

## **Letter of 10 July 2020 from the Minister for Foreign Trade and Development Cooperation to the House of Representatives setting out the government's response to AIV Advisory Letter 34: The Netherlands and the Global Approach to COVID-19.**

COVID-19 is causing a global crisis of unprecedented proportions. In the Netherlands, the government has attempted to limit and cushion the impact on society with an extensive package of support measures. The EU is also developing a suitable set of European support and stimulus measures. Partly in response to a request from the House of 16 April, the government requested the Advisory Council on International Affairs (AIV) to provide urgent advice concerning an appropriate and effective Dutch contribution to global efforts to mitigate the impact of coronavirus, particularly as regards its effects on the most vulnerable countries.

The government appreciates the speed, clarity and specific nature of the AIV's advisory letter, which was issued on 11 May. Below, the government explains the position it has adopted, based partly on the advice of the AIV, in responding to the request of the Parliamentary Committee on Foreign Trade and Development Cooperation (2020Z08325/2020D17868). The government also responds in the present letter to the motions submitted by MP Kirsten van den Hul et al. (Parliamentary Paper 33 625, no. 298), MP Kirsten van den Hul et al. (Parliamentary Paper 33 625, no. 299), MP Chris Stoffer (Parliamentary Paper 33 625, no. 308), MP Anne Kuik et al. (Parliamentary Paper 33 625, no. 310), MP Joël Voordewind et al. (Parliamentary Paper 33 625, no. 311), MP Mahir Alkaya (Parliamentary Paper 33 625, no. 313) and MP Chris Stoffer (Parliamentary Paper 33 625, no. 314).

### **Impact of COVID-19 on vulnerable countries**

The AIV notes that there is much about the scale and duration of the coronavirus crisis that remains uncertain, but warns of a looming humanitarian and economic disaster, thus confirming reports by the UN, IMF, World Bank and other organisations. The rapid spread of the virus across the globe has had an extraordinary impact, above all on public health. Although the number of infections in Africa is still relatively low – the UN expects a peak to occur in July/August – many countries are already experiencing the considerable secondary effects of the crisis. This is not only a public health crisis. The lockdowns and the disruption of global trade, value chains and transport have hampered access to food, vaccines and medicines everywhere. This has hit vulnerable countries and vulnerable groups of people particularly hard, and a key impact of the pandemic has been a socioeconomic crisis with immediate implications for food security. The World Food Programme (WFP) has been warning since April that the crisis will cause the number of people experiencing acute hunger to double in 2020 from 135 million to 265 million.

The global economic impact of the crisis is enormous. The UN and IMF estimate that low- and middle-income countries will need USD 2.5 trillion in support to compensate for capital flight and loss of income, which are happening on a vast scale.<sup>1</sup> Capital flight is considerably greater and more volatile now than during the financial and economic crisis of 2008. The decline in tourism and loss of remittances, and the fall in raw material prices, are causing a large drop in income for many developing countries.

Debt levels in developing countries were already alarming before the COVID-19 crisis. Around half of all low-income countries are struggling with unsustainable debt, or are at great risk of finding themselves in such circumstances. The situation is deteriorating rapidly as a result of the COVID-19 crisis. Furthermore, the debt burden of low-income countries is no longer the only problem, as dozens of middle-income countries now also find themselves in extremely precarious debt positions.

The acute financial problems being experienced by countries, companies and households are undermining the response to the crisis and threatening the livelihoods of hundreds of millions of people. The OECD predicts that 50% of SMEs worldwide are threatened with bankruptcy. The ILO has warned that 1.6 billion people working in the informal sector are at risk of being unable to support themselves. The WTO expects to see a historic contraction of global trade in 2020, of between 13 and 27%. Decades of growth and socioeconomic progress in developing countries are

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<sup>1</sup> UNCTAD (30 March 2020), 'UN calls for \$2.5 trillion coronavirus crisis package for developing countries'; IMF (27 March 2020), Transcript of Press Briefing by Kristalina Georgieva following a Conference Call of the International Monetary and Financial Committee.

at risk of being wiped out, and the Sustainable Development Goals are moving further beyond our reach.

The COVID-19 crisis is also having an impact on existing social issues, including human rights. People already in a vulnerable position – including journalists, LGBTI people, women and girls – have found their situation has worsened in recent months. This underlines the fact that governments around the world must continue their efforts to protect human rights.

### **Implications for the Netherlands and the EU**

The global COVID-19 crisis has a range of immediate and potential implications for the Netherlands and the European Union. The Netherlands will remain vulnerable to coronavirus for as long as no vaccine is available and the virus remains in circulation on the planet. Many people and goods travel from, through and to the Netherlands, so there will always be a risk of the virus re-entering from outside the Netherlands and the rest of Europe. We are therefore dependent on the ability of the most vulnerable countries to defeat the virus.

The same applies to the recovery of the Dutch and European economies, which are inextricably linked to the wider global economy. The worldwide economic recession poses a threat to the global financial and economic system, and thus also to the Dutch economy. The approximately 27,000 Dutch companies active outside the EU will be hit hard, particularly in vulnerable emerging markets, as their local partners (often SMEs) have smaller buffers and cannot necessarily rely on government support. They are also exposed to currency risks. Many of the flowers traded in Aalsmeer, for example, come from Kenya and Ethiopia. The Confederation of Netherlands Industry and Employers (VNO-NCW) and SME representative Royal Association MKB-Nederland have urged, in their Africa Strategy and COVID-19 Action Agenda, that these markets not be overlooked, and have called for rapid action to prevent damage to economic sectors there.

The COVID-19 crisis has all the ingredients of a looming security crisis, with a potential impact on national security too. The sharp economic decline in low- and middle-income countries could directly impact on Europe and the Netherlands as a result of growing instability on the EU's external borders. Many countries in the immediate vicinity of the Kingdom of the Netherlands and of the European Union are facing tremendous financial challenges as the COVID-19 crisis robs them of income. It is precisely those countries with a fragile form of democracy and governance that could face increasing pressure as a result. It has already been observed that ongoing political and security crises in the Sahel region are worsening due to COVID-19's impact on the economy, healthcare and food security.

The European Asylum Support Office (EASO) and UN agencies (IOM, UNHCR) have warned that the crisis in neighbouring regions will potentially increase the pressure on Europe caused by irregular migration. The AIV draws a parallel with the Arab uprisings of 2011, which grew out of a lack of prospects, high food prices and poverty resulting from the financial and economic crisis of 2008. The instability in the Arab region was the root cause of the migration crisis in 2015. The COVID-19 crisis also poses a risk to reception of refugees in the region of origin. Countries that take in a lot of refugees (such as Lebanon) are often highly vulnerable themselves, and the crisis could give rise to tensions between host communities and refugees.

The AIV rightly notes there is much at stake in geopolitical terms. The COVID-19 crisis has exacerbated existing divisions and is exposing uncomfortable strategic dependencies. The government is also concerned at the fact that systemic rivalry is now being imported into multilateral organisations. The tensions within the World Health Organization (WHO) (concerning the origin and spread of coronavirus, and participation by Taiwan) are just one example. This has had an impact on the global response to the crisis. The G7 and G20 could also have taken a more leading role, as they did during the 2008 financial crisis. An effective approach to the pandemic and the associated global economic and other consequences requires a close international community, strong multilateral organisations and global leadership. The proximity of the Middle East and Africa means that it is more important than ever for the EU to make maximum use of its diplomatic, trade and development instruments. The government agrees with the AIV that it is vital for the EU that the multilateral order in the UN – including WHO – be protected. The Netherlands has a direct interest in this, given its open economy and society.

## Government's response to the AIV recommendations

The government shares the AIV's conviction that a suitable response by the international community is needed to support the most vulnerable countries, particularly in Africa. The government's reasons are based on a sense of common humanity, enlightened self-interest, and the need to consolidate relationships of trust with partner countries and neighbouring regions, and to strengthen the geopolitical position of the EU.

The AIV makes the following recommendations to the government:

1. promote a leading role for the EU;
2. put together a coherent package of support measures;
3. given the great need that exists, make EUR 1 billion available and, despite the shrinking economy, do not in any event cut the development cooperation budget.

This crisis demands European leadership. In April European leaders – including Prime Minister Mark Rutte – showed such leadership by calling on African leaders to tackle the crisis together, with appropriate international support. From the start of the crisis the government has been in close contact with other EU governments in order to foster a robust and coordinated EU approach in the most vulnerable countries. This is also in keeping with the EU's ambition to play a leading role in global coordination and in the strengthening of the multilateral system, among other things through better coordination of the EU's input at the UN, G7 and G20. Furthermore, the Netherlands supports the Team Europe approach that has been adopted, whereby the European Commission, EU institutions, EU member states and their national development organisations and banks act jointly in respect of partner countries, and at a global level.

The AIV rightly notes that if the EU wants to claim a geopolitical role it now has opportunities to do so. The short- and long-term consequences of the pandemic may hit the EU hard, and we cannot rely on leadership from other parts of the world in the search for a solution. It is therefore vital, for diplomatic and political reasons, that the European Union consolidate its cooperation with neighbouring regions and Sub-Saharan Africa, and be seen to be actively engaged in solving the major issues caused by COVID-19 in the most vulnerable countries. The EU can also show leadership by ensuring that recovery investments in developing countries accelerate the transition to green, sustainable economies. The large recovery packages and measures currently being deployed can and must help achieve the United Nations' Sustainable Development Goals and the targets in the Paris Agreement. If recovery investments and measures fail to contribute to these efforts, it will be extremely difficult to achieve the targets.

Calculations vary when it comes to what is needed to tackle the crisis in the most vulnerable countries, but it is clear that hundreds of billions of euros will be needed in the medium term. The UN estimates the short-term costs of protecting the most vulnerable 10% of people in the world at USD 90 billion,<sup>2</sup> to fund emergency measures (preventive and otherwise) for humanitarian aid, healthcare and initial socioeconomic support. In addition there are many other vulnerable countries, including middle-income countries and countries that take in large numbers of refugees, which the UN did not include in its analysis. Nor does the estimate include the cost of developing and distributing a vaccine.

Requests for emergency support for COVID-19-related humanitarian aid from international emergency aid organisations have been brought together in the Global Humanitarian Response Plan (led by UNOCHA), the Red Cross appeals and the Strategic Preparedness and Response Plan (WHO). Together these plans require some EUR 11 billion in additional funds for humanitarian assistance and support for public health.<sup>3</sup> Virtually all UN aid agencies are also requesting financial support for non-humanitarian activities, which do not fall within the scope of the Global Humanitarian Response Plan.

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<sup>2</sup> This is an analysis of the costs of protecting the most vulnerable 10% of people in 32 low-income countries (740 million people).

<sup>3</sup> Global Humanitarian Response Plan (USD 6.7 billion), Red Cross appeals (USD 3.2 billion) and WHO Strategic Preparedness and Response Plan (USD 1.7 billion).

The Netherlands recently made EUR 111 million available from its Foreign Trade and Development Cooperation budget for an initial set of measures (Parliamentary Paper 33 625, no. 293).<sup>4</sup> It has also made additional sums available to the WHO, both from within this package of measures and from other sources, in view of the organisation's vital role in tackling the coronavirus crisis. Various EU member states have, like the Netherlands, presented support packages for rapid action and recovery, funded partially from existing budgets. The European Commission and the European Investment Bank have rearranged existing budgets in order to free up EUR 20.6 billion. The House was informed of these and other developments in the Report of the Informal Council meeting of foreign and development ministers of 8 June 2020.<sup>5</sup> The IMF, World Bank and other multilateral development banks are currently covering some of the acute liquidity problems of the most vulnerable countries. A number of EU member states are considering making additional funding available for the global approach to COVID-19 and its humanitarian and socioeconomic consequences.

The impact of the global crisis is so profound that the government has decided to make an additional **EUR 500 million** available as a one-off contribution from general public funds to support the world's most vulnerable countries and people. In combination with a cash transfer (EUR 464 million) to later years, the government will ensure that – in line with the AIV's recommendations, and despite a sharp fall in GDP – the budget for development cooperation is stabilised in 2020 and 2021. This will prevent the need to intervene in ongoing activities and allow additional measures to be taken to help vulnerable countries tackle the COVID-19 crisis. This also complies with the motion submitted by MP Joël Voordewind et al. (Parliamentary Paper 33 625, no. 311). The additional funds will be used as follows:

- The government will add **EUR 350 million** to the current Foreign Trade and Development Cooperation Budget. This will offset the majority of the decline due to the fall in GDP in 2020. This measure constitutes a practical response to the desire of the House of Representatives (motion submitted by MP Kees van der Staaij et al., Parliamentary Paper 25 295, no. 192) to endeavour to maintain, and if possible expand, existing aid and support to developing countries in the current circumstances, particularly where healthcare and food supplies are concerned. This will allow the Netherlands to continue its efforts to combat the root causes of poverty, conflict, climate change and irregular migration. It will be targeted at the most vulnerable, and at efforts to achieve the SDGs. These are preventive efforts aimed at avoiding higher social, political and financial costs in the future. Current Dutch activities focused on addressing root causes constitute a long-term, reliable commitment, as well as an investment in diplomatic relations to jointly solve issues relating to security, climate change, food security and irregular migration. The same applies to complying with international agreements, such as those on climate action set out in the Paris Agreement.
- The government is also adding **EUR 150 million** to the previous COVID-19 support package of EUR 100 million to fund additional efforts to tackle the coronavirus crisis in the most vulnerable countries. This also represents a direct investment in preventing a second blow to public health and the economy in the Netherlands, in a multilateral response to the crisis and in relations with neighbouring regions and countries in Sub-Saharan Africa, with which the Netherlands will have to cooperate in the short- and medium-term on security and migration issues. It is therefore also an investment in the security of the Kingdom as a whole. More information on the additional EUR 150 million package of support measures is given below.

Ahead of decision-making on the Homogeneous Budget for International Cooperation the implications of the drop in GNI will be reflected in the Foreign Trade and Development Cooperation budget over a number of years. You will be informed further about the planned cuts from 2022 to 2025 in accordance with the regular budget schedule.

The government appreciates the AIV's detailed advisory letter, including the specific suggestions about making use of the capacity and logistics available in the Netherlands. It agrees with the recommendation that the main thrust of support measures should be socioeconomic measures.

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<sup>4</sup> This is the EUR 100 million support package explained in the Letter to the House of 14 April (Parliamentary Paper 33 625, no. 293) and the EUR 11 million from regular budgets (EUR 5 million to WHO and EUR 6.3 million to the Red Cross).

<sup>5</sup> Report of the Foreign Affairs Council (Development) of 8 June 2020 (Parliamentary Paper 21501-04-233).

The government acknowledges the importance of temporary funding for local businesses and continuing access to food and social safety nets for the poorest people. Such short-term interventions could prevent companies from going under and help them survive the temporary fall in supply and demand. Like the AIV, the government also recognises the importance of emergency support for low- and middle-income countries in terms of technical assistance and the search of a solution to the worrying debt situation. In the earlier support package the Netherlands contributed EUR 25 million to the Catastrophe Containment and Relief Trust (CCRT). It will guarantee loans worth EUR 620 million as part of the IMF's Poverty Reduction and Growth Trust (PRGT). The debt situation in most low- and middle-income countries gives cause for concern and the COVID-19 crisis has triggered a rapid deterioration. The Netherlands will press for an appropriate solution when the debt moratorium introduced by the G20 and the Paris Club runs out at the end of the year. Our point of departure will be finding a sustainable solution to the debt problem for the most vulnerable countries, guaranteeing solidarity among creditors by involving all the most significant official and private creditors. This will also fulfil the motion submitted by MP Mahir Alkaya (Parliamentary Paper 33 625, no. 313).

Although the pandemic has changed the global context radically, the UN's Sustainable Development Goals, the Paris Agreement and respect for human rights are now more relevant than ever. The Netherlands supports the UN's call to 'Build Back Better', particularly at a time of crisis when international cooperation is under such pressure. Efforts must now be focused on inclusive and sustainable economies and societies, which are more resilient to future pandemics, economic crises, climate change and other threats and global challenges. The government believes the Dutch private sector and the knowledge and skills of Dutch 'top sectors' such as Water & Maritime Technology, Logistics, Agri-food and Life Sciences & Health have an important role to play in this process. When companies use the instruments for corporate interventions in developing countries, those implementing projects on the ground must use an IRBC (international responsible business conduct) framework. The same applies when instruments are deployed in the fight against coronavirus, in line with the motion by MP Kirsten van de Hul et al. (Parliamentary Paper 33 625, no. 298).

The government shares the AIV's view of the importance of fair and affordable global access to vaccines, diagnostic tests and treatments. The Netherlands has therefore joined international initiatives such as the Access to COVID-19 Tools (ACT) Accelerator, the Solidarity Call to Action and the WHO COVID-19 Technology Access Pool, the international vaccine alliance Gavi, and the EU strategy on COVID-19 vaccines. It is contributing through both political and financial channels (including CEPI and Gavi). This is in line with the motion by MP Anne Kuik et al. (Parliamentary Paper 33 625, no. 310) on solidarity in the distribution of a COVID-19 vaccine. The government will explain the initiatives it is taking in a forthcoming letter to the House.

### **Package of support measures**

In line with the earlier support package of EUR 100 million announced in April (Parliamentary Paper 33 625, no. 293), the government will use the additional EUR 150 million to step up efforts aimed at prevention, humanitarian aid and socioeconomic resilience in the most vulnerable countries. The government will to a large extent follow the AIV's recommendations when it comes to prioritising measures, with an emphasis on those efforts the government believes are necessary in the short term. As a result, not all the measures recommended by the AIV have been included in the package. The choices are in line with the efforts of the European Commission, which is targeting its support measures at humanitarian aid, healthcare and mitigation of the socioeconomic impact of the crisis. Where possible, the package will be implemented through existing channels, within multilateral organisations' frameworks for dealing with requests for assistance, with the involvement of local authorities, civil society organisations and the private sector. The Netherlands will continue to draw attention to women, girls and vulnerable groups such as refugees, displaced persons and irregular migrants. As such, the government will act in accordance with the call in the motion by MP Chris Stoffer (Parliamentary Paper 33 625, no. 308). The appendix sets out information on the rationale behind and evaluation of the proposed measures, in accordance with section 3.1 of the Government Accounts Act.

### *Prevention*

To combat the spread of the virus and help mitigate its medical effects, the government is making **EUR 27 million** available for the following activities:

- The government will further scale up its efforts to provide access to water, sanitation and hygiene (WASH) in the most vulnerable countries by allocating an extra **EUR 6 million** to the WASH SDG6 Consortium, a partnership of Dutch civil society organisations that support local communities and authorities with information, awareness-raising and improved access to WASH.
- The government is investing in a range of ways in the development of a coronavirus vaccine. It is also pressing for developing countries to be given more access to diagnostic tests for COVID-19 and for the most vulnerable countries and people to have access to the vaccine as soon as one becomes available. To this end, it is providing **EUR 10 million** in funding for the Gavi Advance Market Commitment for COVID-19 Vaccines (Gavi Covax AMC) and the Foundation for Innovative New Diagnostics (FIND).
- The government is releasing **EUR 4 million** to meet specific requests for support (for test kits, ventilators, mobile hospitals) via EU, NATO and bilateral channels, in so far as these requests comply with the OECD-DAC ODA criteria. Most of these requests are from countries neighbouring the Caribbean parts of the Kingdom and the EU (the Balkans and the Eastern and Southern Neighbourhood). The government is also making resources available to deploy the advisory, assistance and planning capability of the Ministry of Defence where necessary, after an official decision by the government, in order to support vulnerable countries (including ODA countries) (**EUR 3 million**).
- The government will contribute its fair share (**EUR 4 million**) to the envisaged NATO revolving funds that will allow Allies (and states with which NATO is in partnership) to jointly purchase security-related COVID protective equipment.

#### *Humanitarian aid*

The Netherlands will scale up its efforts to provide emergency and food aid, contributing a total of **EUR 48 million** through its usual partners, in line with the Global Humanitarian Response Plan, the Red Cross/Red Crescent appeal and the WHO's Strategic Preparedness and Response Plan. The government has opted for the same implementation channels as used for its previous additional emergency aid contribution as part of the EUR 100 million package. It also seeks to ensure that children have access to education – particularly in humanitarian emergencies – and thus also to WASH and food. Emergency aid will be delivered where it is needed most, and focused on the most vulnerable. All implementing organisations with which the Netherlands works have this as their primary goal, and the Netherlands maintains a constant dialogue with them on the matter, in line with the motion by MP Kirsten van den Hul et al. (Parliamentary Paper 33 625, no. 299).

- The government will increase its contribution to the Dutch Relief Alliance (DRA) by **EUR 6 million**, in view of the Alliance's strong network of local organisations in the poorest and most fragile regions. This network is vital for reaching the most vulnerable, and the Netherlands is thereby meeting its Grand Bargain commitments.
- The Netherlands' contribution to the Central Emergency Response Fund (CERF) will be increased by **EUR 9 million**. This UN fund pays for life-saving interventions for the most vulnerable all over the world. The CERF has also proved crucial in the rapid scaling up of logistical operations (including air transport) run by WFP.
- **EUR 15 million** will be provided through Country-based Pooled Funds (CBPF) in countries already facing a humanitarian crisis, and now hit by COVID-19. A CBPF works largely via international and local civil society organisations. In the dialogue on how these resources are to be spent, the government will press for the capacity of the UN and other providers of mental health and psychosocial support (MHPSS) to be strengthened.
- The government will increase its contribution to the Red Cross/Red Crescent by **EUR 12 million**, because this movement (including the International Committee and the International Federation) has good access to conflict regions and works closely with national associations there. The Red Cross also pays close attention to MHPSS, including training for local aid workers.
- The government will provide **EUR 6 million** for Education Cannot Wait's 'First Emergency Response' mechanism, to help prevent educational disadvantage as a result of the COVID-19 crisis and ensure that children can return to school safely, through online teaching, rehabilitation of WASH facilities at schools, provision of food and psychosocial support.

#### *Socioeconomic resilience*

The Netherlands is allocating **EUR 75 million** to contribute to efforts to preserve vital services and infrastructure in low- and middle-income countries. Given the current crisis, many of these countries are finding it difficult, if not impossible, to meet their financial obligations, and rising deficits are making it very hard for them to maintain basic services. What is more, SMEs and many

people in the informal economy have suffered a direct loss of funding and income, which for many has meant reduced food security. The government's efforts will focus on preventing any further short-term deterioration in access to food and medical services, which are already limited in many countries.

- The government will work to prevent shortages of food and medicines by making **EUR 21 million** available to keep food markets open and accessible, relax border procedures for food and medicines, and make working capital available to clinics, particularly in Africa. To this end, the government will step up its cooperation with existing partners like GAIN/Netherlands Food Partnership, TradeMark East Africa, the PharmAccess Medical Credit Fund and IFAD, in line with the Stoffer motion (Parliamentary Paper 33 625, no. 314).
- The government will increase its contribution to the existing safety net programmes in Ethiopia and Sudan by **EUR 19 million** to help prevent an immediate poverty trap, and thus preserve access to food. The government has opted to contribute to efforts to tackle the food crisis in the focus region of the Horn of Africa because these programmes will enable it to make a fast and effective contribution. At EU level the government will call for bilateral programmes to focus more attention on social safety nets, and will seek to collaborate with other member states in these efforts.
- The government will open up more possibilities for funding (emergency and otherwise) for local SMEs in developing countries, to help prevent acute bankruptcies and loss of the already limited jobs available in the most vulnerable countries. It will make **EUR 15 million** available for this purpose, to be spent through the Dutch Good Growth Fund track 2.
- The government will make additional efforts in collaboration with like-minded countries to help the most vulnerable countries (including middle-income countries) that face acute financial problems, providing emergency aid so that the authorities are able to fund basic public services. As part of this package of measures the government will make **EUR 20 million** available to contribute to IMF debt-relief initiatives such as the Catastrophe Containment and Relief Trust (CCRT) and the Subsidy Account of the Poverty Reduction and Growth Trust, and to technical assistance provided via the World Bank, IMF and other organisations, to ensure that vulnerable countries receive support in strengthening their budgetary policy.

### **Concluding remarks**

The scale and duration of the COVID-19 crisis in the most vulnerable countries remain highly uncertain. The government notes, however, that the impact of this global crisis is unprecedented. Times will be hard for many people, all over the world, and this has direct implications for the Netherlands and the European Union. Nevertheless, rapid action and united efforts can be used effectively to limit the impact of the crisis and its spillover effects in the longer term. In making such efforts, the government will ensure that the Netherlands assumes an appropriate role in various areas, and engages in meaningful joint efforts with its EU and other international partners.