

Coherently towards equal opportunities

The State of Finland's
Development Policy in
2014

How can Finland
help eradicate
global poverty and
promote sustainable
development with
different policy
areas?



DEVELOPMENT POLICY COMMITTEE



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Foreword



PHOTO: PHILIPPE GUESSAZ

To quote a classic of Finnish literature, it all came about thanks to Jussi, a hoe and a marsh. According to another national author, it was all thanks to the Church, the sexton and school. Both were true and necessary; Finland has come a long way down the path of development. This has been influenced by our choices in many areas of policy, as well as the course of development internationally. How can Finland secure, on its own and in cooperation with others, that our partner countries, which are at different stages of development, are moving towards having equal opportunities? Do Finland's government and its development policy encourage all branches of the administration to perform in ways that progress in the same direction or at the very least do not cancel each other out.

The Development Policy Committee's annual review focuses on the policy coherence for development.. As a concept, coherence may seem distant, but in fact it deals with very concrete issues namely, do we take into consideration the perspective of developing countries when we make decisions, for example, on Finland's stance in international taxation, or when we develop support structures for the internationalisation of our companies. The aim should be that decisions in different areas of policy all support global development goals, i.e. the eradication of poverty and the promotion of sustainable development.

Our government is committed to policy coherence for development, which is an important political choice. In this report, the Development Policy Committee seeks to evaluate how successful this has been. We will also give recommendations for follow-up work. Five policy areas were chosen for closer examination: foreign economic rela-

tions and trade policy, taxation, security and crisis management, and immigration, as well as climate policy. The selection was made on the basis of the priorities for coherence work of the Development Policy Programme, EU and the Organisation for Economic Co-operation and Development (OECD).

Implementation of policy coherence is a big challenge in which all stakeholders have their part to play. In the appointment decision by the Finnish Government, the main task given to the Development Policy Committee was the reinforcement of an operating culture and cooperation mechanisms that promote coherence. According to our evaluation, there is room for improvement in both operating culture and cooperation mechanisms, even though the need for coherence and its significance are widely recognised. There is not only a need for cooperation at a government official level between ministries but also leadership from political decision makers, as well as the readiness to evaluate and resolve potential conflicts between different policy goals. In this, both ministers and parliament's different committees could have a more significant role. In addition, we encourage research and assessments, as well as wide public discussion on the developmental impacts of decisions on different areas as the foundation for work on coherence.

Jouko Jääskeläinen

Chairman of the Development Policy Committee

Abstract

The Development Policy Committee's annual review this year concentrates on policy coherence for development, i.e. that the perspective of development policy is taken into consideration in the decision making in all policy areas affecting developing countries. The aim should be that decisions support the achievement of global development goals – the eradication of poverty and sustainable development. Five policy areas were chosen for closer examination: foreign economic relations and trade policy, taxation, security and crisis management, and immigration, as well as climate policy.

In the Development Policy Committee's opinion, there were good opportunities in the Government's work during this term to promote policy coherence for development. Different ministries have considered the matter and recognised the need for coherence and the significance of coherence in their respective policy areas.

The structures of decision-making, however, do not at present support the development aspect being taken adequately into consideration in matters affecting developing countries. What remains unclear is whose responsibility it ultimately is to ensure that the development aspect is analysed in the decision-making process and its relation to other policy goals weighed up.

In the Development Policy Committee's opinion, the promotion of policy coherence requires government mechanisms that are more effective than those in use now.

This could be, for example, a regular examination of different policy areas carried out by the Ministry of Foreign Affairs (MFA) and the Prime Minister's Office under the auspices of the Minister for International Development. Sufficient resources also have to be directed towards the promotion of policy coherence and cooperation between different policy areas. Policy coherence for development should be linked also to a wider promotion of sustainable development, as is already happening on an international level in the preparation of the post 2015 development goals.

It is essential to ensure sufficient political support from the Government for the integration of coherence into the operating cultures of different ministries. Also the role of Parliament in promoting policy coherence needs to be strengthened. The Ministries should compile a comprehensive coherence report for Parliament once every government term. All of the committees in Parliament, particularly the Grand Committee, should have adequate information on how the matters being handled affect developing countries.

Many policy areas affecting developing countries are for a large part or even entirely, EU policy. It is therefore important that Finland actively influences EU decision-making and policies in taking the development aspect into account. The promotion of policy coherence should be one of the main goals also in the OECD, UN and other international forums.

What does policy coherence for development mean?

Policy coherence for development means that the viewpoint of development policy is taken into consideration in the decision-making of all sectors of policy affecting developing countries. In addition to development cooperation and development policy, Finland can help reduce global poverty through, for example, trade, immigration and climate policy. Finland has committed to furthering policy coherence for development in the current Katainen government's programme and in the 2012 development policy programme.

The significance of policy coherence has increased over the past few years as the cash flow to developing countries, including trade, investments and remittances, has grown. These have a much greater significance for developing countries than traditional development cooperation. With coherent policies, Finland may help these cash flows to improve the wellbeing of people. It must also be ensured that reverse cash flows due to corruption or tax evasion, do not undermine the achievement of development goals. Changes in global value chains are needed so that from the natural resources of developing countries and the added value of work carried out there, as big and equitable a part as possible remains in the developing countries themselves to support local development efforts.

Finland and developing countries influence each other in many different ways

Based on public discussion, one could have the impression that Finland has, in respect to developing countries, the role of donor. When examined from a wider perspective, the balance may in fact be positive in our favour however, as Finland has benefited from developing countries in many ways. For example, a large part of the raw materials and consumer goods that Finns need come from developing countries. Our modern ample lifestyle is based partly on the fact that we utilise the cheap labour and natural resources of developing countries. In addition, developing economies have increasingly become a market and operational area for Finnish companies over the last few years.

The goal of Finnish development policy is to support developing countries to implement policies that are good for their economic and social development. This has positive effects on Finland's economy and other policy goals too: the reduction of poverty and inequality, as well as the development of a stable and democratic operating environment in developing countries, is in Finland's interest.

In other policy areas on the other hand, Finland usually strives to further its own interests first of all, which are not always in line with those of developing countries. Often, however, the conflicts of interest related to policy coherence are only superficial. In the long term, the interests of Finland and developing countries are often similar. Sustainable development, the reduction of inequality, security and responsible business practices are good examples of this.

There is no single model for defining the perspective of development policy, as developing countries are very different from each other

and their situations vary. Therefore, the possible effects of decisions have to be evaluated country by country.

The EU as a central channel for influence

Many policy areas affecting developing countries are for a large part, or even entirely, EU policy. Finland's influence on EU decision-making and policies is then particularly important in terms of policy coherence for development.

Commitment to policy coherence at many levels

Policy coherence for development means taking development goals into consideration in policy decisions affecting developing countries. The aim is that different policy areas act coherently towards the eradication of poverty and inequality and do not cancel out or weaken the effects of development policy.

In the UN Millennium Development Goals, the principle of coherence can be seen in the eighth goal of a global partnership for development, which includes improving trade opportunities for developing countries and debt relief, as well as securing the availability of medicines, and also making the benefits of information and communication technology (ICT) available to developing countries. This must all be done together with the private sector.

The UN is now drawing up **development goals beyond the year 2015**. The need to substantially improve policy coherence in order to achieve sustainable development has been recognised in the preparation process.

The Organisation for Economic Co-operation and Development, **OECD**, highlights its members' strong commitment to policy coherence for development. This can be seen in the 2008 declaration by the ministers of the OECD countries and in its development strategy initiated in 2012. The OECD Council has also recommended, in 2010, to its member countries the institutional reinforcement of policy coherence in central government.

In the EU, the treaty on the operations of the European Union, known as the Treaty of Lisbon, obligates the relevant policy areas to policy coherence for development. The same principle existed already in the Maastricht Treaty. The commitment of EU countries to coherence was confirmed in the latest conclusions given by the EU Foreign Affairs Council in December 2013 on policy coherence for development.

Many policy areas have effects on other countries' possibilities to make decisions in regard to the policy they make. Modifying Finnish and EU policy to be more coherent with regard to development means:

- acknowledging the problems associated to the effects of decisions and recognizing the possibility of conflicts of interest.
- striving to ensure that Finnish, EU level and international policy outside development policy also promotes development in poor countries or at least does not cause harm to them.

Finland's direct influence on the world economy and politics is small. Our political choices are nevertheless important signals to the international community. International forums usually apply the 'one country one vote' principle and, thanks to this, even small countries can have influence. It is important that Finland makes well thought out decisions and takes into consideration the viewpoint of developing countries when these decisions affect their situation and opportunities.

Finland has been working towards policy coherence for the past ten years

The government programme has policy coherence as one of its main targets, alongside the quality and efficiency of development policy. The same things are also emphasised in the 2012 **Development Policy Programme**. According to the programme, strategic management is to be developed and practices that bring together different ministries created. The priorities of development work are defined as food security, trade, taxation, security and migration. Finland also promises to promote coherence actively in the EU making full use of central government's EU preparation.

Policy coherence has been an important part of Finnish development policy for the past ten years, since the development policy programme of 2004. In 2004, coherence became a key component of the Development Policy Committee mandate and experts from different ministries were invited to join the committee. During its presidency of the EU in 2006, Finland actively promoted the principle of policy coherence in EU decision-making. In the previous government term 2007-2011, an inter-ministry coherence network was set up in Finland and advanced the handling of coherence questions in, for example, the OECD. Awareness of coherence questions has increased in government over the years; however, there have been few tangible results up until now.

In the OECD's Development Aid Committee's peer review (2012), policy coherence was held to be the area of Finland's development policy to show least progress. According to the review, the cooperation mechanisms promoting policy coherence are too informal. The OECD believes that Finland should ensure that other policy decisions affecting developing countries taken by the government support the opportunities to develop of developing countries, or at least do not weaken their position. This requires the definition of the roles of the operators in central government and the reinforcement of coordination mechanisms, as well as better monitoring and evaluation of the effects of different policies.



Zambia

According to the World Bank, rapid economic development has raised Zambia to a lower middle-income country in the last decade. There has, however, been little progress in reducing poverty with the income gap within the country growing instead. Mining is the driving force behind Zambia's economic development, but added value has remained minimal as copper and other mineral resources are exported unrefined. The mining cluster also imports the equipment and servic-

es it needs mostly from outside Zambia. Finland is aiming to increase, in addition to development cooperation, its trade and economic cooperation with Zambia. Cooperation with business would help in the transfer of technology and the opening of new kinds of business opportunities whereby the links between the mining cluster and the rest of Zambia's economy could grow and new jobs be created.

The role of the private sector in development will become more prominent

What does this mean?

Private cash flows, trade and investment all have a significantly greater effect on how poor countries develop than development cooperation. We are going through a transition period, both internationally and in Finland, where private enterprises are being increasingly invited to take a more prominent role in the implementation of development policy and cooperation. The role of companies in advancing development policy goals is significant, as they bring jobs, capital, know-how and technology to developing countries. Responsible business has the potential to greatly contribute to the reduction of poverty, as well as making development more sustainable environment and climate wise. In food production and the sustainable use of renewable natural resources too, private sector operators have a key role.

The discussion with the private sector on its role in development is often hampered by the traditional view that development policy is the domain of government and NGOs. More work has to be done still to find a common language between the corporate world and the traditional operators in development policy. To achieve results, both private and public sector input is needed and, above all, cooperation between the two.

Sustainable business operations will not be created through charity, but companies' operations have to be economically viable for both the stakeholders in developing countries, as well as in Finland. We need to find solutions that benefit everyone; poverty is best reduced by the kind of business that furthers the development of a

developing country's own private sector. Thus this is not just a question of Finnish or international companies seeking new markets.

Corporate responsibility is linked to global value chains

Responsibility has to be an integral part of the business operations of companies operating in developing countries. Corporate responsibility has, over the past few years, become an increasingly greater part of the discussion on the way companies operate. Corporate responsibility in companies is steered by internationally recognised corporate responsibility principles such as the UN's Global Compact and the OECD guidelines for multinational companies. In long value and subcontracting chains, however, implementing responsibility and cooperation that takes the developmental impacts into consideration is very challenging. The media and NGOs are constantly drawing attention to shortcomings in these, which in part also pertain to Finnish companies.

When examined from a wider perspective, it seems that this is about the fairness of global value chains: about who receives the benefits from the added value found in the frameworks around natural resources, work and trade. For this, we need to define international norms for cooperation and corporate responsibility. According to the study carried out by the UN's Global Compact and management consulting company Accenture, the leaders of large international companies were of the view that companies' own efforts were not sufficient to promote sustainable development. They believed that active government policy and

regulation is needed for this.¹ To create a level playing field, we should be developing a regulatory and operational environment that encourages sustainability and rewards responsibility. The shortcomings of the present regulatory framework are apparent, as unfortunately the disregard for the rights of workers and local communities, as well as pollution, overuse of natural resources are still all too common around the world.

It is not enough to just count the number of jobs created, but we also need to set quality criteria for them. We have to adopt regulations on what constitutes decent work as defined in the International Labour Organization conventions. The regulation of labour markets and good labour market relations also has a positive effect on stability and peace in society.

What is Finland doing?

The decision makers: The Ministry of Employment and the Economy (corporate responsibility policy), Ministry for Foreign Affairs of Finland (foreign economic relations, trade policy), the Prime Minister's Office (Team Finland)

The Government is committed to promoting the development of the private sector in developing countries and responsible business, as well as an international economic and trade system based on fair play.

The government programme emphasises sustainable economic growth, employment and competitiveness. The Government is working towards a Finland that is at the forefront of environmentally friendly, resource and material efficient economy, as well as a developer of sustainable consumption and modes of production. Economic and industrial policy actions are directed at supporting new companies that are striving for growth, creating employment and internationalising.

According to the government programme, Finland wishes to strengthen the commitment to social responsibility of all operators in the global economy. The Government supports initiatives to strengthen international norms and guidelines concerning social responsibility and promote the responsibility viewpoint being better taken into consideration in economic and industrial poli-

cy and public procurement. In addition, the commitment of rising economies to these principles is stressed.

In implementing the commitments of the government programme, the following policy lines and actions have been taken:

Action plan on external economic relations (2012). The goal of the Government's cross-sectoral action plan is to support employment in Finland and the internationalisation of small and medium-sized businesses in particular. According to the action plan, the integration of developing countries in world trade will be supported with different trade policy measures, as well as through development cooperation that supports trade (Aid for Trade). Coherence in trade and development policy is also listed as a goal.

Team Finland. Team Finland is a network-type operating model created for the implementation of the above-mentioned action plan; it brings together the main operators in these fields at home and abroad. The operators are steered by joint goals set annually by the Government.

The Government decision-in-principle on social responsibility (2012). In accordance with the Government's line, the main objective is to make Finnish companies and administration pioneers in corporate responsibility. In implementing the decision-in-principle, operators have different views on whether the regulation should be binding or voluntary. Finland has not been particularly active in promoting the regulation. At the moment, a plan is being drawn up for implementing the UN's principles concerning companies and human rights or "Ruggie Principles", which Finland will be one of the first countries to implement in the EU and internationally. The Ministry of Employment and the Economy (MEE) is in charge of coordinating the work of all of the ministries.

Also operating under the Ministry of Employment and the Economy is the Committee on Corporate Social Responsibility, which handles complaints about companies' activities and promotes the adoption of OECD guidelines on corporate responsibility. So far, there have been only a few complaints, with two cases processed in 2006 and one in 2013. There are different views also on how functional the committee is and the adequacy of the mechanism.

¹ CEO Study on Sustainability 2013, UN Global Compact and Accenture

Renewal of support instruments necessary

The Development Policy Programme (2012) laid down that the forms of cooperation available to the private sector would be developed to better respond to changes in the operating environment. Business cooperation in development cooperation is funded through Finnfund and Finnpartnership. Funding for Finnfund has been increased and it now has venture capital as its new instrument. The concessional credits programme will end after 2014 in accordance with the Development Policy

Programme. New instruments are being developed to replace this.

In addition to the development funding instruments available to companies, the development of the private sector of developing countries is supported in line with the Ministry for Foreign Affairs' Aid for Trade Action Plan (2012-2015). The creation of decent jobs and the opportunities for entrepreneurship have been set as the main goals to be achieved. Particular emphasis has been placed on the employment of women and young people, entrepreneurship and support of the poorest developing countries.

Sweden and Denmark developing new private sector instruments

Sweden and Denmark have, over the last few years, renewed their development cooperation instruments with the aim of promoting business in developing countries and encouraging companies to develop new business in developing countries. Denmark and, particularly Sweden, are way ahead of Finland in developing support instruments. Also, the number of programmes funded from development cooperation, the amount of money and administrative resources available are clearly larger than Finland's.

Sweden's overhaul has been the more thorough and now highlights the innovativeness of its new corporate instruments, its continuing development work and readiness to take more risk than before to maximise developmental impact. The changes to corporate instruments have been less radical in Denmark. Denmark has concentrated its support on a relatively small number of projects, whereas Sweden has spread its funding over considerably more instruments. The main aim of both Sweden's and Denmark's corporate instruments is the building up of the private sector as part of the activity aimed at reducing poverty, creating jobs and sustainable development. Both countries have increasingly directed their development programmes at poor developing countries particularly in Africa instead of middle-income developing countries.

A significant difference in the way of thinking between Sweden and Denmark is regarding the role of domestic companies in support programmes. As a rule, Danish corporate instruments have as a requirement the participation of a Danish company. Sweden, on the other hand, lays stress on untied aid and instruments that are open to the companies from all countries. Indeed there are also forms of support in Sweden that are only available to the country's own companies.

So far no comprehensive evaluations of the functionality of the corporate support instruments have been carried out in Sweden or Denmark, nor have the changes aroused lively discussion. NGOs in Sweden have made the criticism that there are still deficiencies in the transparency of the instruments and that their developmental impact is not sufficiently clear. Also the binding of support to domestic companies has been criticised.

Read more about the background survey: www.kehityspoliittinintoimikunta.fi

The MFA and MEE established a development group in 2013 to promote innovation and business aimed at developing countries. The idea behind this is that the internationalisation and development of Finnish companies also promotes development policy goals when they are aimed at developing countries, and in particular at solving the problems of the poorest members of society (Base of the Pyramid, BoP). The development group proposed that a development innovation programme be established to run in conjunction with existing financing instruments and support services.

On the basis of the proposal, the MFA, MEE and Tekes- the Finnish funding agency for innovation have started working on a jointly funded development innovation programme. This initiative is important. In addition to supporting innovation, we have to remember that Finnish companies have a lot of technical know-how that would be of benefit in developing countries both in reducing poverty and in achieving the goals of sustainable development. One challenge is that from the view of companies, the biggest and most realistic business potential is to be found in middle-income developing countries, whereas development fund-

ing is directed primarily at the poorest countries. Here though, the bigger risks and more challenging operating environment make business growth more difficult.

Cooperation over administrative borders

In developing public forms of financing, we also need new approaches for cooperation that transcend ministry borders. The criteria for development cooperation as defined by the OECD lay down parameters for what kind of financing for companies can actually be classed as development cooperation. When development funding is directed at the private sector, we need to ensure that the rules are clear. The effects on development need to be assessed, it needs to be transparent and in line with internationally agreed principles for the effectiveness of aid.

On the other hand, the traditional forms of support for company exports and internationalisation should also be directed at developing countries in a targeted manner, as the fastest growing

Trade Policy – WTO, EPAs

In trade policy, the Government's aim is to strengthen the international economic and trade system and to develop an open, rule-based world economy. The links between trade and development, as well as the particular needs of the least developed countries, have been recognised in the government programme.

Multilateral trade negotiations or the World Trade Organization (WTO) Doha Round did not get anywhere for a long time, but in the WTO Ministerial Conference held in Bali in December 2013 a new agreement aimed at easing barriers to international trade was made (Trade Facilitation). The agreement concerns customs procedures and its aim is to improve the fluidity of foreign trade and reduce export and import costs. In the agreement, developing countries will carry out their commitments on the condition that they receive the necessary support from industrialised countries. This is a new kind of arrangement in the WTO.

Economic Partnership Agreement negotiations (EPAs) are an important part of relations between Europe and Africa, the Caribbean and Pacific nations. The negotiations have dragged on and have had a negative effect on political relations particularly with Africa. This difficult situation seems to have come about from the European Commission having tried to make progress from the basis of the regular trade negotiation model without sufficiently taking into account the particular situation of developing countries. For example, the country-specific analysis of developmental impact has not been very good. Finland though has not actively pushed for changes to the Commission's operations.

markets and new business opportunities can be found there. We need to develop different forms of support in cooperation with different operators and to utilise existing know-how, which for the area of assessing developmental impacts can be found in Finnfund. The Team Finland model offers a good starting point in theory, but in practice the development policy perspective in it has remained somewhere in the background so far.

Financing instruments for their part encourage companies to develop their business in developing

countries. More important though is to increase Finnish companies' awareness of business opportunities offered by developing countries. In this, business organisations (the Confederation of Finnish Industries, chambers of commerce, Suomen Yrittäjät) with their local networks have a key role. Their role is central when identifying and helping potential companies and initiatives in cooperation with operators in the public sector. Here, NGOs also make good partners.

Recommendations

1. ***At the same time as new business is promoted in developing countries, so should its responsibility and effectiveness. Value chain thinking offers a good starting point.*** The target is not to just increase the volume of trade with developing countries, but to examine at the same time the impact of business on different phases of value chains from the perspective of development goals.
2. ***Business supporting development policy goals and the promotion of corporate responsibility should be better integrated as part of the work of Team Finland than at present.*** Team Finland should seriously examine the possibilities to promote responsible business in Africa and other poor countries. NGOs and their knowledge of operating environments in developing countries have to be integrated into the work of Team Finland.
3. ***Financing instruments for developing country business needs to be developed so that it covers all potential companies better than currently.*** The new development innovation programme is an important addition to the instruments available but it is only a part of what is required. Between Finnfund and Finnpartnership funding there is no public funding at the moment for small and medium-sized companies that could execute projects in developing countries. It is also necessary to develop instruments to replace concessional credits. In instruments using development funding, developmental impact needs to be assessed and the realisation of effectiveness principles monitored.
4. ***Finland has to be active in the development of norms for international corporate responsibility on the basis of the UN's Ruggie principles, as well as in the strengthening and harmonising of existing norms.***
5. ***Finland should support its partner countries' own research and analysis of the developmental impact of trade negotiations including the development impacts of EPAs and the different options for their implementation.***
6. ***Finland should promote entrepreneurship in developing countries as part of development cooperation, for example, through entrepreneurship training and the development of business organisations.*** From the perspective of human rights-based approaches, the promotion of entrepreneurship amongst groups most at risk of social exclusion (e.g. young people, women, the disabled) should be emphasised.



PHOTO: HENNA HAKKARAINEN/KEPÄ RY

Tanzania

In Tanzania that is Finland's development cooperation partner country, the state budget in 2013 was around EUR 8.7 billion. Over half of this came from tax revenues and the rest from loans, as well as development cooperation funds. The growth of tax revenues would be an important way to reduce aid and loan dependency. Tax avoidance and down-

right evasion are substantial problems. According to some estimates, Tanzania loses around EUR 545 million in revenue annually as a result of these. For comparison's sake, the country's health budget is around EUR 310 million.²

² Kepan ajankohtaiskatsaukset 12/2013; The One Billion Dollar Question: How Can Tanzania Stop Losing So Much Tax Revenue? Tanzania Episcopal Conference (TEC), National Muslim Council of Tanzania (BAKWATA) & Christian Council of Tanzania (CCT) 2012.

Controlling international tax evasion important for developing countries

What does this mean?

Tax havens, international tax evasion and aggressive tax avoidance by companies have all become questions of international politics. The discussion on-going in Finland concerns possible tax losses, but this is a much wider issue. It has been estimated that developing countries lose many times more in tax revenues than they gain in development aid. Intervening in international tax evasion has also become a significant development policy theme. Attention has now been paid more on how the domestic resources of developing countries can be harnessed more efficiently to reduce poverty.

An important part of this is the development of the tax systems and administration of the developing countries themselves. International tax evasion cannot be clamped down on only through national measures, but requires cooperation between states. The crucial issues are tax havens, the automatic exchange of tax data and the development of companies' tax reporting. The common thread behind these is improvement in the transparency and openness of tax data.

Areas classed as tax havens can, in some cases, be legitimately used by companies as part of their international business operations. Neither is tax avoidance an illegal activity. On the whole though, the strict confidentiality surrounding tax havens helps to foster tax evasion and avoidance in developing and rich countries alike.

Company taxation is part of a wider international question on where in the value chain is the added value taxed and whom does it benefit. In some cases, the interests of two states can be against each other, either two developing coun-

tries, or a developing and wealthier country. Then again, lately the problem that income is not always taxed in any country has also been recognised.

From the perspective of development policy, what is crucial is in what direction the international taxation system is developed; the issue at hand is what is a globally just, poverty and inequality reducing way to organise the taxation of supranational companies. From the point of view of developing countries, income being taxed more often in their source states might be justified. The reorganisation of the right to tax income may also mean that the income of small export-based economies, such as Finland's, may become taxable in the source states of that income.

What is Finland doing?

The decision makers: The Ministry of Finance (along with the Tax Administration under it represents Finland in the majority of OECD tax working groups with the MFA World Bank affairs), MEE (rules governing the corporate financial statements and accounting rules), MFA (development and UN policy), the Bank of Finland (IMF matters), the Ministry of Justice (comments on bills)

The Government is committed to being at the forefront in the eradication of international tax evasion. There is a promise in the government programme to examine the possibilities of using stricter criteria than the OECD to list countries and areas seen as tax havens. To close tax havens, actions such as tightening companies' reporting obligations and increasing the exchange of information between officials will be taken.

The government's line is ambitious on an international scale and it has made a solid foundation for taking Finland, in the words of the government programme, to the "forefront" internationally. In the previous government's programme, neither tax evasion nor tax havens were mentioned. The EU's and OECD's legislative proposals to a large extent define the parameters for operations against tax evasion and tax havens. There have been more initiatives in these forums during this government term than ever before.

The execution of the items recorded in the government programme has not been specified in the new programmes for the Ministry of Finance (MOF) and MEE, the exception being the MFA's Development Policy Programme. The Government is now agreeing on the joint government programme and policy for action against international tax evasion. The policy decision will be informed to Parliament in the spring.

There has however been lively debate on the issue. Both the MFA and MOF have organised high profile international seminars on the subject. In Parliament, members have submitted numerous questions in writing and initiatives to which ministers have responded by clarifying the measures Finland is taking.

Is Finland at the forefront of international cooperation?

On a practical level, Finland has been involved in international cooperation by participating in the work of the OECD and EU. In the EU, Finland's line seems to have been to support the Commission's or the Presidency's country's proposals. So Finland has not placed itself at the "forefront" by pursuing more ambitious reforms, as their adoption has not been considered very realistic.

As regards country-by-country tax reporting, Finland's position has been reserved; tax reporting has been supported but also there has also been the wish that the matter be furthered first through voluntary measures and self-regulation

by companies. The grounds for this has been the aim of trying to ease the administrative burden of companies, which is also a goal mentioned in the government programme. On this matter, there are wide differences of opinion between EU countries. Finally, the Commission was obligated to give a report on country-by-country tax reporting with any possible legislative proposals in 2018.

The automatic exchange of information has been fostered through both the EU and OECD. At a global level the most significant step forward has been that the OECD was able to develop a global standard for information exchange (Common Reporting Standard) to be ratified at the ministerial meeting of the Council of the OECD in May 2014. Also the G20, made up of the world's leading economies, committed to developing a standard in their 2013 summit.

With regards to the list of tax havens based on criteria tighter than those of the OECD, this has been taken forward primarily at the EU level, however progress has been slow. The possibility of the EU having its own black list is being investigated by an expert working group set up by the Commission. This follows the implementation of the action plan against tax fraud and evasion published by the Commission in December 2012. According to the Finnish Finance Minister, Jutta Urpilainen, Finland could go ahead with the Nordic countries or alone. According to the MOF, the other Nordic countries have not really been enthusiastic about a Nordic list and Finland's need for such a list will be assessed when the results of the EU's work is known. The MOF has negotiated information exchange agreements with states and areas classified as tax havens. At the moment, about 40 such agreements are in force.

The MFA has been considerably active regarding this issue and has highlighted tax questions in international cooperation. For example, Finland supports the Extractive Industries Transparency Initiative, which has as its aim the transparency of mining, oil and gas industry cash flows, and is a member of its board. In addition, the MFA togeth-

er with the Tax Administration has examined the giving of expert assistance to developing countries in the monitoring of transfer pricing. The MFA is also making preparations for regional support to Africa by funding the African Tax Administration Forum, which has the building of the continent's tax capacity as its goal. The initiation of bilateral development cooperation in taxation is however still in its beginning stages.

Finnfund, which comes under the guidance of the MFA, has refrained since 2013 from making investments through countries that have been named by the OECD as “non-compliant”, i.e.

countries who do not wish to cooperate. This only rules out a fraction of those areas classed as tax havens, but it is still a stricter line than that followed by the International Finance Corporation (IFC), a member of the World Bank Group.

Finland has pushed in the World Bank for the IFC to introduce an investment ban on OECD non-compliant countries. Finland's position was accepted as the common position for the Nordic and Baltic voting bloc, but it nevertheless did not go through in voting on the IFC line.

Read more on the background survey: www.kehityspoliittinentoimikunta.fi

Recommendations

- 1. Finland's position on international tax questions needs to be examined also from the perspective of global equity and developing countries.**
- 2. Supporting the development of the tax systems and administrations of developing countries should be made part of development cooperation and policy.** This is not only about the technical development of tax administrations, but also about fostering and maintaining the willingness to pay tax within society.
- 3. Finland should continue being active in cooperation with the EU, OECD, UN and World Bank in working to stop tax evasion.** Ministries' cooperation in international processes should be increased and there should be adequate resources available for it.
- 4. The model for companies' country-by-country tax reporting needs to be worked through together by central government, business and industry, and NGOs.** From this foundation, the matter can be advanced in the EU and in areas of international cooperation.



Afghanistan

International Security Assistance Force, Afghanistan's international crisis management operation finishes this year, but development cooperation and civilian crisis management will continue in the country. The reduction of crisis management increases the risk of extremist movements gaining ground and the growth of ethnic tensions. Human rights and, in particular, the position of

women and girls are in danger of weakening. Finland has increased its development cooperation with Afghanistan and one of the points of focus is the strengthening of the rights of women and girls. Results come slowly in a difficult operating environment, but in the long term the improved position of women will help to create sustainable development and to stabilise society as a whole.

Development is difficult without security and stability

What does this mean?

Over the past few years the connections between development and security have come strongly to the fore. According to many policies, security cannot come about without development and vice versa. The link between development and security is not always straightforward: economic development does not bring about stability automatically, but the increase of wealth in a society can in some cases actually spark conflict as inequality increases.

Conflicts and an uncertain security situation usually hinder development and this can be seen particularly in fragile states. It is typical for fragile states that they have gone through either an internal or external violent conflict or are in a post-conflict transition period. The OECD's Development Aid Committee lists 51 fragile states.

An indication of problems in fragile states is that many of them have difficulties in achieving the UN's Millennium Development Goals. The World Bank estimated last year that only a fifth of fragile states are able to halve extreme poverty by 2015. For this reason the attention of development policy in Finland and internationally is increasingly focused on supporting fragile states. The matter is being considered at the high-level International Dialogue on Peacebuilding and Statebuilding forum, which is co-chaired by the Finnish Minister for International Development, Pekka Haavisto.

The power relations in fragile states have to be understood

The concept of a fragile state is often politically sensitive and problematic as it lumps together very different countries. Fragility can be a wider regional issue or it might only apply to certain areas or sections of society within a state. A power struggle between different groupings can often be found behind these problems. This makes resolving them particularly difficult. Dialogue with the kind of governments that do not respect human rights, democracy and the rule of law is difficult. In extreme cases, the international community has to resort to sanctions, but their impact should not be targeted at vulnerable populations.

In the case of fragile states, the need for conflict sensitive analysis is highlighted. Operators coming from outside need to understand as fully as possible what the situation is about and what are the motives behind the power struggle. This requires a thorough knowledge of each operating environment and operator. Approaches should be always chosen on the basis of a case-by-case analysis, but in practice this does not always happen. For example, development cooperation has traditionally been directed at comparatively stable operating environments and taking into account the specific characteristics of conflicts is not always the case.

A particular challenge for policy coherence is that in fragile situations many different instru-

ments in addition to development cooperation are used: humanitarian aid, peace mediation and diplomacy, military and civilian crisis management. These instruments should function together as well as possible. This requires the different operators to share a unified view of the situation and understanding of each others' roles. In all measures the whole life cycle of the crisis or conflict has to be taken into account, from prevention to rebuilding.

Different policy sectors are controlled by different rules and procedures, which means their coordination is difficult in practice. Different principles have their own legitimacy. For example, humanitarian aid is not a crisis management tool and is not aimed at achieving long-term development; instead the idea is to save lives. In spite of this, better coordination is needed between different instruments and operators in the different stages of the conflict so that the transition from one form of aid to another would be as smooth as each situation allows. Practices that make cross-sectoral cooperation possible irrespective of different regulations and procedures must be found.

At the EU level, a more comprehensive approach to external crises and conflicts is being sought on the basis of the communication (December 2013) from the High Representative of the Union for Foreign Affairs and Security Policy and the Commission. The approach covers all of the different actions and policies in conflict situations and in the long term it should apply to all of the EU's external operations.

What is Finland doing?

The decision makers: the MFA (overall responsibility for the planning and execution of crisis management) the Ministry of Defence (military crisis management) and the Ministry of the Interior (civilian crisis management)

The Government is committed to comprehensive crisis management, the aim being to coordinate military and civilian crisis management, as well as development cooperation and humanitarian aid to achieve the best possible overall impact and long-lasting results.

The basis for Finland's security and defence policy in the government programme is the concept of comprehensive security, which includes a global security perspective. The role of peace mediation

and the development of crisis prevention are also emphasised, commitments made to drawing up a peace mediation action plan, a fragile state strategy and to considering a stabilisation fund to enhance the flexible use of Finnish resources in conflicts.

The position on development policy found in the government programme is that in the spirit of comprehensive crisis management, development cooperation funds can be increased to promote comprehensive security in areas where Finland is supporting peace mediation, peacekeeping and crisis management tasks. In the Development Policy Programme, there is a promise to examine the possibilities to continue putting emphasis on the particular needs of fragile states in development policy and cooperation. For this, separate instructions for fragile states have been drawn up.

Comprehensive crisis management does not work in practice yet

The strategy for comprehensive crisis management was published in 2009, but in practice it is still not implemented in the best possible way. This the conclusion the National Audit office to in its audit report on military crisis management (2023) and in the final report of the assessment of the effectiveness of comprehensive crisis management project (KRIHAVA, 2012)

The study showed that the framework for implementing comprehensive crisis management exists but the actions listed in the strategy have, however, only been partly implemented. In spite of the strategy, there is no unequivocal conception of what is meant by comprehensive crisis management and the term is not even defined clearly in the strategy. In addition, Finland lacks a coherent planning and decision-making process that would support comprehensive action.

National or regional cross-sectoral working groups have not been used in the preparation or coordination of crisis management operations, even though their use has been deemed necessary in different situations. Nor has there been progress in the development of the stabilisation fund mentioned in the government programme. In 2012, the internal guideline on the funding of mediation using fast-track project management procedures has, however, brought more flexibility

ty to the use of development cooperation funds to support mediation.

The government programme made a commitment to the fragile state strategy. Instead of a wider strategy, the MFA has recently published guidelines for the implementation of the Development

Policy Programme in fragile states, which is the first time that development cooperation in fragile states has been defined. However, it does not define what concrete reforms inland will implement to improve the effectiveness of development policy in fragile situations. Another weak-

Many policy lines in security and development

- **Action Plan for Peace Mediation (2011)**

According to the plan, peace mediation complements the range of methods available for crisis management and development policy. With the help of mediation, a foundation for longer-term peace building and post conflict rebuilding can be built.

- **Government Report on Security and Defence Policy (2012)**

In the report, the participation of Finland in international crisis management in cooperation with the UN, EU, NATO and OSCE is described.

- **The 1325 Action Plan (2012)**

In 2008 and 2012 Finland published National Action Plans to implement the UN's Security Council Resolution 1325 (Women, peace and security). The action plan is meant as a tool to help improve the position of women and increase their participation in peace and security-related matters.

- **Finland's Humanitarian Policy (2012)**

The policy is based on internationally agreed principles, the bases for humanitarian assistance laid down in international law and Finland's development aid programme.

- **The Finnish Foreign Service UN Strategy (2013)**

The aim of the strategy is to promote Finland's goal more effectively in the UN. The emphasis is on global development targets, including conflict prevention and resolution.

- **The development policy and aid of Finland in fragile states: guidance to enhance the implementation of development aid (2014)**

With these instructions, the aim is to better meet the challenges in development policy that fragile and transition states, as an operating environment, present. They define the procedures and actions that can be used to develop the planning, execution and monitoring of development cooperation.

- **The Update of Finland's National Strategy for Civilian Crisis Management (2014)**

This is an update to the National Strategy for Civilian Crisis Management approved in 2008, which takes into account that operating environments are becoming more and more challenging. The goal is for Finland to be able, even at short notice, to send a sufficient number of competent experts to carry out civilian crisis management.

ness is that the guidelines only apply to the implementation of development cooperation and does not directly obligate the government on a wider scale.

In the EU, Finland has actively pushed the Council for work to develop a comprehensive EU approach and has stressed the importance for developing coherence between security and development policy.

Recommendations

1. ***Comprehensive crisis management needs to be developed so that the basis for all operations in crisis countries is the achievement of social stability and the reduction of poverty in the long run.*** Here civilian crisis management and the transition from it to development and other cooperation play an important role. Military crisis management should also support this aim. Under the auspices of UM, cross-sectoral crisis-specific working groups need to be set up to achieve the above-mentioned aim.
2. ***Finland should utilise more effectively the knowledge, expertise and networks of NGOs and immigrants living in Finland (diasporas) when operating in fragile states.*** For this kind of cooperation small-scale, yet flexible, funding is needed, for example, for carrying out analyses and surveys regarding the fragile situation. The funding of international NGOs also needs to be developed to meet this need.
3. ***The role of women in peace mediation, building and treaty making needs to be promoted by effectively implementing Finland's 1325 programme.*** In monitoring the programme, clear indicators should be used and for implementation there should be the budget articles of each ministry concerned. Funding also needs to secure financial support for Finland's 1325 network.
4. ***Finland needs to defend the rights of children in particular in its operations related to fragile states*** by such actions as striving to increase the monitoring regarding children's rights. Finland should also push for the reduction of armed conflict to be included in the post 2015 development goals.
5. ***Finland should strive to push for the development of early warning systems to improve civilian intervention in conflicts before they escalate into armed clashes.***

In immigration, the needs of the country of departure also have to be considered

What does this mean?

The number of migrants in the world has reached record-breaking levels. According to UN estimates, there were 232 million last year, which is

3.2% of the world's population. In the year 2000, there were an estimated 175 million migrants.³

Immigration to Finland and other industrialised nations is only a tiny fraction of immigration as a whole. For example, of the 15 million or so refu-

³ UN Department of Economic and Social Affairs

Remittances from migrants are nearly 500 billion US dollars

Remittances from migrants significantly improve the standard of living of individual families in developing countries. They also give a welcome boost to national economies. The money is used to build houses, start companies, buy consumer durables and pay for children's education. Remittances are particularly important for the inhabitants of countries suffering from extreme poverty and conflicts. The 800,000 or so Somalis that have moved away from Somalia send an estimated USD 2 billion there every year.

According to the calculations of the World Bank, migrants' remittances to developing countries were USD 414 billion dollars last year - that is over three times more than the amount for official development aid. The remittances received by developing countries are estimated to grow to USD 540 billion by the year 2016.⁴

According to surveys carried out by the World Bank, commission on remittances is on average 9%, but in some cases migrants have to pay up to 20% commission to agents. These extra expenses mean less for poor families and, for this reason, reducing commission rates is important. According to the World Bank, this could be done by increasing competition and transparency in the money transfer business, as well as relaxing the regulations surrounding remittances.

The Overseas Development Institute has calculated that the leading industrialised nations' (G8) target of reducing the average cost of remittances from 10% to 5% would add another USD 1.8 billion to cash flow into Africa annually. The sum is equivalent to the education costs of 14 million children of elementary school age.

⁴ Migration and development brief, World Bank, 10/2013



Somalia

The Somali community living in Finland is a good example of a diaspora that is significant in the development of their former homeland. There are no records of remittances from Finland to Somalia, but money sent by relatives is an important source of income for many families. In recent years the diaspora has also begun to take part

in development cooperation. At the moment, around ten associations with Somali backgrounds receive NGO support from the MFA for projects around Somalia. The operations of these Somali associations are coordinated by the Finnish Somalia Network, which also cooperates with many Finnish NGOs.

gees in the world, around 80% are living in developing countries. In 2013, around 3,200 asylum seekers came to Finland. The annual refugee quota has been 750 over the past few years.

At the end of 2012, there were around 200,000 foreign nationals living in Finland, of who just a little over 30% were citizens of developing countries. The vast majority of them have come to Finland through work, study or marriage.

Immigrants are part of the country of departure's diaspora

States wish to promote immigration that brings skilled labour into the country and slows down the weakening dependency ratio due to the ageing population. This is one of the starting points for the Future of Migration Strategy 2020 decided by the Government in June 2013, which aims to build a foundation for more proactive immigration policy.

This is not however just about immigration into Finland, but also about people's mobility, which also has an impact on the countries of departure. Immigrants need to be seen as a resource for developing both Finland and the country of departure. Instead of using the term, "immigration", we could start using the word "diaspora" to remind us that immigrants from different backgrounds still have strong links to their home country. The viewpoint of the country of departure is often missing from the discussion regarding immigration policy.

The significance of remittances from migrants to developing countries has figured prominently in development policy discussions in recent years (see Infobox). Migrants' ties with their countries of origin are usually close: they disseminate different kinds of know-how and values to their home countries. Finland should also bear in mind that the benefits brought by immigrants are not limited to skilled workers. Their contact networks can be useful for example in the creation of trade relations.

In promoting labour migration, there is a danger of the countries of departure suffering from a brain drain, i.e. skilled labour disappearing overseas. The solution may be found in "brain circulation", e.g. by making circular migration easier. Sweden, for example, has striven to promote circular migration by giving immigrants the possibility to move their place of residence between Swe-

den and their country of departure without invalidating residency permits. This way, the skills and knowledge acquired in their new homeland can be utilised in their country of departure too.

What is Finland doing?

The decision makers: The Ministry of the Interior (the preparation of legislation and policy related to immigration in general is the responsibility of the Migration Department), MEE (integration and labour migration) and MFA (compiles information on the conditions in countries of departure through Finland's network of diplomatic missions)

The government is committed to furthering the integration of immigrants and raising their rate of employment. In addition, Finland promises to handle applications for asylum more quickly and to fight racism more effectively. The Government is also aiming to increase labour migration based on genuine demand for workforce.

The Future of Migration Strategy 2020 examines issues relating to immigration, mobility and integration mainly from a labour migration perspective. One of the main themes of the strategy is anticipated and controlled immigration, which promotes well being in society and strengthens Finland's competitiveness. It is hoped that immigrants can also utilise their skills and participate in building Finnish society.

The principle of policy coherence for development is mentioned in the strategy and its associated action plan (March 2014), but the actual recommendations for action are few. The action plan includes the utilisation of the know-how and contacts of immigrants' associations in development cooperation. In addition there are promises to direct funding to develop the kind of business that supports the development of the countries of departure of immigrants.

The danger of brain drain is not recognised in the action plan, nor is the need to create new practices to prevent it when recruiting people from abroad. Also not mentioned are circular migration and any measures to facilitate such migration.

Demand for labour has an effect on immigration

The temporary and permanent immigration of skilled labour needs to be promoted according to the Future of Migration Strategy 2020. This will be done by developing the forecasting of demand for labour and the capacities for targeted recruitment overseas. During the present government term, the recruitment of employees from outside the EU/ETA is regulated by consideration on the availability of labour. According to this consideration, the availability of the necessary labour for the work in question has to be investigated before a residence permit can be issued. With the exception of some individual pilot projects,

there has been no active recruitment from abroad in Finland and it is not considered topical at the moment given the downturn in the economy and weak employment situation. In various ministries, it is seen as the time to start preparing the systems for the recruitment of overseas labour to meet the need for it in the future.

In the countries of departure, commercial recruitment activities is a negative phenomenon where people are easily tricked and run up debt when recruitment brokers give misleading information and exploit, for example, people applying to study in Finland. The MFA is striving to monitor recruitment brokering in different ways and to make it transparent, but this is difficult especially in areas where diplomatic missions are

Foreign students in Finland and development policy

There are conflicting goals and expectations when it comes to foreign students in Finland: on the one hand students are expected to return to their country of departure, on the other as they have been educated with Finnish taxpayers' money, they are expected to stay and make up part of the workforce. It is quite clear though, that it is the students themselves who decide if they go back home, stay in Finland or move to a third country. Finland should support both moving back home, as well as the possibility to stay in Finland. In real terms, this might mean that Finland's domestic languages are studied as part of a degree course. Also, the cooperation between Finland and developing countries' universities should be supported to increase both research and institutional capacity.

In autumn 2013, the Ministry of Education and Culture's working group for promoting education exports proposed the introduction of university tuition fees for students coming from outside the EU/ETA and scholarships for students from developing countries to be paid out of development aid funds. From the point of view of development policy, the granting of scholarships is not an effective tool as it helps only a limited number of people and there is no guarantee that it will have a positive impact on the development of the country of departure. Instead, the goal should be the building of the educational systems of developing countries and here more emphasis than before should be placed on the development of higher and vocational education. Cooperation along with student, research and teaching staff exchanges between different institutions would also be highly desirable.

sparse. One solution that has been suggested is that Finnish educational institutions carry out targeted advertising of admissions in certain countries using methods other than public admission advertisements.

The reality of immigration policy can also be seen in the deaths of migrants on the EU's borders, which are a stark and sad example of the lack of policy coherence for development. People have to risk their lives to escape extreme poverty, as EU immigration policy is so tight. In connection with this, there have been proposals that the EU use enhanced support measures in the countries of departure of refugees to curb uncontrolled migration flows.

Recommendations

1. ***Finland needs to remove the barriers to circular migration and ensure that immigrants not only have the possibility to integrate into their new homeland, but are also able to change their place of residence flexibly between Finland and their country of departure should they wish to do so. Regulations and procedures for residence permits need to be examined and possibly made more flexible, so they do not act, in practice, as barriers to circular migration.***
2. ***Cooperation with different immigrant diasporas in order to develop their countries of departure needs to be increased in the fields of development cooperation, global education and international business, as well as comprehensive crisis management.***
3. ***Finland needs to push for new tools for EU immigration policy to improve the rights of immigrants. EU information campaigns and possibly migration centres in the countries of departure are a way to provide accurate information on working, studying and living in the EU for those wishing to migrate.***
4. ***Refugee policy is the cornerstone of the implementation of international protection in Finland and its development is still important.***
5. ***Finland needs to push for the creation of legal channels to enter the EU for those in need of international protection, particularly children.***



PHOTO: MILMA KETTUNEN

Vietnam

Vietnam belongs to those countries in the world where the impact of climate change is particularly great. The Intergovernmental Panel on Climate Change warns that alongside rising sea levels, droughts, floods and hurricanes will become more commonplace. Poor communities who have the least capacity to adapt to changes will suffer the most. In Vietnam's climate change strategy, storm and flood alerts are emphasised, as well as measures to improve food security and water supply. The country has received over USD 770 mil-

lion of international climate funding since 2003, USD 616 million of it coming from Japan.⁵ Funding in the form of aid and loans has been directed increasingly towards projects boosting energy efficiency and the use of renewable sources of energy. In Finland's bilateral development cooperation, Vietnam's adaptation to climate change has been supported with weather monitoring services and projects developing the sustainable use of forests.

⁵ Climate Funds Update (climatefundsupdate.org), publisher Heinrich Böll Stiftung North America and Overseas

Poor countries need support in combating climate change

What does this mean?

Climate change is a development issue of colossal proportions: poor countries and people suffer the most from global warming and the increased occurrence of extreme weather phenomena. The poverty problem cannot be solved without curbing climate change and adapting to it. Conversely, the more developed and wealthy societies are, the less vulnerable they are to the effects of climate change. In this sense climate change further increases the importance of development policy and cooperation. It has to be ensured that development policy and cooperation is sustainable climate wise, i.e. takes into consideration both the need to adapt to climate change and aims for the reduction of greenhouse gas emissions.

In the UN's climate convention, Finland and other rich countries are committed to supporting economic measures that help developing countries curb climate change and adapt to its consequences. The goal of on-going negotiations is to sign a new climate change treaty that will cover all countries by the end of 2015. Climate funding – the financial support given to developing countries for curbing climate change and adapting to it – is one of the crucial issues in the negotiations.

What is important from the point of view of policy coherence for development, alongside climate funding, is that Finland and other rich countries reduce their own emissions to curb climate change.

Developing economies mix up the established order

The traditional set-up between developing and industrialised countries is being changed by China and other large developing economies whose emissions have grown rapidly over the past few years. The EU now wants to break down the established battle lines and get large developing economies to primarily finance their own climate measures, as well as contributing to multilateral climate funding. The large developing economies are already investing heavily in combating climate change by taking new technologies into use in their own countries and, increasingly, in other developing countries. Some developing countries following China's lead participate not only as recipients of funding but also as financiers by making symbolic contributions to the worldwide climate fund, Global Environment Facility. In the EU's opinion, these facts should be acknowledged positively in negotiations. Developing countries do not have to be forced to accept the same obligations as industrialised countries; instead all the countries in the world should work together towards a common calculation and evaluation model for climate funding. Also, there should be efforts to direct private investments more and more towards the fight against climate change.

According to the principle of common but differentiated policies, developing countries do not have the same emission reduction obligations as industrialised countries. This is important for

developing countries, as historically it is the emissions of industrialised countries that have caused climate change. China's carbon dioxide emissions have grown to be the world's largest. Nevertheless, a significant part of these emissions come from the production of consumer goods for Western markets. However, it is clear that the warming of the atmosphere cannot be stopped unless every country takes part in efforts to save the environment to the best of their ability. Some developing countries believe that as abilities grow, so do the responsibilities of nations to participating in the fight against climate change.

Climate funding must not be at the expense of the poorest

Present global measures to reduce emissions are not enough and climate funding is one way to help achieve emissions reductions in developing countries.

Climate funding is also needed to help developing countries adapt to climate change. In the EU's policy, public funding should be directed mainly towards adaptation measures and the most vulnerable countries. Here, the target of public cli-

mate funding and other development cooperation is largely the same. Private funding is more directed towards reducing emissions and wealthier countries.

From the point of view of policy coherence, it is crucial that money directed towards reducing emissions cannot reduce the money available to the poorest countries and development funding primarily aimed at reducing poverty. This is a threat if development cooperation funds are increasingly used to cover climate policy funding obligations, though overall resources do not increase or may even fall.

The European Court of Auditors⁶ has criticised the European Commission and member states for not having a clear plan and timetable for the fulfilment of their climate funding pledges.

What is Finland doing?

The decision makers: the Ministry of the Environment (main responsibility in international climate negotiations), MEE (Finland's energy and cli-

⁶ EU Climate Finance in the Context of External Aid, Special Report 17/2013, The European Court of Auditors

One hundred billion for climate funding

In the Copenhagen Climate Summit of 2009, short-term climate funding of USD 30 billion was agreed for the period 2010-2012 and increasing funding to an annual level of USD 100 billion by 2020. The goal only applies to developed countries and covers funding from public, private as well as new, innovative sources of funding. How much precisely is going to come from each source of funding or from different financier countries has yet to be agreed. According to the agreement made in Copenhagen, "new and additional resources" are to be directed towards climate funding. In addition, they should be allocated in equal measure to curbing climate change and adapting to it. In adaptation funding, the least developed countries, small island states and Africa have priority.

For a new climate agreement to be reached it is crucial that developed nations are able to present a reliable and credible plan for reaching USD 100 billion dollar annual funding by 2020. The key element in achieving this goal is a systematic schedule for public funding. Developing countries proposed in the Warsaw Climate Change Conference in November 2013 that industrialised nations should reach USD 70 billion annually by 2016. The first round of financing of the Green Climate Fund should happen in 2014 and developing countries have proposed a target of USD 20 billion for this. In addition, clearer plans on how private funding is going to be increased should also be presented.

mate policy), the MFA (development cooperation related to climate projects)

The Government is committed to reducing Finland's emissions in line with the Kyoto Protocol, EU climate policy and National Energy and Climate Strategy (2013). In addition, Finland is committed to support measures that help developing countries curb climate change and adapt to its consequences.

According to the government programme, Finland acknowledges the uneven distribution of the effects of climate change globally, as well as the problematic relation between climate change and poverty. Finland participates in international climate funding in accordance with its commitments. Furthermore, the Government supports the coordination of climate and development policy and is examining the possibilities of using innovative financing instruments to implement climate policy.

In the government programme, a commitment was made to direct the proceeds from the auction of emission rights towards climate funding and development cooperation halfway through the government term. In accordance with this policy, in spring 2013 the Government decided to direct proceeds from emission right auctions towards international climate funding and development cooperation as it accrued. In the 2013 supplementary budgets, a total of EUR 55 million of auction proceeds were directed towards development cooperation. About half of the sum was

directed towards climate funding. The decision drew positive attention at the Warsaw Climate Change Conference. More of these kinds of decisions are needed from Finland and other industrialised nations so that progress can be made in climate negotiations.

Finland's share of the short-term climate funding agreed in Copenhagen was EUR 110 million for 2010-2012. Finland has achieved this goal by increasing its climate-related development cooperation when compared to the 2009 level. Finland's climate funding is therefore defrayed from development cooperation funds which NGOs have criticised as being counter to the "new and additional resources" promised in the Copenhagen agreement. In 2020, Finland's contribution is estimated to rise by EUR 70-200 million per year. The amount depends on how large the public funding share of the total will be. It is also affected by how the burden is shared between different sources of funding inside the EU and between other countries.

In the Development Policy Programme, climate proofing is one of three underlying goals. The objective is to integrate adaptation measures to development cooperation, assess the climatic effects and strive for carbon neutrality. According to the Development Policy Programme, Finland also stresses the position of developing countries and women in particular, as well as their particular needs in environment and climate negotiations and the implementation of decisions.

Recommendations

1. *Long-term funding from the state budget suits the nature of development cooperation funding the best. **Though emissions trading is by its nature an insecure source of income, the proceeds from it are an invaluable part of development cooperation funding and the fulfilment of international climate funding obligations for the time being until development cooperation funding from the budget can be got onto a growth path towards 0.7% of GDP.***⁷
2. ***Finland should formulate a plan and schedule for how it intends to fulfil its climate funding obligations.** The plan should demonstrate and ensure that climate funding does not reduce the funds available for poverty reduction and development funding for the poorest countries.*

⁷ Bland UPK:s medlemmar understöder inte Finlands Näringsliv EK att inkomster från utsläppshandeln styrs till utvecklingsfinansieringen, utan de bör användas inom utsläppshandelssektorn till exempel för kreditering av indirekta kostnader för utsläppshandeln.



The government has to make a firmer commitment to working towards policy coherence

The Development Policy Committee's assessment is that there were several opportunities during this government term to promote policy coherence for development in the Government's work. It is being considered in different ministries, what the development aspect means in their respective policy areas and the need for and the significance of coherence is being recognised. The structures of decision-making, however, do not at present sufficiently support the development aspect being taken into consideration and analysed in matters affecting developing countries.

Summary of Development Policy Committee's assessment:

- MEE has taken the initiative in cooperation with the MFA to promote business in developing countries and is aiming to start cooperation related to this with immigrant diasporas. In Team Finland, developing country business and corporate responsibility are included at the strategy level, but firmer commitment in implementing these in practice is still lacking. In developing funding for developing country business, the borders between different ministries have caused challenges.
- The MOF and the have both been deeply involved in international cooperation to curb tax evasion, which for developing countries is an important issue. Closer cooperation between ministries would bring better results from the aspect of development. MEE's viewpoint is linked to the lightening of the administrative burden of companies, for which reason Finland's line of country-specific reporting has been cautious.
- There are good opportunities in comprehensive crisis management strategy and the MFA's fragile state guidelines for making cooperation between the MFA, MOD and MOI closer. The ministries have plenty of cooperation going on, but a more systematic way to take the development aspect into consideration on a crisis-by-crisis basis is still missing.
- The MOI, MEE and MFA are all in close cooperation in immigration policy also with the countries of departure in relation to the evaluation of situations, but more widely the development aspect – for example in combating brain drain from developing countries and recognising the importance of diasporas – is not as yet a part of Finland's immigration policy.
- The cooperation between the Ministry of the Environment and MFA is close in the preparation of the post 2015 development goals, climate policy and funding, because the situation and position of developing countries is at the centre of climate negotiations. Finland's international climate funding comes from development cooperation funds.



PHOTO: HANNA ROUNAP

Policy coherence would strengthen food security for developing countries

The broad-based working group led by the MFA examined how food security in developing countries could be improved through policy coherence and cross-sectoral cooperation. This food security pilot scheme was realised as part of the implementation of the Development Policy Programme. The programme undertook to assess and promote the coherence of agricultural, fishing and environmental, as well as trade and development policies that have an effect on food security.

The coherence tool developed by the OECD was used as the basis for the food security pilot. The working group produced an analysis and recommendations for actions for political decision makers and development suggestions for the OECD. The main message was that the people of developing countries have more chance of having sufficient food when different administrative branches and stakeholders cooperate and influence policy decisions listening to each other.

The pilot scheme was held as a successful example of the participation of different stakeholders and the forming of a common view of what coherence means in terms of food security. The implementation of the pilot scheme's recommendations is the responsibility of the ministries that participated. Monitoring implementation twice a year is a food security group made up of ministries, research institutes and organisations. Monitoring and keeping the issue going needs to be maintained for a few years. To improve food security, a stronger commitment has to be made to it also in development cooperation and policy. The experiences and procedures gained from the food security pilot scheme need to be taken into use in other coherence-related issues mentioned in the Development Policy Programme.

Who is responsible for coherence work?

In promoting policy coherence, the main question is, whose responsibility is it ultimately to ensure that the development aspect is analysed in the decision-making process and its relation to other policy goals weighed up. At present, responsibility remains largely with the MFA, which does not really have the possibility to require from other ministries developmental impact analysis and ensuring coherence. The cross-sectoral nature of the work and, in accordance with the recommendation given by the OECD already in 2010, the Prime Minister's Office should be involved in promoting coherence. Policy coherence for development should be linked also to a wider promotion of sustainable development, as is already happening on an international level in the preparation of the post 2015 development targets.

The Development Policy Committee has in its earlier term recommended the establishment of a global issue ministerial working group and a new body in government that would support the ministerial working group and progress in development policy coherence (Development Policy Committee annual review). During the last government term, the MFA founded an inter-ministry coherence network which, however, did not have an official mandate. New mechanisms have not been created, but rather the promotion of policy coherence has been aimed for as part of other operations and existing frameworks, such as the EU preparation mechanism. For different issues informal cross-sectoral working groups have been created that have had mixed results.

The MFA's role is to be a spokesperson for policy coherence for development and an expert in the development aspect. The MFA has promoted coherence during this government term by calling the coherence network together twice a year on a high level and drawing up guidelines for its own representatives in EU departments on how the development aspect should be taken into consideration. The food security pilot scheme promised in the Development Policy Programme was implemented under the auspices of the MFA (see Infobox).

As development policy expertise is to be found in the MFA, it will continue having a central role in coherence work. A stronger cooperation mechanism for promoting coherence might be based on close cooperation between the MFA and the Prime Minister's Office.

Making cooperation between ministries close and more systematic is important, but cooperation between civil servants is not enough. What is needed, in addition, is leadership at a political level because in coherence work a position has to be taken in political questions: the issue here is recognising and evaluating the possible conflicts between the goals of different policy areas, as well as the political solutions based on these. At a political level, the Minister for International Development has a crucial role. Ensuring sufficient political support for the integration of coherence into the operating cultures of different ministries also requires the Prime Minister and the Finance Minister to also contribute.

An important question at the political level is the resourcing of coherence work. All ministries suffer from a chronic lack of workforce and, in accordance with the government finance productivity programme goals; the number of personnel is again to decrease in the next few years. Cooperation between ministries easily suffers in this situation. The challenges of sustainable development – from a wider perspective than that of just development – are still strongly cross-sectoral by nature. The work of the Government in developing and resourcing work to guarantee policy coherence from the global sustainable development perspective should be the primary goal.

In Parliament, development policy is mainly handled only by the Foreign Affairs Committee. Policy decisions affecting developing countries are, however, handled in all committees. It would be important that in these, both members of parliament as well as secretariats had sufficient expertise and view of what the development aspect means in the matters they were handling. As EU policy has a significant role in terms of coherence, the position of the Grand Committee is particularly important.

Recommendations

1. **A stronger governmental mechanism is needed to ensure that decisions affecting developing countries are evaluated from the policy coherence for development point of view.** The matter in hand could, for example, be a regular examination of different policy areas carried out by the MFA and the Prime Minister's Office under the auspices of the Minister for International Development.
2. **The work of the Government in developing and resourcing work to guarantee policy coherence from the global sustainable development perspective should be the primary goal.** Sufficient resources have to be reserved and directed towards cooperation between different policy areas.
3. **The role of Parliament in promoting policy coherence needs to be strengthened.** The Ministries should draw up a comprehensive coherence report for Parliament once every government term. The different political processes in all of the committees, particularly the Grand Committee, should have adequate information on how the matters being handled affect developing countries.
4. **Different stakeholders need to be involved more closely in the expert level work to promote policy coherence.** Research information, assessments and extensive public discussion on the possible developmental impacts of different decisions and policy choices are needed.
5. **Finland should raise coherence to one of its main priorities in the EU, OECD, UN and other international negotiations.** Improvement coherence also needs to be addressed particularly in the post 2015 development goal preparation process.

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(Deputies in brackets)

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- Katja Kandolin, Assistant

Abbreviations

ATAF	African Tax Administration Forum
CBDR	Common but differentiated responsibility – a principle used in emissions negotiations
DAC	Development Assistance Committee of the OECD
EITI	Extractive Industries Transparency Initiative
EK	Confederation of Finnish Industries
EPA	Economic Partnership Agreements. The EU's economic partnership agreements with Africa, the Caribbean and Pacific Nations
OSCE	Organization for Security and Co-operation in Europe
GCF	Green Climate Fund
GEF	Global Environment Facility. A worldwide climate fund
IDPS	International Dialogue on Peacebuilding and Statebuilding. A high-level forum supporting fragile states.
IFC	International Finance Corporation. A part of the World Bank Group
ILO	International Labour Organization
IPCC	Intergovernmental Panel on Climate Change
ISAF	International Security Assistance Force. Afghanistan's international crisis management operation
KEPA	Service Centre for Development Co-operation
KRIHAVA	The assessment project of the effectiveness of comprehensive crisis management.
OECD	Organization for Economic Cooperation and Development
MEC	Ministry of Education and Culture
MJ	Ministry of Justice
PCD	Policy coherence for development
MOD	Ministry of Defence
MOI	Ministry of the Interior
Tekes	Finnish technology and innovation development centre
MEE	Ministry of Employment and the Economy
MFA	Ministry for Foreign Affairs
MOF	Ministry of Finance
WTO	World Trade Organization



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.

