

# FINLAND'S *d e v e l o p m e n t* POLICY IN 2017

- How is Finland strengthening the economies,  
private sector and taxation capacity  
of developing countries? -



Development Policy Committee

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# Foreword

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**T**his year we are reviewing Finland's role in strengthening developing countries' economies, expanding their private sectors and building up their taxation capacity. This is a topical issue in Finland as well as globally. For example, according to the 2015 Afrobarometer, people in Africa want jobs, trade and progress above all. In order to make this a reality, we need well-planned development cooperation, corporate responsibility, and responsible companies - to open up new opportunities, to share risks, and to create jobs. It is important, however, not to lose sight of the ultimate aim of development policy, which is to reduce poverty and to improve quality of life.

All people, especially the young, need faith and confidence in the future. Therefore it is important that economic growth should also create jobs and prosperity in the developing countries. The fruits of growth should be distributed evenly and not accumulate in the hands of the few. Economic growth must be environmentally and socially sustainable and it should be increasingly channelled to improving the wellbeing of ordinary citizens. The main message of the Agenda2030 is "Leave no one behind". This means that we must work to reduce and prevent inequality. We should keep this message in mind in all policy-making.

The key question of the report is how Finland can best help developing countries to strengthen their economies,

expand their private sector, and to build more effective taxation capacity. The focus of Finnish development policy has shifted ever more towards strengthening the private sector and towards business-oriented development cooperation. For this reason, it is crucial to determine the criteria and terms for development cooperation funding that aims to strengthen the economies of developing countries. It is also vital to assess the effects of this spending on the lives of the average people in these countries. It is important to estimate how the new priorities and tools can best add to the achievement of the development goals laid out in Agenda2030 and to the principles considered important by Finland. These include the human rights-based approach, and particularly the improvement of the status of women and girls.

Finland can make a significant development policy contribution, even though the sums used are not substantial. It is essential to allocate the funds effectively, and to safeguard that in all fields Finland can help developing countries to reinforce their economies, and encourage sustainable growth both domestically and globally. Finland also has a great deal of expertise to share in such areas as taxation and good governance. However, a well-managed development policy requires monitoring, evaluation, and continuous improvement of its operations. The Development Policy Committee wishes to be firmly involved in this work.

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# Summary

In line with the current Government Programme and the Government Report on Development Policy, the focus of Finland's development policy is now on efforts to strengthen the economies of developing countries, their private sector, and tax base. In this report, the Development Policy Committee examines the implications of these new priorities, how they will impact Finland's development policy and its execution in practice.

The new priorities are important, and welcome. The main issue, however, is how and on what terms the strengthening of the economies and private sector in developing countries can meet the rights and needs of people living in these countries. In the view of the Development Policy Committee, Finland should work to ensure that the poorest people, especially women and girls, can get a greater share of the economic benefits generated by economic growth. Finland must strengthen the developing countries' own resource base, create stronger foundations for entrepreneurship and economic policy, and allow more people to benefit economically from the growth process.

In the efforts to strengthen entrepreneurship in the developing countries, the quality of the jobs should be an important consideration. The criteria for decent work laid out by the ILO should be adhered to. For this reason, development cooperation funding should only go to enterprises that operate responsibly in accordance with national and international norms, such as the UN Guiding Principles on Business and Human Rights. The companies must be able to demonstrate that their business operations can help to reduce poverty. The impacts of private operators should be assessed both beforehand and afterwards so that the consistency of their activities can be ensured and that resources are not wasted. When companies are provided with public sector support, the development, human rights and environmental impacts of the activities will be assessed, and reports on the results are required.

Supporting developing countries in building up their economies and private sector can be difficult. For this reason, there must be a strong consensus on the guiding principles and their content as well as on the degree of their obligatory nature. This implies that the new priorities need a detailed action plan and guidelines, which reach over several government terms and can be easily followed by different actors involved. In particular clarifications are needed regarding human rights based approach, the principles of coherence and transparency as well as results based management. In order to implement the sustainable development Agenda2030 credibly, Finland must also have a clear and concrete plan for how to strengthen the economies, private sector, and taxation capacity in the developing countries.

During the current government term Finnish development cooperation tool kit emphasises the role of Finnish companies in the strengthening of the private sector in developing

countries. This is an important aspect, but too narrow a view by itself. The Development Policy Committee underlines that Finland should be more consistent in its efforts to strengthen the economies and private sector in all partner countries. Finland should do this as part of its development cooperation, and by pursuing a development policy that is in accordance with the Agenda2030, as well as by promoting cooperation with companies. The cooperation should aim at complementarity, between the actors involved, the financing models, and the course of action as well as at perseverance in implementation of the objectives.

The Development Policy Committee would like to point out that a development policy focused on strengthening the developing countries' economies, and taxation capacity, requires more than just cooperation in the partner countries. This approach should be examined as an entity that entails local, regional and national matters as well as the rules, treaties and chains governing international trade and taxation, which connect the partner countries in global economy and trade.

We welcome Finland's Tax and Development Action Programme, which is a notable development policy initiative since taxation is an essential part of the economy in every country, and it is crucial in ensuring the proper functioning of a society and the wellbeing of its citizens. Taxation enables economic resources to be retained in developing countries, and these resources can be used for narrowing down gaps between countries, and between individuals. It is clearly stated in the Tax and Development Action Programme that all its goals require policy coherence as well as cooperation between the parties involved. Finland should yet clarify its goals in international tax policy.

As the Development Policy Committee sees it, Finland would be able to play a stronger role as an international development policy actor if it could rely on an action plan for its multilateral development cooperation. This would increase openness and monitoring of effectiveness as well as results based management both within the Ministry for Foreign Affairs and nationally.

The Development Policy Committee is, however, worried that the cuts in development cooperation funding, limited personnel resources, and challenges in performance monitoring complicate the translation of the new development policy priorities into practical action. The priority-specific targets should be in accordance with the resources available. The targets also need clear and appropriate indicators for assessing their results. Still fewer staff at the Department for Development Policy in the Ministry for Foreign Affairs is responsible for managing an increasing number of different tasks. For example, only a few people manage private sector cooperation, even though importance of the sector has grown considerably. The dimensions of under-staffing are clearly felt in the Finnish diplomatic missions in the partner countries.



A photograph of a man in a dark jacket and cap riding a bicycle with a yellow basket on the back, set against a backdrop of a grassy hill and a hazy sky. A large orange circle with a white number '1.' is overlaid on the image.

# 1.

- Introduction -

## More emphasis on the private sector and taxation

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How can Finland meet the needs of the people in the  
developing countries through the private sector and taxation?

In line with the Finnish Government Programme (2015), the focus in Finland's development policy is now on strengthening the private sector and the tax base of the developing countries. The new focus is important and welcome. In our view it will help in the long run the developing countries to be more prosperous and improve the well-being of their citizens, if the benefits are shared in a fair manner. This requires a broad range of different measures in the field of economic, labour and taxation policy. Different actions are also needed in the labour markets to ensure fair distribution of the benefits of economic growth among all population groups and create decent jobs for more people. Finland's support for strengthening the private sector and the tax base in the developing countries promotes this thinking as a part of a broader UN agenda for sustainable development to which the developing countries are also committed.

The Government Programme also lists other important goals and values, such as strengthening the status of women and girls as well as promoting human rights, democracy and good governance. The document also sets out ways to combat the major threats to humankind, such as climate change, poverty and shortages of food, water and energy, as part of Finland's development policy and the implementation of the UN Agenda2030 for Sustainable Development.

The new priority areas of Finland's development policy are set out in the report *"Finland's development policy: One world, common future – towards sustainable development"*, which was adopted in early 2016. According to the document, Finland is committed to working towards the following priorities, during the current government term:

- I. The rights and status of women and girls have been enhanced
- II. The developing countries' own economies have generated more jobs, livelihood opportunities and well-being.
- III. Societies have become more democratic and better-functioning. This priority area also includes taxation.
- IV. Food security and access to water and energy have improved, and natural resources are used sustainably.

## Focus of the assessment is on the new priority areas

In this report, the Development Policy Committee considers development policy priority areas II and III, highlighting the development of the private sector and taxation in the developing countries as the main themes. This is an intentional choice. We want to examine the meaning of these two new themes and the changes in Finland's development policy arising from them. We will assess the aims of the Government report on development policy and the manner in which the aims are promoted at a practical level. We will also review the direction of the change set out in the document, the concrete policy measures adopted by Finland and the manner in which they relate to the priority areas set out in the report. We will also present recommendations based on our observations.

The central question in our report is how and on what terms do these themes advance Finland in its efforts to implement the Agenda2030 for Sustainable Development? Although we will be talking about policies and aims, we want to retain a human perspective and consider the rights and needs of the people in the developing countries in our review. For this reason, we are asking the following questions:

*How can Finland meet the needs of the people in the developing countries through the private sector and taxation? How is Finland advancing the private sector in the developing countries? How well-suited are the existing development policy instruments and actors for promoting this goal and for reducing poverty? How should the companies participating in the development cooperation act in achieving these goals? How are taxation and the development of the private sector connected with each other and with sustainable development? What measures should Finland take in promoting responsible business and fair taxation?*<sup>1</sup>

The selection of the before mentioned themes does not mean that we consider the private sector and taxation in developing countries more significant than the other priority areas laid out in the Government development policy report. Our intention is to continue our assessment of the other priority areas in the coming years. According to the Government development policy report, all four priority areas should strengthen and support each other. In this report we will also review development of the private sector and taxation in the developing countries as part of a wider development policy debate as well as part of the daily reality in these countries. In our view stronger

<sup>1</sup> In this report, the term "responsible business" refers to business activities that are in accordance with the Guiding Principles on Business and Human Rights set out by the United Nations (UNGP).

economies, private sectors and taxation capacity will provide the developing countries with resources that also support the achievement of the other development policy goals.

## A topical issue globally

The themes and issues selected for this report are for several reasons very much actual at the moment. Both in the UN and the OECD, improvement of the private sector and taxation capacity in developing countries have received a great deal of attention in recent years. At the same time, it is anticipated that companies in industrialised countries will adopt a stronger and more responsible role in the promotion of sustainable development and in the funding of the goals. It is even more important for developing countries themselves to highlight the role of fair international trade, investment and cooperation between companies in the achievement of the development policy goals.

Following the Third International Conference on Financing for Development, held in Addis Ababa in 2015, there were huge expectations for these themes and the actors involved to ensure adequate resources for implementing the global agenda for sustainable development. Strengthening developing countries' own funding base

and competence has become the issue of the day, and it is being extensively debated. The implementation of the Agenda2030, adopted by the UN in September 2015, will demonstrate what the different actors will achieve in practice.

Finland's development policy is based on the Agenda2030, in which strengthening the private sector and taxation capacity in developing countries play a strong role. They are included in the Agenda2030 as concrete goals and sub-goals, which are binding on all countries and actors. Countries like Finland are also expected to yield results as sustainable development partners (SDG 17). The partnership requires consistent action and support for developing countries that exceeds traditional development cooperation. It can entail trade, investments, technological cooperation and external relations. The partnership also involves taxation, and in this sector, Finland published its first action programme in autumn 2016.

Finland has many reasons to commit to promoting sustainable development also outside its national boundaries. In particular, the continuous rapid population growth in sub-Saharan Africa and in some Asian countries as well as record high young generations require sustainable solutions. Reducing poverty, ensuring livelihood opportunities and decent work, preventing the widening

## Financial investments as a development policy instrument

A total of 140 million euros was allocated to financial investments in the 2016 state budget in accordance with the Government Programme. Altogether 130 million euros was allocated to paragraph/clause/subsection 89, Financial investments in development cooperation (three-year deferrable appropriation) in the 2017 state budget proposal. Of the financial investments granted for 2016, a total of 130 million euros was channelled to Finnfund as a loan, while 10 million was granted as capital increase to the Inter-American Investment Corporation (IIC) operating under the Inter-American Development Bank. The criteria for allocating financial investments are partially identical to those applying to other areas of development cooperation: *The manner in which the investments are used must be in accordance with the goals of Fin-*

*land's development policy and its implementation guidelines. The investments must also meet the development cooperation criteria laid out by the OECD/DAC. In addition, the investments must also be in accordance with the definitions from Eurostat (the EU statistical agency) under which they may not be included in public sector expenditure in the national accounts. This requirement does not apply to other areas of development cooperation. Financial investments must generate credible returns, the unused part must be returned, interest must be payable on the loans granted as part of the investment and a repayment plan must be in place.* Statistics Finland defines the eligibility of each project for financial investments case by case.



of equality gaps, promoting gender equality and ensuring the functioning of societies are all key issues in the development policy. Climate change and limited earth's resources make the mission particularly urgent. Growing tensions in international politics and the international economy make it more problematic to find solutions to global problems. The situation has been aggravated by talk and politics of US President Donald Trump emphasising protectionism and narrow national interests. The growing uncertainties also have a negative impact on the economies of many developing countries.

## Shift towards business-oriented cooperation

The Agenda2030 is a major challenge to Finland, as unprecedented cuts have been made in its development cooperation budget within a short period of time. As a result, loans and capital funding (financial investments) now account for a higher proportion of Finland's development cooperation funding, and the focus in development cooperation has shifted towards cooperation with the private sector. In fact, development cooperation funding granted as loans and capital investments is now almost at the same level as financing for multilateral institutions. This has been the most significant change historically in Finland's development policy, and many other donor countries have made similar decisions.

With the emphasis on private sector, loans and capital funding, as well as the taxation issues people with no previous experience of development policy deal with development policy issues. On the other hand, a large number of people with no business experience are now talking about companies and their operations. Even though the change provides a significant opportunity for utilising Finnish expertise, exploiting its development policy potential requires extensive knowledge and understanding of the local operating environment and clear target-setting. No sustainable results can be achieved without them. New partnerships, such as cooperation between non-governmental organisations and companies, as well as coordination with other development cooperation actors, are also required.

Thinking in the line of sustainable development, the themes discussed in this report and new partnerships also pose challenges to development policy veterans. They involve a number of core questions of development

policy, such as the human rights-based approach, policy coherence, openness and results-based management, and the practical application of these issues. For this reason, the change should be examined from the perspective of the goals and principles of development cooperation and development policy.

In everyday debate there is often confusion about, advancement of the private sector in developing countries, public sector support received by Finnish companies, promotion of exports and the role of different

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types of companies (large companies, SMEs and start-ups) in the promotion of sustainable development. With this report, we want to clarify the situation and to bring stronger development policy analysis to the debate. We will also be discussing the challenges of strengthening the tax base in the developing countries and consider the problem of legal and illicit capital flight. The Development Policy Committee itself serves as an important discussion forum for individual experts and their background organisations. In accordance with the mandate from the Finnish Government, our aim is to promote Finland's development policy and provide decision-makers and planning bodies with concrete recommendations, which we have jointly prepared for this report with our members: parties represented in Parliament, non-governmental organisations, various interest groups, the UniPID network of Finnish universities, and expert members. Our aim is that Finland's development policy would be in a better position to respond to people's needs in developing countries through the private sector and taxation. ■



- Background to the assessment -

# A glimpse into the daily reality in developing countries and into the international connections

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Strengthening the economies and the private sector of developing countries will boost economic growth. However, at the same time it must be ensured that the growth is in accordance with sustainable development and helps to reduce inequality.

The development policy programme goals for the economies and the private sector of developing countries should be geared towards strengthening the countries' own resource base and ensure that the benefits of growth are more widely distributed. The aim is that the people in developing countries, including the poorest population groups, can get a greater share of the economic benefits generated by the growth. This can be promoted through development cooperation, development aid and, more broadly, by applying such instruments as trade, investment and tax policies, or by means of responsible business operations.

Successful strengthening of the private sector will generate decent jobs and opportunities for livelihood, which are also a prerequisite for sustainable economic growth and social peace. This is also one of the guiding principles in Finland's development policy. The goals aimed at strengthening the economies of developing countries are a major part of the UN Agenda2030 for Sustainable Development and developing countries' own development plans. However, will only realize if there are changes in thinking and operating patterns. This requires a strong commitment by developing countries and international actors and a genuine willingness for change. All Finnish actors must accept this challenge because strengthening the economies and the private sector of developing countries requires more broad-based cooperation and decision-making, harmonization of development goals with business practices, understanding of different operating environments, knowledge of local working life practices, and risk-taking ability.

The International Labour Organization ILO has examined the challenges of job creation in developing countries and especially the role of SMEs in strengthening the economy. In fact, most of the new jobs are created in SMEs. According to the ILO report<sup>2</sup>, these actors have huge potential but harnessing the potential as a development resource, especially as an instrument generating decent jobs, does not happen overnight. The report emphasises especially the importance of knowledge of each operating environment, understanding of the dynamics of the unofficial economy in developing countries and understanding of the links between the national and international political-economic actors and goals.

In other words, the development policy supporting the strengthening of developing countries' economies requires more than just cooperation in the partner countries. It should be examined from an overall perspective,

and consideration should be given to local, regional and national issues, as well as the rules, treaties and chains governing international trade and taxation. They connect the partner countries players in the global economy and trade – and ultimately as a part of the daily lives of Finnish consumers and operations of Finnish companies. It is estimated that about 80 per cent of world trade takes place within the global production chains of multinational companies. Sustainable development can only actualise

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if every part of the chain is functional. A diverse private sector that encourages participation, supports the rights of women and encourages them to be equal actors, and generates decent jobs and economic benefits at local level is key to this process. Smoothly functioning democracy, good governance and an active civil society also guarantee an optimal operating environment for business operations. Internationally, there is a need for a fair economic policy that is guided by human rights standards and helps to reduce inequality. It also includes trade agreements supporting development, increasing the trade capacity of developing countries, comprehensive and fair tax treaty networks and the prevention of capital flight, as well as the combating of the use of tax havens and aggressive tax planning. This is the field where Finland's development policy is positioned and where Finnish development policy actors operate.

<sup>2</sup> Small and medium-sized enterprises and decent and productive employment creation, 2015, International Labour Organization.

## Opportunities are overshadowed by poverty and inequality

There is a great deal of diversity among Finland's long-term partner countries. Most of them belong to the group of least developed countries (LDC) or to so called "fragile states".<sup>3</sup> Many of the partner countries are among the richest in the world in terms of natural resources, while at the same time, they are among the poorest in terms of income levels. The situation is further aggravated by fluctuations in the world prices of raw materials. Even though many of the countries in sub-Saharan Africa have enjoyed rapid economic growth, the growth is not necessary reflected in employment levels and it has not led to a reduction in poverty or inequality. The workforce has moved from low-productivity agriculture to low-productivity services and there has been no growth in the industrial sector. This

is a structural problem common to these countries, which Finland should tackle with its development policy.

Efforts to reduce poverty and inequality are hampered by the fact that there is often a close relationship between the economic and political elites. Furthermore, the central government and local communities may have different ideas about development needs. There are also major inadequacies in the implementation and the supervision of the implementation of laws and other provisions (especially those concerning human rights) in many partner countries.

In the poorest countries, the official and unofficial economies are intertwined and exist side by side. It is estimated that unofficial economic activity (not generating tax revenue) accounts for more than half of the economies of many countries. Moreover, the profits and added value created by economic growth does not stay in these »

## Political reality has an impact on business operations

The political and business elites are closely intertwined in many countries. In developing countries, the lack of transparency often contributes to the intertwining of public and private interests. CIP, a Mozambican non-governmental organisation, has studied joint projects between the state and the private sector and concluded that companies owned by the ruling elite are often involved in these projects. As the knowledge on the real owners of companies is not public, information about the intertwining of political and economic interests is only occasionally available.

This low level of openness also affects taxation capacity and such issues as the implementation of land rights. Several countries require foreign investors having a local partner, especially in the natural resources sector. This may also be necessary for practical reasons. If there are politically influential individuals behind the local company, the acquisition of the necessary land areas may proceed smoothly, though it may be at the expense of the rights of the local communities. The willingness of the tax authorities to supervise large companies may also depend on political contacts.

A foreign company may end up supporting unfair and corrupt operating practices making it more difficult for broad-based local entrepreneurship to develop. Private sector led development cooperation may have opposite development impacts to what was intended, unless openness and better participatory opportunities for local people are improved.

Trust and reliability are basic prerequisites in international business operations. In developing countries, such "social capital" is of particular importance. When seeking and building partnerships, European companies and companies in developing countries must have faith in each other's technical, qualitative and economic reliability. At first, a northern company may only have scant knowledge of the cultural and social operating environment of a company in a developing country and its qualitative potential, or even its ownership structure. Correspondingly, an African company may have prejudices whether a European company will pursue fair cooperation that benefits all those involved.







countries, or is not shared in a manner that reduces inequality. Unstable business environments, unpredictability and inadequate protection of ownership rights create obstacles to both local and international business operations. In the most challenged countries, local companies, too, are forced to register abroad for practical reasons.

A low-productivity agricultural sector is also common to the partner countries. Nevertheless, the sector provides livelihoods for most of the population, especially women. For example, in Tanzania, women account for about 70 per cent of the agricultural workforce, while in Nepal and Mozambique, the figure is 74 per cent and 80 per cent, respectively. At the same time, the fact that the youth population is at an all-time high is accelerating the already rapid process of urbanisation and swell the unofficial economy. The weak social, legal, economic and political status of women and girls and the absence of sexual and reproductive health services as well as basic health services keep birth rates and population growth at high levels. Inadequate management of natural resources, low education levels, low levels of industrialisation, dependence on basic commodities, and a weak position in international value and production chains can also be added to the challenges facing these countries. Climate change is making the already tough living conditions even more difficult. Inefficient public sectors, the absence of a functioning democracy and administrative structures, corruption, low taxation capacity and low tax revenue in relation to the gross national income require action at both national and international level. When put together, all these factors make the improvement of developing countries' economies an extremely challenging but even more important goal.

The bleakness described above is not the whole picture, however. Economic growth creates opportunities that should be exploited in a manner that reduces inequality and poverty. Each country has its own dynamics and strengths. There may also be substantial differences between regions and population groups within a country. Identifying these special characteristics is an essential consideration in all development work, including the improvement of the economies and the private sector in developing countries. Positive changes are continuously taking place beneath the problematic macro level challenges, and these changes should be encouraged with development cooperation and development policy.

People have the power of changing their lives and living environments. Therefore, it is essential to know the

operating environment in the target countries and the need and challenges of their private sector. Achieving sustainable results also requires genuine ownership by people in the partner countries. The best initiatives often arise from local needs. The international principles governing aid effectiveness are also based on the idea of broad-based (democratic) ownership of developing countries. From the perspective of business operations and partnerships, it is important for the activities to meet local demand. At the same time, the Agenda2030 encourages international investments and partnerships supporting sustainable development goals. In order to make local needs and Agenda2030 goals meet, it is essential to understand requirements of different situations and operating environments, and the needs of different actors. The need for this recognition is not limited to development policy only but it applies to all policy areas and actors.

## Development policy must consider different needs and operating environments

According to the Agenda2030 for sustainable development, there is a universal need to strengthen economies and the private sector in accordance with sustainable development. Every country also needs sustainable energy, food security and water solutions, as well as sustainable management of natural resources. The capacity of the public and private sectors in the poorest countries is insufficient to ensure sustainable development. For this reason, both sectors should be developed side by side. This requires development cooperation as well as international investment and trade that can respond to this challenge. The poorer and more fragile a country is, the more important it is that the support and cooperation provided by external parties, trade and investment, aid to promote sustainable development goals and do not work against them. Therefore it is vital to safeguard foreign investors to act in a responsible manner even if it is not required under local legislation. It is also particularly important to comprehend the diverse needs of different actors. Priority should be given especially to the economic empowerment of women and girls as well as the poorest and most vulnerable groups. The needs of the poorest developing countries and international cooperation do not meet, however. Development cooperation is not an adequate

tool for reaching all sustainable development needs of developing countries and their citizens. In fact, sometimes it is not even the right instrument for the purpose. On the other hand, private money does not always reach the poorest and most vulnerable people. In such cases, development cooperation and grants, as well as a responsible corporate approach – and responsible companies – play an important role. For many years, Finland has also supported the economies and the private sector of developing countries as part of its development cooperation country programmes, through multilateral organisations and civil society actors. Finland has also utilised a broad range of pooled funding models in which support is provided for such purposes as rural industries, loans and vocational training. Financial investments or private sector support should supplement different types of development

funding and its instruments and help in making more resources available to sustainable development.

The challenges facing the poorest countries are often of such magnitude that the threshold for other areas of cooperation becomes too high. For example, according to the United Nations Conference on Trade and Development, most of the foreign direct investment goes to emerging Asian countries, Europe and North America. In the emerging markets, companies prefer countries where all the necessary operating prerequisites are in place or the return expectations are higher than the risks.

Consideration should be given to different needs and capabilities in the planning, allocation and provision of development funding. Sustainable development also requires policy coherence from Finland across different policy areas and sectors. ■

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## General observations by the Development Policy Committee:

- In the strengthening of the economies and the private sector of developing countries, the aim should be to ensure a greater share of the economic benefits generated by the economic growth for the poorest people, especially women and girls. Economic growth must strengthen developing countries' own resource base and allow more people to benefit from the growth process.
- Economic growth, natural resources and the people constitute a huge potential. Sustainable use of this potential requires knowledge of the local operating environment, understanding of the dynamics of the unofficial economy in developing countries and comprehension of the links between the national and international political-economic actors and goals.
- Women have fewer economic rights than men. This should be taken into account in all Finland's activities. Without the gender perspective, the goals of strengthening the economies, private sector and taxation capacity of developing countries will not become a reality.
- Social stability is a fundamental prerequisite for sustainable economy and business operations. For this reason, Finland should emphasise the prevention of armed conflicts, reduction of armaments and restrictions on arms trade in its policies.
- The development policy strengthening developing countries' economies requires more than just cooperation in the partner countries. It should be examined from an overall perspective and thought should be given to the rules, treaties and chains governing international trade and taxation, which connect the partner countries in the global economy and trade. When implementing the Agenda2030 and following its development policy, Finland should reflect this overall perspective and act in a coherent manner. This obligation applies to all Finnish actors.



PHOTO: MARJA-LEENA KULTANEN

- Assessment of the Development Policy Committee -

# Finland as a partner in the development of the private sector in developing countries

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Developing the economies and the private sector of developing countries requires more specific policy guidelines.

The outlines of Finland's development policy for the government term are set out in the Government Programme. Strengthening the economies and the private sector of developing countries is mentioned in the document. It is also set out as one of the priority areas of Finland's development policy in the Government's development policy report to Parliament. The report serves as a bridge between the overall goals laid out in the Government Programme and their implementation. In this section, we will present the response provided in the development policy report to how Finland is meeting the challenge of strengthening the economies and the private sector of developing countries. Even though this is a top development policy issue in the Government Programme, no separate guidelines or action programmes have been prepared for it. For this reason, we base our assessment on the development policy report. We will examine how the goal is defined in the report and how it is reflected in Finland's development policy and development cooperation. We will also be considering how the approach chosen in the report is in line with the priority areas and the goals laid out for them - and how it benefits people in developing countries.

For comparison, it should be noted that in the previous government term the measures aimed at building up trade and the private sector in developing countries were set out in Finland's Action Plan for Aid for Trade (2012–2015). No separate action plan has been prepared for the current government term, and the steering is largely based on the development policy report. At the same time, the issue is examined from a broader perspective in the report, as the priority area (II) covers both the economies and the private sector of developing countries. The public sector in developing countries is, however, discussed under a separate priority area (III), which we will review as part of the tax and development theme in the last section.

## Creating jobs and livelihood opportunities should also be a priority in the poorest countries and the fragile states

According to the report, the goal of strengthening the economies and the private sector of developing countries should be achieved through more jobs and livelihood opportunities and well-being. These themes are also

incorporated in the goals laid out in the Agenda2030 for Sustainable Development (Goals 8, 9 and 12), to which Finland is committed. Under the Agenda2030, Finland must promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all. Finland must also work towards having a resilient infrastructure, promote sustainable industrialisation and innovation, and ensure that it has sustainable consumption and production patterns. These goals are binding on Finland, both nationally and internationally.

In the development policy report, the choice of the goals is justified by stating that only societies with a solid economic base can function properly. It is a prerequisite for eliminating poverty and inequality. Societies need revenue to cover their spending, for development investments and for basic services. In particular, employment for young people and women, as well as decent jobs and livelihood opportunities, are essential to achieving this goal. Even though the report does not specify the field of economic activities in developing countries, it makes a distinction between the private and public sector. The role of a socially responsible private sector in the achievement of the goal is emphasised in the report in general terms and it is linked with the UN Guiding Principles on Business and Human Rights. The task of the public administration in developing countries is to create a predictable and rules-based economic operating environment in which human rights are respected and to enable companies and other businesses to operate and make investments.

Generating more jobs, livelihood opportunities and well-being is important in every country. The relationship between these aims is not analysed in the report as it is discussed as a single issue. In the promotion of the goals, the emphasis is on Finnish expertise, resource wisdom and responsibility in the strengthening of business and livelihood opportunities. However, there is a gap between this starting point and the field of development cooperation, which is not adequately addressed in the report. This becomes particularly clear when the report emphasises the position of the least developed countries and fragile states in development cooperation but does not analyse the prerequisites for economic development or the generation of jobs, livelihood opportunities and well-being in this context. As a result, no consideration is given to the challenges specific to the least developed countries and fragile states or the international links.<sup>4</sup>

Of Finland's partner countries, Kenya, Ethiopia, Afghanistan, Somalia, South Sudan, Nepal and Myanmar are included in the group of fragile states. According to an

<sup>4</sup> Finland is a party to the New Deal for Engagement in Fragile States, which also sets the direction for economic cooperation with fragile states. There are no references to this in the report.



OECD estimate, about half of all the world's poor will live in the fragile states in 2018, which means that this group of countries is assuming an increasingly important role in development policy. Even though there are differences between them, they all have a history of violent conflicts. Furthermore, nearly all of them are struggling to achieve their development goals (including those pertaining to economic development).

It is understandable that in countries suffering from conflicts and humanitarian crises, the focus of cooperation is on humanitarian aid and development cooperation (especially on multilateral forms of cooperation). However, when the conditions permit, starting responsible business activities may also be an important part of the process of stabilising and normalising the situation in these countries. When this stage is reached, consideration should be given to the fundamentals of entrepreneurship and a business policy supporting it. These efforts could be supported through diaspora groups, such as immigrants living in Finland.

Companies also offer major innovations supporting the livelihood of people. A good example of this is Mpesa, a provider of mobile payment services. It was launched with British development cooperation funding, and has since spread from Kenya to, among others, South Sudan and Somaliland.

All actors should pay special attention to the causes and dynamics of conflicts (conflict sensitivity) so that at least the worsening of the situation can be prevented. In fact, it is extremely important that Finland takes a consistent and a long-term approach in its dealings with all developing countries and adjusts its action in accordance with operating environments in different countries and people's needs. For this reason, the different segments of development cooperation, foreign and security policy as well as external economic relations should be more carefully coordinated. Joint goals that are in line with the Agenda2030 should also be outlined in the development policy report in relation to other areas of external relations.

## Strengthening the economies of the poorest countries requires a clear strategy

From the perspective of development policy coherence, the report focuses on national, good governance and human rights level when discussing the economies and the private sector of developing countries. It is important

that a link between the weaknesses in the economic fundamentals of developing countries and the problems of democracy, human rights, public administration, taxation capacity and public services is identified in the report. There are also separate references in the report to the important role of the justice system, independent media and civil society. This in itself is an important perspective but it should be accompanied by an analysis of the role played by international actors in the economies and the private sector of developing countries. In the report, this issue is mainly discussed in connection with responsible business, which is not specified in the document in any greater detail. At the same time, however, the wider economic picture, which would also cover Finland's own course of action and the concrete measures promoting development policy coherence in trade, investment and taxation issues is left on the sidelines.

According to the report, Finland will work towards the goals of strengthening developing countries' economies and private sector by supporting countries' efforts to build and strengthen their economic foundations, improve their business environments, and manage and use their natural resources responsibly. The governments, local authorities, companies and organisations in developing countries are the partners in these efforts and Finland will work to improve their knowhow and operations. There will also be more investments and partnerships as well as more extensive utilisation of technology and innovations. In the field of taxation and corporate social responsibility, Finland will work to shape international rules and the guidelines of financing institutions and other relevant actors. Finland will also fund collaboration among research and educational institutions, companies, civil society and the public sector to ensure that the necessary knowhow is strengthened and transferred to developing countries.

All these measures are extremely important but an overall picture and concrete targets should be supported by a clear strategy in which all different activities pursued by Finland in developing countries and at international level are laid out. At the same time, there is also a need for a continuum between the activities Finland currently pursues, the actors involved and new openings. In the report, the strengthening of the local private sectors and livelihoods is mainly examined from the perspective of the cooperation instruments provided by Finnish companies.

The EU is the most important channel through which Finland can exert its influence in international trade negotiations. As a Member State, it can promote the efforts to open



the European markets to products important to development in developing countries and also support this objective on a global basis. This is one of the most important global partnership goals in the Agenda2030. A multilateral agreement on trade procedures from the World Trade Organization (WTO) – the TFA or Trade Facilitation Agreement – entered into force in February 2017 after two-thirds of the WTO members (110 states) had ratified it. The agreement covers fees and formalities concerning exports and imports as well as the transit of goods. The purpose of the TFA is to speed up customs formalities, reduce unnecessary paperwork, increase access to information and make processes more predictable. The OECD estimates that, when fully implemented, the agreement will decrease companies' trade costs by an average of between 12 and 17 per cent.

Streamlining trade procedures would mostly benefit small and medium-sized companies. The agreement also supports the process of integrating developing countries into the global economy. Finland supports the implementation of the agreement in Eastern and Southern Africa in cooperation with the World Customs Organization. The aim of the cooperation is to support the implementation of the TFA by providing the region's customs organisations with training and expert assistance. Finnish Customs is also offering its expertise and training inputs for the project. Finland is also supporting the implementation of the TFA by funding the work of WTO, International Trade Centre (ITC) and the TradeMark East Africa organisation in developing countries.

Finland is an active participant in the Enhanced Integrated Framework (EIF) programme, which supports the least developed countries in their efforts to expand their trade and export capacity in accordance with the Agenda2030. The aim is to double their exports by the year 2020. Finland is one of the biggest providers of funding for EIF (EUR 10 million in the period 2016–2020) and it is represented on the EIF board. At the same time, however, no views are expressed in the report on how Finland could help the poorest countries to benefit from international investments.

Finland is involved in the updating of the Aid for Trade action plan of the EU, which was adopted in 2006. However, Finland will not prepare a new national Aid for Trade strategy of its own, which will make it more difficult to monitor the targets in this area. In addition to the trade policy, increasing investments as well as the utilisation of technologies and innovations are themes emphasised in the development cooperation partnerships intended for the domestic private sector but not for any wider field of actors.

With regard to development cooperation, the development policy report states that activities are planned in more detail in the country programmes prepared for each partner country, and that the development policy priority areas emphasised in the cooperation are laid out in the programmes. As a rule, in partner countries where a change-over into commercial cooperation, especially cooperation between companies, is seen as a feasible option, the attention will be on the strengthening of these countries' own economies and private sector. In that case, there are particularly high expectations concerning Finnish companies and providers of loans and capital funding, such as Finnfund and international development financing institutions. In the approach adopted in the development policy report, the focus is on countries that are about to become, or have already become, middle-income countries. However, less attention is paid to the poorest countries, even though developing their economies and private sectors is at least as important.

The assumption in the report is that Finland, and especially such partner countries as Zambia and Kenya, have the necessary prerequisites to move from development cooperation to other forms of cooperation. In the country programmes, the focus on the private sector is clearest in the programme with Zambia. Priority in cooperation with this country is shifting towards other areas of economic cooperation and, in relative terms, there is a gradual scaling-down of development cooperation. The classification of the partner countries in the report is mainly on the basis of their income levels.

However, no country classification is static in nature. Climate change, fluctuations in commodity prices, food security challenges and migration may quickly change the situation. Relying solely on the GNI classification does not produce a sufficiently comprehensive picture of the actual situation in the countries, or the challenges and opportunities in the development of their economies and the private sector. Furthermore, there may be wide gaps within the countries and between population groups, while gender inequality may also be a major problem. For example, in the case of Zambia, the report ignores the scale of social inequality or the impact of the recent fall in the price of copper, the country's most important export commodity, to the Zambian economy. Of Finland's partner countries, Kenya has moved from the group of the poorest countries to the group of lower middle income countries. However, at the same time, it is also a fragile state. It is ranked 20th in the index measuring the fragility of countries.



Supporting the economies and the private sector of developing countries is part of the implementation of Finland's Agenda2030. Implementing the Agenda2030 and monitoring the performance targets will require more detailed steering and a more systematic approach than can be achieved with a report. Producing an overall picture of Finland's activities is extremely important from the perspective of development policy coherence. For this reason, the report should be accompanied by guidelines, on which a consistent Agenda2030 policy, development cooperation, other forms of cooperation and different actors could rely and under which they could complement each other.

Implementing the  
Agenda2030 and monitoring  
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and a more systematic  
approach.

The report presents each of Finland's bilateral partner countries and the reasons why cooperation is carried out in that particular country. In the report, the selection of the partner countries is justified with the argument that "the target country will not develop to an adequate extent without external assistance". For this reason, the activities that Finland carries out are seen as particularly important in the least developed countries and fragile states. It is also considered important that "the supported countries' own national development efforts reflect Finland's values and objectives" and that "Finnish expertise and strengths can be exploited".

In the report, the term "Finnish expertise and strengths" refers specifically to commercial forms of cooperation. The aim is to move towards them in countries where such a shift is possible. The report does not clearly state the extent to which Finland should reduce poverty in lower or upper-middle-income countries. This is an important issue because an estimated 70 per cent of the world's poor live in middle-income countries, some of which are also classified as fragile states. Rapid population growth in the least developed countries will change the situation so that in the coming decades, most of the world's poor will live in these states. In the report, the need for development aid is explicitly linked with the country's GNI classification and it is emphasised that the poorest countries should be the main recipients of the aid. Therefore, it would be consistent if Finland also directed most of its development aid to these countries. The long-term aspect should also be considered in the decisions.

According to the development policy report, the funding for the least developed countries should also remain above the international recommendation (0.2 per cent of the

GNI) during the current government term. However, this target will not be achieved, and the least developed countries are not sufficiently prioritised in development cooperation funding. During the current government term, the funding will remain below 0.15 per cent of GNI, which is not in accordance with Finland's Agenda2030 policy or its development funding commitments. As recently as 2015, Finnish aid to the least developed countries accounted for 0.23 per cent of its GNI. As a result of the overall cuts in development cooperation funding, the proportion of the aid given to the poorest countries will probably remain at previous years' levels. In 2015, it accounted for 40 per cent of the entire development cooperation funding and it is estimated that in 2016–2017, the figure will be between 36 and 38 per cent. Even though the aid to the poorest countries is

a stated priority, a large proportion of Finland's development cooperation funding goes to recipients outside the group of the least developed countries (LDC). This is because, when providing aid through different development cooperation channels, Finnish development cooperation actors do not have any direct obligation to give priority to the least developed countries. An exception to this rule is Finnfund, which must, in its new funding decisions, direct at least three quarters of its euro-denominated aid to the least developed, low-income or lower middle-income countries. Generally speaking, financial investments will not correct the deficit in the funding that Finland provides to LDCs. This is because, in the least developed countries, the economic risks are too high and the return expectations too low. ■

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## Recommendations of the Development Policy Committee:

- Finland should be more consistent in its efforts to strengthen economic and private sector activities in all its partner countries. It should do this as part of its development cooperation, by pursuing a development policy that is in accordance with the Agenda2030, and by promoting cooperation between companies. This should be long-term effort, while at the same time, the actors involved, the financing models, and the course of action should complement each other.
- The development policy report should be accompanied by a detailed action plan and guidelines concerning the economies and the private sector of developing countries that can be followed by all actors involved. In accordance with the timespan of the Agenda2030, the plan should cover several government terms, and it should be prepared during the current government term.
- More consideration should be given to the different operating environments and beneficiaries of the development policy. It is important that, in accordance with the Government Programme, priority in Finland's development policy is on local companies and actors in developing countries and on supporting them in order to generate sustainable development, that the needs pertaining to different operating environments are a consideration in the policy and that the private sector instruments applied in the policy are adjusted in accordance with the operating environments. Finland should give consideration to the fundamentals of entrepreneurship in developing countries and the industrial policy supporting entrepreneurship.
- In accordance with its international commitments, Finland should allocate 0.2 per cent of its GNI as development aid to the least developed countries. Finland's priorities should also be reflected in economic development and development financing. Finland should adhere to the target of increasing its development cooperation funding to 0.7 per cent of GNI and a credible timetable should be prepared to achieve this target.
- Finland should also consider the development goals in its trade, investment and tax policy in a consistent manner. As an EU Member State, Finland is committed to policy coherence supporting development (Treaty of Lisbon). This coherence also obliges Finland to pursue sustainable development in the implementation of the Agenda2030.





PHOTO: HANNA SARKKINEN

- Assessment of the Development Policy Committee -

# What do the new priority areas mean in practice?

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Strengthening the economies and the private sector of developing countries is one of the priority areas in the development policy.

However, cuts in appropriations, limited personnel resources and challenges concerning performance monitoring make it more difficult to translate it into practical action.

Clear priority areas help to give the development policy a sharper profile. With its development policy priorities, Finland is communicating to the world what is important and what it wants to achieve with its development policy during the current government term. The priority areas also serve as a yardstick for the activities and the results achieved. They create expectations, too. The priority areas should also be reflected in funding, personnel resources and Finland's policy influence work – especially as fewer resources are available than before. At their best, the priority areas can serve as long-term guidelines, and they are examined as part of a long-term vision, such as the implementation of the Agenda2030 for Sustainable Development. The priority areas will not become a reality by themselves, as they also require guidance and systematic action. In this section, we will be examining the priority area of developing the economies of developing countries in relation to the resources allocated to the work, the results and the policy influence work carried out by Finland.

The new priority areas were adopted in June 2016 when the process of implementing the new development policy report began. According to the report, they are reflected in the country programmes and policy influence plans of the development cooperation and in the guidelines and monitoring of the programmes. The Government has pledged to submit a report to Parliament on the implementation of the development policy report in late 2018. The implementation of the development goals for developing countries' own economies will also be reviewed in the document. It is important that the quantitative and qualitative implementation of the different priority areas is reported to Parliament and the general public in an understandable and transparent manner. Parliament should be provided with an opportunity to actively steer the implementation of Finland's development policy. As a UN Member State, Finland also reports on its development policy as part of the monitoring of the implementation of the Agenda2030 action plan. Clear and easy-to-understand reporting requires clear target-setting so that what to measure and why can be determined. Consideration must also be given to carefully prepared and appropriately focused performance indicators. If the targets are too general in nature or if the indicators are inadequate or absent, both transparency and performance guidance will suffer. In fact, there is still substantial room for improvement in Finland's reporting practices.

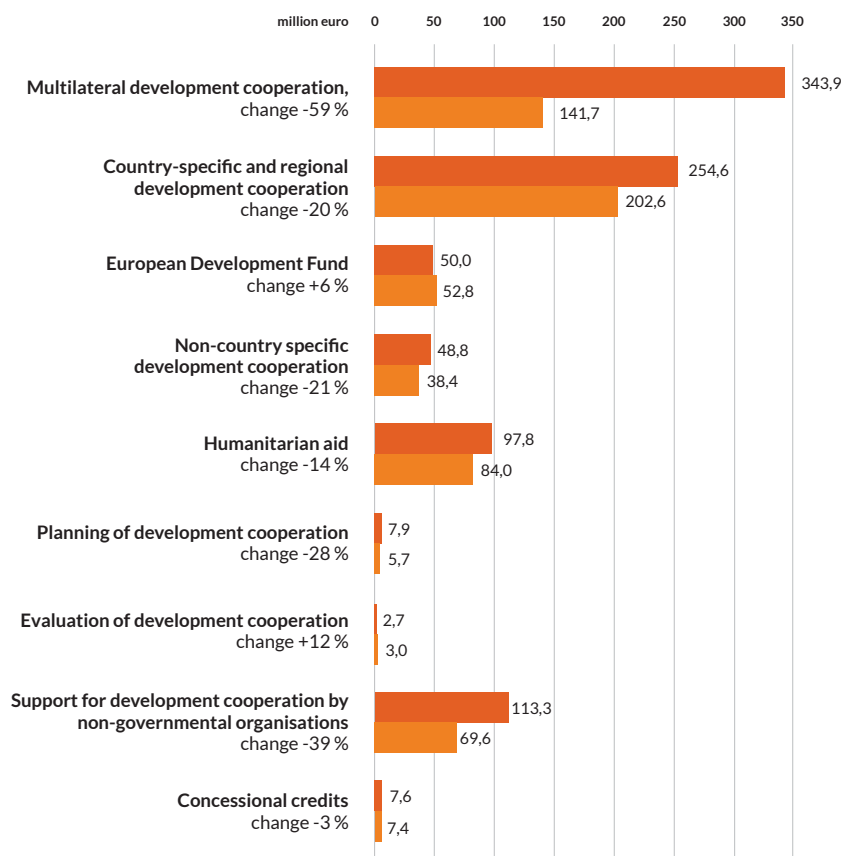
The year 2016 will go down in history for having the biggest cuts in Finland's development cooperation

funding. The reduced resources also provided the framework for the goals laid out for the priority areas. This makes it more difficult to estimate the funding allocated for them in relation to previous government terms. The report states that, in the next few years, the appropriations and personnel resources available for Finland's development cooperation will be more limited than before. According to the report, there will be efficiency improvements and the resources will be targeted more accurately in support of the goals through strict prioritisation of the programmes and projects. However, in accordance with the goals laid out by the UN, increasing the development cooperation appropriations to 0.7 per cent of GNI will remain Finland's long-term objective.

The Government decided to implement the cuts in full from the start of the year 2016. Because of the quick timetable, it was not possible to apply performance-based or needs-based discretion or to introduce the cuts in stages. This seriously eroded the effectiveness of the development cooperation. The Government cut grant-based development aid by a total of 330 million euros (about 40 per cent). The cuts targeted actual development cooperation, and they affected all development cooperation actors. Overall Finnish support for UN organisations was reduced by nearly 60 per cent. There were particularly sharp cuts in the basic support guaranteeing the long-term operating prerequisites of the UN organisations. This will weaken the organisations' ability to support developing countries in the implementation of the Agenda2030 and to coordinate international cooperation in the efforts to achieve its goals. Funding for bilateral cooperation and cooperation involving civil society organisations was cut by about 40 per cent, which will substantially reduce Finnish activities in the partner countries. Furthermore, the revenue from emissions trading (EUR 69 million in 2014) was no longer channelled to development cooperation.

The Government also made decisions on loans and capital investments. In 2016, the Government allocated a total of 130 million euros to Finnfund and 10 million euros to the Inter-American Investment Corporation (IIC), operating under the Inter-American Development Bank, as capital increase. Both appropriations were allocated under the financial investment item in the state budget. A total of 130 million euros is appropriated as loans and capital investments in the 2017 state budget, and this funding will continue at the same level in 2018 and 2019. When the whole government term is examined, the funding will total 530 million euros, which means a





## Development cooperation appropriations for 2015–2016 and change in them

■ 2015  
■ 2016

Source: Ministry for Foreign Affairs, Unit for Administrative and Legal Development Cooperation Matters 2017.

huge change in Finland's overall development funding. The financial investments provided as development aid are a new budget item. The intention is to channel the investments as support for socially responsible companies in developing countries in accordance with the OECD's ODA criteria steering official development aid. The appropriation is an off-budget entity, which means that it is not entered in the national accounts as expenditure and does not increase the central government deficit.

In personnel resources, the new priority areas and the spending reductions have been a challenging combination. The launch of the new development policy and the continuation of the current projects at the same time will mean a higher workload. The Department for Development Policy at the Ministry for Foreign Affairs has had to cope with staff cuts, and the remaining personnel have to manage an increasing number of different tasks. The results of understaffing are clearly felt in the Finnish diplomatic missions in the capitals of the partner countries. They have to manage the projects underway, new policies and the expectations arising from them with shrinking personnel resources. For example, there are only three

people managing cooperation with the private sector, even though the area has grown considerably in importance. At the same time, there is only one official at the Department for Development Policy in Helsinki promoting the tax and development agenda.

## Clearer guidelines and monitoring procedures must be provided for the priority areas

Except for the cuts in appropriations, the changes in direction in development policy practices often have a delayed effect. This is because the impacts of the policy decisions made during previous government terms will be felt for many years in projects and guidelines. Monitoring of the new priority areas began with the new report, and it will be combined with the work on the performance-based system of the Department for Development Policy. The Ministry for Foreign Affairs started developing a performance management system in 2015. No similar systematic value

framework had existed before that year. Each actor using development funding – regional departments, country teams and units for multilateral organisations in the Ministry for Foreign Affairs and the civil society organisations supported by the ministry systematically collects performance data on its own operations in accordance with relevant guidelines and reports on them on a regular basis.<sup>5</sup> The operations are also evaluated, as necessary. The aim is that each individual action will promote the goals set out for it. The lack of guidelines makes it difficult to create an overview of the implementation of the priority areas and to monitor the implementation process. The development policy report is the most detailed set of guidelines and action plan for individual priority areas. The report also provides them with the most detailed steering system. It is not yet clear how the priority areas will be reflected in resources and policy influence work.

Monitoring of the development cooperation funding allocated to individual priority areas is hampered by the fact that the Ministry for Foreign Affairs does not produce statistics on the resources used in each priority area.

With the current performance monitoring instruments, the achievement of the objectives can only be partially verified.

This is because the resources allocated to individual priority areas are defined in accordance with the content of each development policy measure (programmes, projects and partnerships). The same activity may also be allocated to more than one priority area. For example, the Aid for Trade action plan partially falls under the priority area of developing countries' own economies but also under the natural resources priority area, and (to a lesser extent) under the women and girls priority area. The advantage with this course of action is that each measure is intended to simultaneously support more than one priority area and to strengthen the positive links between them.

In the current monitoring system, which was introduced in summer 2016, the monitoring of the priority areas in new projects is determined by sectoral codes ("performance markers"). These codes allow the parties involved to report what proportion of the projects carried out by Finland comes under each priority area. At the same time, however, no similar information is yet available on the funding allocated to the priority areas or the payments made. The situation is complicated by the fact that the projects carried out during the previous government terms are not marked with the same performance criteria and there are no plans to harmonise them.

From the perspective of development policy communications, the priority areas have helped Finland to present its policy more clearly. They have made it easier to communicate the change in direction desired by the Government. At the same time, however, the practical meaning of the new priority areas needs to be presented more clearly and consistently.

## How is the achievement of the goals monitored?

According to the report, the development of developing countries' own economies should result in more jobs, better livelihood opportunities and a higher level of well-being. The ambitious aim is to ensure that all people are provided with more decent jobs and opportunities for livelihood. According to the International Labour Organization ILO, decent work is work that delivers fair income and secure living. Workers are treated equally, they have the right to express their opinions and take part in decision-making concerning them (for more details, see the "cornerstones" of the support for economies and the private sector of developing countries, laid out by the Development Policy Committee).

The Finnish target-setting is based on supporting international goals. The fact that the goals proportioned to the resources available to Finland are not specified in the report, poses a direct challenge.

According to the report, Finland works to strengthen the economies and the private sector of developing countries so that

- all people (including women, young people and the poorest population groups) have better access to decent work, livelihoods and income,

<sup>5</sup> The effectiveness of the different development funding instruments and Finnfund will be discussed in the next section.

- the private sector and economic activity in developing countries are more dynamic and more diversified,
- international business rules lend better support to the development of businesses, their accountability and the observance of internationally agreed standards in developing countries, and
- better use is made of new knowhow, value chains, technologies and innovations that respect sustainable development.

The goals laid out in the development policy report are aimed at achieving long-term change in developing countries. They are derived from international development goals to which the partner countries themselves and Finland, as a member of a larger community of donors, are committed. This is a good and ambitious starting point. At the same time, however, the report contains no specific goals related to Finland's activities. For this reason, the report should be accompanied by action plans for each priority area presenting Finland's strategic objectives, activities and the manner in which the activities are monitored. With the current performance monitoring instruments, the achievement of the objectives can only be partially verified. It is also important to have the capacity to monitor how much resources are allocated to the implementation of each priority area and what is achieved with the inputs.

In the support for the economies and the private sector of developing countries, the advantage is that the Ministry for Foreign Affairs has systematically collected information on the results of the Aid for Trade achieved during the previous government term and these results were also evaluated in 2016. The monitoring is a pilot project, which has continued during the current government term. The most recent figures for the performance monitoring are from the year 2015 and they have been entered into the Aid for Trade performance monitoring memorandum. It covered a total of 74 projects and programmes that, according to the OECD DAC statistical classification or content, count as development cooperation supporting trade. In the future, the performance monitoring and reporting will also cover the development policy priority areas.

The number of jobs and the number of supported companies operating in developing countries (both the

total number and gender-specific data) will form the core of the development policy performance monitoring. For example, in 2015, Finnish Aid for Trade support created a total of 63,131 jobs of which 42 per cent were for women. With a total of 17 projects, Finland was involved in the creation of or support for 5,848 companies. A total of 4,366 micro enterprises and SMEs were created or received support in ten projects. A total of 1,942 companies owned by women were created or received support in 12 projects. Finland has also helped developing countries to increase their export revenue and export capacity as well as the number of direct investments. For example, in Finnpartnership cooperation, an input of about 1.6 million euros has resulted in investments worth 22.1 million euros.

While it is important to review the jobs and companies receiving support, this angle is too narrow from the perspective of development policy goals and the monitoring of the implementation of the principles. For example, systematic or comprehensive information relevant to the human rights based approach is not available on all areas of the decent work meeting the criteria of the ILO. At the moment, only the Green Jobs project of the ILO in Zambia, which is part-funded by Finland, meets the organisation's monitoring criteria. Thus, similar information has not been collected on all projects and there is also no intention to do it. Special consideration should be given to this issue. It should also be noted that at the level of partner countries, the views held by the parties to cooperation also have an impact on target-setting.

The increases in the number of jobs and livelihood opportunities are examined with the same performance marker. Improvements in both areas are generally considered to increase well-being. Even though there is no separate indicator for measuring well-being, a perspective wider than the statistical angle is sought through separate case studies. They allow the issue to be examined from a wider perspective but including them as a sample may also raise questions. What are the criteria for selecting the cases and for reporting on their results? Does the pressure to produce positive results create a situation where the emphasis in the sampling is on "success stories"? Are cases that failed to produce the desired results left unreported? How can the cases provide a basis for an overview that is as realistic as possible?

The second major inadequacy in the current monitoring system is that it is not yet able to produce systematic information on what proportion of the jobs are decent and have benefited the most important beneficiaries of the

development policy, such as the young, or the poorest and the most vulnerable groups. For this reason and in order to obtain a picture that is in accordance with the target setting, it would be important to be able to verify whether the jobs meet the decency standards of the ILO and to determine the employment levels of different population groups. In this respect the monitoring is substantially narrower than what is set out as the goal.

The growth in the number of supported companies is an additional challenge in a situation where the aim should be to strive to have larger entities. This increases the workload of the development cooperation administration. For this reason, channelling the support through multilateral organisations is important if the effectiveness of the support can be verified. These organisations include the UN and international development banks, which also have their own reporting systems. In addition to the projects, Finland also has detailed policy influence plans for each organisation during the current government term. The intention is to use them for monitoring how the proposals submitted by Finland are progressing through the organisations concerned. So far, most of the policy influence plans have been ministry-internal tools concerning specific organisations. They are not public, but Finland should also openly communicate its main goals concerning individual organisations. In addition to organisation-specific tools, the Ministry for Foreign Affairs should also, in cooperation with relevant sectoral ministries, produce the document “Finland’s global goals”, a policy influence plan for multilateral cooperation. This would increase openness and make it easier to monitor the effectiveness of the policy. It would also allow the impacts of the global policy influence work to be assessed in the ministry and at national level. This would require prioritisation and clarification of Finland’s main goals. Clear global goals would also put the implementation of the Finland’s Agenda2030 for Sustainable Development on a more effective basis and promote policy coherence.

As the economic and employment goals are also reiterated in the monitoring of Finland’s Agenda2030 work, special consideration should be given to these issues. Finland reports on them as part of a UN-led global monitoring. The intention is that the reporting would be carried out against the global situational picture prepared by the UN, and the manner in which Finland has supported developing countries in the promotion of a wide range of different goals would be specified in the document. It is not yet known at what level the information will be collected.

More openness is also needed in the monitoring of the manner in which the appropriations allocated to Finland’s multilateral cooperation are spent. During the current government term, they are no longer itemised in the state budget or in reports on operations, which makes it more difficult to monitor the funding granted to such bodies as UN organisations.

## Reviewing performance and effectiveness from different angles

Effectiveness monitoring is closely related to how wide-ranging the results are expected to be and how the measures taken by Finland and other donor countries in the field of development cooperation support each other in the efforts to make the aid more effective. The OECD Development Assistance Committee (DAC) also conducts assessments of the effectiveness of international development cooperation. In its guidelines and internationally agreed aid effectiveness principles, DAC emphasises broad-based ownership in developing countries, adjustment of the development measures in accordance with locally defined priorities and plans, as well as coordination between national action and the donor community and the complementarity of the two.

The aid effectiveness principles which are also binding on Finland in all its development cooperation, were last set out at the Busan high-level meeting in 2011. The implementation of the effectiveness principles guiding all development actors - states, private sector actors and civil society organisations - was reviewed at the last year’s high-level meeting in Nairobi. In the monitoring report prepared for the Nairobi meeting, it was emphasised that at global level, development cooperation is now more effective and produces better results than before. However, the fruits of growth are not equally shared by all. At the same time, there is room for improvement in the monitoring of the results of development cooperation and the assessment of their impacts. Better use should be made of the data produced by developing countries in the monitoring of the activities.

Furthermore, the strengthening of the core functions of the state, such as financial administration, has not proceeded at equal pace. In many developing countries, citizens still have only limited democratic tools for holding





their governments accountable; in fact the situation has worsened in recent years. However, properly functioning democratic states guarantee that the work to achieve progress bears fruit and that the results are sustainable. The functioning and transparency of the basic structures of society are also essential for providing companies with proper operating environments and prerequisites.

The development goals and effectiveness rules laid out for development cooperation also guide cooperation with the private sector. For this reason, it is important to obtain more information on how effectively and successfully the private sector contributes to the reduction of poverty and inequality in developing countries and supports the implementation of human rights in them. Thus, the clear and realistic goals set out for the support provided by the private sector are of help in this assessment.

The complementary nature of the activities and the actors is a sound approach and requires broad-based ownership in developing countries and accountability for the development results. The goals and principles, which are binding on all actors, are laid out in the development policy report. The challenge is the practical implementation, including the problems arising from the aid tied to purchases from Finland as well as open and participatory

planning and reporting. The lessons learned from development cooperation should also be applied when efforts are made to strengthen the support given to the private sector in the developing countries.

The effectiveness of each action and mutually supportive nature of the priority areas are the success criteria laid out in the development policy report. However, the measures are not, as such, connected with each other and they are not necessarily linked with the same geographic or actor context. In fact, one could think that there are two parallel views of effectiveness. On the one hand, there is the effectiveness in which results that are line with the Agenda2030 for Sustainable Development are sought *in any context where there is a justified need for it*. This approach marks a change in development cooperation because in the past, the aim was to achieve effectiveness in which the action taken by Finland has a broad-based and long-term impact on the development of a *specific partner country*. It should be noted, however, that the Agenda2030 puts the poorest countries at the core of development cooperation and policy, which means that this focus should not be lost.

According to the report, Finland aims to achieve practical coordination and complementarity between different



actors in the partner countries when action carried out by international, EU and Finnish actors is involved. At the same time, there have been substantial reductions in the funding for Finland's country-specific (bilateral) cooperation, which in turn will diminish Finland's role at country level. In some countries, the support will be reduced to such a low level that Finland will no longer be able to attend all discussions that would also be important from the perspective of trade and export policy. It is also important to note that the private sector support instruments discussed in the next section are not tied to

Finland's bilateral country programmes. As a rule, they have not been planned as tools for supporting country programmes. The justification for this is that the private sector instruments must function on a demand-oriented basis. Furthermore, the substantial cuts made in the country programmes have weakened Finland's ability to support SMEs and micro-entrepreneurs in developing countries through development cooperation projects. This involves a clear discrepancy, to which more consideration should be given in the future. ■

## Recommendations of the Development Policy Committee:

- Finland should consistently work to implement development policy priority areas in funding, personnel resources, policy influence, guidelines and steering. The impacts of the cuts in development cooperation should be assessed separately for each priority area.
- The activities carried out with development cooperation funding must be in accordance with the international principles governing aid effectiveness, including broad-based ownership in developing countries, accountability, openness, coordination, complementarity, untied nature of the aid, and adjustment of the development measures to locally defined priorities and plans.
- Goals and work plans specific to each priority area facilitate the monitoring of the priority areas. The targets specific to priority areas should be in accordance with the resources available for the work. Clear and appropriate indicators are needed for assessing the results.
- The monitoring of the priority areas must be in accordance with the goals set. If the aim of Finland is to create decent jobs, it must also be able to report on the work in accordance with the criteria set by the ILO. Finland must also be able to show that the benefits go to the most vulnerable groups if this is laid out in the goals. The performance system should be developed so that it can meet this need.
- Funding for country programmes as well as the operating capacity and resources of the Finnish missions in developing countries must be secured so that the development policy can be promoted in an appropriate manner.
- Finland should openly communicate on its own main goals in the policy influence plans of multilateral organisations and development financing institutions. In addition to organisation-specific tools, the ministry should also prepare a policy influence plan for Finland's multilateral cooperation. Clear global-level goals set by Finland would also put the broadening of developing countries' own resource base and, more generally, the implementation of the Agenda2030 for Sustainable Development and the monitoring of its policy coherence on a more effective footing.







## Cornerstones of the support for economies and the private sector in developing countries:

# Human rights based approach, coherence, openness and effectiveness

**A**ccording to the report on Finland's development policy, Finland's values and principles and its international obligations will be a consideration in the planning and implementation of all action, irrespective of where, in which field and by whom development policy and development cooperation are being pursued. This provides the activities with long-term guidelines across several government terms. These are democracy and the rule of law; gender equality and human rights; freedom of speech; a sustainable market economy and sustainable use of natural resources; and the Nordic welfare state. The same values and principles also apply to the different forms of developing economies and the private sector of developing countries and the parties involved in the work. This is an important policy statement but not, in itself, enough.

According to the Development Policy Committee, the development policy should in all respects aim to reduce poverty and inequality in developing countries and to promote sustainable development in global scale. This applies to all development funding and all forms of cooperation. In order to be able to pursue a successful development policy, Finland must, in addition to its own values, also adhere to international values and principles. The UN Agenda2030 for Sustainable Development and the Finnish commitment to consistent consideration of development goals in all its activities (Treaty of Lisbon 2009) are a fundamental part of this framework.

Supporting developing countries in their efforts to strengthen their economies and private sector can involve challenges. For this reason, there must be a strong consensus on the principles guiding the work, on the content of the principles, and on their obligatory nature. Therefore, some of the principles highlighted in the report should be

presented more clearly. These are the human rights based approach, coherence, transparency and effectiveness.

## Human rights based approach and decent work at the core of Finland's development policy

Over the past few years, the human rights based approach has been the core principle in Finland's development policy and this is also emphasised in the development policy report. The principle guides, and should continue to guide, all activities. In the human rights based development policy, the focus is on ensuring that all rights are complied with. Needs are also viewed as rights. In this approach, individuals and groups have the right to have their basic needs fulfilled and they can present demands to parties that are legally and morally responsible for ensuring them. Adhering to the human rights based approach is one of the biggest challenges in Finland's development cooperation. However, it generates substantial added value, especially for the development of the economies and the private sector of developing countries.

Decent work is an essential part of the human rights based approach. However, the concept is given a wide interpretation - and this also applies to Finland's development policy. In this assessment, "decent work" means work that meets the minimum requirements of the ILO's Decent Work Agenda:

- freedom of association and the right to collective bargaining; the right to non-discrimination in working life;

- prohibition of forced or compulsory labour and child labour (Declaration on Fundamental Principles and Rights at Work, 1998)
- The work does not endanger the worker's health or safety
- The work provides the worker with an adequate livelihood.

Generating decent jobs, creating new opportunities for livelihood and especially the economic empowerment of women and young people are some of the goals in which the private sector in particular can make development cooperation more human rights oriented. It can offer solutions that strengthen the rights of the poorest and most vulnerable groups and reduce poverty by creating new jobs. The poorest also have rights in relation to such areas as energy, water and food security, education, health and safe living environments. Likewise, the technology concerning the slowing down of and adjustment to climate change and the management of urbanisation (such as traffic and sanitation) can be viewed from the perspective of human rights.

The aim of strengthening the economies and private sector of developing countries also requires that basic services, such as education and health care, are provided as statutory rights, and that fundamental rights and good governance are ensured. Strengthening the countries' own resource bases contributes to improvements in these areas.

Finland is committed to implementing the United Nations Guiding Principles on Business and Human Rights (UNGP), which also incorporate the ILO's Fundamental Rights and Principles at Work. The UNGP lay down the minimum criteria for responsible business operations that should guide companies in their responsibility work. Private sector actors are responsible for ensuring human rights throughout their supply chain. Companies must identify the human rights risks of their activities and subcontractors, prevent them, and create mechanisms that allow victims of human rights violations to raise their concerns with the company and the situation to be rectified. State-owned companies have a wider responsibility. In development cooperation carried out by private sector actors, it is important to ensure that the activities are rights-based and that adequate consideration is given to the human rights risks arising from the cooperation.

## Cooperation must be consistent and transparent

Strengthening of the business activities in developing countries should be examined on a comprehensive basis in relation to the quality of the jobs and their development impacts and the growth of developing countries' own economic resource base. For this reason, all companies supported with development cooperation funds must be required to act responsibly in accordance with national and international standards. They must be able to demonstrate that business operations can help to reduce poverty. This requires clear advance guidelines and assessment criteria.

Coherence is the general guideline: Companies and other actors must ensure that they support the achievement of the development goals in accordance with the principles of sustainable development and the development policy report. Economic, social, environmental and human rights impacts must be considered in advance, and the stakeholders affected by the impacts must be consulted. All actors must respect human rights and the environment. None of the actors may violate human rights or support parties violating human rights.

Coherence requires that certain minimum criteria are observed in all target countries. In the field of general principles, these include "Ruggie's protect, respect and remedy" framework, human rights commitments, ILO's principles and the international conventions and practices increasing effectiveness of development cooperation. Sustainability principles and guidelines pertaining to the environment must also be observed. The International Financial Corporation (IFC), which is part of the World Bank Group, has laid out minimum standards, which guide Finland's lending and capital investments in developing countries in issues concerning environmental and corporate social responsibility. Applying the principles in practice requires continuous work. In human rights, this should be supplemented with the UNGP criteria.

When companies are provided with support, the development and human rights impacts of the activities are assessed, and reports on the results are required. In the activities financed with development cooperation funds, adhering to the "do no harm" principle is not enough. The actors must also be able to show that their efforts have concrete and positive development impacts. It is important that the aid effectiveness principles, such as openness, accountability and ownership in developing countries are observed in all activities carried out with development cooperation funding. Mechanisms must be in place for monitoring the activities carried out with public sector



funding, which means that the transparency criteria for the support granted to the private sector must also be as strict as possible. Information on the activities, objectives and results must be available.

The use of development funding must be particularly strictly controlled in countries where there is a substantial risk of human rights violations. For this, additional guidelines are needed so that the existing principles governing the assessment of the human rights impacts of development cooperation can be applied to all activities financed from development cooperation funds. It is also important to support democracy and human rights work, which also help to promote companies' operating prerequisites in developing countries. Many other countries that have substantially increased their support for the private sector have simultaneously increased support for civil society organisations monitoring corporate social responsibility.

## Finland can show the way in impact assessment

The impacts of private operators should be assessed both beforehand and afterwards so that the consistency of the activities can be ensured and that resources are not wasted. In the future, Finland could become a trendsetter in the activities aimed at strengthening the private sector in developing countries already in the planning stage. It is important that the development cooperation rules and aid effectiveness monitoring procedures applied to other areas of development cooperation are also applied to planning and reporting.

This means that the manner in which the companies' activities help to reduce poverty and inequality in developing countries should be evaluated in the assessments of their impacts. At the same time, the emphasis should be on the economic, social and environmental impacts of the business activities, and the long-term effects should also be considered. From the perspective of economic fairness, there should be better utilisation of the information on global value chains and networks in the building of partnerships between companies.

Consideration should be given to the feasibility and concrete nature of the assessment methods, from the perspective of the business partners and the parties examining the development policy. There must be workable instruments ensuring that the aim is to achieve development results that are in accordance with the objectives. The development of impact assessment models must be based on the most positive impact assessment experiences among development cooperation actors. Consideration must also be given to the costs that different actors

(especially SMEs) have to incur as a result. For this reason, establishing a separate fund or another funding channel for this purpose might be a feasible option. The funding should be partially earmarked for the development of impact assessment tools.

The openness requirement applies to all development cooperation actors. It is also the best way to ensure that the activities are seen as legitimate. In fact, without transparency, there can be no assessment of the development impacts. The challenge is that the work may involve several different parties each of which have their own views on the openness criteria. For example, the reporting requirements for development cooperation do not generally apply to private providers of funding. However, the same criteria apply to all parties that receive development cooperation funding for their activities. For this reason, there must be clear reporting models and guidelines so that they do not prevent cooperation with the private sector or the utilisation of private funding. It must be possible to report on all aspects of the activities (effectiveness and results) carried out with public funding in an open and easy-to-understand manner. Finnish taxpayers must be able to monitor the manner in which their money is used and how effectively it is spent. This requirement must apply to all instruments and forms of cooperation. In addition to country-specific and sector-specific funding information, project-specific figures and such documents as human rights and environmental assessments should also be published.

However, solving this equation would require consultations with stakeholder groups as well as more detailed guidelines and steering. One reason for this is that in the examination of the results of the business partnerships, focus is on both economic development and the benefits brought by the partnerships to the companies. Finding a solution acceptable to all parties is an important task for the current government and it should be achieved in cooperation with Finnfund and the parties responsible for Finland's other financing instruments.

The development goals of the partner countries and the interests of the companies can strengthen each other, and, as laid out in the Agenda2030, this should also be the aim. Business operations supported with development cooperation funds must promote the development goals of the partner countries. At the same time, it is important to support the broad-based efforts to develop the investment and corporate legislation and business policy in developing countries. Results can only be monitored if there are mechanisms for reporting on them. Should any conflicts arise in the projects, the aim should always be to find a solution that does not endanger the achievement of the development goals. ■



- Assessment of the Development Policy Committee -

## Instruments and partnerships strengthening the private sector

There is now more emphasis on the role of Finnish companies in Finland's development policy tools but the question is whether this is an adequate way of strengthening the economies and the private sector of developing countries.

Strengthening of the private sector in developing countries requires new thinking and approaches, both at national and international level. The Agenda2030 for Sustainable Development provides the preliminary guidelines for this work. However, the implementation of the Agenda2030 depends on how strongly all sustainable development actors (central and local government, civil society and industries) commit themselves to sustainable development goals and to the principles steering them. In the discussion on the funding of the Agenda2030, it has often been pointed out that the knowhow and investments of the private sector are essential to implementing the sustainable development goals. At the same time, there are still massive investments in different parts of the world running contrary to the goals of sustainable development. Resolving this equation requires deficiencies to be corrected and, while this is being done, more business that meets the criteria of sustainable development. Even when ideally dimensioned, global development cooperation funding will not be enough to achieve the goals of sustainable development. The funding requirement is tenfold compared to the development aid actually provided. Development cooperation should be used more effectively and in a more responsible manner as a resource generating development results and an instrument for tackling the challenges facing the poorest countries and people for which private funding is not available.

This poses a huge development policy challenge. The private sector must be persuaded to join the other actors so that it can be more strongly involved in the development policy work and the implementation of sustainable development. For this reason, in addition to ensuring economic productivity and environmental sustainability, the partnerships should also help to reduce inequality and poverty. This applies to Finland's development policy and especially to the priority area concerning the economies and the private sector of developing countries.

However, the discussion in Finland on companies' role in the implementation of the Agenda2030 goals is still at its initial stages. Much less is known about the potential of the private sector in reducing poverty and inequality than about its environmental or human rights impacts. When engaging in the development debate, companies are mainly motivated by the prospect of accessing new developing markets, the expected profits, and partnerships that benefit all parties. Finnish business actors are not very familiar with international trends in inclusive business that also supports the social and economic development of the poorest people.

One of the guiding principles in the development policy report is to provide Finnish companies with better opportunities to take part in development cooperation. This is a welcome idea because companies can make a substantial contribution to the implementation of the development policy and the Agenda2030. Areas where Finland is strong and where it has a solid international reputation include energy, infrastructure, teaching and education, the social sector and health, water and sanitation, as well as sustainable agriculture and the forestry and food industries. Finnish cleantech expertise and such areas as recycling of waste are in global demand. Finland also possesses the world's top expertise in maternal health. Furthermore, most Finnish companies operate in a responsible manner and have a good reputation. Finland also has a great deal to

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offer in promoting participatory democracy, broad-based civil society, equality and labour legislation. This potential should be channelled more strongly for the benefit of the economies and the private sector of developing countries although it is not enough by itself. Another policy issue that should be debated more extensively is that according to the report, the private sector in the partner countries will be strengthened in cooperation with Finnish companies. At the same time, however, not much is said about

## Development bank projects only attract a small number of Finnish companies

International development financing institutions are increasingly important providers of funding in private- and public-sector projects in developing countries.

A large proportion of the financing provided by these institutions goes to purchases made from companies, but Finnish companies have only had modest success in tenders arranged by development banks.

The World Bank Group is the most important provider of development funding, but as also the European Investment Bank, the Asian Development Bank, the African Development Bank and the Inter-American Development Bank are major actors.

According to information collected by the Ministry for Foreign Affairs, the amount of purchases made in Finland by development financing institutions varies each year. However, lately, the contracts have only totalled a few dozen million euros.

Purchases for projects made by the World Bank and regional development banks are usually carried out in the field in accordance with the public procurement procedures observed in the target countries. These purchases are typically made by the authorities in the target countries.

The purchases vary from huge contracts to hiring of individual consultants. In the past few years, there has been a particularly great need for products and expertise in the field of environment, infrastructure, the IT sector, education and health.

### Purchases by UN organisations from Finland are also small in scale

UN organisations are not major purchasers of Finnish products and services, either. The value of goods and services purchased by the UN from Finland in 2015 was only about USD 10 million when the total volume of all purchases made by the UN was USD 17.5 billion.

However, purchases made from foreign subsidiaries of Finnish companies do not appear in the statistics.

The procurement procedures vary by organisation. The United Nations makes its purchases on the basis of tenders in the field and centrally in regional procurement offices. One such office is located in Copenhagen. This may be one reason why Danish companies secured 50 times more contracts with the UN than Finnish companies in 2015.

A total of about 300 Finnish companies are registered in the United Nations Global Marketplace procurement portal. According to Finpro, the number of Finnish companies in the portal has increased in recent years.

UN organisations' purchases of products and services from Finland have mainly been in the pharmaceutical industry, IT and the training sector. The United Nations Children's Fund (UNICEF) and the United Nations Development Programme account for most of the UN purchases from Finland.

According to Finpro, Finnish companies have been quite successful in concluding consulting contracts, but the companies have a great deal of unused potential in equipment and product sales.

Team Finland cooperation has aimed at lowering the threshold for Finnish companies to participate in projects from UN organisations and development financing institutions. The cooperation includes procurement seminars, workshops, visits and meetings with buyers. For example, in the UN, a special focus has been on the procurement centres located in different parts of the world.

In Finpro's view, Finnish companies are not familiar with the commercial aspect of the UN and the development financing institutions. The organisations are large and complex, and for this reason it is difficult for companies to get a comprehensive picture of their operations.



When the instruments are applied, consideration should be given to the added value generated by each of them in the strengthening of the private sector in developing countries and the people working in the sector.

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the development of the business sector and companies in the partner countries or the creation of a more comprehensive business policy. Most new jobs are created in small enterprises. The dominance of small companies in Finland and developing countries should be considered in the development of the private sector in developing countries and in the efforts to expand the partnerships of Finnish companies in developing countries.

The link between the operations of Finnish companies and development cooperation (especially the expected development results) is a complicated one. As a rule, companies are not development actors, but operators adhering to business principles. In the poorest countries, the operating environment is challenging for both local companies and especially for companies coming from outside. However, there are considerable differences in the risks faced by large companies, SMEs or start-up entrepreneurs and in the way in which the risks can be managed. Differences between sectors are also substantial. If the aim is to develop the countries' business policy and the operating environment of the local entrepreneurs, the support should be focused on such areas as the development of support services for start-up and growth companies in the partner countries and, more generally, creation of a more stable business environment.

Attracting foreign investment is a central goal for many developing countries, and such institutions as the World Bank and the OECD have underlined their role in the development process. In fact, many countries provide foreign companies with tax relief and facilitate investors' operations by for example giving them the opportunity to deal directly with a single agency (one-stop-shop principle). For local SMEs operating in the official economy, complying with complicated tax or permit legislation is, in relative terms, more expensive than for large companies. They are also in a weaker position to obtain funding or to build the infrastructure that they need. In relative terms, pioneers often have to shoulder the biggest risks and invest more heavily in the creation of the basic business infrastructure than the companies coming after them. There is less interest in the creation of development impacts unless it provides the companies with a competitive advantage. The risks in the developing markets are not merely of economic nature. In operating environments that are challenging in terms of legal issues, there may also be substantial reputation risks involving such issues as human rights. Rectifying them may be impossible even if no violations have taken place. At the same time, however, companies utilising development cooperation funds must be able to respond to these challenges.

## Tools for strengthening the private sector

In its interpretation of the Government Programme, the development policy report highlights the role of Finnish companies and the private sector tools available to them. In practice, this means that civil servants are expected give priority to the development of instruments suitable for this particular purpose. However, one can ask whether the selected approach is optimal from the perspective of the strengthening of developing countries' economies and private sector. Even though partnerships between companies are extremely important, in practice they are only marginally relevant when basic problems concerning business development in the poorest countries are dealt with. These include adequate business skills (accounting, seeking of funding, and risk management) or alternative forms of entrepreneurship, such as cooperatives. Finland should also give more consideration to the role of the public sector in the development and steering of the private sector. Public sector actors could, for example, advise people how

## More information about the development impacts of Nordic funds

Nordic development financing institutions should report more openly on how they assess the development impacts of their investments. This is the conclusion of a consultancy report commissioned by Nordic non-governmental organisations.

The report examines the procedures applied by Finnfund (Finland), IFU (Denmark), Norfund (Norway) and Swedfund (Sweden) when they measure the development impacts of the projects that they finance and report on the impacts.

All four development financing institutions are committed to acting responsibly in environmental, human rights and social issues, and they have pledged to observe the international standards that apply to these areas. However, according to the report, more transparency is needed in the manner in which the guidelines are applied in practice.

In particular, the institutions should take a more systematic approach when assessing the human rights impacts and when

reporting on them. The institutions should make efforts to identify the human rights risks and work in the project planning stage to prevent the problems from arising. The financing institutions should also have mechanisms for monitoring adherence to human rights during different stages of the projects.

The report recommends that there should be project-specific appeals mechanisms allowing individuals and groups (such as local communities) to highlight how they might be negatively affected by the projects.

According to the consultancy report, there is also insufficient consideration of the long-term development impacts. It should be possible to assess these impacts better during project preparation and the project funding stage. According to the report, the long-term development impacts should also be monitored when funding is no longer being provided.

to move from the low-productivity agriculture to sectors outside low-productivity services and away from the unofficial economy. However, this does not preclude the need for private sector instruments or their development.

In the following, we will provide an overview of the currently available development cooperation instruments that are intended to strengthen the economies and the private sector of developing countries. We will also list a number of opportunities and challenges involving each of the instruments. We will also discuss how the development cooperation instruments promote the creation of partnerships strengthening the economies and the private sector of developing countries and present our recommendations for improving them. When the instruments are applied, consideration should be given to the added value generated by each of them in the strengthening of the private sector in developing countries and the people working in the sector. We will be discussing the principles governing the cooperation in more detail in the separate section titled “Cornerstones of the support for the economies and the private sector of developing countries”.

Using development cooperation funding as a “catalyst” for increasing other financial flows, such as private investments, has gained support, especially in the EU. For many years, other Nordic countries have also encouraged companies to establish a presence in developing countries. The risks arising from the development of the challenging markets and from operations in them have also been shared through development cooperation funding. Finland can learn and benefit from the experiences of other Nordic and peer countries.

### Finnfund: Development financing institution implementing development policy

According to the Ministry for Foreign Affairs, Finnfund is one of the most important Finnish channels in the support for the private sector of developing countries and for investments in developing countries. Finnfund is a development financing institution whose task is to promote

economic and social development in developing countries by providing self-supporting funding for responsible private businesses operating in them. These operations must involve a Finnish interest. It may be a development goal important to Finland, such as environmental improvements or reduced carbon emissions. It may also be a Finnish company. Funding may be provided for industrial or service business, infrastructure, as well as financial and capital markets.

### **The financial instruments of Finnfund are as follows:**

*Minority equity investments*, in which the Finnfund investment may not account for more than 30 per cent to the value of the project. Finnfund will exit the project after the operations have become well-established.

*Investment loans* for expenses arising from the establishment or expansion of a company. Finnfund may contribute about one third of the overall project funding requirement. The loan is usually between one and ten million euros but seldom under three million.

*Mezzanine financing*, which may include unsecured subordinated loans, preferred shares and convertible bonds. In exceptional cases, Finnfund may also provide guarantees, for example to facilitate access to local financing in local currencies.

Finnfund is a state-owned company steered by the Ministry for Foreign Affairs, to which Finnfund also reports. This means that, in addition to being commercially profitable, the projects must also generate positive development and environmental impacts. Commercial profitability is important because Finnfund does not distribute profits as dividends but spends all its profits as new investments in developing countries. Finnfund provides financing for projects in developing countries and Russia. Under its current guidelines, Finnfund, must, in its new funding decisions, direct at least three quarters of its euro-denominated aid to the least developed, low-income or lower middle-income countries. At the moment, about one third of the financing provided by Finnfund goes to the least developed countries. Of the financing granted in 2016, about 42.4 million euros (28%) went to the least developed countries (LDC), about 4.3 million (about 3%)

to low-income countries (LIC), and 57.5 million (about 38%) to lower middle-income countries (LMIC). This means that Finnfund plays an important role in ensuring that a certain proportion of the development funding goes to the poorest countries. The main mandate of Finnfund concerns the creation of new jobs and tax revenue. Decent jobs and fair and adequate tax revenue play central roles in reducing poverty and the provision of basic services. An operating environment analysis, focusing also on the status of women, is produced of each Finnfund project.

Finnfund has been provided with substantially more financing resources during the current government term. In 2016, the Government decided to grant Finnfund a long-term loan of 130 million euros. The loan accounts for 16 per cent of all development cooperation funding provided by Finland. This enhances Finnfund's role and increases the expectations concerning its operations.

### **Opportunities**

- Finnfund makes itself a self-supporting company through its own operations. Its operations may have an extremely strong catalytic impact on the resources of sustainable development. It may use public development funding as capital and “leverage” additional resources from other sources through this instrument. The start capital can be multiplied when private funds or major development financing institutions join the project. The Finnfund was established in 1980 and by the end of the year 2016, it had received a total of about 165 million euros as share capital from its owners. At the same time, the company's equity has grown to more than 230 million euros, a result of the returns generated by its operations. Finnfund also uses its equity for “leveraging” money for development in two ways: by borrowing money from the markets and by “leveraging” private providers of financing into projects by investing in them.
- Finnfund is well-placed to promote the Agenda2030 in a broad range of different ways. This is because, in addition to covering social and economic development, its mandate also has a strong climate and environmental dimension. Compared with many other Finnish actors, it also has substantial resources to act in accordance with its mandate.
- As an investment partner, Finnfund lowers the threshold of Finnish companies to enter the developing markets. This is because it shares risks and lowers the



companies' investment threshold. It can also link companies' investments with projects that are in accordance with sustainable development and promotes their networking with companies in developing countries.

- Finnfund channels part of its financing through funds, microfinance institutions (MFI), banks focusing on SMEs or similar financing institutions, which means that the financing also benefits SMEs.
- Finnfund's providers of development financing also work to improve environmental and corporate social responsibility in the customer companies. The financing is always conditional on adherence to IFC's corporate social responsibility standards, the most important ILO Conventions and other similar obligations. Compliance with them is monitored and if the progress is not as agreed, Finnfund will take appropriate action. This has a major impact on the companies' employees, associated communities and societies at large in developing countries.
- Finnfund would be in a position to promote gender equality and women's rights more extensively in the companies in which it makes investments.

- A comprehensive evaluation of Finnfund will be launched during 2017.

## Challenges

- Finnfund is a development financing institution and a development cooperation actor and its role differs from that of the other private sector financing instruments. Its operating cycle, operating culture and the stakeholders coming from the financing and business world form an independent entity of their own. The views on Finnfund's mandate and the way in which it relates to the principles of development policy and the achievement of development goals should be openly discussed and presented more clearly.
- Finnfund is constantly developing its monitoring mechanisms for the development results and their impacts. The most serious challenges involve the relationship between business secrets and the openness criteria of the development policy. Openness-enhancing measures introduced during 2016 included the following: Preparation and publication of the new disclosure



policy, publication of project-specific financing and financing instruments, project map and the development impact publication (in early 2017). According to Finnfund's ownership steering memorandum, more consideration will be given to openness and effectiveness in the future.

- In addition to using the number of new jobs and occupational safety and health issues as criteria, it should also be possible to assess Finnfund's activities in accordance with the minimum goals for decent work set out by the ILO and the UNGP principles.
- Cooperation with civil society organisations requires planning and both the Finnfund and the civil society organisations are committed to increasing it. Finnfund does not yet have any regular discussion structures with the organisational field.
- Taxation and transparency. Finnfund implements Finland's Tax and Development Action Programme and complies with the general state ownership policy guideline concerning the publication of tax information. However, under the ownership steering of the Ministry for Foreign Affairs, which is based on the Government Resolution on State Ownership Policy (2016), Finnfund may make investments in funds in such locations as Mauritius, even though this is prohibited by the European Commission.<sup>6</sup> The network of tax treaties in which Mauritius is a party allows tax avoidance in a large number of African countries. Furthermore, project companies are not required to report on financial statements on a country-by-country basis. The ownership steering must ensure that the companies in which Finnfund makes investments are not engaged in aggressive tax planning. At the same time, however, extensive networks of tax treaties allow investments in difficult target countries. Development impacts must be a consideration in the tax treaties and they must also contain provisions for preventing tax avoidance.
- More information about Finnfund's projects is available from such sources as the company's website on which the main details of the projects are given and the tools for assessing their development impacts described. There should be more information available on the DEAT tool used for assessing development impacts. This tool and its different components should be viewable in such locations as Finnfund's website. A higher degree of transparency would enhance Finnfund's accountability and strengthen its role as a development policy actor. In

the assessment of development impacts, consideration should be given to assessments made both beforehand and afterwards.

- In addition to using the number of new jobs and occupational safety and health issues as criteria, it should also be possible to assess Finnfund's activities in accordance with the minimum goals for decent work set out by the ILO and the Gender Marker system. There should be a description of the use of the gender markers in Finnfund's ownership steering memorandum.

### Finnpartnership: Encouraging cooperation between Finnish companies and companies in developing countries

In the Finnpartnership business partnership programme, Finnish companies are provided with advisory services for business operations in developing countries and with economic support for project preparation. This financial support is mainly intended for the planning, development and training phases of projects. Finnish companies and other actors may apply for Finnpartnership support for business operations in developing countries that are profitable and aimed at long-term commercial cooperation. The projects receiving support must have positive development impacts in the target countries, they must be in accordance with the legislation and other requirements of the target countries and meet international environmental and social criteria. When the development impacts are examined, the following matters are considered: wages, rents, interest payments and profits contributing to the national income of the target countries; employment effects in the target countries; diversification of production structures in the target countries; contribution to tax and other similar revenue in the target countries; transfer of technology and knowhow; improvements in skill levels among workers in the target countries; working conditions complying with ILO provisions and social benefits in the companies and in their environments; especially positive environmental effects; gender equality; general infrastructure improvements in the target countries; and net currency effects in the target countries. The assessment criteria applying to the projects supported through Finnpartnership can be viewed on the programme website.

<sup>6</sup> Unlike the OECD, the European Commission has categorised Mauritius as a tax haven. At the moment, the OECD does not have any valid list of tax havens.

Finnpartnership's support facility covers a certain percentage (30, 50, 70 or 85%) of the approved project expenses. The percentage is determined on the basis of the target country and the size of the applicant. The company's personnel expenses in the target country, travel expenses and the expenses arising from the work of the external consultant in Finland or in the target country are approved as expenses. As a rule, the maximum support can amount to 200,000 euros during a period of three tax years. More can be granted if there are justified grounds for doing so. According to the 2016 Aid for Trade report, Finnpartnership has generated investments worth 22.1 million euros with an input of about 1.6 million euros.

The purpose of Finnpartnership's Matchmaking service is to find suitable Finnish partners for companies in developing countries that have expressed interest in a partnership. Partnerships with companies in the target countries are an important consideration in granting Finnpartnership support. For this reason, no support can be provided for exclusively export-oriented projects or companies' basic business operations. The aim is to ensure that companies in developing countries are provided with an opportunity to grow in their own sectors with the help of Finnish partnerships. This makes it easier for them to access the Finnish market, and EU markets in general. Correspondingly, Finnish companies can find new business opportunities and partners. Provision of practical advice, which is in great demand, is an important part of the work of Finnpartnership.

## Opportunities

- As an instrument based on partnership between companies, Finnpartnership combines the goals laid out in the development policy report with the development of the private sector of developing countries. The partnership principle is also in line with the operating model of the Agenda2030.
- The aid eligibility criteria are fairly straightforward, which means that the threshold for seeking aid is fairly low. The eligibility criteria were revised in the summer of 2016, and they are now also better suited for organisations.
- Priority is given to companies operating in the LDCs.
- There are about 350 potential partners in developing countries in the Matchmaking Partner Search database. Matchmaking companies must provide the tax details

for the accounting period preceding the partnership application.

- To what extent would it be possible to build links between Finnfund and Finnpartnership or, more generally, between SMEs and large actors? Team Finland should also market the expertise and networks of Finnpartnership more actively.

## Challenges

- The main purpose of the instrument is to create partnerships, through which positive development impacts can be achieved. The criteria for the development impacts and the verification of the results should be clearer. The Ministry for Foreign Affairs has decided to revise the criteria in 2017 so that the quality and effectiveness of the instrument can be improved.
- The utilisation rate of the partnership programme is still fairly low, which also means that its potential development impacts are not felt.
- The aid only covers the recipient's own expenses in the target country even though expenses also arise in Finland, especially during the planning and training phases. This is particularly challenging to civil society organisations.
- As is the case with other demand-oriented instruments, it takes a while before the applicant receives the aid decision and the money, and the application process is considered laborious. At the moment, the demand for preliminary advice is higher than what Finnpartnership is able to provide. Organisational changes and a shortage of resources have not made the situation any easier.
- The support is only provided after all project-related expenses have been paid. This also has an impact on many small Finnish companies and organisations.
- In addition to using the number of new jobs and occupational safety and health issues as criteria, it should also be possible to assess the activities in accordance with the minimum goals for decent work set out by the ILO and the Gender Marker system. There should be clearer rules governing the use of the gender markers in the steering of Finnpartnership.

## BEAM: Innovation-oriented instrument

**B**EAM - Business with Impact is a programme implemented by Tekes, and jointly funded by Tekes and the Ministry for Foreign Affairs. The purpose of the programme is to support innovation development in Finnish companies, civil society organisations, research organisations, universities, and universities of applied sciences. It also supports innovation-related experiments that promote well-being in developing countries and provide Finnish companies with international business opportunities. SMEs are the main target group of the programme. BEAM is more strongly oriented towards development goals and less focused on the actors involved than the other development cooperation instruments in which funding is provided for the private sector.

BEAM is a five-year programme with a budget of 50 million euros. Tekes and the Ministry for Foreign Affairs account for about half of the funding while the other half comes from the companies taking part in the programme. The BEAM programme is open to all sectors. Under the programme, funding can be provided for projects targeting developing countries (except China).<sup>7</sup> The main target group of the programme are growth-stage companies wanting to expand product-based or service-based business to developing markets. In order to be eligible for support, the company must have credible business operations, be scalable and possess adequate resources. Under the programme, companies are provided with grants and loans. A self-financing ratio of 50 per cent is required. Up to 100,000 euros can be provided as grants in addition to which loans may also be provided. All loans are granted by Tekes and none of the financing for them comes from the Ministry for Foreign Affairs. Total project costs vary between about 30,000 euros to hundreds of thousands of euros, depending on the size of the applicant company and the project content. civil society organisations and companies operating in Finland can also take part in the projects with their own parallel projects.

### Opportunities

- A target-oriented instrument bringing together a large number of different actor groups. Applicants are encouraged to establish partnerships with companies in the

target countries and to cooperate with the public and private sectors. The performance of the instrument is assessed on a continuous basis, not only afterwards.

- Support is available to all sectors, which means that it is better suited for meeting the partners' development needs.
- Even though the BEAM concept has attracted interest, there is a need for more extensive dissemination of information on the application and selection criteria and the finding of potential partners.
- The programme helps to strengthen relations in the partner countries and supports Finland's efforts to move from development cooperation to business partnerships.
- The programme facilitates the operations of Finnish companies in the developing markets.
- The programme has helped Tekes and the Ministry for Foreign Affairs to put their cooperation on a closer footing in both Finland and other countries.

### Challenges

- It should be possible to interpret the innovation criterion in BEAM funding decisions in a practical manner as a new sustainable business solution that is relevant to strengthening development impacts or improving living conditions.
- It is difficult to find companies or projects for demanding conditions in developing countries. Start-up companies do not possess adequate resources, knowhow or credibility for sustainable business operations. During its early stages, BEAM was distinctly a programme for research projects and organisations.
- BEAM has only limited application to civil society organisations because it requires profitable business operations. It is, however, a development funding instrument that uses societal influence as an essential criterion. A total of 80 per cent of the applications submitted by organisations are approved, which is more than among other applicant groups. This suggests that the instrument might be particularly well-suited for certain types of organisation that already possess adequate resources and capabilities for BEAM cooperation.
- A substantial self-financing requirement (between 30% and 50%) may discourage civil society organisations from taking part in the programme. Companies, too, may consider the self-financing requirement too high

<sup>7</sup> All countries listed as countries eligible to receive development aid by the OECD DAC are considered as developing countries: <http://www.oecd.org/dac/stats/daclist.htm>

in relation to the risks arising from business operations in developing countries. Tekes has the final say on these criteria. There may be differences between the assessment criteria applied by Tekes (business operations, novelty value, scalability) and the priorities set by the Ministry for Foreign Affairs (local development impact).

- Slightly over half of all funding applicants were companies and 47 per cent of all approved projects were projects proposed by companies. A high rejection rate, compared with the projects proposed by organisations, may suggest that the companies did not have a clear picture of the required development impacts.
- Verifying the development impacts and strengthening them, especially in company projects, should be given consideration in the steering of the BEAM instrument.

## PIF: Support for public sector investments

**T**he Public Sector Investment Facility (PIF) is an updated version of the concessional credit scheme, which was abolished and then reinstated during the previous government term. It is intended for supporting developing countries in public sector investments that strengthen their own capacity with the help of Finnish technology and knowhow. The investment facility is a mixed credit instrument in which the beneficiary is the public administration of the developing country concerned. The credit is guaranteed by Finnvera. In PIF, the public sector investment in the developing country is partially funded with a loan, which is, however, not financed from Finland's development cooperation funds. The PIF covers the loan interest on the portion of Finnvera's guarantee fee exceeding six per cent and part of the investment capital. The main difference to the concessional credit scheme is that PIF also covers 14 least developed countries. The requirement is that Finnvera provides them with a guarantee.

The PIF scheme is intended for investment projects of Finnish companies in developing countries. The funding is usually provided for the companies' public sector customer in the target country so that it can cover the expenses arising from the purchase. This means that PIF is a tied aid instrument. Under the PIF scheme, the poorest countries on the beneficiary list are entitled to receiving 50

per cent of the aid as grants, while the remaining funding is in the form of a concessional credit. Other countries are entitled to receiving 35 per cent of the aid as grants.

The funding application is submitted by a public authority in the developing country in question and it prepares the document in cooperation with the Finnish exporter and the provider of funding. There are no sector-specific limitations to the instrument. The development impacts of the investment play a major role when the funding decisions are made. A feasibility survey meeting the standards laid out by the IFC, which is part of the World Bank Group, must be prepared for the project. The Ministry for Foreign Affairs is responsible for assessing the project and its human rights and development impacts. The preliminary assessment is partially carried out by an external consultant hired by the Ministry for Foreign Affairs. In this connection, the applicant's debt sustainability is also reviewed. The final decision is made by the group in the Department for Development Policy assessing the quality of the development cooperation projects (quality team). The procurement process is in accordance with the practices observed in the partner country. The customer must report on the development impacts two years after the project start. The Ministry for Foreign Affairs may commission an assessment of a project receiving investment support. However, as a rule, not all projects are systematically evaluated.

The size of the funding varies. Concessional credit projects were sized between 10 and 20 million euros and

The main difference to the concessional credit scheme is that PIF also covers 14 least developed countries.





PHOTO: LAURA RANTANEN

the smallest of them amounted to two million. The funding granted under the PIF scheme varies between 5 and 30 million euros, which is a sizeable investment for the poorest countries.

## Opportunities

- PIF provides an instrument for financing major public sector projects supporting sustainable development that are supplied by Finnish companies. It is available to all developing countries (including the poorest states).
- It is particularly well-suited for large Finnish companies offering solutions in the energy, infrastructure, water and sanitation sector, and in environmental technology (incl. meteorology).

## Challenges

- Development impacts should be considered during the planning stage and after the implementation. Adequate resources should be allocated for this. In the assessment, consideration should be given to both development policy and export promotion goals.
- As the projects are of substantial size, they should also be reviewed from the perspective of the value chains, tax footprint and the creation of local added value.
- The aid provided under the PIF scheme is tied aid requiring that purchases are made from Finland. As a rule,

this is in violation of the most important international principles governing development cooperation. OECD/DAC has estimated that tied aid is between 15 and 30 per cent more expensive than untied aid.

- PIF burdens Finnish missions in the poorest countries, which already have inadequate resources.
- There should be a critical review of the debt sustainability risks in the poorest countries. In the instrument, the risk is borne by the developing country concerned, and partially also by Finland. The instrument reduces the risk of the private sector actors.
- Special consideration should be given to the procurement practices of the partner countries and the challenges concerning good governance, democracy and competitiveness legislation associated with them. Finland is examining whether support for this would be available from the UN (The United Nations Office for Project Services, UNOPS).
- How can it be ensured that tying the support to goods or service purchases from Finland will not increase the project costs? The OECD has estimated that tied aid is as much as 30 per cent more expensive than untied aid.
- PIF is not suited for companies that have consumers or the private sector as their customers. It is not suited for small-scale precise projects either.
- In addition to using the number of new jobs created and occupational safety and health issues as criteria, it should also be possible to assess the activities in

accordance with the minimum goals for decent work set out by the ILO, UN Guiding Principles on Business and Human Rights and the Gender Marker system. The economic profitability of the activities should also be assessed.

## Team Finland: Network supporting internationalisation

**T**he aim of the Team Finland network is to promote the success of Finland and Finnish companies internationally. The network brings together state-funded actors promoting the internationalisation of companies, foreign investments in Finland and the country image, as well as the services that they provide. It provides information, tools and networks for internationalisation of companies. The aim of the networked approach is to ensure that the public resources allocated to the promotion of exports and investments are utilised more efficiently and to improve the quality of the services available to companies.

The Ministry of Economic Affairs and Employment, Ministry for Foreign Affairs, Ministry of Education and

Culture, as well as the publicly funded organisations steered by them and their offices outside Finland are at the core of the Team Finland network. These organisations are as follows: Finpro, Tekes, Finnvera, Finnfund, Finnpartnership, Finnish Industry Investment, VTT, the Finnish Patent and Registration Office, the ELY Centres, Finland's cultural and academic institutes, the Finnish-Russian Chamber of Commerce and the Finnish-Swedish Chamber of Commerce. The activities are steered by the Government and the Government Programme, especially the key project on competitiveness and employment. The work to reform the Team Finland activities has been started so that the network would be able to provide companies with better service. The reforms have started from the growth programmes, which are the main tools of the Team Finland network. However, so far there has been insufficient attention to the network's development policy guidelines and competence as well as the links with development policy objectives. For example, the competence possessed by Finnish organisations remains an underused resource in the practical activities of Team Finland.

In the growth programme reform of Team Finland, consideration is given to the developing markets. The growth programme package has the developing markets as »

## Closer cooperation between companies and civil society organisations

In recent years, civil society organisations carrying out development cooperation work have increased cooperation with private companies and developed new operating models for partnerships helping poor population groups in developing countries. Three examples of such activities are given below.

### Plan International Finland

The priority in the work of Plan International Finland is to provide companies with expertise on children's rights and the status of girls in developing countries. Cooperating with Kesko, the organisation is helping the Thai fishing industry to operate more responsibly and working to improve the status of Cambodian migrant workers. The purpose of the project is to study the manner in which the unofficial sector of the fishing industry operates, to review how to prevent the exploitation of migrant workers and their children, and to provide actors in the supply chain with training in transparency and the fair treatment of workers.

In the Alwar district of western India, Plan has a cooperation project underway with the heavy engineering company Metso. In this project local schools are provided with proper teaching facilities and teachers receive additional training. The aim is to improve learning results by providing the schools with facilities for science and mathematics teaching, up-to-date IT technology and school libraries. Metso has a production plant in the Alwar district, and India is an important market for the company.

According to Plan, the application of new technological solutions has also proved to be an effective operating approach. An example of this is the solar backpack developed in cooperation with a British start-up company. The solar backpack allows audiovisual material to also be used in remote areas. The project successfully combines the technological knowhow of the project partner Aleutia with the knowledge of local conditions that Plan possesses.

### World Vision Finland

For World Vision Finland, the private sector is an important partner, and the organisation is investing in developing good partnership models. The focus is on “inclusive business”, in which development is generated through business. The partners have varied from start-up enterprises to large companies.

In World Vision's Weconomy innovation projects, companies that have or aim to have a presence in developing markets are developing products and services in cooperation with local stakeholders and communities with the support of the organisation's experts. The model was originally developed in collaboration with Aalto University and Finpro. So far, World Vision has implemented nine Weconomy projects, in India, Sri Lanka and Kenya. For example, in Kenya, it is manufacturing equipment utilising solar thermal power in cooperation with the solar power company GoSol.org. The equipment is intended for the use of small enterprises operating in Kenya. With Logonet Oy, World Vision is in the process of developing a maternity kit suitable for refugee camps and humanitarian operations. Other Weconomy cooperation projects include importing Indian handicraft products to Finland (MNI Products), development of food waste composting in Sri Lanka (Biolan), investigating the biofuel potential of agricultural waste in India (Fortum) and the development of a communal travel service in Sri Lanka (Duara Travels).

In addition to the Weconomy projects, World Vision has also cooperated with Salesforce.com in mentoring young entrepreneurs in a slum in Nairobi. With the eyewear retailer Cazze & Synsam, World Vision has been involved in projects in which the company's opticians conduct eye tests and distribute eyeglasses donated by Finns to people in Kenya and Peru in need of them.

### Finnish Committee for UNICEF

In its cooperation with the private sector, the Finnish Committee for UNICEF observes the guidelines and priorities laid out by UNICEF International. The cooperation encompasses corporate social responsibility issues from the perspective of companies and the authorities, and the utilisation of the expertise and resources possessed by companies in the development of new solutions.

The corporate social responsibility work carried out by UNICEF enhances respect for children's rights in companies' operations. UNICEF has selected five priority areas (ICT, tourism, the textile and clothing industry, mining, and the food and beverage industry) and production chains, in which the focus is on the production of raw materials.

As part of the international work of UNICEF, the Finnish Committee for UNICEF has, in cooperation with Finnair and Neste, examined the impacts of tourism and palm oil cultivation on children's rights.

In UNICEF's view, companies have a great deal of resources and expertise that can enhance children's rights at the same time as promoting business. Innovative solutions to the water and sanitation problems in Ugandan schools have been developed in the UniWASH project of the Finnish Committee for UNICEF. In addition to Finnish and Ugandan students and universities, the project also involves the environmental products company Biolan as an expert partner. Biolan has supported small enterprises in Uganda so that they could develop the water and sanitation ideas created by the students into commercial products and services. During the project, the parties have learned a great deal about what innovation processes involve. They now know that innovation is a time-consuming process that needs expertise from different actors and in which especially the private sector plays an important role as a partner processing the concepts into economically sustainable solutions. A great deal of emphasis in the project has been on human rights based project work. It has been developed by first providing project partners with training in the human rights-based approach and in the practical tools associated with it. After this, the students have been able to apply the tools that they have learned in their work with the pupils.

Like Plan and World Vision, the Finnish Committee for UNICEF does policy advocacy work in cooperation with companies. Well-known companies and brands have a great deal of potential in promoting sustainable development goals and children's rights through their own work and by setting an example for the sector as a whole by disseminating the message among other stakeholders. UNICEF has a long history of cooperation with the world's largest consumer product brands in fundraising. Corporate partners and multi-actor platforms, such as the World Economic Forum, the United Nations Private Sector Forum and the most important sectoral events, are encouraged to act as more visible trendsetters for other companies. For example, UNICEF has launched joint efforts with Lego, in which the focus is on children's digital rights. The fact that 20 million people visit the lego.com site each month and that the LEGO YouTube channel attracted 1.3 billion viewers in 2015 give an idea of the huge impact potential of the work. The Finnish Committee for UNICEF is also mapping suitable trendsetter companies and aiming to establish new types of value-based cooperation models with companies.



its cross-cutting theme. The theme is separately resourced, and it is also incorporated in other growth programmes (such as bioeconomy, cleantech and digitalisation).

## Opportunities

- Finland enjoys a high international profile as a country promoting sustainable development. This should also be more actively exploited in export promotion. Knowhow in research and education should also be a more visible part of the Team Finland work.
  - In an ideal situation, the Team Finland network could promote internationalisation advancing the sustainable development goals of Finnish companies in a broad range of different areas.
  - The basis for the growth programmes for developing countries and Digital Africa already exists.
  - Team Finland brings together the offerings of different actors and instruments. It provides Finnish companies with customer contacts in developing countries through its network and with the help of Finpro and its growth programmes as well as the network of Finnish embassies.
  - In cooperation with developing countries' own public and private organisations, the Team Finland network could establish a framework for a high-quality and confidential due diligence support service. This would help to survey the risks connected with any bilateral business but it could also serve as a tool for building trust between the actors.
- The lack of business skills in developing countries that do not have consultancy networks familiar with Finnish interests and providing Finnish actors with services. At the moment, the personnel resources in Finnish diplomatic missions are inadequate.
  - Systematic action and stronger competence are required for ensuring that the expertise on the activities carried out as development cooperation and lessons learned from them can be utilised in Team Finland activities. This is particularly the case in countries where development cooperation has been the main form of cooperation (such as Kenya and Zambia).
  - Tekes, Finnpartnership, Finnfund and the Ministry for Foreign Affairs could provide funding seeking companies with more information about how to cooperate with civil society organisations, about the benefits of such cooperation and about the expertise possessed by the organisations. At the moment, finding partners is an arduous process. Companies and organisations do not know each other.
  - In Team Finland, too, all actors should commit themselves to the assessment of the minimum goals for decent work laid out by the ILO, UN Guiding Principles on Business and Human Rights, and gender impacts.

## Challenges:

- Reconciling the aims of export promotion and development policy goals requires a new approach and new capabilities. Successful implementation of the 2030 Agenda requires that export promotion, too, encourages companies to engage in business that is in accordance with sustainable development goals.
- The development of the networks between Team Finland, development policy parties and non-public actors

is still at its initial stages. The local networks of Finnish industrial organisations, such as the Federation of Finnish Enterprises, Finnish Enterprise Agencies, chambers of commerce, Confederation of Finnish Industries, as well as those of trade unions should be used more systematically as “contact surfaces” in business operations in developing countries.

- The lack of business skills in developing countries that do not have consultancy networks familiar with Finnish interests and providing Finnish actors with services. At the moment, the personnel resources in Finnish diplomatic missions are inadequate.
- Systematic action and stronger competence are required for ensuring that the expertise on the activities carried out as development cooperation and lessons learned from them can be utilised in Team Finland activities. This is particularly the case in countries where development cooperation has been the main form of cooperation (such as Kenya and Zambia).
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- In Team Finland, too, all actors should commit themselves to the assessment of the minimum goals for decent work laid out by the ILO, UN Guiding Principles on Business and Human Rights, and gender impacts.

## The tools must be suited for a broad range of different needs

In the efforts to increase development funding, internal and external central government partnerships are assuming an increasingly important role. The role of partners has also been recognised in the requirements laid out for the private sector instruments. Even though there is broad range of different subsidies available to private sector actors, consideration must be given to the goals laid out for the instruments, their feasibility and the links



between them. Generally speaking, the range of instruments, which is currently applicant-oriented, should be made more goal-oriented. At the moment, the parties eligible for funding are too narrowly specified and not enough consideration is given to the purpose of the activity. The funding needs of SMEs and micro enterprises in developing countries and the development of their business operations constitute the blind spot in the existing set of tools, even without any Finnish connections.

Even though development impacts must be the main objective in the activities financed with development cooperation funds, the fundamentals of business operations must also be a consideration when tools for the purpose are designed. Furthermore, the aim must be to maximise both the development impacts and business profitability. It is particularly important to consider how the instruments relate to the development needs in the private sector of developing countries. In that case, the objective must be the business growth and internationalisation that can be adapted to the needs and operating environment of each country and that helps to reduce inequality. Supporting the exports of specific technologies and products with development cooperation funds should also be on a needs basis. It is important to give consideration to more extensive networks connected with business operations, especially when these involve political and human rights impacts. From the perspective of Finnish companies, the cooperation instruments should be based on a clear understanding of the development goals pursued with the activities, requirements for entering the developing markets and the challenges facing businesses operating in these markets. For this reason, advance advice and training provided in connection with the instruments is important.

Private sector instruments should form a mutually supportive continuum. This applies to all Team Finland services and instruments, and not only to the instruments administered by the Ministry for Foreign Affairs. It would be better for the companies if they were able to make flexible use of the instruments at different stages of their development paths (in preliminary studies, establishment, product development/adapting the product and activities to local needs, and growth funding). The widest gap now exists midway through the development path. After receiving early-stage support from such programmes as BEAM or Finnpartnership, a company has to turn to Finnfund, which mainly provides financing for large projects amounting to millions of euros. An intermediate

instrument, sorely needed by SMEs, is absent. For example, there are no suitable financing instruments for projects between 400,000 and 1 million euros. This should be taken into account when existing cooperation instruments are developed. Correspondingly, the support received by civil society organisations should also be examined against the background of the cooperation needs of the private sector. If organisations are expected to cooperate more extensively with companies, the support schemes for them must encourage such cooperation by providing the appropriate resources and flexibility.

Particular attention should be given to the development and expansion of the early-stage instruments so that Finnish companies are encouraged and learn how to expand their business to the developing markets. As is generally the case in development funding, predictability of the funding and support is essential. In addition to funding, there is a need for expertise that combines the knowledge of the operating field, development challenges and opportunities, as well as the requirements of the companies and the markets. In Finland, only a very limited amount of tailored advice and training for reducing poverty and inequality as part of business operations is available to companies. This is a significant opportunity for cooperation between companies and civil society organisations. There are few sectoral, regional or other networks based on peer support. At the same time, corporate social responsibility networks often play only a secondary role in the core business of the companies. The good results achieved with development funding and instruments should be highlighted more openly and information on them should be disseminated. This might also make private providers of funding more interested in developing countries.

## Building partnerships requires time and resources

In a business operating environment differing from the domestic market, various types of partnership assume a greater role. It is easier for companies coming from outside to create workable business operating models if they are supported by local business partners. Support networks run by different actors make it easier to find such partners. Partners in the target countries know the local markets, customers and operating practices, which helps Finnish companies to establish a presence in new regions.



The networks also help to develop entrepreneurship in the target countries and to build business operating environments.

The Finnish private sector can establish partnerships directly with companies in developing countries or build cooperation relationships with the private sector and the civil society, in both Finland and in the target countries. Partnerships can also be established with industrial organisations, sectoral organisations or such bodies as universities and other education institutions. In the past few years, there has been a growing debate in Finland and internationally on the partnerships between companies and civil society organisations.

A long-term approach, familiarity with local conditions and trust are a requirement for successful development cooperation at bilateral and multilateral level, as well as for development cooperation involving civil society organisations. These qualities are also required in the corporate partnerships strengthening the private sector in developing countries even though the operating logic and strengths of the actors might be different. The aim is to ensure that different actors pursue common goals - sustainable development impacts in developing countries - by relying on their own strengths and by complementing each other. Private business operations are based on profitability, which does not, however, exclude positive development impacts. Recognising and accepting the different starting points of both parties and, in particular, having genuine common interests are a precondition for successful cooperation. For example, it is important

for companies to ensure that their subcontracting chains meet international standards. Partnerships do not come into existence automatically; they require a systematic approach and, in many cases, also external guidance. Especially in the combination of business operations and development impacts, a clear strategy and leadership for implementing it are required.

Civil society organisations find it challenging that they are urged to cooperate more extensively with companies even though their funding has been cut. However, building cooperation is a time-consuming process. Resources must be spent on the preparatory work and on finding a suitable partnership model before any results are achieved. This is a major challenge to organisations because providing the human resources required for the cooperation may be difficult. In this respect, organisations of different size are in an unequal position. It is easier for large international organisations to pilot joint projects with companies, whereas small organisations cannot do this unless separate support is provided for the purpose.

Moreover, companies do not necessarily possess expertise on developing countries. This requires substantial resources from partner organisations in such areas as steering. Such instruments as preparatory funding for planning cooperation projects with different countries and on different themes and innovations are not available for this purpose. Cooperation with companies has not featured prominently in the funding applications submitted by civil society organisations in recent years. At the same time, however, there are also promising examples that

could serve as a more systematic basis for guidance and good practices for organisations planning partnerships. There is a need to build capacity in both the organisations and companies. For this reason, it is important that the

work plan promised in the development policy report, as well as support and training for corporate social responsibility become reality. ■

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## Recommendations of the Development Policy Committee:

- For strengthening the private sector in developing countries, Finland needs a vision that is more comprehensive than the existing range of instruments. It should combine the goals laid out in the development policy report, Agenda2030 and private sector partnerships. Guidelines should be prepared for implementing the vision. They should lay out how the universal principles governing Finland's development policy - human rights based approach, coherence, openness and effectiveness - should apply to all actors. In this set of instruments, development cooperation is only one of the many tools available for the purpose.
- Reduction of poverty and inequality in developing countries and promotion of sustainable development in global scale should be the all-encompassing aims of Finland's development policy. Public development cooperation funds should always be used in accordance with the goals laid out in the Agenda2030. This should also be the case when companies are involved. It is also particularly important to improve companies' understanding of social development as part of the implementation of the Agenda2030.
- The funding instruments are mainly intended to serve private sector partnerships. They rarely have provisions for cooperation with non-Finnish companies. There is also a need for other development policy measures supporting the development of the private sector and business policy in the target countries.
- More consideration should be given to the needs of small potential business projects. This is important because most of the companies in Finland and in developing countries are small. Most of the new jobs are created in these companies.
- The standards for measuring the effectiveness of business funding and the criteria for success and responsibility should be commensurate with the other activities financed with development cooperation funding. There is room for development in the criteria and guidelines for development performance goals in business instruments and in the manner in which they are verified. At the same time, consideration should be given to reporting on the results and their transparency.
- In addition to the economic impacts generated by the business operations, it must also be possible to determine, monitor and assess the social and environmental development impacts arising from the activity. For this, companies must have a clear view on what is expected of them in this respect and how development impacts are assessed. A report on the development impacts of the different private sector support instruments must be submitted to Parliament during the current government term.
- The expertise possessed by the Finnish missions in the partner countries, civil society organisations and companies should be more actively brought together so that development goals can be achieved. Sufficient resources should be allocated for this purpose. Adequate expert and administrative resources should also be ensured domestically.





- Assessment of the Development Policy Committee -

# Fair taxation encourages growth

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How can Finland promote developing countries' own taxation capacity and international tax rules promoting sustainable development?



**T**axation is an essential part of the economy in every country, and it is crucial to ensuring the functioning of society and the well-being of its citizens. As a development policy theme, taxation is connected with a number of important issues. It helps developing countries to retain some of the economic wealth created in them, which means that these resources can be used more effectively in the efforts to narrow gaps between countries and between individuals. The strengthening of developing countries' own financing base (domestic resource mobilisation) has become a major international development policy theme, especially in the Agenda2030 for Sustainable Development and in the decisions of the Third International Conference on Financing for Development held in Addis Ababa. Finland, too, is committed to the decisions of the conference.

International tax evasion and avoidance, weak taxation systems in developing countries, and misuse of tax revenue erode the fundamentals of well-being, functioning societies and sustainable development everywhere. Each year, countries around the world lose substantial amounts of tax revenue as a result of illicit capital flight and tax avoidance, as well as tax planning, which is legal but against the spirit of the law. The volume of the capital fleeing from developing countries is many times higher than the development aid provided to them. According to the United Nations Conference on Trade and Development, developing countries lose USD 100 billion every year as a result of tax avoidance by multinational companies.<sup>8</sup> This sum would be enough to provide health care for 700 million people in the world's poorest countries. It is extremely difficult to give any exact figures because there is no comprehensive information available on illicit financial flows. It is clear, however, that they are substantial in scale. Most of the illicit capital flight is connected with incorrect invoicing of foreign trade (exports and imports), which means that they come under the purview of the customs authorities. The phenomenon is not limited to developing countries. Tax avoidance and illicit financial flows are an obstacle to the sustainability of the global economy and people's well-being.

Developing countries are more dependent on the taxes paid by companies than industrialised countries. In Africa, an average of 30 per cent of all tax revenue is generated by corporate taxes, whereas in the developed economies the figure is only 11 per cent.<sup>9</sup> According to the surveys conducted by IMF and UNU-WIDER, tax avoidance by large companies also has a more serious impact

on developing countries. At the same time, large multinational companies are the largest taxpayers in developing countries, which means that the tax is primarily directed at the companies' shareholders in industrialised countries. Corporate taxes have grown in importance with trade liberalisation and the lowering of import duties. What are called export processing zones (EPZ) can boost economic growth and employment and help to improve the infrastructure. However, from the perspective of sustainable development, they are often a problematic arrangement. They are areas established inside states, and multinational companies operating in them are granted tax relief or exemptions from labour and environmental laws, or both. The purpose of the EPZs is to attract foreign investment into developing countries, especially in labour-intensive sectors, such as the electronics, clothing and toy industries. Broadening the tax base paid by large companies would also replace taxes hampering foreign trade (such as customs duties and other charges). At the same time,

In Africa, an average of 30 per cent of all tax revenue is generated by corporate taxes, whereas in the developed economies the figure is only 11 per cent.

<sup>8</sup> World Investment Report 2015, UNCTAD.

<sup>9</sup> Kuin laittaisi rahaa pankkiin – vaihtoehtoja kestävän kehityksen rahoitukseen, 2016, KEPAn ajankohtaiskatsaus. (It's like putting money in the bank - alternative ways of funding sustainable development, 2016, topical survey of KEPA).

## The poorest women shoulder the heaviest tax burden

The poorest women in developing countries often carry a higher tax burden than men and benefit less from taxes than men do. According to a number of studies, indirect taxes account for as much as two thirds of all tax revenue in low-income countries (in high-income countries, the proportion is one third). This means that consumption is taxed more heavily than income and wealth in low-income countries. As women are often responsible for acquiring the necessary consumer items for their families, they shoulder a disproportionate burden of the tax payments. At the same time, men benefit from low or negligible income taxation.

More efficient tax collection is the most sustainable way of broadening the revenue base in developing countries. At the same time, however, attention should be paid to those from whom the taxes are collected and to the manner in which the tax revenue is used. Gender-based assessment at each

level of tax and economic policy and in the budgetary policy (gender-sensitive budgeting) could make this easier. It is also important to know from whom the taxes are collected. This helps to avoid a situation where the poor and groups that are discriminated against pay proportionally more taxes than those with higher incomes. Women often do not get much in return for paying taxes. When countries try to minimise their budget deficits, cuts are made in public services, which are important to women. There must also be mechanisms for monitoring the manner in which tax revenue is used. Countries should provide their citizens with basic services with the tax revenue and guarantee that every taxpayer gets value for their money. Finland should help its partner countries' tax administrations to strengthen the expertise of their personnel, promote the career opportunities of women in particular, and provide training in such issues as discriminatory tax practices and gender-equal budgeting.

consumption taxes, which are also an extremely important source of income for developing countries, are often an unreasonably heavy burden on the poorest population groups and they often fall more heavily on women than men.<sup>10</sup> If developing countries were able to collect taxes from companies and from their own elite, there would be less pressure to tax consumption.

However, taxation alone is not enough. Proper and more efficient channelling of central government expenditure is at least as important. Developing the public financial administration is important so that the citizens and companies can see how the tax revenue is spent. When allocated and applied in a fair manner, taxation provides a basis for essential basic services and reduces inequality and poverty inside countries. This requires improvements in taxation capacity in developing countries and in the manner in which the tax revenue is spent. Financial administration reforms reduce opportunities for corruption, make budgets more transparent and improve auditing. Parallel to central government financial and tax administration, the parliament, customs, the courts and

other oversight bodies play a central role in ensuring good governance and democracy. From the companies' perspective, it is important that the tax policy and taxation practices are predictable. Social stability is in the interests of both citizens and companies. Taxation can only serve the goals of sustainable development if all parts of the equation are in place.

In the last section of this report, the Development Policy Committee will focus on how Finland can promote developing countries' own taxation capacity and international tax rules that support sustainable development. We will also be discussing the challenges concerning the strengthening of the tax base in developing countries and the problem of legal and illicit capital flight. The assessment is based on the Government's development policy report, in which taxation is discussed under the priority area of making societies more democratic and better-functioning. The issues are discussed in more detail in the Tax and Development Action Programme adopted in autumn 2016 (2016–2019), which presents the measures planned by Finland to promote the goal and the resources that

Finland intends to allocate for the purpose. With respect to the Ministry for Foreign Affairs and Finland's development policy, the action programme also implements the Government's action plan against international tax avoidance and the work programme on corporate social responsibility.

## The action programme provides a good basis for the development of taxation

Finland's Tax and Development Action Programme is an extremely welcome opening and an important development policy initiative. The programme clearly states that its goals can only be achieved if they are supported by consistent policies and there is cooperation between the parties involved. This means the action programme links Finland's taxation-related development cooperation and policy more closely with the implementation and monitoring of the Agenda2030 for Sustainable Development. Many of the goals laid out in the Agenda2030 are connected with taxation. These include the goals relating to economic growth (Goal 8), reduction of inequality (Goal 10), providing access to justice, building of institutions and combatting of illicit financial flows (Goal 16) and the strengthening of developing countries' taxation capacity (Goal 17). Through the action programme, the Ministry for Foreign Affairs is cooperating with the Ministry of Finance, Ministry of Economic Affairs and Employment and the Finnish Tax Administration and working to ensure that taxation issues are also discussed as sustainable development issues at international forums, such as the EU, the OECD and the Group of 20 major economies (G20).

The situation analysis presented in the action programme is fairly realistic. It states that in developing countries, tax evasion and avoidance as well as corruption prevent the development of the countries' public finances and the strengthening of their tax bases. Tax revenues that are owed to the countries are not obtained from large corporations and wealthy individuals. The action programme recognizes the current situation to be contrary to national and international development goals. Finland aims to tackle these challenges by taking active part in international cooperation on tax rules, and by supporting the participation of developing countries in the process, their own knowhow and taxation capacity.

The programme reiterates Finland's commitment to the international tax partnership initiative (Addis Tax Initiative) and it is also stated that Finland undertakes to double its support to strengthening developing countries' taxation capacity between 2015 and 2020. The comparison is based on OECD/DAC statistics in which the parties to the initiative report on the funding earmarked for strengthening the domestic resource mobilisation of developing countries. For Finland, the funding is expected to be increased from the 7 million euros allocated for 2015 to 14 million euros. Even though this is much less than originally anticipated, it puts Finland in the middle group of DAC countries, together with Sweden and the Netherlands. The additional funding by Finland has been justified with the benefits achieved through taxation. According to the studies carried out by the OECD, development aid investments made in taxation, will generate at least a fourfold "return" through higher taxation capacity. In the view of the OECD, there may even be a 20-fold return from which an increasing number of citizens in developing countries can benefit.

The Tax and Development Action Programme is clearly structured. Its four main objectives are related to international tax rules, taxation capacity in developing countries, strengthening of tax compliance through the efforts of civil society organisations, and research. The action programme presents the measures through which the objectives are to be promoted and funding for the measures. The target regions and countries are also given and the actors and their partners specified. This makes it substantially easier to produce an overview of the programme and monitor the measures. A long-term approach and new initiatives could be laid out as future development priorities in the action programme. Finland's global tax policy, and national policies in tax and development issues should also be laid out more consistently. For this reason, the division of labour and responsibilities in different areas of cooperation between the authorities should also be more clearly specified.

The setting of the objectives in the Tax and Development Action Programme continues the ambitious line started in the development policy report. The main objectives laid out for Finland are the same as those set out for all international cooperation. The idea is that Finland will contribute to the achievement of international objectives with its own input. The action programme does not lay out any objectives related to the measures or resources. Below we will review the objectives and present the key measures supporting the objectives:

## Finland as a partner in the development of international rules

*According to the Tax and Development Action Programme*

*“1. International cooperation has achieved and implemented revised international tax rules, for example to establish corporations’ country-by-country tax reporting and to reduce tax evasion, tax avoidance and corruption.”*

There is intensive discussion at different forums on the global tax policy and the rules guiding it. The most important of them are the OECD/G20, EU, UN, World Bank, International Monetary Fund IMF and the Platform for Collaboration on Tax, which serves as their cooperation body. A number of regional development financing institutions also deal with taxation issues. The focus in Finland’s action is on the OECD and within the organisation on two entities driven by the OECD/G20, which form the core of the international tax agenda promoted by the OECD. The agenda relates to the reform of the international corporate tax rules (Base Erosion and Profit Shifting; BEPS) and Automatic Exchange of Tax Information (AEOI). As its name suggests, the aim of the BEPS process is to prevent the erosion of the tax base and slow down profit shifting by introducing reforms in international tax standards and by preparing legislative recommendations for its member states. According to its recommendations, multinational companies should be taxed in the countries where the value of their production and services is created. In a globalised and digitalised world, it is not always easy to create common rules. Development and promotion of country-by-country reporting by companies has also been an important BEPS aim. The weakness is that the exchange of country-by-country reports between the tax authorities under BEPS only benefits a small number of developing countries. At the moment, the scheme does not oblige multinational companies to publicly report on their country-by-country tax information.

The automatic exchange of tax information pertains to activities after taxation and the main aim in it is to combat international non-taxation. AEOI is a fixed-format standard allowing tax administrations to exchange information on foreign investments. Development of the scheme is the responsibility of the Global Forum on Transparency and Exchange of Information for Tax Purposes, which

is an OECD body. A total of 130 countries have joined the scheme. The exchange of information has two objectives: the automatic exchange of information on private individuals and the exchange of country-by-country reports. From the perspective of developing countries, the approach adopted by the Global Forum is a challenging one. It requires reciprocity from the participating countries and technical data security arrangements that are beyond the capacity of the poorest countries. Furthermore, the system is largely based on the exchange of information on a bilateral, not multilateral, basis. At the moment, developing countries are not in a position to supply information on a reciprocal basis. For this reason, the poorest countries receive few benefits from the exchange of information under the current model. Finland should support developing countries in their work to develop their own tax systems and information exchange capacity. Developing countries should also be allowed to be flexible when applying the reciprocity requirement (for example by introducing transitional periods) and they should be provided with support in the collection of information. There are also gaps in the AEOI standard, which weaken its effectiveness.

No concrete objectives are laid out in Finland’s action programme, and the manner in which the participation of developing countries is supported on this forum is not specified in the document. According to the action programme, tax relief and the taxation of natural resources are among the policy influence measures that Finland applies. However, it is not specified in the document, which international forums Finland will be using to promote the issue and which are the detailed objectives supporting the effort.

According to the action programme, Finland supports the participation of developing countries in this cooperation and strengthens their capacity to apply the new tax rules. The support consists of funding from the Ministry for Foreign Affairs and technical assistance provided by the Finnish Tax Administration. The African Tax Administration Forum (ATAF) is the main partner in this work. Strengthening a regional player is a welcome measure. At the same time, however, the sums allocated for the purpose are not given in the action programme. Furthermore, the document does not specify whether Finland is systematically committed to all the recommendations and standards in the BEPS measures. The issue of country-by-country reporting by companies and the reporting requirements in particular has been a highly



sensitive issue in Finland and in the EU in general. The country-by-country reporting under the BEPS scheme is already in effect. In Finland, companies in which the state is a majority shareholder have been obliged to produce tax footprint reports since 1 January 2015. However, the level of reporting is not in accordance with country-by-country financial statements.

The obligation to submit country-by-country reports to tax authorities has been incorporated into an EU directive and last autumn, it was also made part of the national legislation in Finland. The obligation applies to companies with a turnover of at least 750 million euros. In April 2016, the European Commission proposed a public country-by-country reporting arrangement, in which the information on the countries outside the EU would be put together. Countries on the Commission's list of tax havens would be excluded from this scheme. The weakness of the proposal is that it would still be impossible for developing countries to access their own country-by-country information. Finland supports the model proposed by the Commission and is not in favour of expanding the reporting obligation. Furthermore, Finland has not introduced any national measures to implement the BEPS scheme and acts in accordance with the model adopted by the EU. In the summer of 2016, the EU agreed on a directive combatting tax evasion and the national implementation of the document is in the process of being started. The directive sets a minimum level for the provisions aimed at preventing tax avoidance.

In the negotiations on international tax rules, it is also important to consider, which parties are in charge of the process of introducing the rules and which parties are obliged to observe them. The advantage of the processes led by the OECD/G20 is that they act as a driver for the OECD countries to provide their own public and private actors with guidelines. At the same time, however, from the perspective of the ownership and weight of developing countries, an OECD-driven process may also be a disadvantage even if developing countries and their regional cooperation organisations were extensively involved in both processes. Developing countries are now expected to implement standards formulated in processes in which they have not been able to participate as equal partners. Finland's Tax and Development Action Programme is based on promoting the participation of developing countries in the process at OECD level and their capacity to apply the OECD standards. However, especially the 134 countries belonging to the Group of 77 have emphasised

that the role of the UN in international tax issues should be strengthened. In spring 2016, Parliament also called on the Government to examine how the UN Tax Committee could be strengthened. International standards to which all states can become commit can only be achieved through cooperation in which developing countries can also take part as equal partners.

## More prominence to tax and development theme in policy advocacy work

The Tax and Development Action Programme emphasises the policy advocacy work that Finland carries out at international level, but it does not present any concrete

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objectives. The Government plans to present the objectives in the guidelines for development financing institutions, Finland's policy advocacy plans and in the work in the institutions' boards of directors. However, not enough information on these guidelines and policies is provided to parties outside the ministries. For example, Finland's policy advocacy plans are only intended for the internal use of the Ministry for Foreign Affairs, and they are not public documents. Nevertheless, important development policy measures are laid out in them.

Only a certain proportion of the policy advocacy priorities are included in the policy advocacy plans of the Ministry for Foreign Affairs. This is an intentional decision and partially due to the large number of the priorities. The Ministry of Finance and the Ministry for Foreign Affairs have for years and in an extremely active manner jointly promoted the tax and development theme in the administration of the World Bank Group and the

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tightening of the tax haven guidelines of the IFC, which provides funding for the private sector. The voting block of Nordic countries and Baltic States is unanimous on the importance of the issue which gives added weight to Finnish action in this matter. The voting block has also agreed on joint operational priorities for each year and again this year, tax policies are an essential part of these priorities.

The policy advocacy plans include systematic result chains for Finland's priorities for each organisation, which specify Finland's role within the organisation in question. At the same time, however, the cross-cutting links between the priority areas laid out in the development policy report are absent from them. For example, the taxation of natural resources and the development of ownership registers is a central issue from the perspective of developing countries and the main objectives of Finland's development policy. Finland is a supporting country in EITI (Extractive Industries Transparency Initiative). Taxation of natural resources is an essential part of the work of EITI but it is difficult to assess how extensively Finland's positions in EITI are registered at other venues. For this reason, in addition to the MFA's internal plans, there should also be a joint plan laying out Finland's global objectives. It should also contain clear priorities in the field of taxation that are promoted in all policy influence work. This requires an open and participatory discussion, carefully considered choices and a political decision.

In its Tax and Development Action Programme, Finland emphasises support for developing countries in the abolition of fossil fuel subsidies. That is a good thing. However, it should also be kept in mind that the subsidies paid by industrialised countries are many times higher than those paid by developing countries. During the current government term, Finland has channelled its emissions trading revenue to energy-intensive industries, which means that they are not available for development cooperation funding. This is against the principles of sustainable development.

The current level of Finnish commitment to the preparation of the international financial transaction tax and the way in which Finland can promote the strengthening of the domestic resource mobilisation of developing countries by active involvement in the process should also be stated in the action programme.

There are not yet any references to taxation in Finland's trade and development policy influence plan. When implemented, the Trade Facilitation Agreement (TFA) of the World Trade Organization WTO could also



bring the themes of taxation, development and trade more closely together. For example, the more transparent customs practices and prevention of corruption set out in the TFA are aims that could be jointly promoted by these policy areas.

## Finland as a developer of tax administrations in developing countries

*Under the Tax and Development Action Programme, the aim of Finland is that*

*“2. Developing countries’ domestic resource mobilisation and taxation capacity has been strengthened: tax administrations and other institutions connected with the use and supervision of state assets (e.g. parliament, customs, judicial system, bodies supervising use of state assets) have been developed or reformed.”*

*“3. In developing countries, civil societies’ awareness and knowledge on the link between taxation and public services has increased, and the ability to hold governments accountable for increasing tax revenues and using them for public services has improved.”*

Developing countries’ own tax administrations play a central role in the efforts to strengthen their domestic resource mobilisation. In addition to the tax administration and the parties supervising the use of central government funds, the taxation capacity also depends on good governance in the public-sector and private-sector economy, and a workable justice system. The countries must also have a tax policy to which the political elite is committed. Civil society actors play an important role in the efforts to increase awareness and knowledge of these issues so that citizens will view taxation as legitimate. For this reason, it is important that people understand that taxation is essential for ensuring basic services and that they have the right to get something in return for paying taxes. From the perspective of the private sector, it is also important that the tax systems function properly and that the taxes are predictable.





According to the action programme, alongside strengthening taxation capacity, Finland emphasises governments being accountable to their citizens and domestic businesses, as well as the use of higher tax revenues for better public services, particularly for the poorest sections of the population. Development of the African Tax Administration Forum (ATAF) and the strengthening of ATAF's corporate taxation expertise (in a project in Namibia) are the most important projects carried out by Finland. Finland is also supporting the Tax Inspectors without Borders initiative of the OECD and UNDP. Finland has earmarked its own support for the development of cooperation between tax auditors in developing countries. The World Bank and regional development financing institutions are the main venues at which Finland can influence tax and development issues at global level. Through these channels Finland is supporting the development of taxation and strengthening of productive sectors (in Somalia), development of public financial management, taxation capacity, customs and audit (in Afghanistan), and development of parliamentary competence in budgetary and taxation issues, transparency of public administration, accountability and reduction of corruption (in Africa). Tax policy, public financial management, and the development of systems relating to tax policy are also mentioned in the action programme as projects in the planning stage. Taxation is included in the updating of all country programmes.

The participatory approach bringing different actors together is the strength of the action programme. At project level, this is reflected in the cooperation involving the Finnish Tax Administration, the central government purchasing agency Hansel, Ministry of Finance and the Ministry of Economic Affairs and Employment. The aim is to involve the parliaments, regional and local level actors and civil society organisations in developing countries. This is important from the perspective of making taxation legitimate and strengthening tax compliance.

## Research helps to focus on essential issues

The fourth main objective in the action programme concerns research. The aim is to ensure that there is reliable research data and analysis on illicit financial flows and solutions to curb them exist. Evidence of the effectiveness of the measures aimed at building taxation capacity is also required.

According to the action programme, Finland considers it important that decisions on international tax rules and on strengthening developing countries' taxation capacity are based on information that is as accurate and reliable as possible. It is also important to understand what



are the most serious obstacles for achieving the tax and development goals. Therefore, the statistics and the monitoring process are extremely important in areas such as the reduction of false invoicing in foreign trade and misuse of transfer pricing. Finland is also funding research on illicit financial flows and analysis on their impacts on the economies of developing countries (in Myanmar, Zambia and Nepal). It should be noted, however, that reliable

research can only be carried out if there is reliable information and if the information is available. Finland could play a stronger role in the efforts to ensure that information is available for research, for example by supporting an initiative in the EU under which there should be comprehensive, public, country-by-country reporting on all countries. Finland could also consider allocating research funding for impartial, peer-reviewed academic research. ■

## Recommendations of the Development Policy Committee:

- Finland's Tax and Development Action Programme and the programme to combat international tax evasion should complement each other. They should constitute a single entity as part of the implementation of Finland's Agenda2030.
- From the perspective of Agenda2030, the timespan of one government term (2016–2019) is too short. As a new priority area, the tax and development theme requires continuity (a vision of Finland's long-term policy).
- The global tax policy and its objectives must be presented more clearly. Finland must set its main national priorities and promote them consistently at all international forums, such as the OECD, EU and UN. The objectives of the action programme must also be pursued in the boards of international financing institutions and in different policy sectors. Finland should prepare a multi-lateral policy influence plan that can provide a response to this need.
- Finland should promote the participation of developing countries in taxation issues and support developing countries in their efforts to present their case in processes led by the OECD/G20 and more generally in the United Nations, where developing countries are able to participate in the processes on a more equal basis.
- In the European Union, Finland should support the proposal to oblige large multinational companies to issue public country-by-country tax reports and introduce such an arrangement at national level if no such decision is made in the EU.
- Finland should promote nationally, in the EU and more broadly internationally, transparent ownership in cooperation with like-minded countries in order to combat tax evasion, corruption and money laundering.
- Finland must ensure that the private sector development instruments help to promote the objectives of the Tax and Development Action Programme. Development cooperation actors must ensure that neither they nor their partners are engaged in aggressive tax planning. They should promote transparent ownership and transparent country-by-country tax reporting.

# Members of the Development Policy Committee

1.1.2016 – 31.12.2019

## Chairperson

- **Centre Party of Finland**  
Aila Paloniemi, Member of Parliament  
Substitute: Anniina Ruottu, Ph.D., M.Soc.Sc.

## Vice-Chairpersons

- **Left Alliance**, 1st Vice-Chairperson  
Hanna Sarkkinen, Member of Parliament  
Substitute: 3rd Vice-Chairperson Kalle Hyötynen
- **National Coalition Party**, 2nd Vice-Chairperson  
Saara-Sofia Sirén, Member of Parliament  
Substitute: Daniel Lahti, Chairperson of Tuhatkunta (Student Union of the National Coalition Party)

## Members

- **Swedish People's Party of Finland**  
Anders Adlercreutz, Member of Parliament  
Substitute: Ida Schauman, Chairperson of Swedish Youth of Finland (youth organisation of the Swedish People's Party of Finland)
- **Social Democratic Party of Finland**  
Susanna Huovinen, Member of Parliament  
Substitute: Sirpa Paatero, Member of Parliament
- **Greens of Finland**, Jani Toivola, Member of Parliament, Substitute: Outi Alanko-Kahiluoto, Member of Parliament
- **Christian Democrats of Finland**, Antero Laukkanen, Member of Parliament, Substitute: Heini Röyskö, M.A.
- **Finns Party**, Kari Kulmala, Member of Parliament  
Substitute: Maija Karjalainen, Secretary of International Affairs
- **KEPA**, Finnish NGO platform, Timo Lappalainen,

Executive Director, Substitute: Niina Mäki, Advocacy and Policy Officer

- **Finnish NGDO Platform to the EU**, Rilli Lappalainen, Secretary General, Substitute: Jussi Kanner, Advocacy Officer
- **Confederation of Finnish Industries EK**,  
Tuuli Mäkelä, Adviser
- **Federation of Finnish Enterprises**  
Timo Palander, Development Director  
Substitute: Thomas Palmgren, Manager of International Relations
- **Confederation of Unions for Professional and Managerial Staff in Finland (AKAVA), Finnish Confederation of Professionals (STTK), and Central Organisation of Finnish Trade Unions (SAK)**  
Reijo Paananen, Adviser for International Affairs at SAK, Substitute: Leila Kurki, Senior Adviser at STTK
- **Central Union of Agricultural Producers and Forest Owners (MTK)**, Seppo Kallio, Director, Substitute: Leena Suojala, Expert
- **University Partnership Network for International Development (UniPID)**, Jussi Pakkasvirta, Director  
Substitute: Katarina Frostell, Project Manager
- **Foreign Ministry partnership organisations**  
Julia Ojanen, Programme Director at Plan Finland  
Substitute: Miikka Niskanen, Director of Humanitarian Aid, World Vision Finland
- **Women and girls priority area** (UN Women, UN Association of Finland, Family Federation of Finland, Finnish Youth Cooperation – Allianssi): Elina Multanen, Executive Director, Finland National Committee for UN Women (2016–2017) and Hilikka Vuorenmaa, Senior Advocacy Officer, Family Federation of Finland (2018–2019), Substitute: Helena Laukko, Executive Director, UN Association of Finland

# Expert members and their substitutes

## Ministries

- **Ministry of Transport and Communications:** Harri Pietarila, Head of Unit (Antti-Pekka Hyvärinen, Head of Group), Finnish Meteorological Institute
- **Ministry of Agriculture and Forestry:** Marjukka Mähönen, Ministerial Adviser (Markus Schulman, Senior Adviser)
- **Ministry of Education and Culture:** Zabrina Holmström, Counsellor for Cultural Affairs
- **Ministry of Justice:** Johanna Suurpää, Head of the Unit for Democracy, Language Affairs and Fundamental Rights (Niklas Wilhelmsson, Ministerial Adviser)
- **Ministry of Defence:** Tiina Rajjas, Ministerial Adviser (Charlotta Collén, Senior Adviser)
- **Ministry of the Interior:** Vesa Kotilainen, Senior Adviser (Katarine Lindstedt, Senior Adviser)
- **Ministry of Social Affairs and Health:** Satu Leino, Ministerial Adviser (Tuomas Leppo, Ministerial Adviser)
- **Ministry of Economic Affairs and Employment:** Leena Pentikäinen, Ministerial Adviser (Sonja Hämäläinen, Ministerial Adviser)
- **Prime Minister's Office:** Taina Kulmala, Head of the Policy Analysis Unit (Lauratuulia Lehtinen, Counsellor)
- **Ministry of Finance:** Tuuli Juurikkala, Senior Adviser (Anne af Ursin, Ministerial Adviser)
- **Ministry of the Environment:** Tita Korvenoja, Head of International and EU Affairs (Tuulia Toikka, Ministerial Adviser)

## Expert members, Ministry for Foreign Affairs

- **Under-Secretary of State** (Development Co-operation and Development Policy): Elina Kalkku
- **Department for Africa and the Middle East:** Pertti Anttinen, Senior Adviser
- **Department for the Americas and Asia:** Eija Rotinen, Deputy Director General
- **Development Evaluation:** Jyrki Pulkkinen, Director for Evaluation of Development Cooperation

- **Department for Europe:** Juha Ottman, Deputy Director General
- **Department for Russia, Eastern Europe and Central Asia:** Juhani Toivonen, Counsellor for Foreign Affairs
- **Department for Development Policy:** Riikka Laatu, Deputy Director General, Sari Lehtiranta, Director
- **Political Department:** Timo Kantola, Deputy Director General
- **Department for External Economic Relations:** Jukka Pesola, Director
- **Department for Communications and Culture:** Erja-Outi Heino, Director

## Stakeholders

- **International Chamber of Commerce, ICC Finland:** Timo Vuori, Chief Executive, ICC Finland
- **Finnish National Commission on Sustainable Development:** Annika Lindblom, Secretary General of the Finnish National Commission on Sustainable Development (Marja Innanen, Deputy Secretary General of the Finnish National Commission on Sustainable Development)
- **Peace Union of Finland:** Kalle Sysikaski, Board Member (Maria Mekri, Executive Director of the SaferGlobe Research Network)
- **Trade Union Solidarity Centre of Finland (SASK):** Janne Ronkainen, Executive Director (Juha Vauhkonen, Programme Director)
- **Finnish Red Cross:** Kristiina Kumpula, Secretary General (Maria Suoheimo, Head of International Programmes)
- **Bank of Finland:** Olli-Pekka Lehmuusaari, Principal Adviser (Satu Kivinen, Senior Economist)

## Secretariat

- Dr. Marikki Stocchetti, Secretary General
- MA Katja Kandolin, Coordinator



Development Policy Committee

The Development Policy Committee is an advisory body appointed by the Government to monitor and evaluate Finland's activities in the policy areas which concern developing countries. The Committee also assesses the quality and effectiveness of development cooperation and monitors the level of public development cooperation appropriations. The Committee is representative in terms of parliamentary and social representation.

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