Aid and economic relations still lagging behind people’s welfare

Although the shift in priorities of its Development Policy Program has been positive in some respects, Finland’s focus on social development and social rights has diminished. There are insufficient mechanisms in place to ensure that gender equality, the rights of women and vulnerable groups, and combating HIV/AIDS are tackled. In order for development policies and cooperation to be truly sustainable, the country should increase its aid in both absolute and percentage terms. Beyond official development assistance (ODA), innovative financing mechanisms – including financial transaction taxes – should also be introduced.

Climate financing, on the other hand, will be included in existing ODA instead of being additional to it, going against the international commitments on additionality and the recommendations of Finnish NGOs. It is still unknown how the relationship of climate financing and ODA will be resolved in practice.

It is unfortunate that despite the increasing pressures on ODA funds and the fact that Finland is a member of the Leading Group on Innovative Development Finance, the Government has not been active in proposing or backing innovative sources of finance. It remains reluctant to support the introduction of a financial transaction tax, despite broad support for this from civil society, some national parties, and several European governments.

Diminishing social aid

Forests, water, and climate change are the growing sectors of Finnish aid allocation, the argument being that these are “areas where Finnish experience and expertise can be best used to support partner countries’ own development programmes.” The proportion of aid related to these areas is increasing in all Finland’s long-term partner countries. Because of this, the proportion directed to the social sector is diminishing.

Gender equality, the rights of women and vulnerable groups, and combating HIV/AIDS are supposed to be cross-cutting themes of Finnish development cooperation. However, there are virtually no mechanisms in place to ensure that they are integrated into aid programs. In fact, a recent evaluation concluded that these issues are not being well mainstreamed. Financing of specific women’s rights and gender equality programs has gone down.

Furthermore the Government has withdrawn from its objective to concentrate ODA on a small number of long-term partner countries. Instead it has introduced thematic cooperation, which focuses on sectors of specific importance to Finland, usually on a regional basis. The Ministry for Foreign Affairs has formulated new regional framework programmes for Africa, South Caucasus, Central Asia, Western Balkans, and the Andes.

Finally, the proportion of programmatic aid is declining relative to project aid, and the Government has capped general budget support to 25% for its long-term partner countries. This raises questions about Finland’s commitment to the Paris Declaration and Accra Action Agenda on aid effectiveness. Finnish civil society organizations fear that a strong focus on thematic and project aid diverts attention from context specificity and harmonization.

**Foreign direct investment**

Development aid alone cannot tackle poverty. Equally important are economic relations with developing countries, including foreign direct investment (FDI). However, most FDI flows from Finland go to the developed world. The share of Finnish FDI to developing countries in 2009 was only about 6% of the total. The majority of these investments were made to China, Brazil, India and Singapore. Investments

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1 The article was written by Eva Nilsson. Tytti Nahi and Niina Pulkkinen also contributed to it.


to sub-Saharan Africa have remained very low, and only about 0.02% of the total FDI base is in Least Developed Countries (LDCs). Statistics do not always tell the whole story however. It is difficult to make exact measurements of FDI flows as companies transform into multinationals. Finnish companies have been at the top of European comparisons in outsourcing their production to subsidiaries all around the world. Investments can be made by subsidiaries and these are not included in Finnish statistics. In order to increase investments in developing countries, the Ministry for Foreign Affairs has endeavoured to involve the business sector in development cooperation, forming advisory clusters of Finnish firms and institutions working on selected focus themes. The Minister for Trade and Development has also been active in visiting poor and middle-income countries to promote Finnish companies and encourage investments. Furthermore, Finland runs a business partnership programme called Finnpartnership, a concessional loans scheme, and private equity export credit funds. They are all funded with ODA. Two thirds of Finnpartnership’s funds in 2009 were allocated to business projects in Asia, with most applications in 2006–09 being for the emerging economies of China, India and Vietnam. Funding has been granted to companies of all sizes, even very large ones. Finland argues that FDI should contribute to sustainable human development, yet projects receiving concessional loans or export credits are not always evaluated on pro-poor standards. Furthermore, many investments made by large companies to developing countries focus on raw materials instead of productive industries. These rarely create added value for their host countries’ development.

**Social and environmental impacts**

Public discussion about the environmental and social impacts of Finnish FDI has been lively. Several pulp companies investing in Asia and South America have been in the headlines for breaching people’s rights, but its resources and profile are not always evaluated on pro-poor standards. Furthermore, many investments made by large companies to developing countries focus on raw materials instead of productive industries. These rarely create added value for their host countries’ development.

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