as follows:

- **More capacity:** the extremely poor capacity of fragile countries means that in many cases they need help from other countries. Where a more structural presence and effort is found to be necessary to make an effective contribution to reducing fragility (particularly in post-conflict countries), more foreign ministry staff will be deployed to embassies and permanent representations. A support unit for development policy on fragile states, designed to be deployed flexibly, will be set up in The Hague, so that the Netherlands can respond rapidly when necessary.
- **Better analysis:** in partner countries where fragility is clearly a problem, the focus will be on thorough joint analysis of the causes, which will be used to determine what kind of action is

needed. This applies particularly to setting priorities, since countries with fragility problems have less capacity to cope than countries where institutions already work effectively. The practical experience gained will be evaluated quickly so that the lessons learnt can be fed back into future multilateral and bilateral policy.

- **Political dialogue, prevention:** targeted and critical dialogue when governments and/or other relevant parties fail to take adequate action to tackle the causes of fragility. Here, too, we will of course work together with like-minded parties, possibly in an EU context. Visits to these countries at political level can be used more frequently as an instrument. The Netherlands could also make flexible financing available, perhaps through the Stability Fund, to enable international strategic interventions (with a catalytic effect) to prevent conflict.
- **Focus on the security sector:** building on experience to date, the Netherlands will set up a pool of well-qualified personnel from the foreign, defence and justice ministries and the police service, and people with other relevant expertise, to join international peace missions and bilateral Dutch programmes for security sector reform. They will include both skilled, experienced staff to perform analyses in teams, and well-trained advisers available for deployment in priority countries, who will help develop a democratically controlled, disciplined security sector to foster stability, legal certainty and peace. The Netherlands will also continue to focus on the issues of small arms and demining.
- **Focus on socioeconomic development:** geared towards tackling the socioeconomic causes of conflict or tension, such as exclusion of certain groups (women, children) and shortage of capacity in government services. Industry and economic activity offer the prospect of real improvements in people's daily lives.
- **Flexible instruments:** making the current organisation and development cooperation instruments more flexible to cater more effectively and more rapidly for security and development issues. This ranges from funding civil society organisations – to which end the SALIN grant scheme for international civil society organisations will be topped up – to forms of budget support in fragile states.

The 2008 Explanatory Memorandum sets out the following efforts in the field of fragility:

- Broadening of the 3Ds approach by combining forces in the Netherlands and internationally
 - Promoting peace, stability, sustainable security and development in Afghanistan, the Horn of Africa, the African Great Lakes region, the Middle East and the Western Balkans
 - Dutch contribution to the Multi-Donor Trust Fund and the donor conference in Darfur
- Additional resources for fragile states: 15 million euros in 2008, 25 million in 2009 and 35 million from 2010.*

2.2 Growth & equity

Urgency

The past decade has seen a worldwide shift to stronger economic growth, not only in Europe, the US and Asia, but also in Africa. Globalisation and global growth have lifted many people out of poverty, but this has not reduced disparities in wealth (see section 1.1). Within countries, too, there is major inequality. This is closely related to factors that prevent poor people, particularly women, from performing decent, paid work in the formal economy and benefiting from economic growth in their country. MDG 1 – to halve the number of people living on less than a dollar a day

and the percentage of people suffering hunger – may be achieved on a global scale, but without extra efforts it will not be achieved in many of our partner countries. There is too little growth, and where growth does occur, not everyone benefits in equal measure. Economic growth has unfortunately been largely overlooked within the new international aid architecture, as has the role of the private sector as the engine in creating jobs. A broad-ranging, coherent set of measures is needed to promote growth and equity, and there is a need for greater collaboration between a wide range of actors.

Dutch effort

An open and fair trade system

A fair and open trade system is essential for a better distribution of wealth between countries, and the World Trade Organisation is the right forum for achieving this goal. The Netherlands will therefore continue to call for the Doha round to be completed as soon as possible and for a development-friendly result, while the European Union is conducting parallel negotiations on regional and bilateral agreements. The Netherlands takes the view that OECD countries, and rapidly growing middle-income countries, should open their markets to products (including agricultural products) that could potentially be exported from developing countries, and gradually phase out their own subsidies, which distort the market. The poorest countries need help to integrate into the world trade system, but they must also be able to protect their own markets for a certain period from unfair competition that undermines vulnerable sectors, development in rural areas and food security. The Netherlands is for example in favour of asymmetrical market access (we open our markets more than developing countries do theirs) and flexible rules of origin under the trade agreements (EPAs) with former colonies in Africa, the Caribbean and the Pacific. The Minister of Economic Affairs, the Minister of Agriculture, Nature and Food Quality and the Minister for Development Cooperation are jointly responsible for introducing a development perspective to trade agreements. An effective European and Dutch 'Aid for Trade' strategy is needed to ensure that developing countries can also benefit from increased market access. In this respect, the Netherlands is among the countries leading the way in Europe, giving 550 million euros a year in the form of Aid for Trade. This level of spending must at least be maintained over the coming years. Attention will also be focused on making international trade chains sustainable, on corporate social responsibility in developing countries and on promoting regional integration and regional trade.

Balanced policy on growth

Many obstacles to broader growth and development in partner countries originate in those countries themselves. This is evidenced by the fact that the least developed countries and the ACP countries are not fully exploiting the trade potential open to them. The situation is exacerbated by their traditional division of labour. Development cooperation can make a particularly useful contribution to achieving MDG 1 in partner countries that are lagging behind in the globalisation process. Over the past several years support from donors has focused on a limited number of sectors (such as education, health, water) where basic conditions were relatively favourable. This has been much less the case in the productive sectors. The national Poverty Reduction Strategy Papers (PRSPs) drawn up by partner countries often lack a coherent growth strategy aimed at creating employment. As a result, the Netherlands, along with many other donors, has reduced its financial support to productive sectors. The second generation of PRSPs are focusing more on economic growth and more of them include specific strategies for private sectoral development, agriculture or infrastructure. But many still fail to make the link between good sectoral strategies and macroeconomic and budget policy.

The Netherlands can do more, with other donors, to improve the coherence between macro policy and sectoral policy, with a focus on equity, workers' rights, corporate social responsibility and employment, as part of a broad socioeconomic dialogue. It will therefore offer support for the establishment of socioeconomic councils. The input of producers' organisations, trade unions, knowledge institutions, civil society and the media can also be stepped up.

The importance of transparent budget policy and management and of macroeconomic stability for a sustainable growth and development strategy is often underestimated. The regulatory role of government, tax policy and debt policy determine the economic growth and socioeconomic development of a country and its people. The Netherlands acknowledges this and therefore, for example, supports developing countries in pursuing sound debt management policies in line with the principles of the debt sustainability framework that is also applied by the IMF and World Bank. Since good debt management is a responsibility of creditors just as much as debtors, the government has made international calls for new agreements on responsible lending. At national level, too, the government will incorporate this principle into its reinsurance policy.

The definition of the tasks and roles of the public and private sectors, and an investment policy that takes account of long-term growth, often determine whether development plans are actually feasible. Helping countries to make their budget policy more realistic and sensitive to potential impacts on poverty gives parties other than the government a clear picture of their own role. Predictability is essential. This means that steps must be taken to prevent relatively large fluctuations in income leading to poverty-related spending plans having to be unexpectedly abandoned. This certainly applies to partner governments, but donors must also avoid unpredictability in their spending. Macroeconomic advice and support are therefore often designed to foster stability, improve planning and ensure that budgets are implemented according to plan. However, this can have unintended effects that become apparent only at a later stage. The risk of this occurring will be greater if the planned measures are not properly tailored to the situation in the country. Macroeconomic adjustment policy in the late 1980s and early 1990s showed that a decline in economic growth, particularly a shrinking economy, often has a major impact on poverty which takes a great deal of time to reverse. Even when applying the principle that expenditure and revenue must be based on realistic forecasts, there will be circumstances specific to individual countries that might lead to different policy choices.

Dutch budget support to fourteen partner countries provides a good starting point for dialogue on transsectoral issues, which must be used to greater effect. This includes critical dialogue with the World Bank and IMF. They will be encouraged to harmonise their macroeconomic advice with national plans for poverty reduction, and spurred on to alternative scenarios. They should assess whether their lending policies have a negative impact on global and national growth and equity issues. In recent reports, including 'Lessons of the Nineties', the World Bank has called for problems to be considered on a country by country basis, rather than dishing out standard recipes. This understanding should also be reflected in the World Bank's own programmes. A follow-up memorandum on development cooperation through multilateral channels will give this further consideration.

The private sector as the engine of growth

Economic growth is a prerequisite for poverty reduction. The private sector creates employment, thereby contributing to the achievement of MDG 1, in particular. In accordance with the Advisory Council on International Affairs' report on 'Private sector development and poverty reduction' attention must remain focused on improving legislation (company registration, licensing, tariffs on imports and exports, for example) and knowledge of it, the administration of justice and

measures to combat corruption. Improvements to the general investment climate are an important precondition for pro-poor growth. It has for instance been found that increased access to financial services, particularly for the poor and for small companies, has a major impact on income. The Currency Exchange (TCX) pact signed at Schokland makes it possible for foreign loans to be supplied in local currency without passing on problems with exchange rates to local businesses and banks. The initiative to give small and medium-sized enterprises (SMEs) more access to financial services also deserves support. The Netherlands will however keep a close watch to ensure that its own initiatives and those of its multilateral partners do not compete with the regular financing available from private sector parties.

Whether economic growth really does lead to a reduction in poverty depends on the opportunities that poor people have to participate in the formal labour market and the way in which growth eventually impacts on all levels of the population. Good access to capital and the means of production for the poor ensures economic growth in the long term. In addition to its current efforts, the Netherlands will investigate how it can support actions to extend growth to sectors and regions where many poor people live and are active. Given the fact that a relatively large proportion of poor people live in rural areas, agriculture is an important productive sector for achieving MDG 1. The contribution of the agricultural sector to economic growth in sub-Saharan Africa, in particular, is often disappointing. Stronger growth and improved productivity are needed. At the same time, some poor people will have to find work in sectors other than agriculture. Governments in partner countries must foster employment in rural areas, both in farming and in other sectors. They need to invest in knowledge (training) and in regional infrastructure (road networks, communication structures), and encourage small entrepreneurs to continually develop their knowledge and skills and ensure that their companies are well organised. This could also be achieved by improving market functioning. The ILO's Decent Work agenda would be a good starting point. It is up to the government to foster technological innovation and market regulation, and to maintain a good knowledge infrastructure. Some poor farmers will be unable to take advantage of such opportunities and will therefore fall back on traditional agriculture, which in Africa acts as a social safety net. Here, too, lies a responsibility for governments. The private sector is the most important player when it comes to opportunities and potential for commercial agriculture in production chains. Interaction between government, the private sector and NGOs is also highly important. Possible policy options for the Netherlands will be set out in further detail in a policy document on agriculture, rural entrepreneurship and food security. This will incorporate the ideas set out in the forthcoming World Development Report 2008.¹⁵

Governments in partner countries will have to take targeted measures to offer the poor, particularly women, equal access to information, credit, microcredit and the means of production. In sub-Saharan Africa women do 85% of the work on the land, but own just 1% of it. Women worldwide are less educated than men and receive less pay. Good, relevant education (vocational and general) and legal protection for women are therefore also preconditions for general growth in a country, as are good health and HIV/AIDS prevention.

Structural poverty and hunger cannot be tackled without some consideration of transfer mechanisms to the most vulnerable groups, including progressive taxation and proactive social policy. This could include health, agricultural and loss of income insurance. Alternative forms of employment in the form of productive safety nets such as 'cash for work' programmes will also be

15 World Development Report 2008: Agriculture for Development

promoted. The private sector is an essential partner, since it has an important contribution to make through, for example, insurance systems, as the Nigerian Health Insurance Fund initiative for private health insurance illustrates.

In line with the recommendation from the OECD/DAC country examination, the Netherlands will work towards higher growth and more equity through the bilateral country programmes, as well as through multilateral and non-governmental channels. The nature and scale of the effort will depend on demand in the partner countries, the available capacity at diplomatic missions and how responsibilities are shared with other actors. The available private-sector instruments and partnerships with knowledge institutions will also be used. The government also intends to contribute to growth and equity in fragile countries. In its efforts to do so, it will work as much as possible through multilateral channels. The development cooperation effort in middle-income countries (see profile 3 in chapter 3) will be geared mainly to issues such as labour rights for women and ethnic minorities, and the sustainability of economic growth, alongside application of the private-sector instruments.

Private-sector instruments will be used more specifically to strengthen the private sector and public-private partnerships in the partner country itself. Assessment of how an investment contributes to poverty reduction and the added value of the funding will be the touchstone. The successor to the development-related export programme (ORET) will focus more closely on infrastructure that actually has an impact on poor people's access to energy, clean water and markets. Dutch private sector policy targets actors at various levels: individual entrepreneurs, Chambers of Commerce, employers' associations and trade unions and national entities such as the customs service, the tax administration and the enterprise divisions of the courts. It is important to make a genuine contribution by combining useful schemes where necessary and looking at them in conjunction with support for growth and equity in bilateral country programmes.

The 2008 Explanatory Memorandum sets out the following objectives for growth and equity:

- To increase access to markets for disadvantaged groups and regions by calling, in the dialogue, for investment in infrastructure and capacity-building.
- To promote initiatives by the Social and Economic Council, trade unions and employers designed to help get issues like equity, labour rights and employment onto the agenda in developing countries, and to provide support in the form of advice and finance.
- To promote development-friendly amendments to the 'rules of origin', i.e. the rules that determine whether poorer developing countries also enjoy free access for products that they do not entirely produce themselves, but are responsible for a substantial amount of the processing.
- To build regional integration to ensure the success of the European Union's Economic Partnership Agreements (EPAs).
- To make more effort, in collaboration with the Ministry of Economic Affairs, to draw the private sector's attention to the need for corporate social responsibility in purchasing goods and doing business in developing countries.
- To support new initiatives in the field of social insurance and services for the most vulnerable. The Health Insurance Fund will be extended to cover Tanzania, and possibly other countries too.

Over the next few years, the following additional resources will be made available for the growth and equity agenda: 20 million euros in 2008, 30 million in 2009 and 40 million from 2010

The government will also support good initiatives launched by the private sector itself, such as the agreement on sustainable trade signed at Schokland. This initiative is designed to help supply companies in developing countries to adapt their production processes to the standards of the Western world, which in their turn must not present any unnecessary restrictions to trade. The Ministries of Economic Affairs and Foreign Affairs will actively approach the private sector as part of the policy on corporate social responsibility and draw attention to the social implications of purchasing goods and doing business in developing countries.

2.3 Gender and sexual and reproductive health and rights

Urgency

Virtually all countries have made less progress on promoting equal rights and opportunities for women and girls (MDG 3) and on improving maternal health (MDG 5) than on the other Millennium Development Goals. The focus on and budgets for the women's agenda have declined markedly in recent years at international level, too. This reflects a lack of political will to break with existing social and cultural patterns and change power relationships. It is unacceptable for people to be discriminated against and placed at a disadvantage because of their gender. The growing resistance to greater freedom of choice in terms of sexuality and reproduction is also alarming. All men and women, boys and girls must be able to decide for themselves about reproduction, without risk of discrimination, coercion or violence, and they must have equal access to the information and resources that enable them to do so. This is not yet the case, unfortunately. Success in this area will lead to success in combating poverty in the broader sense. Educated women and girls have more say over their own bodies. More rights and opportunities for women lead to more economic growth, thanks to greater participation in the labour market, and enhancement of the country's knowledge and capacity. Educated women are more inclined and able to make their voice heard and demand a place on local governmental bodies and in national politics.

Dutch effort

For many years the Netherlands has been actively involved in improving the status of women, and particularly in improving sexual and reproductive health and rights (SRHR). The Netherlands helps prompt debate on the issue of equal rights and sexuality, and has put it onto the national and international agenda. The Dutch government is for example studying the position of homosexuals in partner countries, and its clear standpoint has gained international recognition. The government hopes to build on this over the next four years, to call vociferously for renewed attention to be focused on the women's agenda and to ensure that the position of women in the broad sense returns to the top of the agenda. This is in line with the attention focused on women in the Netherlands under the policy document on equal opportunities. The Netherlands will use active diplomacy and financial investment to achieve this aim.

The focus on MDGs 3 and 5 is fleshed out as follows in the 2008 Explanatory Memorandum and in the Pact of Schokland:

Millennium Development Goal 3

Additional resources for the coming period: 20 million euros in 2008, 25 million in 2009 and 30 million from 2010

- Get measures to combat violence against women as a basic women's right onto the agenda, extend publicity campaigns to include domestic and sexual violence in HIV/AIDS and SRHR education, shelter and counsel victims and tackle impunity; Pact of Schokland: 'Violence against women must become a thing of the past'.
- The Netherlands' National Action Plan for the implementation of UN Security Council Resolution 1325 on Women, Peace and Security.
- MDG 3 fund to tackle gender inequality (Pact of Schokland).
- Place gender equality on the agenda of the High Level Forum on Aid Effectiveness in Accra.

Millennium Development Goal 5

Additional resources for the coming period: 10 million euros in 2008, 15 million in 2009 and 20 million from 2010

- Specific agreements on better national plans for health care systems and better coordination of and support by donors and international organisations
- Measures to increase use of products and services in the field of sexual and reproductive health and rights, including a reduction in the price of the female condom and development of heat-resistant oxytocin to tackle haemorrhaging during childbirth in developing countries, as set out in the Pact of Schokland. Support for the Reproductive Health Supplies Coalition to improve logistics and the distribution of reproductive health resources.
- Training for midwives to provide professional support during childbirth.

Rights and opportunities of women and girls (MDG 3)

Improving women's rights and working on the priority themes listed above will be no easy matter. Persistent discrimination against women and girls has deep social and cultural roots that are often also reflected in their statutory rights. Since development cooperation efforts have come to focus more on sectoral and general budget support, and less on supporting specific groups, the Netherlands and other donors have in many cases phased out activities specifically targeting women. In recent years the emphasis has shifted to gender mainstreaming, a general strategy of drawing attention to the position of women. Equal rights and opportunities for women are indeed essential in all sectors, and form part of any credible strategy for reducing poverty. In education and health, in particular, the Netherlands has worked hard to improve the position of women, and has achieved some good results in collaboration with other parties. The focus on women in microcredit programmes is another good example.

In a broader sense, however, and particularly at macro level, efforts to achieve gender mainstreaming are hampered by a lack of political will and prioritisation. Poverty reduction strategies and policy documents sound promising, but in practice money and attention tend to go elsewhere. Mainstreaming alone does not, therefore, work. Donor efforts are also inconsistent and insufficiently focused on results. Embassies will therefore be asked to pursue active gender

diplomacy, particularly in dialogue (political or otherwise) at national level. Steps must also be taken to ensure that relevant youth and women's organisations are involved in the national dialogue and in setting and monitoring development goals and results. Active gender diplomacy will be needed in non-partner countries (including in Latin America, the Middle East and South Asia) if the MDGs are to be achieved on an international scale.

Additional resources are therefore being released for specific activities in support of MDG 3. Support for national and international NGOs that work for equal rights and opportunities for women will be enhanced as part of the 'virtual Millennium Development Goal 3 fund': a Schokland initiative with contributions from the government, NGOs and the private sector. The Netherlands will also work in a multilateral context for active diplomacy on women's rights and UNFPA and UNDP will be important partners. The Netherlands actively supports the establishment of a new coordinating UN entity for gender equality and the empowerment of women to combat the current fragmentation of the women's agenda.

Equal opportunities for women and girls start with physical security. Extra attention will therefore be focused on two issues associated with particularly severe abuses of women.

- (i) Combating violence against women, including domestic and sexual violence, genital mutilation, honour crimes and trafficking in women. The Netherlands will take steps to get these issues onto the agenda in four partner countries (increasing to nine by 2010) and to support government bodies and local NGOs in running publicity campaigns, caring for victims and prosecuting perpetrators. The government will work with international women's organisations and Dutch partners, partly on the basis of the Pact of Schokland agreement, 'Violence against women must become a thing of the past.'
- (ii) Attention and support for and recognition of women as silent victims of war and conflict, and improvement of the position of women in fragile states. A widely supported Dutch National Action Plan for the implementation of UN Security Council Resolution 1325 on Women, Peace and Security will be finalised by the end of the year, and an immediate start made on its implementation. The successful partnership with the Ministry of Defence in this area will be extended, both in countries where the Netherlands itself is active, including Afghanistan, and in our actions in international forums. The Netherlands is for example already advising NATO on the incorporation of Resolution 1325 into NATO operations.

Sexual and reproductive health and rights (MDG 5)

A reduction in maternal mortality and 'reproductive health for all' will remain the key focuses over the coming years. Maternal mortality remains high in many parts of the world, and the last twenty years have seen no improvement in the situation. This is not only a direct consequence of the disadvantaged position of women, but also a result of inadequate availability of and access to contraceptives. In many societies, sexuality is a taboo subject, and this leads to many unwanted pregnancies. One in five of them are terminated, of which over a third in unsafe circumstances. These same factors also lie behind the growing number of female HIV/AIDS victims. Maternal mortality is the most sensitive indicator of poor performance in the health sector. The Netherlands will therefore contribute mainly to the strengthening of basic health systems, with a specific focus on the integration of sexual and reproductive health and rights and HIV/AIDS prevention. Special attention will be focused on health personnel, particularly training for midwives, in order to improve the care available in pregnancy and childbirth. At the same time, good SRHR services and resources need to become more readily available, particularly for young people in post-conflict regions. The partnership agreed at Schokland with private-sector and civil society organisations in

relation to the female condom represents a positive step. Dutch efforts to promote women's rights at both national and international level as an integral part of the human rights agenda (particularly as regards SRHR and HIV/AIDS) also fit this picture. They will be informed by the specific situation in partner countries and the degree of collaboration possible with other actors. Contributions will be made through bilateral programmes (sectoral or otherwise), multilateral organisations like UNFPA, UNAIDS and the WHO, public-private partnerships and specialist international NGOs.

2.4 Sustainability, climate and energy

Urgency

On a global scale, 2.6 billion people depend on an unhealthy and inefficient source of energy: biomass, particularly wood, charcoal and dung. The time invested in gathering firewood, particularly in Africa and South Asia, is at the expense of education, particularly for girls, and of productive work. Burning wood in the home leads to serious health problems. At macro level, inadequate energy supplies – and the frequent lack of efficiency and transparency in the energy sector – present a major obstacle to growth in many countries. Radical improvements to the energy situation are therefore vital to the fight against poverty. At the same time, poor countries are being hit harder by the negative consequences of fossil fuel consumption in wealthier countries. The Intergovernmental Panel on Climate Change has made it clear that, without extra efforts, climate change will not only jeopardise MDG 7 (more people living sustainably by 2015), but all the other MDGs too, due to shortages of water and food, health problems, internal or international migration and conflict about resources.

Measures will be needed on several fronts to create a more equitable and also more sustainable global energy situation. Reform and innovation in the energy sector in poor countries will be needed to improve access to available energy sources; the 'polluter pays' principle will need to be introduced worldwide; energy must be saved where possible; a growing proportion of the energy consumed in the world must come from sustainable sources; and stronger international institutions will be needed to monitor the use and distribution of global public goods and conduct more intensive climate diplomacy.

However, the implementation of an active environmental policy is falling short of the international agreements on climate, biodiversity and desertification. Developing countries are waiting to see what the rest of the world does. They have little incentive to pursue better environmental policies themselves. As a result, partly, of the one-sided focus on large-scale privatisations in the energy sector in the 1990s, many countries now have little control over their own energy situation. They often lack the knowledge, capacity or resources to tackle climate change, secure a sustainable energy supply and make the necessary adjustments to climate change.

Dutch effort

The rise in greenhouse gas levels in the atmosphere is due largely to energy consumption in the OECD countries. But rapid growth in the largest developing countries is also increasingly contributing to emissions, although their per capita emissions remain well below those of developed countries. Those countries, including the Netherlands, must therefore take the first steps to reduce emissions. The European Union has shown more willingness to do so than other industrialised countries. The government will make a strong plea over the coming years for intensive international climate diplomacy to call countries with high energy consumption, including rapidly growing economies, to account. It has also reserved extra resources for sustainable energy.

It is vital that rich countries and rapidly growing developing countries reduce their greenhouse gas emissions (mitigation). But this will not be enough in itself. Mitigation is in principle a matter for all countries, under the principle of ‘common but differentiated responsibilities’. According to the ‘polluter pays’ principle, the obvious course is for Western countries to help pay the high costs that poor countries face in adapting to climate change. Little is known at this stage about the precise nature and scale of these costs, however. So before the ‘polluter pays’ principle can be applied, the damage caused needs to be identified.

- The costs of adaptation must be made clear. The Netherlands, the United Kingdom and the World Bank have initiated a multi-donor study of the costs and benefits of measures countries might take to make climate risks manageable. The Netherlands is focusing specifically on developing countries.
- The Netherlands supports innovative forms of financing and statutory instruments needed to tackle climate change (mitigation and adaptation).
- The trade in emission rights with poor countries, under the Clean Development Mechanism (CDM), for example, could be extended to more countries so as to include sub-Saharan Africa. The Netherlands supports capacity-building for poor countries to enable them to make better use of the benefits of emissions trading systems like the CDM.
- The Netherlands will work through the World Bank, UN and OECD to ensure that rich countries consider the risks of climate change and live up to their responsibility to find solutions. The Netherlands will also support developing countries in integrating the risks of climate change into their own policies, and help them build their capacity to adapt in vulnerable sectors like land use, food production, water and health. The adaptation strategies that these countries and poor population groups already use will form the basis. No new recipes will be imposed by outsiders. The Netherlands will commend this strategy in appropriate forums.

Sustainable energy

In order to make a tangible contribution to climate and poverty reduction policy during this government’s term in office, the extra resources earmarked will be used to apply sustainability criteria to large-scale biomass production, for energy supply in the African Great Lakes region and Indonesia (partly in relation to sustainable forestry and climate policy), and for improved access to energy. The Netherlands will invest in access to clean energy in sub-Saharan Africa and Southeast Asia as part of the ‘investment framework for clean energy’, in collaboration with the World Bank and regional development banks.

The Netherlands will support the sustainable production of biofuels for export and the promotion of sustainable international production chains in several countries by promoting sustainability criteria and supporting certification. Two such production chains are sugar cane for ethanol in Mozambique and palm oil in Indonesia. The EU and the Netherlands have serious ambitions with the use of biomass for electricity generation and biofuels. The Minister of the Environment and Spatial Planning and the Minister for Development Cooperation want to see the production of biomass for energy made more sustainable. To this end, the Cramer Committee's sustainability criteria are being tested in a number of pilot projects and support is being provided for certification. The projects are geared both to small producers and production for the local market, and to large-scale production of sustainable biomass for export. Poorly functioning markets and inadequate protection of property entail the risk that a select group of investors will take over land for lucrative monocultures, felling trees on a large scale and either driving smallholders from their land or exploiting them for labour. Nor may imports for our energy needs jeopardise food security, supplies for the country's own energy needs, the environment and biodiversity. Given the public's interest in both the opportunities and risks associated with importing biofuels, further dialogue will be needed both in the Netherlands and internationally. The private sector is itself responsible for observing the sustainability criteria, through such methods as certification of sustainable production. One good example of this is the Pact of Schokland on a 'partnership for sustainable biomass'. The possibility of setting up a number of pilot projects for small-scale production will also be examined.

The Minister for Development Cooperation bears responsibility within the government for coordinating international sustainability. The government will call for more cohesion between international agreements on trade, environment and climate, and poverty reduction. Special attention is needed for the sustainability of international trade chains in products like coffee, timber, palm oil and soya, sustainable energy and water. As the biofuels example shows, sustainability refers to ecological, economic and social factors. The aim is to strike the best possible balance between these dimensions, based on the social and cultural frameworks in partner countries. Sustainability will become part of our diplomatic efforts. In the Netherlands, the Ministry of Foreign Affairs will work closely together with the Ministries of Agriculture, Nature & Food Quality, Economic Affairs, Transport, Public Works & Water Management, and Housing, Spatial Planning & the Environment, as well as with the many companies, financial institutions and civil society organisations active in this area. The Schokland sustainable trade and water, sanitation and hygiene initiatives (WASH) are examples of this.

The 2008 Explanatory Memorandum sets out the following intentions for climate and energy:

- Access to energy for cooking and lighting for one million people thanks to Dutch support. The aim is to give ten million people sustainable access to energy supplies by 2015.
- Establishment of ecological networks in three regions in Africa.
- Contribute to establishing sustainable production chains for palm oil, soya and fish meal/oil in Bolivia, Ethiopia, Indonesia, Mali and Mozambique.
- Improvements to forestry in the Congo Basin, the Amazon region and Indonesia.
- Capacity for climate adaptation will increase in partner countries. We will gain a better understanding of the costs of adapting to climate change both worldwide and in each individual country.

During the government's period in office, 500 million euros extra will be made available for sustainable energy.

3 Development cooperation with partner countries

3.1 Working with profiles

The Netherlands has a structural development relationship with 36 partner countries. For several years now, substantial aid has also been given to four countries in conflict or in a post-conflict situation: Sudan, Burundi, Democratic Republic of Congo and Kosovo.¹⁶ The Dutch effort in terms of aid volume, funding channels and intensity of cooperation differs from country to country, depending on the specific circumstances. The differences and underlying choices will be made more visible and our efforts based on them more focused. To this end, three country profiles will be introduced: countries where the focus will be on accelerating MDG achievement (profile 1), countries with a focus on security and development (profile 2) and countries with a broad-based relationship (profile 3). The profiles will provide a general framework for choices; they are not intended as a straitjacket. A profile is a combination of:

- (i) the main characteristics of and situation in the country
- (ii) the policy effort the Netherlands intends to make
- (iii) the specific needs of our partners.

The profile is a reference point that we can use to determine our efforts, in accordance with the situation in each country. The details of the support strategy will be elaborated in the embassies' multi-year strategic planning.

This classification on the basis of profiles is important for three reasons:

- The present country list does not adequately reflect the great diversity between countries, though this does determine our efforts in practice. Furthermore, a number of countries to which substantial support is being given are not on the list. Working with profiles is thus an acknowledgement of the diversity of situations and in the Netherlands' strategy. It is also in line with the approach taken by other donors.
- The profiles clearly pinpoint where the emphasis of our efforts will be and thus provide a guide for setting goals and measuring results. This is an attempt to maximise our opportunity to learn and add substance to the debate on the effectiveness of development cooperation in general, and the Dutch effort in particular.

¹⁶ Kosovo is under international administration in accordance with Security Council Resolution 1244.

- The profiles also act as a guide for the scale of and appropriate channels for financing, for the possible involvement of other ministries and for forms of collaboration with partners such as governments, donors, civil society and the private sector. This in turn allows for well-substantiated decisions on the deployment of human and financial resources.

3.2 The profiles

The 40 countries have been categorised into the following three profiles:

Profile 1: Accelerated achievement of MDGs

This profile applies to poor countries (the least developed countries, or LDCs and low-income countries) with a reasonable level of stability and improving governance. They are lagging behind in their achievement of the Millennium Development Goals, far behind in some cases, but if an extra effort is made in close cooperation with the government and other donors, they could catch up. These countries are often highly dependent on donors. Harmonisation, alignment of donor aid to policy and procedures in the partner country and a better division of labour are key issues in these countries, and as such there is little or no scope for donors to raise their own profile (no ‘flag waving’). The policy effort focuses on achieving the Millennium Development Goals.

Profile 2: Security & development

This profile applies to countries with a pressing security problem or sharp divisions in society that could potentially spill over into conflict. The problems in these countries generally mean they will be unable to achieve the Millennium Development Goals in the near future. The policy effort will be geared mainly to creating the right conditions to take them closer to achieving the MDGs, with a focus on basic services to guarantee people’s security and enhance the legitimacy and capacity of the government and its institutions.

Profile 3: Broad-based relationship

This profile applies to countries that have already achieved middle-income country status or are likely to do so in the foreseeable future. They are on target for achieving most of the MDGs. The Dutch effort will focus mainly on the MDGs on which they are lagging behind and on broadening the development of the country. Other forms of cooperation, particularly economic cooperation, will become more important. The policy effort will focus on specific niches, on the principle that these countries will need less and less ODA to fund their development efforts and that development cooperation can therefore be phased out over time.

To assign the countries to a profile, the characteristics of each were assessed, looking particularly at their relative prosperity, actual or potential fragility, and governance. The classification will not be static; a country might shift from one profile to another on the basis of developments in the country itself or changes in the Dutch effort. There are seven countries with which the development relationship will be phased out. The reasons for this decision will be given at the end of this chapter (section 3.4). The Netherlands has a structural development relationship with the countries in the table below, a relationship that has evolved over the years. Besides this group of countries, a number of other countries receive resources to tackle specific problems, without an attempt being made to establish a structural development relationship. Examples include HIV/AIDS programmes in

southern Africa and democratisation programmes in Bhutan. This represents only a small proportion of bilateral development aid. In the phase-out countries included in the table, only private-sector instruments will still be applicable. A cohesive strategy will be developed with the Minister for Foreign Trade on the use of private-sector instruments in these and other developing countries.¹⁷

Table 1. Classification of partner countries in profiles

| Accelerated achievement of MDGs | Security & development | Broad-based relationship |
|---|---|--|
| Main criteria: 1. Low-income country 2. Fragility not dominant problem 3. Government structures offer enough potential to work with them | Main criterion: 1. Fragility or major inequality blocking poverty reduction | Main criteria: 1. (Prospective) middle-income country 2. Fragility not dominant problem |
| Bangladesh* Benin Bolivia* Burkina Faso Ethiopia* Ghana Kenia Mali Mongolia Mozambique Nicaragua Rwanda* Senegal Tanzania Uganda* Yemen* Zambia | Afghanistan Burundi Colombia Congo, Democratic Rep. Guatemala Kosovo SC Res.1244 Pakistan Palestinian Territories Sudan | Egypt* Georgia* Indonesia Moldova Vietnam South Africa Suriname** |
| Development cooperation to be phased out over next four years: | | |
| | Bosnië-Herzegovina Eritrea Sri Lanka*** | Albania Armenia Cape Verde Macedonia, FYR |

* = countries that also have an actual or potential security problem

** = agreement reached on phasing out of framework treaty resources

*** = only humanitarian relief in response to current security situation

¹⁷ Efforts involving private-sector instruments are examined in further detail in the Letter to the House on private sector development in developing countries of 29 June 2007, ref. 30800V, no. 110, 06-07 session.

3-3 Further information on each profile

Profile 1: Accelerated achievement of MDGs

The countries in profile 1 generally have a stable political and security situation with established institutions, but they also often have an intractable and widespread poverty problem. They are lagging behind when it comes to achieving the Millennium Development Goals. The government is committed to poverty reduction and economic growth, but is not fully succeeding in providing essential services for the entire population, partly because it has limited finances and capacity. The Netherlands has enough confidence in the government of these countries to enter into a long-term development relationship. The key focus of this profile is to work towards effective and efficient provision of services by the authorities and established institutions. The benchmark will be whether these services actually reach the poorest members of society.

MDG achievement via sector-wide and macro support

The Dutch effort is based on substantial financing and active policy dialogue in a limited number of sectors that are important for the achievement of the Millennium Development Goals. Efforts will be made to channel funding through the budget, with general budget support the preferred option where possible. However, budget support does not mean that the focus will be exclusively on central government. Local authorities also have tasks and responsibilities that are vital to the achievement of the MDGs and NGOs provide a considerable proportion of basic services for the poorest members of society. The policy dialogue will examine how these other actors can play their role in collaboration with the government or to supplement its activities. Adequate financing of decentralised government bodies and other service providers will be a natural part of this dialogue.

Good policy on certain sectors will not be enough in itself to meet the Millennium Development Goals. General macroeconomic and financial policy must provide the basis for performance in them. This includes setting priorities for investments, not only for the social sectors, but also to improve infrastructure and boost production, markets and competitiveness, and to manage the environment. Macroeconomic policy thus provides a framework within which choices for growth and equity can be formalised. The agreements between partner countries and the World Bank and IMF concerning debt relief under the HIPC Initiative often determine their policy on economic stabilisation and growth. The general basic concepts that these two institutions applied in the past have been criticised as too rigid and too imposed. These criticisms have led the World Bank and IMF to attempt to work on a more country-specific basis. However, they have not always followed through on their intentions. The Netherlands will discuss macroeconomic and fiscal policy with partners to which it provides budget support and if necessary with the World Bank and IMF.

Aid dependency and the need for more growth and equity

Large-scale donor support for social sectors will remain indispensable for some time if the countries in Profile 1 are to achieve the Millennium Development Goals. Their relatively high dependency on aid makes a simultaneous, increasing effort targeted at economic growth vital. Without growth, they will not have the resources to make the necessary investments and pay salaries in the education and health care sectors. At the same time, to reduce poverty it is important that growth benefits the poor as much as possible or, rather, that as many poor people as possible can contribute to growth. The poor will need better access to the means of production, including land and capital, and it is up to the government to facilitate this.

Economic activity is the engine of income generation, but it does not happen all by itself. The private sector needs space and support to be able to fulfil its role in the development process. Improvement of the business climate is a prerequisite, but energy and infrastructure are also important. Collaboration between the public and private sectors can increase the production of and access to services for the poor, as the example of sustainable energy shows. The development of productive sectors therefore requires more attention. The nature and scope of the Dutch effort will be determined at country level, taking account of the division of responsibilities between donors and the available capacity at the embassies.

Ownership, alignment and division of labour: the Paris Agenda as a basis

The Netherlands supports far-reaching harmonisation and alignment, as agreed in the Paris Declaration on Aid Effectiveness and further elaborated in the EU Code of Conduct. It is important that the joint donor contribution be reliable, predictable and coordinated to prevent countries' own development strategies from being frustrated by the actions of external actors. This will succeed only if donors are prepared to submit to joint decision-making with partners at country level, with the partner country taking the lead and being accountable to all levels of society. After all, joint decision-making is intended to strengthen domestic accountability. A well-coordinated donor policy geared to supporting parliaments can improve their performance and make them more representative. Parties outside the government, such as civil society organisations working for human rights, women's organisations, manufacturers' associations and trade unions should also be strengthened.

Risks, accountability and checks and balances

The following may pose a risk to policy on the countries in profile 1:

- Where donor dependency is high, there is a risk that donors will have more say over the substance of policy than governments, which runs counter to national accountability processes.
- The privileged position of the recipient government might cause them and us to lose sight of the need for integrity, participatory decision-making, accountability and parliamentary scrutiny. It might also preclude any critical assessment of the degree to which the government is managing to reach the poorest members of society.
- The emphasis by both government and donors on achieving the Millennium Development Goals can lead to an excessive focus on quantity, to the detriment of quality. We must not allow our wish to reach more people to lead to programmes focusing exclusively on areas where results are easiest to achieve, forgetting the poorest and most inaccessible groups. Impact assessments often provide a clear picture of the quality of interventions and are therefore a good tool to aid policy choices.

To cater for these risks, there will be greater focus on joint analysis of the existing situation, taking into account what is going on 'behind the façade'. Stakeholder involvement in policymaking and implementation will be systematically considered, to ensure that the policy dialogue becomes more relevant at all levels. It is after all important for the impact of national policy to be felt more keenly at local level (and thus by the poorest). More attention must be focused on fighting corruption, transferring resources to local authorities and direct service providers, and joint monitoring of the quality and accessibility of services by the government and civil society actors. Gender equality, availability of qualified personnel in even the poorest areas and public access to the information needed to call government and service providers to account are important. Collaboration with organisations like the Netherlands Development Organisation (SNV), the Association of Netherlands Municipalities (VNG), co-financing partners and local organisations

will be necessary and useful, given the complementary nature of their activities. The policy dialogue with such partners will be intensified.

Profile 2: Security and development

The emphasis in this profile is on tackling the causes of fragility, inequality and conflict-sensitivity. The main aim is to enhance the legitimacy and capacity of government to enable it to maintain security and provide essential social services.

Strengthening government structures

Although the emphasis is on strengthening government structures in order to guarantee security and provide basic social services, additional and more direct forms of aid will often be needed to satisfy immediate needs – for food, education and health care, for example. In the initial post-conflict phase the priority should at any rate be to meet these basic needs. After that, it can gradually shift to building a functioning government. It is important to remain realistic, since it takes a long time to build up the capacity of governments and civil society organisations.

The huge demand for aid for reconstruction after a conflict and the poorly developed government and social structures require close coordination between donors and multilateral organisations. The lion's share of Dutch aid will be a combination of flexible short-term funds to help meet basic needs and multi-donor funds for the longer term. The UN, World Bank and European Union are important partners. Bilateral support focuses on catalytic activities and on strengthening the position of weak groups in society, by protecting women against sexual and other violence, for example, increasing their say in peace talks and reconstruction, improving land rights, strengthening rights in general and raising awareness of them. Relaunching economic activity will be a focus of attention. It is important after a conflict that people are able to provide for themselves again as soon as possible. In countries where there is extreme inequality, economic activity is vital so that dynamism and growth also filter through to the poorest groups in society.

Increasing legitimacy

Where fragility is caused by the monopoly of the state, the Netherlands will focus on strengthening political participation. The aim will be to prevent future conflicts by, for example, supporting deprived groups. The government will sometimes have to be called upon to provide broader access and reduce tensions. This will require a careful strategy, as governments will often be unwilling to tackle security and poverty problems. Donor interventions might easily be seen as unwanted interference in internal affairs. It is therefore important to present benefiting from development as a recognised right, based on internationally agreed commitments. Factual information is essential for debate, and reliability is needed to continue the debate as a respected partner. Careful monitoring is vital: the key is not good intentions, but actual impact.

Seize opportunities as they arise

Fragility is often unpredictable, with periods of gradual reconstruction interchanging with rapid transition and relapse (sometimes long-term). Countries that do well at first sometimes suddenly regress into conflict. This requires flexibility on our part, both within and between countries. Where opportunities for recovery arise, we must seize them. Significant progress can often be made over only a very short period, so it must be used to the full. This also applies to the effective use of preventive measures. Apart from structurally working to tackle fragility in a number of countries, we might also have to deploy temporarily in other countries. If the international community calls upon the Netherlands to help, we will be prepared to show flexibility, based partly on a regional approach.

Working with high risks

Active involvement in fragile states certainly entails risks when it comes to achieving results and accounting for expenditure. However, neither the international community nor the Netherlands can afford to do nothing. The price is simply too high. This requires a flexible approach that allows considered risks to be taken. It is however important that risks be properly identified and managed as far as possible. Three interconnected factors are discussed below:

- **Poor governance** is the problem in fragile states. However, it has many causes. Abuses are often piled upon abuses, and prove difficult to analyse in retrospect. Solving one problem often simply reveals another. Cooperation will therefore have its ups and downs, and requires unflagging efforts from both partners. Good solutions will be thin on the ground, and the willingness to keep searching may start to wane. This can lead to highly critical political dialogue at times. However, incidents must not deflect attention from the goal, and patience will be required. It is also important to actively seek out ‘islands’ of good governance, and active NGOs and companies.
- **Lack of financial accountability** increases the risk of inefficiency and misuse of resources. Nevertheless, we will have to work with governments that are barely capable of reliable management and lack the capacity to perform basic tasks. Budget support for these countries might seem an unlikely choice, but often it is the most efficient way of bringing basic government services up to standard. However, for donors that are prepared to provide such countries with support (budget or otherwise) under different conditions, the actions of the partner government must be predictable and open to scrutiny. Risks will therefore have to be monitored closely and any findings will have to lead to corrections where necessary. To preclude subjectivity and arbitrariness in accepting risks, the Netherlands’ preferred option will be to fund activities and engage in dialogue in these countries in collaboration with multilateral or international partners. Joint risk assessment and risk acceptance will also have to be reflected in the Netherlands’ own procedures.
- **Excessively high expectations** on the part of donors can cause support for international efforts to crumble rapidly. The causes of fragility are complex, and local capacity and institutions often weak and/or unwilling; in many cases, therefore, significant results are unlikely to be seen for years. The Netherlands must therefore be prepared to commit for the long term, as long as there is a reasonable prospect of improvement, and will sometimes have to persist during periods of turbulence. This requires clear communication to the Dutch public.

Profile 3: Broad-based relationship

Countries enjoying solid economic growth, which are making most progress on the Millennium Development Goals, are ready for a growing range of relationships with the Netherlands and other countries. Development cooperation, though still a part of policy, no longer lies at its core. Partner countries that fit this description have been categorised as profile 3. They are increasingly capable of tackling poverty on their own, and financing their own programmes, many of them having already reached the level of prosperity of a (low) middle-income country, or on course to do so in the near future. Independent access to the capital market to fund government expenditure, linked to strong growth in private financial flows, is typical of this group of countries. Well-targeted cooperation to give these countries access to the global market is essential. The Minister for Development Cooperation and the Minister of Agriculture, Nature and Food Quality are for example promoting joint public-private partnerships to help these countries meet the wide-ranging quality requirements that are increasingly being applied in the global market. The Ministry of Economic Affairs is also providing support to strengthen economic

cooperation. However, though these countries generally lead the field when it comes to achieving the Millennium Development Goals, economic growth is not always accompanied by more equitable distribution. Sometimes, growth has undesirable social and ecological consequences, which undermines the legitimacy of government institutions.

Broadening

Governments in this type of country are capable of taking effective action, and to a large extent actually do so. Nevertheless, some layers of the population may still be excluded. The Dutch development cooperation effort in these countries will target this issue in particular, using more than development cooperation alone. The emphasis will be on areas flanking development cooperation, including economic, political and cultural relations, as well as climate policy and security. In some countries this may be accompanied by a shift from development cooperation to other forms of cooperation. In a country like Vietnam, for example, the focus will be on economic cooperation and, in consultation with the Minister for Foreign Trade, support may also aim to improve the business climate and strengthen institutions, with the help of Dutch experts. Instruments for promoting trade and investment can be used for this purpose. In other countries, such as Indonesia and Egypt, political and security interests are also at stake, generally in a regional context. Democratisation and human rights play a key role here.

Specific interventions aimed at achieving the Millennium Development Goals

Some countries are still lagging behind on specific Millennium Development Goals, and here Dutch development cooperation, institutions or companies can have added value. One example is the HIV/AIDS programme in southern Africa. Generally speaking, a multilateral channel or an international partner will be the preferred option. On a bilateral level, the focus will be on the themes mentioned in chapter 2: women's rights, sexual and reproductive health and rights, distribution of economic growth and income, access to energy, and international public goods such as climate. The Dutch effort in Indonesia, for example, focuses on climate as an international public good. Other examples include efforts to promote economic and political participation in South Africa and to strengthen the position of women and girls in Egypt. Collaboration with a range of civil society actors helps increase social diversity in these countries. Instruments such as the trade union co-financing programme, the International Labour Organisation's Decent Work programme (ILO, combating child labour), the Social and Economic Council, and innovative health care insurance and pension systems can be useful tools.

International framework and risks

In this profile, the partners take natural leadership of their own development process, thus limiting the risk of donor-driven development and its negative impact. Although the international agreements on effective aid will continue to define our partnership, there will be more scope for bilateral arrangements. Risks that remain important are:

- **Uncertainty as to whether the economy and prosperity will continue to grow.** It is therefore best not to phase out too quickly. Countries that rise above LDC status are still not rich, and may be vulnerable to financial crises, increased inequality, energy insecurity and environmental problems. Continued involvement will be needed in programmes designed to promote economic growth and equity.
- **Institutional weakness** in terms of accountability (to the public), rights and legal certainty. Growth in prosperity will not automatically lead to improvements in these areas. A gradual scaling down of the development relationship also has implications for our ability to influence efforts to continue to improve these structures and processes.

3.4 Further information on phasing out and other countries

A number of countries have been set apart in the table. The Netherlands' development relationship with these countries will be phased out over the next four years. This strategy is also part of our effort to achieve more cohesion and focus. Our relationship with a number of these countries has already changed radically over the past few years. In Armenia and Macedonia FYR, for instance, the importance of development cooperation is declining under the constituency group relationship. Cooperation with the European Union is becoming more and more important for these countries, increasing the importance of other foreign policy instruments. The relationship with Cape Verde is already being phased out. Sri Lanka has achieved middle-income status. Due to the poor security situation, only humanitarian relief is possible, and this will be continued. Other donors are already focusing on the country's fragility, so there is no reason for the Netherlands to continue its development relationship. Albania and Bosnia-Herzegovina are both part of the regional effort in the Balkans, which is due to end in 2010. It would not make sense to maintain independent bilateral programmes with these two countries, given their relatively high income status. This does not, however, apply to the resources made available for Srebrenica. The Netherlands has made intensive efforts in recent years to build up a good development relationship with Eritrea. Given the extremely difficult political situation, expenditure currently stands at less than one million euros a year. In these circumstances, the fragmented effort can no longer be justified. If the prospects for meaningful collaboration improve, reinstatement of the development relationship will be considered.

The procedure for phasing out has yet to be finalised, and no timetable has been set, partly because the situation differs from one country to another. The possibilities for private sector involvement in phasing out strategies, possibly through the Dutch private-sector instruments, will be examined. These strategies will be closely coordinated with our partners and other donors. Once they are finalised, you will be notified as to how the development relationship with these countries is to be phased out.

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