DEVELOPMENT POLICY COMMITTEE

Sustainable development investment from Finland to least-developed countries need clear criteria and encouraging examples

Statement of the Development Policy Committee, 3 October 2022

Although significant sums are already being invested by Finland in least-developed countries, private investment could bolster the achievement of the Sustainable Development Goals (SDGs) even more systematically. Private and public funding could support each other in this respect.

This is the view of the Development Policy Committee (DPC), which commissioned a report on the topic entitled *Financial transformation in sustainable development*. The report examines Finnish investors who are committed to responsible investing, the amounts being invested and which of the least-developed countries receive Finnish investments. It also examines investors' strategies for sustainable development investing.

There is a dire need for new investment. Least-developed countries will not be able to reach the SDGs set out in the United Nations (UN) Agenda for Sustainable Development by 2030 if they do not receive significant amounts of external funding that supports the goals and principles of sustainable development. Private sources of funding have a major role to play here, as Official Development Assistance (ODA) is nowadays only a part of the total funding channelled to developing countries. It is also important that all financial flows be examined from the perspectives of corporate social responsibility and tax responsibility.

Mobilising, allocating and monitoring significant additional foreign investment requires commitment on the part of the public sector, business and industry and civil society in developed countries and developing countries to the principles of sustainable development and to closer cooperation, the DPC stresses.

Russia's invasion of Ukraine has revealed the vulnerability of the food chain and the growing need for investment in food security. Many developing economies rely heavily on imports for their food security. The DPC points out that investors should bear in mind the food production chain in its entirety and invest in local solutions to ensure uninterrupted access to food.

There is potential but also considerable variation in investor practices

According to the report, there are 51 investors in Finland that have signed the UN's Responsible Investment Commitment. They include occupational pension companies, investment banks and retail banks. A significant number of them report investing in line with the SDGs.

Significant private investments have been made between 2013 and 2019 in five of Finland's top 20 ODA recipients.

In another five countries, private investment accounts for about 20% of the development finance. In other words, the same countries are receiving both development cooperation funding and private financial flows from Finland.

It is difficult to monitor these financial flows in the current situation. There is no breakdown of investment flows from Finland to different countries. Investments are made, among other things, to international funds that invest in both developed countries and developing countries. In general, though, it is possible to examine the amount of investment flows to developing countries. The report shows that measured by the amount of investments, Finnish investments to developing countries are at a good level by Nordic standards.

However, the report shows that the complementarity of private investment in relation to development cooperation funding is still very small in practice. At the same time, the most fragile regions are still being marginalised and not enough investments are being targeted, for example, at developing the local SME sector, which nevertheless has great potential for creating sustainable and decent jobs.

Another key challenge is that, in the absence of common criteria, different investors can have very different approaches to investment in line with sustainable development. It is difficult to assess the targeting and development effects of Finnish investments because there is no uniform method for monitoring their impact. The risk with the current situation is that sustainable development is being used for marketing purposes. Even those investors who focus efforts on the effectiveness and monitoring of funding do not benefit fairly in relation to their competitors. The Finnish Financial Supervisory Authority could play a stronger role in 'quality control', but its activities in these matters are based on recommendations that have no legal basis and are not harmonised.

The report shows that the core principles of sustainable development, such as attention to vulnerable people and groups, gender equality and non-discrimination, are not yet evident in SDG-aligned private investment. The DPC stresses that going forward more attention should be paid to these matters.

Investing in gender equality and attention to the gender impact in budgeting would increase the effectiveness of investment. It would be particularly important to increase investments that promote the status of women in employment. The need for investment in line with sustainable development is also evident in a number of other development policy sectors, such as climate finance or the prevention of biodiversity loss. In addition, it is important to ensure that investment in one SDG does negatively impact the achievement of another. Attention should be paid to this, for instance, in preventing climate change and in preserving biodiversity. Investing in nature-based solutions is a strongly emerging theme. In this regard, the United Nations Environment Assembly (UNEA-5) resolution on the definition of nature-based solutions should be taken into account to steer investment towards sustainable development.

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DPC calls for strength of example and closer cooperation in investment projects

The UN 2030 Agenda for Sustainable Development (including the leave-no-one-behind principle) and its goals, as well as the Paris Climate Agreement, provide the basis for a Finnish development policy that emphasises global responsibility. The Finnish government is responsible for implementing sustainable development. In this work, it is supported by the General Secretariat on Sustainable Development and the Finnish National Commission on Sustainable Development at the Prime Minister's Office.

In the view of the DPC, the government could adopt a more systematic approach to promoting and monitoring of SDG-aligned investment in developing countries. The first steps would be to identify existing barriers and best international practices and to strengthen dialogue with investors on systems that generate the highest added value. Uniform criteria are needed both at EU and national level.

At the same time, the Ministry for Foreign Affairs (MFA) and the Ministry of Economic Affairs and Employment (MEAE) should consider how to promote private investment in developing countries and in sustainable development by means of trade policy and existing development policy instruments. This should use of the roadmap and pilots on the Finnish financing ecosystem for sustainable development, which are coordinated by the MEAE. For example, the MFA could open its own monitoring system for wider use. It could encourage the state-owned development finance company Finnfund to develop different kinds of co-financing models (such as the OP Finnfund Global Impact Fund). These could mobilise Finnish private funding for investments in developing countries in line with the SDGs. FCA Investments (FCAI) of Finn Church Aid (FCA) has gained experience of investing in SMEs in the most fragile regions of Africa that could be shared with other impact investors.

The need for education and dissemination of best investment practices is particularly evident in the poorest and most fragile countries.

One objective of the MFA's development finance investments is to create financial leverage, that is, to encourage private money to invest in the same destination. Investor protection currently prevents the marketing of these kinds of investment opportunities to private individuals. The Financial Supervisory Authority and the MFA should examine how investing can enable private individuals to promote sustainable development.

The need for education and dissemination of best investment practices is particularly evident in the poorest and most fragile countries. It is important to direct particular attention to such countries to ensure the volume and sustainability of investing. The Finnish National Commission on Sustainable Development (FNCSD) has access to a sustainable development commitment tracking tool that many companies have already discovered. Investors should also use the tool.

DPC recommendations to authorities and Parliament on creating criteria and practices for sustainable development investment

- Finland and the EU should define a clear and uniform definition of investment activities that promote sustainable development. This definition should take account of the impact of investments in terms of social, ecological and economic sustainability and the realisation of the principle of 'leave no one behind'. The definition should be applied to granting funding where it involves ODA. In addition to promoting individual SDG targets, investments should take into account all the main dimensions and responsibility considerations of sustainable development.
- It is important that SDG-aligned investing be discussed by Parliament and in the parliamentary committees of key importance for sustainable development. The DPC is considering submitting a request for action to stimulate political debate on the matter.
- The MFA and the Prime Minister's Office should actively promote SDG-compliant investment to developing countries and support investors in assessing and reporting on their investments. Tools to improve SDG evaluation and reporting. These practices should be actively shared, and training and information should be provided to support sustainable investment. This should pay particular attention to cross-cutting goals and principles, such as the principle of 'leave no one behind' and demanding environments.
- The MFA should set an example to Finnish investors by presenting the system it uses to monitor and report, in line with the SDGs, the SDG impacts of its development policy investments, which amount to nearly EUR 1 billion. The ministry should also openly share the investment monitoring model system it uses and applies. Particular attention should be paid to SDG-aligned investments to the least developed and most fragile countries and to the gender perspective.

- Finland should make a determined effort to combine private investments and development cooperation funding and use development funding as leverage to attract other Finnish investments to become aligned with SDGs in countries where this is feasible. The MFA should support and encourage Finnfund to design different co-financing models and explore in which partner countries and sectors it would be most fruitful to combine public and private financing.
- The co-financing models should enable the private sector to cooperate with the research community and the civil society, whose methodological expertise, understanding of the wider context and local knowledge are valuable in planning and monitoring responsible investments.
- The MFA, together with the MEAE, should introduce SDG-aligned investment models to existing cooperation forums and partners, such as Business Finland and Finnvera. The Finnish sustainable investment forum Finsif and other similar investment forums should be taken into account as potential cooperation platforms.
- Finland should develop statistical methods to monitor the targeting of SDG-aligned investments (or in the future EU taxonomy) in developing countries. This information is not currently available.
- The MFA should commission independent, evidence-based studies on the combining of private and public SDG-aligned financing and on monitoring SDG-aligned investments. The studies would support the creation of effective cooperation models, for example by analysing trends and peer country experiences and models in the light of research data. They would also highlight potential good practices and tangible recommendations. For example, the Development Policy Studies mechanism could be used in commissioning the studies. The mechanism is administered by the Finnish University Partnership for International Development (UniPID) network and funded by the Ministry for Foreign Affairs.

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DPC recommendations to investors on increasing the quality and quantity of sustainable development investments

- Investors and finance sector umbrella organisations should work with the authorities to promote the definition of SDG-aligned investments.
- The Finnish Pension Alliance TELA should try to support its members' reporting develop its own reporting so that people would be aware of the extent to which earnings-related pensions are invested in developing countries and the extent to which these investments are in line with the SDGs.
- In their SDG-aligned investing, investors should strive to achieve results that are as tangible and measurable as possible so that their SDG-aligned investments do not remain superficial 'SDG washing'.
- Investors should comply with the UN Guiding Principles on Business and Human Rights, prevent potential adverse effects of their actions and promote, where possible, gender equality and non-discrimination in their investment projects, and use gender-responsive budgeting.
- Investors should also ensure that their investments in one SDG do not have negative impacts on other SDGs.
- Investors should subject the results and effects of their SDG-aligned investments to independent evaluation, for example, by means of evaluation assignments to academic researchers.

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DPC recommendations to the civil society and the research community on strengthening cooperation and monitoring

- Civil society organisations should be encouraged to open up debate with companies investing in developing countries. At the same time, they could provideexpertise on SDG-aligned monitoring and especially on the cross-cutting principles, such as the 'leave no one behind' principle, as part of their advocacy.
- Civil society organisations should follow and promote debate on reporting not only the positive impacts on SDGs but also on potential negative ones. In addition, the MFA's financial instruments emphasise support to fragile countries where expected returns may be lower.
- The research community should seek to respond to the acute information needs of development policy actors on the effects of SDG-aligned financing and the combination of private and public financing. The research community should be open to independent cooperation with the private sector on issues such as monitoring the results and impacts of investments (including anticipated and unanticipated impacts on communities, human rights and environmental rights).

This statement by the Development Policy Committee is based on a report on SDG-aligned investments from Finland to developing countries. The report was commissioned from Manketti Oy.

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The Development Policy Committee is the only body that conducts systematic and broad-based monitoring and analysis of Finnish development cooperation and development policy. The government appoints the committee for each government term. Its members include representatives of parliamentary parties, advocacy organisations, CSOs and universities in the UniPID network (Finnish University Partnership for International Development).