Development Policy Committee calls for transparency in the allocation and use of financial investments

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The nature of Finland's development cooperation financing has undergone a drastic change in the current government term. On average, cuts of approximately 40% were made in different forms of financing granted as donations, including Finland's bilateral and multilateral cooperation and NGOs. The only area not affected by the cuts is Finland's cooperation channelled through the EU, which has even increased in relative terms as a result of the cuts. At the same time, the government made a decision on a three-fold increase in the amount of financing provided as loans and capital, or so-called financial investments. This was the greatest single sea change of all times in Finland's development policy financing.

The share of loan and capital investments is EUR 130 million this year, and similar amounts will also be invested in 2018–2019. Last year, the government granted EUR 130 to Finnfund as a financial investment, and EUR 10 million to finance company ICC, which operates under the Inter-American Development Bank, for a capital increase. In total, this amounts to EUR 530 over the entire government term.

"Considering the objectives of development policy, this sum is a significant resource which must be allocated judiciously, and its development impacts must be closely monitored. A precondition for this is more open exchanges of information and drawing on various stakeholders' competence already in the planning phase of financial investments", says **Aila Paloniemi**, Chairperson of the Development Policy Committee (Centre Party).

Calls for transparency are also justified because the marginal conditions for the allocation of financial investments are exactly the same as for all other development cooperation interventions: the investments must be in line with the objectives of Finland's development policy and its implementation rules. They must also meet OECD/DAC criteria for development cooperation. In addition – and as an exception to other development cooperation – the investments must meet conditions based on a Eurostat definition for not being treated as public expenditure in annual national accounts. In order for the criteria of a financial investment to be fulfilled, the yield and return on investment must be credible, and loans must be subject to interest and have a repayment plan. While the Ministry for Foreign Affairs supervises the fulfilment of development cooperation criteria, Statistics Finland assesses whether the investment qualifies as a financial investment on a case-by-case basis. The Development Policy Committee also stresses the crucial importance of looking at financial investments from the perspective of the governments and civil society actors in the target countries.

While Finland's development financing policy has changed, the basic objective of development policy – eradicating poverty and inequality – stays the same. All forms of financing and all actors should serve this purpose. At the same time, higher expectations are placed on development policy. Better results, especially in priority areas selected by the government, are expected with smaller resources. These priorities are

1. improving the rights and status of women and girls,
2. growth of developing countries' economies to generate more jobs, livelihoods and well-being,
3. democratic and better-functioning societies with tax collection capacity, and
4. food security, access to water and energy, and sustainable use of natural resources.

These priories are also to be the foundation of the implementation of Agenda 2030 on sustainable development in Finland, but the financing shares and performance monitoring of the priorities need to be clarified further. Consistency between different actions and financing forms must also be ensured. It is particularly important that financial investments support the objectives of Finland's Tax and Development Action Programme, including transparency of ownership and country-by-country tax reporting.

"Financial investments should complement the range of different financing forms and actions related to development and increase the resources available for Finland's priority objectives and sustainable development. How this is going to be realised is not sufficiently clear at the moment", notes **Hanna Sarkkinen**, Vice Chairperson of the Development Policy Committee (Left Alliance).

As part of Agenda 2030 implementation, Finland has additionally undertaken to ensure that a significant share of development cooperation resources directly or indirectly supports climate actions, especially through funding granted to development finance companies. The Parliament's Foreign Affairs Committee has also considered it important that, as investments and loans are increasingly prioritised in financing for development cooperation, a significant share of this financing should be targeted at climate change mitigation and adaptation projects. Finnfund, for example, has announced that it will direct some 60% of its funding to climate projects. Finland is also to support investments in renewable energy, sustainable transport and other solutions that save natural resources through international finance institutions.

“The level of Finnish financing for climate actions is not up to Finland's international commitments. Responsible financial investments are needed in both climate actions and development policy. We must also closely monitor those development policy priorities whose funding has undergone significant cuts. In the area of food security, for instance, the funding gap gives cause for concern”*,* **Saara-Sofia Sirén**, second Vice Chair of the Development Policy Committee (National Coalition Party) sums up the situation.

Recommendations of the Development Policy Committee

- To support the allocation of financial investments in line with the development objectives, a clear plan is needed that will target financial investments in 2018 – 2019 at the needs of Finnish development policy priorities and climate actions. The plan must draw on experiences gained from existing investments as widely as possible. It must be prepared in a participatory process, and information on its implementation must be disseminated openly.

- A vision that spans several government terms is also needed for financial investments. This vision must include instructions related to development objectives and the ODA criteria as well as operating models. Financial investments, too, must observe the internationally agreed performance principles of development cooperation, including transparency, setting of measurable targets, and systematic monitoring of target attainment. The Ministry for Foreign Affairs must continue the on-going development efforts. Information and experiences of financial investments must be systematically collected from different actors in the target countries, in Finland and through international cooperation. This information should be used to develop financial investments.

- Financial investments should complement the range of different financing forms and actions for development and increase the resources available for Finland’s priority objectives and sustainable development. Clarifying the allocation of financing to the current development policy priorities should also be part of the big picture.

- An effort should be made to target financial investments at climate actions that address climate change mitigation and adaptation, as well as at those of Finland's priorities whose realisation has been hampered by the cuts in development financing granted as donations. These include food security and water.

- Financial investments are a key method for enhancing the impacts of development interventions through trade and economic relationships. Special attention should thus be paid to ensuring that financial investments primarily build up the developing countries’ own resource base (also through taxation and economic value chains), competence and innovations, which can help to eradicate poverty and inequality in a sustainable manner.

- All financial investments must be climate sustainable. Any energy investments should exclusively target renewable energies that meet clear sustainability criteria, including solar or wind power. The utilisation of fossil energy or peat should not be supported through these investments. When reporting on financial investments in climate actions, similar transparency should be ensured as in other financing of climate actions granted by the Ministry for Foreign Affairs.

- Different actions and financing forms should be consistent. Consequently, the monitoring of financial investments’ impacts on development should also be improved continuously, and reports on financing use and outcomes should be submitted to the Parliament as part of Finland’s development policy as a whole.

The Development Policy Committee is an advisory body appointed by the government that monitors and evaluates Finland’s actions in different policy areas impacting on the developing countries’ situation.

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