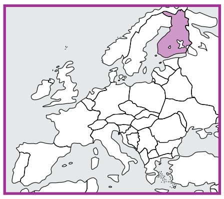
■ FINLAND

# 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.

**KEPA**
**Social Watch Finland**[1]
**Timo Lappalainen**

The Finnish Government's current Development Policy Programme, introduced in 2007, brought about notable changes in the country's policies in this area. It extended the previous focus on poverty reduction to sustainable development of the economy, environment, and society, and placed new emphasis on climate and environmental policies, and the role of the private sector.

Finnish NGOs have welcomed the Government's increased attention to food security, rural development, and environmental sustainability. However they have voiced concerns about the lower priority given to social development, the rights of the most vulnerable, and the poverty impacts of trade, investments, migration, and other related policies. Moreover foreign direct investment (FDI) by Finnish companies often has negative impacts on human development. NGOs want to see the Government take concrete steps to assess all policy sectors in the light of their impact on poverty in developing countries.

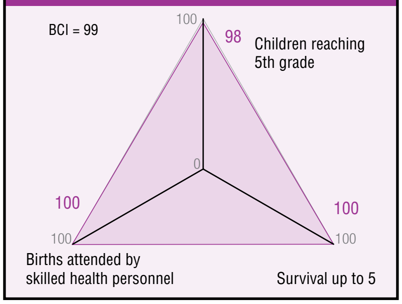
## ODA: stretching does not mean increasing

Finland is one of the few donor countries that have been able to increase its percentage of official development assistance (ODA) according to international commitments. Unfortunately, however, the financial crisis has forced the Government to cut back on planned increases in absolute terms.

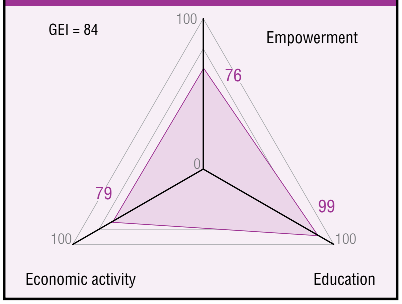
In 2010 development programs have been allocated a EUR 40 million increase rather than the EUR 50 million increase initially budgeted. For 2011 the Government envisions that ODA will rise to a level of 0.58% of GNI. These trends raise concerns about Finland reaching the 0.7% target by 2015.

In addition NGOs fear that ODA will be stretched to cover new policy areas, namely a larger amount of refugee costs and climate financing. The Ministry of the Interior has pushed for ODA to include not only the costs of refugees who are granted refugee status, but also the costs of cases where refugees are denied asylum. Fortunately the Government has not yet agreed to this.

**Basic Capabilities Index (BCI) 2010**




**Gender Equity Index (GEI) 2009**




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.[2]

## 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."[3] 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.[4]

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

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

2 Matti Ylönen, *Innovatiiviset rahoituslähteet ja Suomi. Lehtereiltä parrasvaloihin?* Ajatuspaja E2:n tilaisuus eduskunnan kansalaisinfossa, 10 September 2010.

3 Ministry for Foreign Affairs, Government of Finland, *Development Policy Programme 2007: Towards a sustainable and just world community*, Helsinki, 2007,17.

4 Ministry for Foreign Affairs, Government of Finland, *Cross-cutting Themes in Finnish Development Cooperation: Evaluation Report,* Helsinki, 2008, 6.

to sub-Saharan Africa have remained very low, and only about 0.02% of the total FDI base is in Least Developed Countries (LDCs).[5]

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.[6] 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.[7] Finland argues that FDI should contribute to sustainable human development,[8] 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 land rights and harming the environment. An example is the forestry firm Stora Enso whose acquisition of land for production facilities in Brazil obliged local people to leave their homes.[9] UPM-Kymmene, another forestry giant, had to withdraw from Indonesia because of accusations of rain forest destruction and forced land acquisition from locals.

Problems with biofuel production have also gained publicity in Finland. The Finnish company Neste Oil is importing palm oil from Southeast Asia and has been accused by environmental organizations of destroying rainforests and grabbing land from indigenous peoples. Moreover controversies over cloth production have been raised by Finland's Clean Clothes campaign, launched in the spring of 2010. Many Finnish clothing companies, such as Stockmann, Seppala, Lindex, Halonen, Moda, Top-Sport and Halti, rely on workers that do not receive a living wage.

Finnish NGOs have also sought to increase discussion on tax evasion, which is a major obstacle to development. Many companies transfer production to tax-free zones and profits to offshore jurisdictions, causing developing countries to lose capital and tax income. Big Finnish companies – such as Kemira, Kone, Metsä-Botnia, Nautor, Nokia, Outokumpu, Stora Enso and Wärtsilä – have established subsidiaries in tax havens. It is difficult to find exact information on the taxes that companies pay and do not pay. When the NGO network FinnWatch researched Finnish companies' tax policies abroad, most companies refused to give out country-based or subsidiary information, arguing that it was a business secret or practically difficult.[10]

In general FDI has not fulfilled hopes it would generate economic growth, reduce poverty and provide decent work. Even so the Government has been passive regarding issues of corporate responsibility in and tax evasion from developing countries. Many problems related to tax evasion could be tackled by actively supporting the closure of tax havens and the introduction of international accounting standards on country-by-country reporting. The Government is also not actively monitoring whether Finnish companies abide by Organisation for Economic Co-operation and Development (OECD) guidelines for multinational corporations. A Committee on Society and Corporate Responsibility has been set up with a mandate to monitor and report on Finnish companies' conduct, but its resources and profile are not up to the task.[11]

## Basic services threatened by trade agreements

Another part of Finnish development policy's emphasis on private sector development is trade. During the last two years the Ministry for Foreign Affairs has supported Aid for Trade and promoted developing country imports. Finland has a history of emphasising the link between development and trade, including during its EU presidency in 2006. The current Government has also committed itself to policy coherence, but it is not acting on this commitment in practice. For example, no evaluations have been undertaken on the impacts of trade agreements on long-term partner countries.

The main forums for setting Finland's trade policy are the World Trade Organization (WTO) and the EU. Although member states can influence the European Commission's negotiations, this right has rarely been used by Finland. Parliament has also been inactive. In contrast to the last electoral period, the Grand Committee of the Parliament has not set up a special working group on trade matters even though the amount and depth of trade agreements is constantly increasing. Furthermore, the Department for Trade Policy at the Foreign Ministry has been rather brief in its annual reporting on trade and development to the Finnish Parliament.

Most Finnish NGOs think that Finland should refrain from the commercialization of basic services and allow for flexibility in intellectual property rights. In Dar es Salaam, for example, the commercial capital of long-term partner Tanzania, water services have been privatized. Only a quarter of the city's population receives running water as privatization has led to an increase in prices and limited distribution. Water is one of Finland's sustainable development focuses, and it should actively ensure that such basic services really reach the poor. Another example is medicines, which due to intellectual property rights are often too expensive for most people in poor and middle-income countries.

## How to tackle the challenges?

To make development policies and cooperation truly sustainable, Finland should ensure that aid is increased in both absolute and percentage terms. ODA allocations should not be used to cover issues such as refugee costs and climate financing; instead development cooperation funds should be more effectively channelled into concrete poverty reduction measures. Beyond ODA, innovative financing mechanisms, including financial transaction taxes, should be introduced by Finland so that some existing financing gaps for development could be closed.

It should also be acknowledged that Finnish expertise cannot bring added value in cases where partner country ownership and social policies suffer. Finland's own welfare state is based on equality and inclusive societal institutions as key drivers of economic and social development. This experience should be a crucial part of its added value and a solid basis of a search for more effective ways to reduce poverty and promote social protection abroad.

Furthermore the Government should monitor companies that invest in developing countries much more closely and should not be involved in investments that do not commit to socially and environmentally sustainable standards. It should support the introduction of international accounting standards on country-by-country reporting and the closing of tax havens in order to halt illicit financial flows out of developing countries.

Finally, Finland should actively ensure that trade agreements are not in conflict with human development. As the country is committed to monitoring the effects of trade policies on poor countries, the Government needs to be more proactive in guiding the work of the European Commission, drawing from experiences in its long-term partner countries. ■

5 Calculations from Bank of Finland data by economist Airi Heikkila, 10 May 2010.

6 Statistics Finland, "Suomalaisyritykset ovat ulkomaille ulkoistamisen etujoukkoa," *Tieto&trendit* 4–5, 2008.

7 Finnfund, *Toimintaraportti 2009*.

8 Valtioneuvoston kanslia, *Kohti kestäviä valintoja. Kansallisesti ja globaalisti kestävä Suomi. Kansallinen kestävän kehityksen strategia*. Valtioneuvoston kanslian julkaisusarja, 5, 2006, 25.

9 Finnwatch, *Stora Enso etelän eukalyptusmailla*, 2, 2009.

10 Finnwatch, *Köyhiltä rikkaille, Yritysten veronmaksu, kehitysmaat ja vastuullisuus*, 1, 2009, 21.

11 Eurodad, *Reality of Aid 2010*. Available from: <www.realityofaid.org/>.