DEVELOPMENT POLICY INVESTMENTS

– Finland's response to the funding gap of the sustainable development goals

The achievement of the sustainable development goals agreed upon in the UN will require unforeseen efforts. Finland aims to ease the situation by utilizing its development policy investments. They have been in use since 2016.

Development policy investments will help to allocate capital to entrepreneurial activities, which create employment, as well as to other activities that promote sustainable development activities. At the moment, even good companies in developing countries cannot grow and thereby create sufficient employment because they are not able to raise financing at reasonable price. There is a huge lack of jobs because almost all population growth nowadays occurs in developing countries, especially in Africa.

Development policy investments improve **societies' preconditions to operate** also indirectly. For example, lack of electricity is like a handbrake that hinder **societal development** and therefore energy production from renewable sources is the largest single sector into which Finland has channeled its investments.

Development policy investments are made in the form of either loans or capital investments. Investments can be made through multilateral development banks, some UN organizations' thematic funds or through other development financiers. Financing will be channeled through these actors, who know best the local conditions and markets, to the actual investees, especially to companies operating in developing countries.

The most notable difference to conventional development aid is that funds directed to development policy investments will **return to Finland with yield revenue** in the long run. Return expectations are modest because financing occurs in developing countries. The primary goal for development policy investments are positive development impacts, for example employment creation, curbing deforestation or better services.

Finland aims to allocate investments especially to the least developed, fragile and lower middle-income countries. Operational environment in these countries are often difficult. In practice, these types of investments help create markets in environments where they do not yet exist.

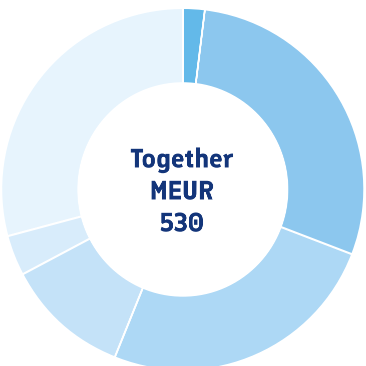
”Development policy investments are made in the form of either loans or capital investments. They complement other forms of development cooperation and are aimed to bridge the financing gap of sustainable development.”

Same goals different means

	Grant based development aid	Development policy investment
Channeled according to Finland's development policy priorities	✓	✓
Aims to achieve positive development impact	✓	✓
Increase budgetary expenses	✓	–
Returnable capital with a yield	–	✓

Development policy investments do not remove the need for normal grant based development aid. For example, grand based aid is needed in order to support human rights activists or administrative reforms in developing countries.

Development policy investments in 2016–2019



- Capital increase of Inter-American Development bank's investment corporation IIC: 9,2 million euros
- National development finance institution Finnfund: 130 million euros
- New climate investment fund administered by World Bank's investment corporation IFC: 114 million euros
- For food security and climate change adaptation via International Fund for Agricultural Development: 50 million euros
- Loan to FCA Investments Ltd: 16 million euros
- National development finance institution Finnfund: Female entrepreneurship and climate change mitigation: 210 million euros

60%

of the development policy investments are allocated to combat climate change.

Finland-IFC climate investment fund is fully targeted to combat climate change, likewise the majority of the Finnfund's investments and part of IIC's investments.

Blended finance will mobilize private capital

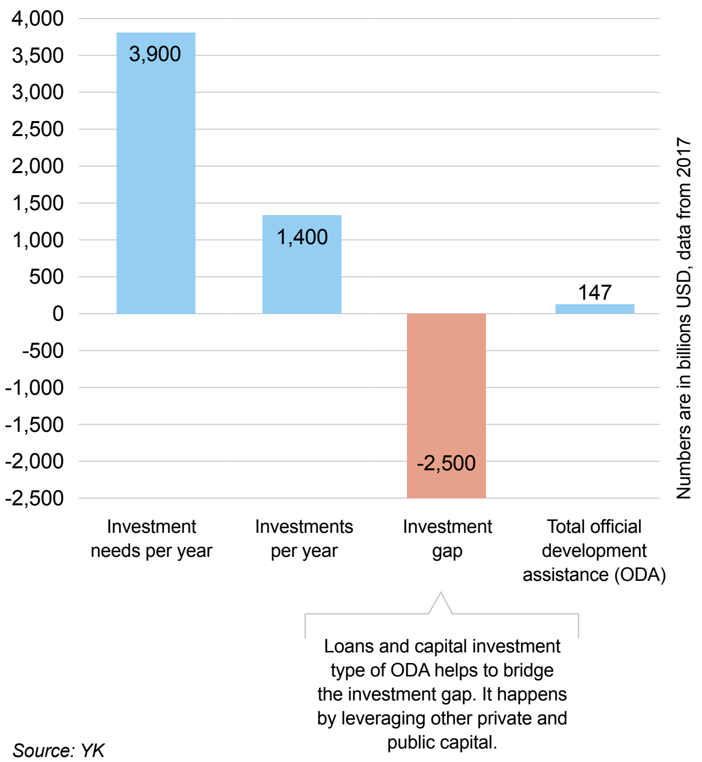
One of the most important objectives of development policy investments is to create leverage effect. In other words, they aim to mobilize other public or private funds to the same investment. In order to attract other capital state investor may have to tolerate higher risk or settle for lower returns than other investors. This kind of financing structure where different kinds of investors finance projects with different kinds of terms is called blended finance.

Leveraging other funds is essential because **UN's sustainable development goals cannot be achieved only with public funds**. In blended finance, state investor enables investments into activities, which would otherwise not happen purely with commercial financing. For example, in 2017 Finland invested 114 million euros into climate investment fund (Finland–IFC Blended Finance for Climate Program), which is administered by World Bank's investment corporation IFC. According to the blended finance principles Finland's financing is concessional. That is to say, the interest rate can be lower or loan tenor longer than in those of other investors' loans. The objective is to attract other public and private capital. IFC will always also invest its own capital to all projects alongside Finland.

The fund will support clean and renewable energy solutions and other climate projects in developing countries. It is the largest funding ever targeted at international climate work by Finland.

Via the climate fund, Finland will support the Paris climate agreement as well as the achievement of the broader sustainable development goals (SDG's) agreed in the UN. The program seeks to address UN goals related to the sustainability of food security and agriculture (SDG 2), the sustainable use of water (SDG 6), supporting sustainable energy (SDG 7) and combating climate change (SDG 13).

Sustainable development investment gap in developing countries



Source: YK

Development policy investment is a flexible financing tool

Loan and investment type of development aid is internationally a growing trend, which addresses the vast investment needs of sustainable development. This new type of financing will not reduce the need for traditional grant based development aid. Therefore, development policy investments will be used in diverse ways to support Finland's development policy goals and to complement other development policy tools.

Loan and investment type of financing is most suitable in sectors, where companies have a central role in producing goods and services. Therefore, investments will be allocated for example to support energy production as well as small and medium-sized enterprises.

On the other hand, development policy investments can be used to support for example agricultural value chains and thereby food security, which have typically been supported via grant based aid. The applicability of development policy investments is not limited only to private sector support. Some development banks nowadays accept concessional partner loans from their member countries as part of their regular replenishment. If development policy investment are used for concessional partner loans, financing will be channeled through development banks also to support public sector projects in developing countries.