The contribution of the Kingdom of The Netherlands in response to the call for Inputs for an Elements Paper on Financing for Development

Deadline: 15 October 2024

Close to ten years after its adoption, the Kingdom of the Netherlands considers the Addis Ababa Action Agenda (AAAA) to remain a highly relevant framework to guide international development finance. In its development policy, the Netherlands consider water management, food security, global health, and humanitarian assistance as its priorities. Accordingly, international agreements on financing international development should make investments in these areas of action possible. The AAAA, with its broad scope, does exactly that.

We support a broad development finance agenda, in which ODA plays a catalyzing role, and where other forms of financing and international trade should increasingly contribute to a sustainable and effective system. With an increasingly daunting financing gap, it has become clear that ODA can only be a limited part of the solution. For the Kingdom of the Netherlands, this means that the other sources of financing for development should be centerfold in a new *action agenda*. Besides this guiding principle, two cross-cutting issues should be considered in each chapter of the FfD4 outcome document, climate and gender. On climate, **we must take note of the results of COP29 and the negotiations on a New Collective Quantified Goal**. These results should be taken into account when drafting a new FfD-agenda, and applied where appropriate. Special attention should be paid to access to finance of low income countries and climate vulnerable states such as SIDS, particularly for adaptation.

Regarding gender, we would expect the new action agenda to **acknowledge that financing and development instruments may have very different impacts on different groups, with women, children and other vulnerable people often overlooked**. These groups often work in informal settings or micro-enterprises, that are vulnerable to shocks and will suffer directly from VAT increases or subsidy cuts, if no accompanying policies are being put in place simultaneously. Macro-level policies have micro-level consequences, and we should ensure that our financing instruments are well informed by this micro-level in order to solve problems for people, rather than ignore them.

A. Domestic public resources

Taxation is one of the key tools governments can use both to raise revenue, to finance investments in a structural fashion and to curb economic inequalities both within and between countries. Taxation and domestic resource mobilization (DRM) were central in the AAAA, which resulted in concrete and important outcomes such as the Addis Tax Initiative Declaration, Tax Inspectors Without Borders and the Platform for Collaboration on Tax, all of which should be reinforced under the next action agenda.

Trust and government accountability is crucial to ensure support and compliance when reforming tax systems. When broadening the tax base, the social contract should be key, by **focusing on a progressive tax system that avoids burdening the most fragile groups disproportionately**. Furthermore, a sound business climate requires **fair and predictable taxation of enterprises, and SMEs in particular**, supporting the private sector as an engine of sustainable growth and decent employment. FfD4 could add further momentum to aligning expenditure with the SDGs and support fiscal policies to reduce inequalities.

International cooperation on tax transparency is a priority for the Kingdom of the Netherlands. Tax transparency can **help combat illicit financial flows** and ensure compliance by tracking offshore bank accounts. However, there is still progress to be made regarding implementation of international standards like the Common Reporting Standards in developing countries. Therefore capacity building on this topic, for example through the Global Forum, is crucial. Moreover, when setting new standards and evaluating the current ones, special consideration could be given to the challenges of low capacity countries, for example by exploring the possibility of grace periods for full reciprocity or further simplifying certain standards and conditions.

B. Domestic and international private business and finance

Since 2015, the mantra has been that the private sector will fill the SDG funding gap. Unfortunately, we have seen that this has not succeeded. However, private capital and business still hold untapped potential in financing sustainable development, with some successes that have been attained. For example, attention to impact investing has grown significantly. Reference to its importance has already been made in the AAAA, but distinction in the chapter between Foreign Direct Investement (FDI) (including the need for Environmental, Social and Governance (ESG), and an adequate local investment climate) and impact investing was for example not dissected effectively. Going forward, efforts need to be of a much more focused nature to provide further success at a larger scale.

With regard to these issues of scale, it is important to note the AAAA focused on blended finance. Blended finance can play a role in unlocking and channeling commercial finance towards sustainable development in developing countries by encouraging private investors to make impact investments where risks are otherwise perceived too high. In order to optimize effectiveness of blended finance and prevent market distortion, **adherence to the OECD DAC Blended Finance Guidance is desired.** However, blending requires concessional resources which are inherently limited. Therefore, a need to focus more on other innovative finance solutions that could deliver private finance on scale, is required.

These innovative solutions could play a key role in mobilizing the large pools of funding that institutional investors hold. **Institutional investors, as well as impact investors, such as pension funds, banks and insurers still face significant challenges when investing in Emerging Markets and Developing Economies (EMDE's). Such barriers should be addressed so as to allow impact investing to reach its full potential.** To do so, several actions could be pursued.

For example, the **adequate investor data is needed, as perceived risks are currently higher than they actually are**. It must be noted that progress is already being made with the publication of GEMs data, but more can be done. Furthermore, **we should work to create a solid pipeline of bankable projects to allow private parties to (co-)invest in developing countries.** In this regard, action is required by host countries as well as MDBs, for example through exploring an originate to distribute-model, allowing MDBs to focus their funds on more risky projects, including in LDCs and LMICs. Finally, **the enabling environment in some EMDEs needs further improvement.** This includes the development of local capital markets, and improving the rule of law. More coordination between countries and international organizations such as UN, WTO, WBG, and WEF is needed for the effective and efficient use of scarce resources. Other avenues to explore are combatting currency risks, and harmonization and improvement of methodologies to report on private capital mobilization.

To ensure that the above can be implemented, an inclusive FfD4 process is of importance. We must involve business, especially Small and Medium Entreprises (SMEs), as well as institutional investors and impact investors in discussions how to address existing challenges. We acknowledge that Civil Society Organisations (CSOs) can provide useful and out of the box ways of thinking that lead to effective changes. Only by involving these direct stakeholders we will be able to come up with effective solutions. Member States are invited to share experiences, best practices and make use of each other's existing innovative structures. The UN could, for example in the realm of Financing for Sustainable Development, provide the platform to facilitate such exchanges. **The Kingdom of the Netherlands is a frontrunner on impact investing and is happy to share ideas and introduce best practices of its investors.**

The Kingdom of the Netherlands holds the view that the importance of foreign direct investment (FDI) should not only be measured in quantity. The *quality* of FDI is what matters if it is to drive sustainable development. This is why the Kingdom of the Netherlands is a contributor to the OECD FDI Qualities Initiative, which aims to put a measure on the contribution of FDI to sustainable development (based on SDGs) and provides policy advice to attract more *and* better FDI. The new action agenda can further drive this agenda.

C. International development cooperation

With the overall financing gap becoming increasingly daunting, it has become more evident over the past decade that ODA can only be a (limited) part of the solution. Therefore, **The Kingdom of the Netherlands support a broad development finance agenda, in which ODA plays a catalyzing or mobilizing role**, and where other forms of financing, international trade and capacity building should increasingly contribute to a sustainable and effective development finance system.

National ownership of nationally- and internationally agreed policies, rather than donor-driven priorities, will need to inform development investment decisions. Therefore, **we welcome a further implementation of the *Integrated National Financing Frameworks*. In its implementation, close coordination between all relevant parties, in particularly international financial institutions, is a must.**

The Kingdom of the Netherlands supports the multilateral development banks in their efforts to increase their lending capacity. Over the last decade, much has been done to increase funding levels through the Capacity Adequacy Framework, SDRs, hybrid capital and balance optimization, and we encourage the banks to step up their role. The multiplier effect that multilateral banks provide is difficult to achieve in other ways, and can assist countries in addressing issues of accountability and quality of (public) investments.

There remains a need for innovative financing to complement more traditional ways of financing. The Netherlands has been actively pursuing instruments to allow investment in local currencies (TCX) and investment potential of large institutional investors (ILX). The FfD4-outcome should encourage the adoption of more innovative solutions which could result in systemic change.

Fragmentation of international development cooperation is a lasting concern. Access to financing instruments, e.g. the Green Climate Fund, requires simplification of administrative procedures and eligibility. Furthermore, we need to ensure that development funding, including concessional financing, is geared towards those countries that cannot raise funding in other ways.

D. International trade as an engine for development

Combining aid, trade and investment is a proven strategy for creating new opportunities in enabling economic growth and employment. Integration of regional markets, trade facilitation and enhancing sustainability of value chains remain priorities for increased and sustained trade. The Netherlands therefore has a long-term strategic partnership with TradeMark Africa, supports the implementation of the AfCFTA and the work of UNCTAD. **With an increased demand for investment in aid and trade,**

the mobilization of private capital for aid and trade initiatives will be more important than ever and an area where FfD4 can further determine the level playing field.

Though proven to be effective, additional aid and trade **efforts remain necessary, especially on removing non-tariff trade barriers, regional or otherwise, more sustainable value chains.** Accompanying measures are needed to support companies and their suppliers in production countries and others in the supply chain in becoming more sustainable, to comply with EU sustainability legislation and thus gain or secure access to the European market. Such steps can be optimized by additional investments in infrastructure for trade with developing countries. This will require a joint effort.

Furthering trade as an actual engine for development requires us to push on several fronts. First and foremost, **we need to push for equal partnerships that are mutually beneficial** and, among others, aligned with international policy agendas. This will enable developing countries to continue to benefit from special & differential treatment (SDT), giving them more flexibility and time to implement new international rules. Specific needs of developing countries should be taken into account and SDT should not be used inappropriately.

Such equality requires developing countries to be properly integrated in the multilateral trading system, which is vital for their own development and for achieving the SDGs. A multi-stakeholder approach is required to involve all relevant parties in both donor countries, as well as developing economies. The more developing countries become part of global value chains, the more business opportunities arise in other countries, including the Netherlands. The Kingdom of the Netherlands therefore supports several Aid-for-Trade initiatives in and around the WTO: the Advisory Centre for WTO Law (ACWL), the Standards and Trade Development Facility (STDF) and the WTO Netherlands Trainee Program (NTP).

We also need to **push for the entry into force of the plurilateral WTO agreement Investment Facilitation for Development (IFD)**, to further enhance investment and business climates. With its text having been finalized, we call for WTO members to endorse it.

For the above to be most effectively applied, **reenforcing the WTO as the central organization in the multilateral trading system, thereby ensuring its efficiency and effectiveness, is of great importance,** and vital for fighting extreme poverty and achieving sustainable economic development. An obvious basic precondition is that the WTO functions properly. **Restoring a fully functioning WTO dispute settlement system, as well as sufficient opportunities for developing countries to make use of it, is therefore necessary.** Moreover, it is important that the WTO becomes a clearer platform for deliberations around environmental and sustainability issues that have an increasing global impact, which affect developing countries in particular.

Lastly, **we need to be active in our efforts to reform the investor-state dispute settlement system (ISDS) within the UN Commission on International Trade Law, WG III.** Important areas of reform for us are (i) the establishment of an advisory center for international investment disputes, which focuses primarily on supporting developing countries with ISDS cases and building their internal capacity, and (ii) the establishment of a multilateral investment court, which would serve as an alternative to the existing ad-hoc arbitrage system.

E. Debt and debt sustainability

Debt and debt sustainability are important, widespread, issues to address, and the broad AAAA is still largely relevant in this regard. Debt is intricately connected to other areas of the agenda, including domestic revenue mobilization, public finance management and the quality of investments in people and infrastructure. The bottom-line of debt management is to structurally remain within a sustainable bandwidth.

We acknowledge that concerns over debt have risen over the last decade, and that we need to step up our collective efforts in this area. We also need to acknowledge that the debt situation in many countries has changed, with a different set of creditors, new debt instruments and a significant increase in domestic debt. On the one hand, this has increased and diversified access to finance for countries, but on the other hand it has added to the complexity of concessionality of financing, debt management, debt servicing and, when required, debt restructuring.

Experiences with debt restructuring of the last decade show that **in the current environment a case-by-case approach is more appropriate than a HIPC-like generic approach. We believe that the Common Framework has shown that it can deliver as an efficient instrument for debt restructuring and we argue that it should be further enhanced with a clear roadmap and instructions to increase timeliness and predictability.** Furthermore, The Kingdom of the Netherlands supports the three-pronged approach by the World Bank and IMF to curb unsustainable debt: structural reforms, increased access to external financing, and reduced debt burdens. Addressing short-term liquidity issues goes hand in hand with long-term sustainable debt levels.

Debt Sustainability Analysis remains a key instrument that we should continue to improve, for example through the LIC Debt Sustainability Framework review. In this regard, **we need to make a collective commitment and progress towards full debt transparency as a sine qua non for sound debt management.** Full integration of debt to state-owned enterprises (SOEs), bilateral debt, domestic debt and climate risks is important. Furthermore, lack of debt transparency hampers accountability towards parliaments and citizens. We would welcome a central data registry, e.g. the World Bank Debtor Reporting System, to support debt sustainability management.

Debt sustainability management also requires collaboration between debtors and creditors. **We need to invest in a mutual understanding, i.a. via the Global Sovereign Debt Roundtable (GSDR), and responsible lending.** Frameworks like the OECD Sustainable Lending Practice and the IMF Debt Limits Policy/World Bank Non-concessional Borrowing Limit have proven useful in this regard. Investments in capacity building and legal services of countries in debt, i.e. through multilateral partners such as the IMF, World Bank, UN and AfDB, will remain necessary.

Debt swaps are likely to attract more interest, but we have to ensure that they actually lead to the desired policy outcomes. Climate Resilient Debt Clauses will become more important in this regard.

F. Addressing systemic issues

The Kingdom of the Netherlands is committed to a fair and representative international financial system. **We are willing to constructively engage with countries around the world to further concrete and feasible proposals for improvements to this system.** Reforms should take into account the diverse needs and aspirations of all countries, regardless of their economic size or level of development, so that international cooperation benefits every country, while ensuring that MDBs remain financially stable and that their credit ratings remain secure. And we need to ensure that the systems works for people, including the most vulnerable, and businesses.

Nevertheless, **we also acknowledge the extraordinary push in development that the existing system has brought to many countries, and we believe that there is ample scope to improve existing structures, rather than replace them with new ones.** Therefore, a complete shift in roles and mandates is not something the Kingdom of the Netherlands will push for, and if new multilateral initiatives are created, complementarity with existing structures have to be guaranteed.

The Kingdom of the Netherlands understands the demand of developing countries to increase their voice and representation in the international financial governance. In this regard, **we are open to proposals regarding a better representation of developing countries, e.g. African countries, within financial institutions, provided that better representation leads to stronger institutions that increase development effectiveness, further sustainability and uphold accountability standards.** We consider the work that has been done at the IMF and the World Bank Group to be clear steps in the right direction. In this context, we welcome the decision to create a 25th chair at the IMF Executive Board to enhance the voice and representation of Sub-Saharan Africa.