

Summary

The private sector in Finnish development policy



THE DEVELOPMENT POLICY COMMITTEE

Sustainable development emphasises the role of the private sector

The private sector plays a central role in the promotion of the well-being and sustainable development in developing countries, because companies bring jobs, capital, know-how and technology to poor countries. Developing countries offer a multitude of new opportunities and partnerships for Finnish companies as well. Responsible business activities benefit all the parties involved.

The goal of Finland's development policy is to reduce poverty and inequality in developing countries, and to promote sustainable development worldwide. The same goal applies to all public development funding and all forms of cooperation. The Development Policy Committee's guideline clarifies the role of the private sector as part of Finland's development policy in its broader sense. The guidelines discuss the main principles, challenges and opportunities of cooperation done with companies and proposes recommendations for these.

The current Government Programme places the strengthening of the developing countries' own private sectors and tax bases at the core of development policy. The new focus is important and welcome. Sustainable business cannot be created in developing countries based on charity work. Instead, the business operations must be economically profitable for the parties involved both in the developing country and Finland. The solutions sought must benefit everyone. Responsible business activities that promote the development of the developing countries' own private sectors are the best way of reducing poverty. In developing countries, it is important to strengthen the SMEs in particular, so that an increasing proportion of the economic benefits would stay in the hands of local people.

Finland has know-how needed by developing countries

Today, developing countries have the fastest growing economies in the world. The growth of the middle class and consumption in such continents as Africa and Asia creates new business opportunities for Finnish companies as well. Big global corporations have been operating in the developing markets for a long time, but, so far, international partnerships between SMEs have remained an underutilised resource in Finland and developing countries. Responsible business creates new jobs and reduces inequality.

It is good to build partnerships and business activities in developing countries within the strong and internationally known competence areas of Finnish companies, including energy and infrastructure, education and training, social sector and health, water and sanitation, sustainable forestry and agriculture, and the food industry. Finnish companies also have additional competitive assets, such as a good reputation in general and responsible business practices. We also have a lot to offer for the promotion of participative democracy, broad-based civil society, equality and legislation relating to working.

¹ The Development Policy Committee's guidelines on the role of the private sector in Finnish development policy were adopted at the Committee's plenary session on 11 November 2015: [HTTP://WWW.KEHITYSPOLIITTINENTOIMIKUNTA.FI/PUBLIC/DOWNLOAD.ASPX?ID=151730&GUID={C11916BF-F5D2-4FEE-92D1-C531BB67FA35}](http://www.kehityspoliittinentoimikunta.fi/public/download.aspx?id=151730&guid={C11916BF-F5D2-4FEE-92D1-C531BB67FA35})

1. The private sector and the leading principles of development cooperation:

Partnership is based on human rights, consistency and openness

The Finnish development policy is based on principles that are also well suited as foundations for private sector partnerships and responsible business activities.

Human right-based approach as a starting point for all activities

Finland pursues a human right-based approach in its development policy, which means implementation of all human rights written in the international agreements, also as regards those who are the poorest and most discriminated-against. The same principle also guides the cooperation with the private sector. Increase in decent jobs, creation of new livelihood opportunities, and economic empowerment of women and young people in particular are matters where the private sector can strengthen the human rights-based approach.

Development requires coherence

Finland is committed to observing the viewpoint aimed at promoting global development in all subareas of policy-making. Alongside development policy, we can make a consistent contribution to the reduction of global poverty and inequality, for example, by means of commercial, immigration and climate policies. This is called policy coherence for development.

Companies and all other players must see to that they provide coherent support for the achievement of development goals. The economic, social, environmental and human rights impacts of business activities must be taken into account in advance, and the stakeholders affected by business operations must be heard.

Coherent activity requires compliance with specific minimum requirements in operations funded from

development assistance appropriations. For example, the World Bank Group has defined the minimum standards that steer Finnish loan and capital investments in the developing countries in issues related to environmental and corporate responsibility.

It is also important to assess the impacts of projects in advance to ensure that operations are as coherent as possible and resources do not go to waste. In the future, Finland could lead the way in operations aimed at strengthening the private sector in developing countries, beginning from the planning stages. In other words, the impact assessments of business activities should emphasise the economic, social and environmental impacts, also in the long term.

Openness needed to assess the results

The requirement of transparency and openness concerns all parties involved in development cooperation. It is also the best way of ensuring the justification of the operations.

Without transparency, the assessment of development impacts is not possible in the first place. Reporting requires clear models and guidelines, so that it will not constitute an obstacle to private-sector cooperation or the use of private funding. To have this equation solved, different stakeholder groups need to be heard, and closer instructions and steering provided also because, when the results of business partnerships are evaluated, emphasis is given to both economic development and the benefits reaped by the companies. The corporate interests and the development goals of partner countries may strengthen each other – and this a goal the parties should strive for as well.

2. Partnerships and financial instruments:

Building partnerships is beneficial

The Finnish private sector can build partnerships directly with companies in developing countries or in collaboration with the public sector and/or civil society. This requires perseverance, knowledge of local circumstances and mutual trust between the partners. The aim is that the various actors involved would pursue common goals – sustainable development impacts in developing countries – using their own strengths and complementing each other.

The forms of private sector subsidies funded from development assistance should also be targeted to the achievement of common goals. The markets in developing countries are challenging, and business activities there entail multiple risks. For this reason, the risks of business operations have been shared by means of financial instruments funded from development assistance.

Finnfund promotes economic and social development in developing countries on a financially self-sustained basis by providing funding for responsible private business operations in such countries, when there is a Finnish business interest involved. The objects of financing can include business operations related to industrial production or service provision, infrastructure, and financial and capital markets. In the future, Finnfund's funding and the scale of projects should be pondered from the viewpoint of the competitive opportunities of Finnish SMEs and NGO cooperation.

New financial instruments. Concessional credit has been a funding arrangement provided on development policy grounds, where the interest subsidy is paid from development assistance appropriations. According to Finland's Development Policy Programme 2012, Finland decided to give up the system of concessional credits and create replacing cooperation modalities so as to promote development policy goals. The intention is to introduce a new financial instrument to replace concessional credit at the beginning of 2016. The old Act on Concessional Credit for Developing Countries functions as a basis for the preparation of the new cooperation modal-

ities as well. If Finland adopts the “new generation concessional credit instrument”, it should be integrated with the goals of sustainable development and the reduction of poverty in particular.

BEAM – Business with Impact is a joint programme launched by Tekes and the Ministry for Foreign Affairs, which serves as a good example of new private-sector financial instruments. The goal is to make companies develop innovations that enhance the well-being of developing countries in collaboration with the research sector and NGOs. When making BEAM funding decisions, it should be possible to interpret the innovation criterion in a pragmatic manner so that any new solution or solution model of importance for strengthening the development impact or improving people's living conditions meets the criterion. On the other hand, the fact that BEAM requires a significant proportion of self-financing from NGOs in advance (25–50%) may make their involvement difficult.

The **Finnpartnership** business partnership programme offers Finnish companies advisory services related to business activities in developing countries and financial support for preparing projects. This financing is intended for the planning, development and training phases of projects.

Finnpartnership's Matchmaking service strives to find suitable Finnish business partners for companies in developing countries which have expressed their interest in finding a business partner.

The **Team Finland** network aims to boost the operations of actors that promote the internationalisation of Finnish companies. The development impacts of the network should be assessed in closer detail than has been done so far. In addition, efforts should be made to ensure that business partnerships and trade with developing countries contribute to the reduction in global poverty and inequality in particular.

3. Targeting of private sector support:

Involvement of companies in development cooperation



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The goal of the Finnish development policy is that the various actors involved would pursue common objectives – sustainable development impacts in developing countries – using their own strengths and complementing each other. In other words, it must be ensured that the current financial instruments of development funding and the division of funding after cuts in appropriations will not steer the parties involved in different directions.

Finland has made a commitment to raising its development assistance appropriations to 0.7 per cent of gross national income. In addition, Finland has determined that 0.2 per cent of the assistance is steered to the poorest countries.

If possible, support for companies provided from development assistance appropriations should be targeted to Finland's development partner countries due to the principle of the complementarity of cooperation. Companies, however, apply the rules of private-sector business to their operations. The companies operate where it is profitable for them and where there is a demand for their products. Therefore, it

has been estimated that the operating conditions for Finnish SMEs, for example, would be best in middle or lower-middle income countries.

Many companies have competencies of significance with a view to sustainable development goals, for which there is demand in all developing countries. Accordingly, it is not functional to limit the financial instruments targeted for companies only to Finland's official partner countries. Strengthening the private sector, constricting the unofficial sector, opening the value chains, expanding the tax base, and creating decent jobs are important goals in all developing countries.

Due to the refugee crisis, collaborative assistance should be provided for such causes as supporting the livelihood opportunities of people fleeing from Syria to the neighbouring areas. The cooperation between Finnish, local and international companies is also needed for reconstruction of societies. Tailoring of business subsidies for people moving from Finland back to their countries of origin should be considered.

4.

The recommendations of the Development Policy Committee

- The Finnish development policy should in every respect reduce poverty and inequality in developing countries and promote sustainable development worldwide. These leading principles of development cooperation apply to all actors. A credible schedule should be set for raising the Finnish development assistance appropriations to 0.7 per cent of GNI. A sufficient share of the assistance should also be targeted to the least developed countries.
- Business activities supported from development assistance funding should strive to reduce poverty and inequality and promote other sustainable development goals in all countries. If possible, financial instruments intended for companies should be targeted to Finland's development partner countries due to the principle of complementarity of cooperation.
- Cooperation between various actors should be supported by developing sufficiently flexible goal-oriented financial instruments that address the partner country's specific development needs.
- Finland should actively influence the EU trade, investment and tax policy concerning private sector participation in development cooperation. Special attention should be paid to the impacts of trade agreements so that they increase the share of the poorest developing countries in particular in the international value chains, strengthen the mutual trade relations between the poorest countries, and increase the economic benefits that remain in the partner countries.

Examples from the private sector:

Mobile service for Tanzanian farmers

The Finnish company Sibesonke Oy has developed a mobile service for the use of farmers in developing countries that provides useful information on such issues as crops and cattle breeding.

The mFarming application for mobile phones was first launched in Tanzania, where it already has more than 700,000 users,

“There are plenty of growth opportunities in Tanzania alone, since 75 per cent of the country's population of 50 million earn their living from agriculture,” says **Uwe Schwarz**, who established Sibesonke.

Farmers can use their phones to check the weather forecasts, for example. The service also provides updated information on the prices of agricultural products on the local markets.

“Markets are often far away and difficult to reach. Now farmers can time their sales trips so that they get the best possible price for their products.”

Sibesonke's business model is based on advertising revenues and marketing cooperation with such actors as feed and pesticide manufacturers. Part of the revenues derive from user fees.

Sibesonke gets support for preparing its business operations from Finnpartnership's Business Partnership Support. The development of the service is fur-

ther accelerated by the Ministry for Foreign Affairs and Tekes' BEAM – Business with Impact programme. The programme is intended for companies, research institutes and NGOs that develop innovative solutions for the problems of developing countries.

With the help of BEAM funding, Sibesonke is developing, for example, an electronic trading place for the products of Tanzanian farmers.

“BEAM funding is very important for us. It is hard for SMEs operating in developing countries to get funding from traditional sources of funding, because such business activities are considered too risky.”

High demand for waste containers in Africa

More than 70 per cent of the turnout of Molok, a Nokia-based company manufacturing waste containers, comes from exports. Africa is one of the most promising new areas of growth.

The company made its entry into the continent's market in Namibia, where the country's biggest waste management company Rent-A-Drum uses and manufactures Molok's deep collection systems under licence.

“The key goal is to turn waste management in Namibia into a business that would benefit all parties involved, and thus create new jobs,” says **Hannu Jokinen**, Managing Director of Molok.

The development of the Namibian waste management system was examined in the North-South Local Government Cooperation Programme of the Association of Finnish Local and Regional Authorities and the Ministry for Foreign Affairs. Namibian and Finnish education institutions were also involved in the project.

According to Jokinen, the Team Finland network has been very useful to the company. Molok has also received Business Partnership Support from Finnpartnership for mapping local markets, planning business operations, and launching cooperation in Namibia.

“Understanding the operating environment and the markets is absolutely crucial. The support provided by Finnpartnership was important in having these analyses made,” says Jokinen.

Since then, Molok has also received support for training the staff of its Namibian cooperation partner.

According to Jokinen, Molok is committed to a long-term presence in Namibia. The company intends to expand its business activities to the neighbouring countries, the most interesting of which is South Africa with more than 50 million inhabitants.

“The Southern African Customs Union, enabling trading without local export tariffs, makes export from Namibia to the neighbouring countries easier.”

Profitable furniture business in Ethiopia

When living in Ethiopia, the Puustinen family decided to establish a furniture factory in the country, because the local offering failed to meet the needs of consumers, living in cities in particular, in terms of quality and style.

Since 2011, the **SINI Furniture Interior Design** company, established by the Puustinen family, has been designing and manufacturing sofas, armchairs, television stands, kitchen tables and chairs, and so on in Ethiopia. The design is based on the Nordic design concept.

At the moment, the company has 70–75 employees and three shops in Addis Ababa. The demand for furniture that differs from what the competitors are offering has surpassed all expectations.

“In Ethiopia, furniture shops sell a lot of imported furniture of inferior quality or massive pieces of furniture that do not fit into small city apartments. In addition to homes, we also sell furniture to foreigners working in the country, embassies, hotels and restaurants,” says **Henrik Puustinen**, deputy managing director of SINI Furniture.

When the production was launched, SINI Furniture received Business Partnership Support from Finnpartnership for training the Ethiopian staff.

Due to the high demand for furniture, SINI Furniture has decided to increase its production. The company will use a Finnfund loan to finance the factory expansion.

“Finnfund funding is of great importance, because it will help us achieve 5 to 10 times higher production volumes than we have today. New production premises will also improve quality and occupational health and safety,” Puustinen points out.

To qualify for Finnfund funding, the project must be implemented in an appropriate manner, and the company's operations must rest on a sustainable basis also in terms of environmental and corporate responsibility. ●



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The Development Policy Committee is an advisory body appointed by the Government to monitor and evaluate Finland's activities in the policy areas which concern developing countries.

The Committee also assesses the quality and effectiveness of development cooperation and monitors the level of public development cooperation appropriations. The Committee is representative in terms of parliamentary and social representation.



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