

IOB Policy Note

Potential side effects of developed country policies on food security, water and climate in developing countries

Accompanying the ECDPM Report: The effects of major economies' policies on climate action, food security and water in developing countries (2022).

Introduction

IOB commissioned ECDPM to do a literature review of unintended, positive or negative, effects, that policies of developed countries can have on food security, water and climate in developing countries. The results of this study can be used to improve the coherence of Dutch and EU policies vis a vis the interests of developing countries. ECDPM presents a shortlist of seven main policy coherence issues. In this note, IOB first reflects on the relevance for Dutch policy, and then makes a couple of recommendations.

ECDPM findings about the effects of developed country policies in developing countries

The ECDPM report first groups policies on their effects: on climate (Chapter 2), food security (Chapter 3) and water (Chapter 4). It then groups policies on their main objectives (energy, infrastructure, agriculture, security/humanitarian, and financial) (Chapter 5). Most elaborate and informative is Annex 3, providing a long list of policies and their effects on climate, food security and water, indicating who's policies these are, where the effects are experienced, how positive or negative the effects are, and how convincing the evidence for these effects is.

From this long-list, ECDPM made a selection of seven policies with strong effects, supported by strong evidence (Box 1, Chapter 1.4, pp 4-5):

1. Support to fossil fuel

Public support to fossil fuel exploration and production in developing countries. This includes direct public support, e.g. export credit insurance, and indirect public support e.g. through tax policies, laws and regulations, encouraging private finance, e.g. banks, insurers and asset managers.

2. Import of commodities

Policies supporting the import of commodities that have negative effects on the environment, for example soy for animal feed and palm oil for food and biofuel resulting in deforestation in Brazil and Indonesia, or garment resulting in water pollution in Bangladesh.

3. Mining minerals

Energy policy requiring minerals (e.g. cobalt) from developing countries resulting in land degradation (e.g. in DRC).

4. Agricultural support

Agricultural subsidies, also in emerging economies, distorting the world market and discouraging farmers and agricultural development in developing countries.

5. Infrastructure.

Investments in particular in infrastructure can encourage developing countries to follow an energy intensive pathway, have negative effects on the environment or local populations, or are maladapted to the expected climate change. Large dams for example, can have negative side effects on the environment and local populations.

6. Illicit financial flows

Illicit financial flows are often linked to international companies making use of weak governance in developing countries to avoid taxes, and often linked to export of commodities from developing countries to developed countries, which undermine government revenue in developing countries. At the same time international finance for climate adaptation remains inadequate.

7. Priority to economy and security.

Foreign policies of developed countries focus more on economy and security, and less on social and environmental objectives, for example transboundary river water management.

However important these seven policies are, this is only a brief summary of a selection of policy coherence issues. We encourage you to read the elaborate and rich ECDPM report.

Relevance of seven policy coherence issues for Dutch policy

As IOB sees it, the relevance of the seven policy coherence issues for Dutch policy is clear.

1. Support to fossil fuel

With respect to policies supporting the fossil fuel sector, The Netherlands agreed in Glasgow (COP 26) to end export credit insurance in the fossil fuel sector by end 2022, thus addressing a major policy coherence issue. However, government policies could do more to discourage private investments in the fossil fuel sector in developing countries.

2. Import of commodities

To reduce the Dutch environmental footprint, stricter import policies and a more sustainable production and consumption in the Netherlands are needed to reduce negative local environmental effects (especially deforestation, land degradation and water over exploitation) caused by global trade of major commodities (food, animal feed, biofuel, garment)^{1,2}.

3. Mining minerals

With respect to energy policy, the required battery technology, and the negative effects of mining minerals such as cobalt, voluntary standards and corporate social responsibility are insufficient. In general, voluntary standards and CSR are good to develop standards and test solutions by frontrunner companies, but often remain 'small islands of success'. To enforce the whole sector including laggards, and to lead to sector transformation, more is needed in terms of governance (policy and regulations), e.g. through standards and legislation in importing countries and the EU, and

¹ CBS 2022. [Monitor Brede Welvaart](#).

² PBL, 2021. [Halveren van de Nederlandse voetafdruk](#).

in producing countries³. EU Diplomatic efforts will be needed to get other developed countries and emerging economies on board.

4. Agricultural support

In the field of agricultural subsidies the EU made progress reducing producer support that are market distorting. However, the Netherlands and the EU could do more to further reduce market distorting subsidies (e.g. milk powder and poultry meat⁴) and encourage other countries (e.g. US) including emerging economies (e.g. China) to reduce their market-distorting agricultural subsidies as well.

5. Infrastructure

It is important to avoid negative environmental and social effects from new infrastructure. Investment in infrastructure, in particular water infrastructure that the Netherlands supports, is much needed. Even though the Netherlands invests more in software (studies, participatory water management) than in infrastructure hardware, apparently insufficient attention is paid to possible negative side-effects of investments in hardware.⁵

6. Illicit financial flows

Illicit financial flows and tax avoidance is one of the five themes in the Policy Coherence for Development Action Plan (PCAP). The recent PCAP annual report (May 2022) points at the recommendations made by the Dutch Commission 'conduit companies' (Nov 2021) and guidelines made by the EU (Dec 2021) to reduce tax avoidance through companies registered in the Netherlands and the EU. According to the report, Dutch government has yet to act upon these recommendations. In the new policy note illicit financial flows (IFFs) are being mentioned. Dutch policies on IFFs will further be developed in the new PCAP expected end of this year.

7. Priority to economy and security

Even if economic and security objectives are priority in foreign policies, public support to social and environmental objectives should not be neglected. For example, transboundary water management contributes to local livelihoods and reduces the risk of conflict over land or water, and thus also contribute to economic opportunities and reduce irregular migration.

Overarching IOB recommendations

Considering the policy coherence issues listed by ECDPM and our assessment of the relevance for Dutch policy, IOB identifies two overarching main recommendations for Dutch policy coherence. These recommendations are first of all addressed to the Ministry of Foreign Affairs including BIS who coordinates the Policy Coherence Action Plan with other Dutch ministries. These recommendations are also addressed to other ministries involved, e.g. I&W for water infrastructure, LNV for agricultural policy, and VWS for health policy. The recommendations may also be relevant for Dutch embassies that are in the process of elaborating their new Multi Annual Strategic Plan.

³ Aidenvironment, 2022. [Sector transformation. A systems approach to transforming commodity sectors.](#)

⁴ Mathews and Soldi, 2019. [Evaluation of the impact of the current CAP on the agriculture of developing countries.](#)

⁵ Preliminary findings from IOB visits to Bangladesh and Mozambique and IOB expert meetings highlighted this.

Note that IOB draws these recommendations from this preparatory ECDPM study only, without using findings from the ongoing IOB evaluation of policy coherence, in the case study countries Bangladesh, Mozambique, and later possibly Ethiopia, of which the report will be available late 2023. IOB gives these recommendations now because of the upcoming third Action Plan for Policy Coherence for Development, and the new Multi Annual Country Strategies.

1. Reduce negative side effects of MFA infrastructure investment, in particular in the water sector

Infrastructure investments, in particular in the water sector, for dams, irrigation schemes or flood protection, can have large positive effects on water access, agricultural production and food security, reducing flood damage, and climate change adaptation.

However, MFA (in particular IGG, DDE, DGBEB), EZK (RVO, Invest International), and I&W can give more attention to environmental and social impact assessments to avoid, reduce and/or mitigate environmental damage to forests, mangroves and wetlands, and compensate displaced populations and reduced livelihoods. Overall, more attention is needed for nature based solutions that can locally be maintained and fit the livelihoods of local populations. MFA and I&W should give more attention to international water diplomacy and cross boundary river management that currently receives insufficient attention, or choose a multilateral approach in politically sensitive cases and latent conflicts.

This recommendation can be implemented with existing tools such as Environmental Impact Assessments. It is important to involve Dutch embassies in the organisation of all local stakeholders in the analysis and planning phase, and to add mitigating measures where necessary.

2. Encourage sustainable consumption in the Netherlands

As also explicitly mentioned in the new Policy Note, the Netherlands aims to reduce its environmental footprint, including greenhouse gas emissions, that domestic production and consumption has in developing countries (BIS). This is in line with Dutch ambitions for a more circular economy (I&W) and circular agriculture (LNV), and with the the Policy Coherence Action Plan.

The large Dutch footprint in developing countries is related to the import of raw materials, for a large part agricultural products, that lead to deforestation, excessive water use and water pollution, competition with local food production, and greenhouse gas emissions (CBS 2022, PBL. 2021).

It is questionable to what extent Dutch activities in developing countries alone would be sufficient to substantially reduce the climate and environmental footprint. Very likely, consumption and production within the Netherlands needs to become more sustainable as well.

- One effective option is the reduction in the production and consumption of meat and dairy products in the Netherlands. This would reduce the import of soy as animal feed, and reduce deforestation and competition with local food production (e.g. in Brazil). This would also reduce nitrogen related environmental pollution and improve public health in the Netherlands.
- Another option is reduction in the use of palm oil and ethanol as biofuel (EU regulations), which would reduce related deforestation in developing countries (e.g. in Brazil, Indonesia, Malaysia) as well.

- Other products imported by the Netherlands that contribute to the environmental footprint are horticultural products from areas with water scarcity, and textile and garment from e.g. Bangladesh. Dutch MFA policies could support the horticultural sector in developing countries with technical assistance and regulations assuring that water scarcity is addressed and not aggravated, and could assist the textile and garment industries in developing countries to reduce water pollution and water over exploitation (IGG, DDE). Because of the large imports by other countries, in particular emerging economies such as China, it would be useful if Dutch diplomacy, e.g. through the EU, would support national standard setting and legislation in developing countries, and support more coherent policies of developed countries, emerging economies, and developing countries (DGBEB, DDE, IGG).

This second recommendation is much more complex, requires political courage and persuasion of several ministries and the public opinion in the Netherlands. For example, more sustainable food production and consumption requires coherence between trade (DGBEB) and development cooperation policies (DGIS), agricultural policies (LNV, EU), and policies on food consumption and health (VWS).