

## Development policy investment plan 2020–2023

### 1. Introduction

The aim of this investment plan is to channel the allocation of the financial investment appropriation (24.30.89) in accordance with Finland's development policy priorities and objectives<sup>1</sup> and the priorities and principles of the Rinne Government Programme. In this way, it forms the basis for the development policy influencing of the appropriation and for annual budget planning for the years 2020–2023.

The basis of the plan is recorded in the Government Programme: *“During its term, the Government will prepare an investment plan relating to loan-based or investment-based development cooperation activities. The plan will direct investments to targets that are in line with the priorities and principles of the Government Programme, especially to climate finance and to least developed countries. We will strengthen the criteria for responsible investments and their effectiveness and monitor the implementation of investments. The plan will be made so that it is ready for adoption at the Government budget session in autumn 2019.”*

### 2. The Government's development policy objectives and the bases of the investment plan

The development policy investment appropriation supports Finland's development policy objectives and priorities in accordance with the Government Programme, taking into account the preconditions for the appropriation concerned. The most important of these preconditions is that the financial investment appropriation has a reflow and yield expectation, and the capital invested and the return on investments (interest or other income) are transferred back to the State.

In this context, three objectives are proposed as the bases of the investment plan which have particular emphasis on the selection of funding targets during the government term 2020–2023, and which emerge from the outlines of the Government Programme. Furthermore, all financial investments aim to promote Finland's added value and competence development.

#### ***2.1 The financial investment appropriation promotes Finland's climate policy objectives, reinforcing and supplementing Finland's international climate finance package***

⇒ **The objective is to allocate at least 75 per cent of the funding to climate finance.**<sup>2</sup>

The Sustainable Development Goals (SDGs) and the international climate target to limit global warming to 1.5 Celsius set the target framework and the reasons why development policy investments are allocated strongly to climate. For both, it has been internationally recognised

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<sup>1</sup>(1) The rights and status of women and girls; (2) Developing economies in developing countries to increase jobs, livelihoods and wellbeing; (3) Democracy and capacity of societies; and (4) Climate and sustainable use of natural resources

<sup>2</sup>During the period 2016–2019, approximately 60 per cent of the development policy investment appropriation was allocated to climate measures.

that public money alone is not sufficient to attain the objectives. Most of the funding must be mobilised from the private sector.

The goal of mitigation is to promote especially renewable energies, energy efficiency and sustainable forestry. On the adaptation side, particular efforts are made to support projects related to food and water security and in the field of meteorology. While on the side of grant money, it is more natural to take account of the special needs of the least developed countries and small developing island countries, especially in relation to adaptation, Finland also considers the possibility of using the development policy investment appropriation to adapt to climate change in the countries. However, given its financial nature and the reflow and yield expectation, financial investments are better suited to the funding of mitigation measures. However, active efforts are being made to seek adaptation targets and it should be noted that many mitigation investments also include adaptation measures. The aim is to mobilise private funding to meet climate challenges as far as possible.

***2.2 The financial investment appropriation promotes Finland's development policy objectives in Africa, particularly in the context of the Africa strategy to be prepared during the government term.***

⇒ **The objective is to allocate at least 60 per cent of the funding to funding targets directed to Africa.<sup>3</sup>**

The Government Programme states that *“The geographical focus of Finland’s development cooperation activities will be on Africa.”* The same principle applies to the planning of the development policy investment appropriation. The aim is to support the democratic and economic development and stability of Africa, for example by promoting job creation, the status and rights of women and girls, climate change mitigation and adaptation, and high-quality education. The Africa Strategy to be prepared during 2020 will further define Finland's priorities, which will also be taken into account in the promotion of this objective.

***2.3 The financial investment appropriation promotes measures related to the learning crisis, as well as private investments in the creation of decent jobs and the promotion of gender equality in developing countries.***

⇒ **To strengthen the gender perspective, the aim is to ensure that 85 per cent of the funding includes objectives that promote gender equality.**

As a rule, Finland examines learning more broadly with strong links to employment, social stability, especially in the countries of the rapidly growing young population, and economic development. By investing in education, Finland also responds to the global challenge caused by human mobility. As far as possible, the development policy investment appropriation will be allocated to solving the wide-ranging challenges posed by the learning crisis.

Moreover, the financial investment appropriation is especially well suited to funding targets and programmes which are aimed at strengthening the private sector in developing countries and

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<sup>3</sup>In the period 2016–2019, about 50 per cent of the financial investment appropriation was allocated to Africa.

through which other private funding is mobilised. This is outlined in the Government Programme as follows:

*“Achieving the sustainable development goals (SDGs) requires not only public measures but also private investments in developing countries’ climate actions and in their promotion of equality and creation of decent jobs in these countries. In its own development policy and in its actions within the EU, Finland will support an increase in both private funding and corporate involvement in regard to investments that promote sustainable development in the developing world.”*

The development policy investment appropriation will be used to invest in the promotion of responsible and sustainable business activities in developing countries. In particular, investments that mobilise private sector investments more extensively will be sought. Small and medium-sized enterprises are the largest employers in many countries, and the objective of the financial investment appropriation is to strengthen especially their operating conditions. Promoting female entrepreneurship is a particular priority. In order to strengthen the gender perspective, the aim is that 85 per cent of new investments include objectives that promote gender equality.

In the preparation of investments, attention is paid to the participation of Finnish companies and other actors in the projects. Finnish companies have competitive expertise that we can draw on in solving challenges related to sustainable development. We can use development policy investments as a platform for opening up new opportunities for Finnish businesses in developing markets. Investments made by Finnfund are a good example of this.

### **3. Criteria to be taken into account in selecting individual funding targets**

#### **3.1. Statistical criteria for financial investments**

The statistical criteria for financial investments must be taken into account in the selection of funding targets, as this appropriation is only available for those that meet these criteria. The criteria are defined in *Eurostat’s Manual on Government Debt and Deficit* and its national application is interpreted by Statistics Finland. It should be noted that the latest version of the 2010 Eurostat manual has come out in August 2019. The new manual may change the definitions or preconditions for financial investments. They must be taken into consideration in the implementation of this investment plan.

#### **3.2. Crosscutting objectives of development policy**

The Ministry for Foreign Affairs is reviewing its guidelines in order to promote crosscutting objectives. The reviewed guidelines will be based on four objectives: 1. Gender equality, 2. Non-discrimination, 3. Climate resilience, 4. Low emission development. In defining the objectives and funding terms of the programmes funded by the development policy investment appropriation, the promotion of crosscutting objectives will be taken into account, based on future guidelines.

#### **3.3. Effectiveness of the funding target and assessment of development impacts**

The feasibility of the different options also takes into account the effectiveness, capacity and experience of the development funding provider managing the investment. In particular, the capacity of this body to monitor, assess and report on the impacts of the projects to be funded will be examined from the perspective of the set development policy objectives. In order to assess them, the information already available in the Ministry for Foreign Affairs, external independent evaluations and the experiences of other donors will be used<sup>4</sup>. The targets selected should also preferably be such with which the Ministry for Foreign Affairs already has cooperation relationships and other monitoring to the parent organisation. In this way, guidance and policy-making will take place within the framework of the existing structures.

The investment plan must also take into account the administrative burden and costs for the Ministry for Foreign Affairs. In order to mitigate the administrative burden for the Ministry for Foreign Affairs, there should be only a few financial investment targets per year. For the purposes of portfolio management and monitoring the realisation of financial investments, it is important that responsibility for the monitoring be assigned to a separate unit at the Ministry for Foreign Affairs, which is the Unit for Development Finance and Private Sector Cooperation.

### **3.4. Objectives of corporate responsibility**

The Government Programme outlines that *“companies that receive development cooperation funds will be obligated to meet tax responsibility and transparency criteria, promote human rights and advance Finland’s development policy goals.”*

The development policy and development cooperation of the Ministry for Foreign Affairs are founded on a human rights-based approach. In terms of business cooperation and support, the UN Guiding Principles on Business and Human Rights are followed in particular. To the extent that the financial investment appropriation is used to fund business activities, the preparation of each funding programme will assess how the objectives of the Government Programme are realised in the activities of the development funding provider, including the consideration of environmental and social responsibility and human rights risks. For example, the World Bank’s IFC has its own environmental and social performance standards where these are outlined, and which are applied by Finnfund, for example.

The basis is also that all funding targets that support companies contribute to the tax revenue of developing countries. In the preparation of each funding programme, it is evaluated that tax responsibility has been taken into account in the activities of the financial partner in accordance with Finland's objectives.

### **3.5. Synergies with Finland's other cooperation**

Synergies with other cooperation made by Finland will be assessed in connection with the selection of new funding targets thematically or regionally. Examples include bilateral cooperation programmes, public sector instruments (Finnfund, Public Sector Investment Facility / PIF, Finnpartnership, BEAM) and Team Finland cooperation, especially the Team Finland service model for international procurement. At the same time, measures to promote these synergies will be assessed.

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<sup>4</sup> For example, Multilateral Organisation Performance Assessment Network (MOPA) assessment reports.

Special attention will be paid to the inclusion of Finnish companies in the investments. Investments cannot be earmarked to Finnish operators, but other means are mapped in connection with investment decisions and an action plan is drawn up for activating Finnish companies. Finns' participation in investments is also monitored, for example, during annual meetings.

#### **4. Implementation of the plan and performance reporting**

The allocation of the development policy investment appropriation at an annual level is decided in accordance with the investment plan, based on the cycle defined in the framework of the Development Cooperation Policy Reform process. This means that the allocation of the appropriation for the coming year is proposed in connection with the budget proposal process.

The Ministry for Foreign Affairs' Unit for Development Finance and Private Sector Cooperation prepares proposals for appropriations and is responsible for their monitoring and reporting. In addition, a permanent and broader *investment working group* is set up in the Ministry of Foreign Affairs to participate in the selection, preparation and monitoring of the funding targets. The composition of the working group must be based on the objectives and criteria of the plan and the related expert needs (e.g. climate themes, Africa, crosscutting objectives, performance management, legal questions, etc.).

The Ministry for Foreign Affairs' Unit for Development Finance and Private Sector Cooperation produces an annual report on the investment plan, which summarises the portfolio development from the perspective of the objectives of the plan. The report monitors the 75 per cent climate target (mitigation and adaptation rates) and the 60 per cent Africa target (incl. development of the LDC component). The report describes the results of the investment programme on the basis of available information. Examples of possible result indicators at portfolio level include emission reductions (estimate and realisation), the number of jobs created (including gender disaggregated data) and the production capacity of renewable energy (MW). Other indicators are reported as far as possible. The more detailed structure and content of the annual report is developed in the investment working group in accordance with the Development Policy Results Report.<sup>5</sup>

<sup>5</sup> <https://um.fi/documents/35732/0/UM+KPR+2018+ENG+WEB.pdf/944cf817-9d4a-43ca-07a7-2aebd60538016d49-22a57bb0c5d0>