Broad-based Financing for Development

Increasing financing for development cooperation as a joint effort between the public and private sectors and civil society

Working Group Report
(UM002:00/2010)

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MINISTRY FOR FOREIGN AFFAIRS OF FINLAND

Contents

Foreword

Changes in the international operating environment – such as climate change, economic, food and energy crises, and other global security threats – have stepped up the debate on both the goals of development policy and the future of development financing.

Traditional Official Development Assistance alone is not enough to attain development goals. Governments must encourage new types of partnerships between the public and private sectors and civil society actors. Governments must seek new sources of financing in both the private and the public sector so that the internationally adopted development goals can be achieved. With respect to Official Development Assistance, Finland is committed to giving 0.7 per cent of the gross national income as Official Development Assistance annually by the year 2015.

The concept of broad-based financing for development rose to the fore at the International Conference on Financing for Development, held in Monterrey in 2002. The view of broad-based financing for development as part of global partnership was reaffirmed at the follow-up conference in Doha in 2008.

In April 2010, Minister for Foreign Trade and Development Paavo Väyrynen appointed an official working group to chart means for increasing partnerships between the public and private sectors and civil society and for expanding the base of development financing (the decision to appoint the working group is enclosed as Appendix 1).

Minister Väyrynen invited Ritva Koukku-Ronde, Under-Secretary of State responsible for development cooperation and development policy, to chair the working group. The following persons were invited to serve as members: Chief Policy Adviser Simo Karetie of the Confederation of Finnish Industries EK; Partner Marko Katila of DASOS Capital Oy; Professor Riitta-Liisa Korkeamäki of the University of Oulu; Secretary-General Kristiina Kumpula of the Finnish Red Cross; Special Advisor Kim Nyberg of Hill & Knowlton; Manager of International Relations Thomas Palmgren of the Federation of Finnish Enterprises; Head of Unit Okko-Pekka Salmimies of the Unit for Non-Governmental Organisations of the Ministry for Foreign Affairs; Senior Advisor Laura Torvinen of the Department for Development Policy of the Ministry for Foreign Affairs; and Senior Budget Secretary Päivi Valkama of the Ministry of Finance. The working group's secretary was Economic Advisor Mika Vehnämäki of the Unit for Sectoral Policy of the Ministry for Foreign Affairs.

The working group met eight times. During the meetings and on separate occasions, the working group consulted outside experts (list of persons in Appendix 2).

The working group's concrete recommendations to the Government are listed in Chapter 7. The report also contains other proposals for consideration.

The working group respectfully submits its report and recommendations to Minister for Foreign Trade and Development Paavo Väyrynen.

On behalf of the working group, in Helsinki, on 14 December 2010.

Ritva Koukku-Ronde
Under-Secretary of State
Development Cooperation and Development Policy
Ministry for Foreign Affairs of Finland

Summary

Broad-based financing for development refers to all money flows to developing countries that support the attainment of development goals and the maintenance of development results. Broad-based financing for development encompasses the following sources of finance: domestic financial resources in developing countries; direct foreign investments and other private capital flows; international trade; Official Development Assistance and debt relief in developing countries; innovative financing mechanisms; migrants' remittances; and other financial flows benefiting developing countries.

With respect to Official Development Assistance (ODA), Finland, together with other EU Member States, pledged in 2005 that the level of 0.7% of the GNI would be reached in 2015. Along with ODA, private capital flows and public–private partnerships play an increasingly important role for the economy of developing countries. The total sum of private capital flows is nearly seven times greater, and that of migrants' remittances nearly three times greater than Official Development Assistance. In many developing countries, remittances constitute a highly important source of income both for households and for the economy of the whole country. In order to expand the scope of development financing, the central goal is to increase the domestic financial resources of developing countries by strengthening the capacity of the tax administration, by introducing more efficient measures for developing international tax systems, and by preventing capital flight from developing countries.

New sources of finance have also been sought in so-called innovative financing mechanisms. Innovative financing mechanisms have arisen in various contexts: not only in discussions on the balancing of public expenditure but also in the debate on the stability and regulation of international financial markets and in international climate negotiations.

An aspect closely associated with broad-based financing for development is the mobilisation of the whole Finnish society to take part in development cooperation. Companies, educational institutes, government agencies and bodies, municipalities, business organisations and other civil society actors as well as private individuals participate in development cooperation by contributing their valuable expertise, partnerships and funds.

The working group's mandate is grounded in the objectives set in the Government's Development Policy Programme. The experience gained of the implementation of this Policy Programme has been very positive.

The working group has investigated the possibilities of enhancing partnerships between the public and private sectors and civil society actors by upgrading development policy instruments, by increasing information and advisory services and by promoting cluster work. The working group has also discussed how to increase the development cooperation donations made by private individuals and companies and how to promote companies' corporate social responsibility activities in developing countries through taxation policy means. The working group hopes that Finland will contribute actively to the international development of innovative financing mechanisms. In the working group's opinion, the role of development financing and development cooperation can be reinforced when implementing the Government's Education Export Strategy.

The working group presents eight recommendations to the Government and State administration. In addition to these recommendations, the report contains other proposals for consideration.

1 Broad-based financing for development

1.1 What is broad-based financing for development?

Broad-based financing for development means all money flows to developing countries that support the attainment of development goals and the maintenance of development results. In accordance with the Monterrey Consensus, broad-based financing for development encompasses the following sources of finance: domestic financial resources in developing countries; direct foreign investments and other private capital flows; international trade; Official Development Assistance; and debt relief in developing countries. Broad-based financing for development also covers new, so-called innovative financing mechanisms.[1] Migrants' remittances to their home countries are also often included in broad-based financing for development because in many developing countries they constitute a very important source of income both for households and for the economy of the whole country.

Most flows of funds to developing countries are private, and thus the public sector cannot decide how they are used. However, governments play a major role both in the creation of financial markets and an environment conducive to investments and also in improving developing countries' own domestic revenue collection, especially by developing the tax system. Through their own policies, governments can influence the formation of private capital flows and the impacts that these flows have on the lives of people in developing countries. The development of financial markets and a favourable atmosphere for investments are also of primary importance for improving the development effects of migrants' remittances.

Finland is committed to the decisions made at the Monterrey Conference on Financing for Development (2002) and at the Doha Follow-up Conference (2008). The concept of broad-based financing for development plays a pivotal role in Finland's development policy. The Government's Development Policy Programme of 2007 underscores international trade and the private sector's activities as the basic pillars for economic growth and sustainable poverty reduction in developing countries. The concept of broad-based financing for development is also reflected in Finland's efforts to increase the volume of financial flows to developing countries. In line with the Development Policy Programme, Finland has increased Aid for Trade in order to improve the business enabling environment of developing countries, bolster trade capacity and integrate developing countries better into international trade. Finland uses several instruments to boost the private sector in developing countries and to strengthen the participation of the Finnish private sector in work done in developing countries. Finland has contributed actively to discussions concerning innovative financing mechanisms within the EU, the UN and international financial institutions. Finland is also a member of the Leading Group on Innovative Financing for Development, whose aim is to chart new means for increasing financing for development.

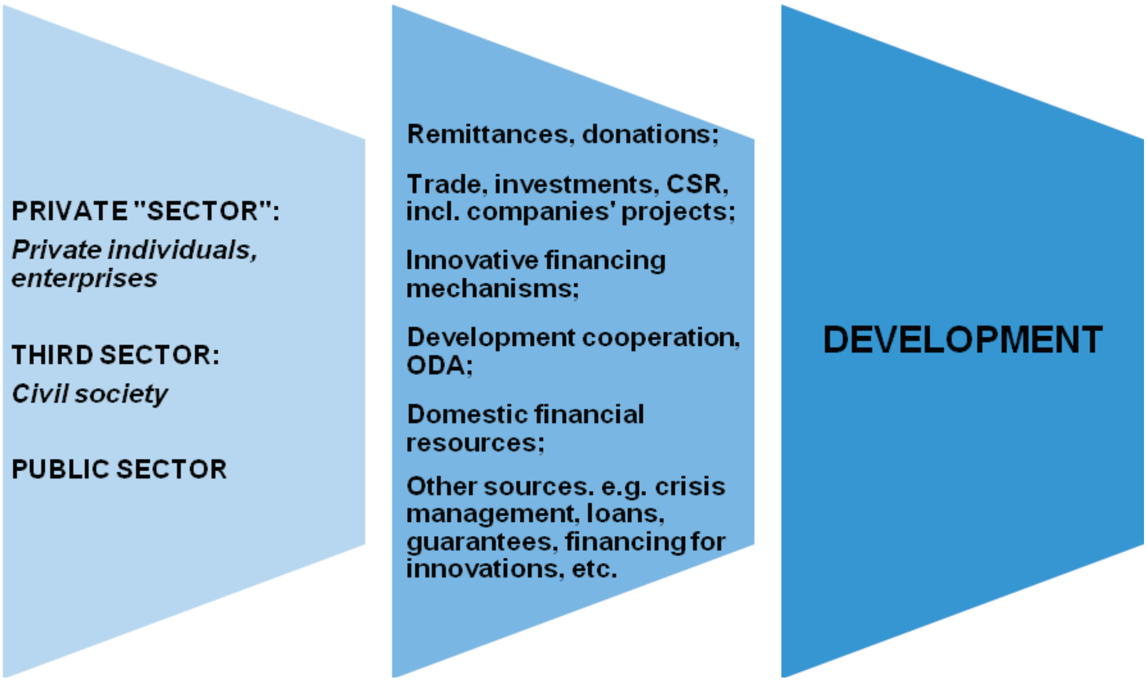
An aspect closely associated with broad-based financing for development is the mobilisation of the whole Finnish society to take part in development cooperation. Out of Finland's 263,000 companies[2], large companies employing over 250 people (0.2% of all companies) are the most active in conducting business in developing countries, but to an increasing extent SMEs have also begun to see the business

1 *Innovative financing mechanisms refer to new sources of finance that can appreciably increase the volume of financing for development purposes, improve the predictability of financing, and reduce the dependence of development financing on political decision-making. Other new sources of finance comparable to innovative financing mechanisms also include global funds that have usually been established in order to combat individual development challenges, such as HIV/AIDS. Global funds differ from innovative financing mechanisms in that they also collect financial assets from the traditional public sources.*

2 *This figure excludes companies engaged in agriculture, forestry and fishery. In total, there are about 320,000 companies in Finland.*

expansion opportunities in emerging markets. This means about 17,600 companies employing more than ten people, or 6.7% of all companies. Finnish companies have over 100,000 employees in developing countries. For their part, large internationalised Finnish companies also lead the way for smaller undertakings, which have had their primary markets in Finland, in neighbouring areas or within the European single market. Aside from companies, educational institutes, government agencies and bodies, municipalities, business organisations and other civil society actors and private individuals participate in development cooperation by contributing their valuable expertise, partnerships and funding.

The following figure illustrates the field of broad-based financing for development:



1.2 Components of broad-based financing for development

The flows to developing countries included in broad-based financing for development have grown in volume during the past decade, but there are considerable differences in their growth rate. The trends of the following financial flows are summarised below: Official Development Assistance; private capital flows to developing countries; remittances by migrants; and domestic resource mobilisation and development of the tax administration in developing countries. The trends of Official Development Assistance, private capital flows and migrants' remittances are described in the tables of Appendix 3.

Official Development Assistance (ODA)

The combined Official Development Assistance of the member states of the Development Assistance Committee (DAC) of the OECD has shown a rising trend since 2001. In 2009, the ODA of the DAC countries reached a new record, USD 119.6 billion, which corresponded to 0.31% of the DAC countries' total gross national income (GNI). According to the OECD/DAC statistics, the total Official Development Assistance in 2009 was about USD 136 billion (net).[3]

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3 *Net ODA is calculated from gross ODA by deducting the repayments of the principal of development aid loans. Global financing has declined somewhat from 2008, when the level amounted to nearly USD 146 billion. The main underlying factor has been the international economic crisis.*

In 2005 Finland, together with other EU Member States, pledged to increase its ODA so that the level of 0.7% of the GNI would be reached in 2015.

Private capital flows to developing countries

According to the World Bank's estimates, the volume of private capital flows (loans, direct foreign investments, venture capital investments) into developing countries totalled USD 707 billion in 2008, despite the international economic crisis. This corresponded to about 4.4% of the combined GDP of developing countries for the same year. The total volume of private capital flows is nearly seven times greater than ODA.

Alongside ODA, the international donor community emphasises the increasing importance of private capital flows and public–private partnerships for the economies of developing countries. At the UN Private Sector Forum held in September 2010, eleven donor countries, including Finland, presented a joint document for promoting private sector partnerships for development.[4] The issue is also topical in the development policy debate currently conducted within the EU.

Remittances by migrants

Globally, the total volume of migrants' remittances is nearly three times greater than ODA. In many developing countries, the remittances constitute a very important source of income both for households and for the economy of the whole country. According to the World Bank's estimates, the volume of remittances by migrants reached about USD 320 billion in 2009.

Remittances by migrants are private funds; governments cannot affect how they are targeted. However, governments can improve the security of remittances and can help to lower the transfer costs, for instance, by encouraging competition in the transfers of remittances.

Domestic resources and development of the tax administration in developing countries

Increasing domestic financing in developing countries, strengthening the capacity of the tax administration, and introducing more efficient procedures for the development of international tax systems have emerged as central instruments in discussions on how to augment financing for development. For instance, in April 2010 the EU published a Communication that discusses development challenges associated with taxation in developing countries.[5] Within the OECD, the matter has been discussed in several fora. The Development Assistance Committee (DAC) and the Committee on Fiscal Affairs (CFA) of the OECD have launched cooperation focusing on the theme of taxation and development.

Apart from strengthening the tax collection and administrative capacities of developing countries, broad international cooperation is needed in order to prevent tax evasion. Cooperation is also necessary for creating and implementing joint standards, guidelines and agreements. In addition, tools are needed for influencing activities of tax havens. Tax evasion and illegal money flows cannot be curbed without close cooperation among various administrative branches nationally, within the EU and internationally. It is important to commit developing countries to cooperation.

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4 *Bilateral Donors' Statement in Support of Private Sector Partnerships for Development.*

5 *Tax and Development – Cooperating with Developing Countries on Promoting Good Governance in Tax Matters.*

2 Donations to charity by private individuals and companies in Finland

2.1 Donations made by private individuals and companies to development cooperation, international overview

The financing given by individual people for development purposes is of major importance at the global level. Especially in the United States and the United Kingdom, the donations to charity made by private individuals and companies (as percentage of GNI) are substantial. Similarly, considerable donations are made in Ireland and Canada. According to a study conducted by the Hudson Institute's Center for Global Prosperity, the value of the Official Development Assistance given by the United States in 2008 totalled nearly USD 27 billion, while in the same year the imputed value of donations to developing countries made by foundations, corporations, private and voluntary organisations, colleges and universities, and religious organisations, as well as other private voluntary work for developing countries, exceeded USD 37 billion. The volume of remittances sent by private individuals, families and hometown associations to developing countries is even greater, reaching nearly USD 97 billion in 2008.

No systematic statistics on private money flows are compiled, and they are not included in Official Development Assistance. DAC countries provide the OECD with study findings based on sampling, and the studies probably underestimate the real value of charity to developing countries. The 14 DAC countries from which the Center for Global Development (CGD) managed to obtain the most comprehensive data reported to the OECD that the value of private donations to developing countries totalled USD 19 billion, whereas the Center for Global Prosperity (CGP) calculated that the figure was about USD 48 billion, including the value of voluntary work.

The CGP also calculated the combined value of ODA, private charity and remittances and their share of the gross national income in 22 DAC countries (excluding Korea). The list of countries is topped by Sweden, where the above financial items together accounted for 1.33% of the GNI in 2008. For the United States, the figure was 1.12%. In all, ten countries exceeded the one-percent level. With 0.51%, Finland's ranking in the table was the third lowest. Despite Finland's relatively good ODA/GNI ratio, Finnish charity was among the lowest and, in relative terms, remittances were the lowest of all.

2.2 Donations made by private individuals and companies to development cooperation, situation in Finland

Organisations have many means for fundraising. The traditional types include the sale of products, monthly donations and special campaigns for humanitarian work. Child sponsorship, street fundraising, including face-to-face fundraising, and the selling of ethical gifts have increased rapidly during the last few years. As the latest tool, organisations have been considering the utilisation of social media, such as Facebook, as a way of raising the organisations' own profile and acquiring funds.

Even though the CGP study indicated that Finns are not very active donors, some organisations collect a considerable proportion of their annual self-financing as donations from individuals and companies. The opinion poll commissioned annually by the Ministry for Foreign Affairs from Taloustutkimus Oy (the latest being in July 2010) shows that Finns consider donations for development cooperation to be a valuable way of assisting developing countries.

The sums received as donations by large organisations vary widely. For instance, out of the annual income of EUR 26.1 million received by Finn Church Aid in 2009, EUR 5 million came as private donations and EUR 0.5 million as donations from companies. Out of its total income of over EUR 115 million, the Finnish Red Cross received EUR 6.8 million as donations. The income of Plan Finland totalled EUR 15.6 million, of which EUR 1.4 million consisted of donations. In relative terms, major recipients of donations included WWF Finland, which received EUR 3.6 million, or 82%, of its annual income of EUR 4.7 million as donations. Out of its annual income of EUR 14.8 million, UNICEF Finland received EUR 11.4 million, or over three quarters, as donations. World Vision Finland, too, reported that more than half of its income of EUR 9.1 million had been received as donations.

Private individuals can also participate in financing for development cooperation by donating their own work, such as in the Operation a Day's Work (*Taksvärkki*) organised in Finnish schools. Another example is the "Lose Weight for Literacy" (*Läskillä lukutaitoa*) campaign carried out in 2010. Fairtrade, in which Finland is among the world's leading countries (consumption in euros per capita), is an established way for private individuals and corporations to support producers in developing countries.

In 2009, EUR 83.7 million of Finland's Official Development Assistance was allocated to about 200 civil society organisations. This was about one tenth of all ODA. About 60–70% of the development cooperation support targeted at civil society actors is allocated to eleven partner organisations for their multiannual programmes. In addition to the Official Development Assistance received by civil society organisations, they have done their own fundraising, some of which is voluntary work.

2.3 Tax deductibility of donations for development cooperation, international overview

There are several possible models for tax deductions and incentives.[6] These can be divided into two main groups: 1) income tax deductions for donations to charity and 2) inheritance tax deductions for donations to charity. The varying practices applied by the OECD/DAC countries are illustrated in the tables in Appendix 4.

The Center for Global Development (CGD) has identified the tax policies supporting private donations as one indicator for estimating the industrialised countries' commitment to the international development agenda (*Commitment to Development Index*).

Australia, Belgium, Denmark, Germany, Greece, Ireland, Japan, the Netherlands, Norway, Switzerland, the United Kingdom and the United States allow full income tax deduction for donations made for development cooperation and humanitarian aid. Canada, France, Italy, New Zealand, Portugal and Spain grant partial credits remunerating the payer for a certain percentage of the donations. Finland, Sweden and Austria are the only DAC countries that do not grant tax deductions for donations made for development cooperation and humanitarian aid.

Most DAC countries that collect inheritance tax grant tax deductions also on bequests for charity. Belgium, France, Germany, Greece, Ireland, Japan, Spain, the United Kingdom and the United States grant full tax exemption for bequests to development cooperation and humanitarian aid. Partial exemption is in use in

6 *General reduction of income taxes as well as specific tax, inheritance tax and capital gains tax incentives. See Roodman D. (2006): An Index of Donor Performance (Working Paper Number 67, Center for Global Development 2006); Tax Policies to Promote Private Charitable Giving in DAC Countries (Working Paper Number 82, Center for Global Development 2006).*

the Netherlands, where the recipient of a bequest must pay tax at a rate of 11% instead of the normal inheritance tax rate of 30%. In Austria, the corresponding tax rates are 5% and 15%. The Nordic countries (Iceland was not included in the survey) grant no tax exemptions in inheritance taxation.

The CGD survey shows that the taxation practices applied by the Nordic countries are different from those applied by other DAC countries. Finland and Sweden offer no tax incentives for donations made for development cooperation and humanitarian work. Norway and Denmark offer income tax incentives but have set caps on tax deductions.

In Germany, donations made for the public good have long been tax deductible. The Act[7] that entered into force in 2007 further expanded the tax exemptions applied to donations made by private individuals and companies. No definite evidence of the effect of this wider tax deductibility on the amount of donations has been gained yet, but it has been found to have a positive effect on public participation and on donors' behaviour.[8] One of the most important effects is symbolic: the Act of 2007 was seen in Germany as recognition for the support given to assistance and work for the public good.

In the Netherlands, it has been possible to receive tax deductions on donations to charity, including development cooperation and humanitarian work, since 1952. The Income Tax Act and the Corporate Tax Act determine the terms for tax deductions applied to donations, depending on their regularity and amount. According to a study done by the Dutch Ministry of Finance in 2009, the effect of tax deductibility on private donations during the period 1996–2006 was not statistically significant but, on the other hand, the effect could not be ruled out either.[9]

Tax deductibility has been debated also in Sweden. The Swedish Parliament has repeatedly drafted bills for tax deductibility, most recently in 2008, but these have not gained support. The Confederation of Swedish Enterprise has seen tax deductibility positively but has considered the expansion of tax deductibility concerning sponsorship even more important. Researchers and cultural actors have taken a strong stand on behalf of tax deductibility, especially as concerns deductions targeted at culture and research. The civil society think tank, Sektor3, and the media have also supported the granting of tax deductions. According to an opinion poll conducted by Sektor3, 30% of the respondents might begin to donate or might donate more to charity if tax deductibility were implemented. According to the Swedish Fundraising Council (FRII), tax deductibility should be expanded to cover social assistance, work with children, education, humanitarian work, work for the environment, and work for peace. On the other hand, it has been discussed in Sweden that various types of tax deductions and exceptions should be limited so that the taxation system would remain as simple as possible.

According to the CGD survey, the amount of bequests for charity was relatively small when compared against other private donations. It was concluded that exemptions on inheritance tax were not a major incentive as concerns financing for international development. More generally, too, it has been observed that, rather than increasing financing, tax exemptions strengthen a positive attitude towards development cooperation.

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7 *Gesetz zur weiteren Stärkung des bürgerschaftlichen Engagements.*

8 *Sommereld, J. (2009): Evaluierung von Auswirkungen des Gesetzes zur weiteren Stärkung des bürgerschaftlichen Engagements. Empirische Untersuching der Entwicklungen im Regelungsbereich, insbesondere zum Spendenaufkommen (DZI Bericht zum Forschungsauftrag fe 17/07, Deutsches Zentralinstitut für Soziale Fragen).*

9 *Evaluatie giftenaftrek 1996–2006.*

2.4 Finnish debate on the tax deductibility of donations for development cooperation

The tax deductibility of donations made for development cooperation and humanitarian assistance has been a topic of debate and campaigning in Finland for nearly 30 years. The weight given to the issue has varied over the years among both civil society organisations and politicians. Finnish society's strong support for tax deductibility led to the establishment of the *Prosentti* (Per cent) movement in the early 1980s. Between 1986 and 1989, Finland also had an Act stipulating that donations of over 300 Finnish markka for civil society organisations' development cooperation and humanitarian aid projects approved by the Ministry of Finance could be deducted in taxation up to 15,000 markka. The tax deductibility of donations granted to civil society organisations was limited to development cooperation projects for which the organisation/association received development cooperation support from the government or which were otherwise approved by the Ministry for Foreign Affairs. When donations were made to the State of Finland for development cooperation or humanitarian assistance, no maximum limits were applied.

The tax deductibility was revoked in the overall taxation reform at the end of the 1980s. The main goal of the reform was to strengthen the tax base and to simplify taxation, especially the taxation of private individuals. The tax deductibility of donations was limited so that the deductibility of donations made for national defence, development cooperation and humanitarian purposes was repealed. The only targets still eligible for tax deduction were science, art and the protection of Finnish cultural heritage. However, no organisation appealed against the loss of tax deductibility.

The justifications for limiting the tax deductibility of donations were based on the significance of the interventions eligible for deduction and on administrative aspects. Some estimates have been presented concerning the impacts of the tax deductibility of 1986–1989, but no actual studies on the issue have been conducted. Expanding the tax deductibility to development cooperation and humanitarian targets had proved to be administratively burdensome: the work load of the Tax Exemption Board, which gave its opinion on interventions eligible for tax support to the National Board of Taxes, had increased considerably. In addition, the fragmentation of development aid and the narrowing of the tax base were seen as problems.

According to the current Finnish legislation, only corporations are entitled to deduct their donations in taxation provided that the donation is made for a purpose that advances the maintenance of Finnish cultural heritage or promotes science or art. The sums donated are tax deductible only if they have been given 1) to a State included in the European Economic Area, to a publicly funded university or other institute of higher education located in the European Economic Area, or to a university fund associated with them, (minimum 850 euros, maximum 250,000 euros); or 2) to an association or a foundation, or to a fund associated with them, named by the Finnish Tax Administration and located in the European Economic Area, provided that the primary purpose of the body is to support science or art or to advance the maintenance of Finnish cultural heritage (minimum 850 euros, maximum 50,000 euros). In order to acquire funds for Aalto University, the tax deductibility was temporarily extended to cover donations made by private individuals as well (minimum 850 euros, maximum 250,000 euros) in 2009–2010.

Some civil society organisations, interest groups, political parliamentary groups and individual Members of Parliament[10] have repeatedly proposed that tax deductibility of donations for development

10 *For instance, Leena Harkimo, MP, presented a written question on the issue on 19 January 2009. In his answer given on 10 February 2009, Minister of Finance Jyrki Katainen saw no need to expand the tax deductibility to cover donations made for development cooperation and humanitarian work: "It is justified to keep the scope of tax deductibility narrow and strictly limited in the future as well."*

cooperation should be reinstituted as a means of increasing Finland's financing for development cooperation. On 23 September 2009, Finn Church Aid, the Finnish Red Cross and UNICEF Finland proposed an initiative for amending legislation so that the donations made by private individuals and companies for development cooperation and humanitarian work would be made tax deductible.[11] According to the organisations, the initiative would be ready for further action, but it would need some official backing.

According to the Ministry of Finance, tax deductibility would narrow the tax base and would weaken the financing options of the public sector. The Ministry has also emphasised that the registration of organisations eligible for support would cause administrative work, that the definition of the concept "public good" is open to various interpretations, and that direct support is more transparent than tax support. In addition, the Ministry has pointed out that it would be difficult for the Finnish authorities to monitor tax deductions on development cooperation donations made to organisations that operate in the whole of the European Economic Area.

Civil society organisations do not have a uniform stand on the tax deductibility of donations. Organisations that have a wide and established constituency support tax exemptions, whereas many small civil society organisations fear that tax deductibility would increase inequality among organisations and would narrow the financing and operating options available to small organisations, especially since donations are unpredictable. It is also thought that tax deductibility might lead to cuts in the direct support granted by the public sector to civil society organisations. In organisations' opinion, one potential positive impact of tax deductibility would be a rise in general interest towards their work.

11 These organisations presented the initiative to Ministers Heinäluoma, Wideroos and Lehtomäki, who sat in the previous Government, and to Speaker of the Finnish Parliament Sauli Niinistö, but not to ministers in the present Government.

3 Corporate social responsibility

3.1 The means available to companies and the State for promoting responsible business

Corporate social responsibility (CSR) means the responsibility borne by companies, public administration and other places of work for their impacts on the surrounding society, environment and stakeholders. A company influences its stakeholders financially by paying wages to its employees and taxes to the State and municipalities. Companies contribute to improving the environment, working conditions and human rights in developing countries by creating economic affluence, by looking after their own personnel and by acting responsibly towards their local stakeholders. The social impacts of responsible companies include the well-being of their personnel, high customer satisfaction, and safe products and services. A company's environmental responsibility includes efficient use of materials and energy for conserving natural resources and mitigating climate change. Corporate social responsibility can also be considered to include companies' projects in developing countries, some of which are comparable to development cooperation projects implemented by the public sector. These projects may be highly important for the local places of work and households.[12] CSR projects carried out by companies can be increased by means of partnerships between the private and public sectors and civil society, utilising Finnish know-how.

In order to create a stable operating environment, companies are ready to invest not just in their own business but also in wider economic and social development. Increasingly often, compliance with and promotion of the principles of corporate social responsibility are also seen as a competitive edge on the international market.

According to the OECD, corporate social responsibility instruments and initiatives where governments may have a role to play can be divided into four categories:

1. *International instruments developed and formally agreed by governments*. This category includes the instruments on multinational enterprises compiled by the ILO and the OECD.

2. *International initiatives developed by intergovernmental bodies.* The UN Global Compact is a form of cooperation developed by the UN and business leaders for promoting corporate social responsibility and partnerships between companies and the UN. This category also encompasses the Environmental and Social Standards of the International Finance Corporation (IFC), the voluntary Equator Principles guiding the social and environmental responsibility of international financial institutions, the Financial Initiative (FI) between the United Nations Environment Programme (UNEP) and the global financial sector for taking environmental aspects into account in the operations of the financial sector, and the Principles for Responsible Investment devised under the coordination of the UN Global Compact and the UNEP FI initiative.

3. *International initiatives endorsed by governments.* Owing to the voluntary nature of international CSR initiatives, governments have not usually taken an active part in their development. For example, the standards issued by the International Organization for Standardization (ISO) and the Guidelines of the Global Reporting Initiative (GRI) are included in this category.

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12 *Examples of Finnish companies' projects in the fields of development cooperation and corporate social responsibility are given in Appendix 6.*

4. *National initiatives developed and endorsed by governments.* Some governments have been active at the national level in developing CSR initiatives in cooperation with companies. Sometimes such initiatives may become part of the supply chain of companies in developing countries, such as the Ethical Trading Initiative (ETI) established in the United Kingdom.

The government's primary role in companies' CSR efforts is to create a legislative framework. However, the CSR efforts of companies often extend beyond the framework set by legislation, and in this respect, governments can promote awareness of best practices. In some countries, the government may participate in the creation of common rules on practices, whereas in other countries, governments trust more in companies' self-regulation. In addition, governments may promote trilateral partnerships between the public, private and third sectors, for instance, by means of cluster activities and financial instruments. Within Finland's central administration, the Ministry of Employment and the Economy coordinates corporate social responsibility issues.

The working group recommends that the Government promote the private sector's responsible business, investments and other corporate social responsibility efforts in developing countries.

3.2 Example: Training needs of companies in developing countries

Companies operating in developing countries often face challenges in obtaining skilled labour. In some cases, companies themselves train, for instance, the technical personnel they need. The largest companies have founded their own vocational education centres or purchase training services from educational institutes. Finnish medium-sized or even large companies seldom operate on such a large scale in developing countries that it would be justified for them to establish their own vocational education units. Smaller companies may have to abandon the market altogether because of problems associated with the availability of skilled labour.

The training provided by companies in developing countries – whether for their own personnel, stakeholders or the wider community – is part of corporate social responsibility. Governments can advance responsibility of this type through tax policy or development cooperation. If companies were granted a tax deduction for the costs incurred in training carried out in developing countries, the effect on tax revenue would probably not be significant, but it might have a considerable local impact for the availability of educational services, and even other social services, in developing countries. It would also enhance companies' corporate social responsibility and, more generally, the opportunities of companies to expand their operations to developing countries.

The working group recommends that the Government study how companies' financial inputs in training in developing countries could be promoted by granting, for instance, tax deductions for the costs incurred by the companies in providing education in developing countries.

4 Partnerships between the private sector, the public sector and civil society

Promotion of sustainable development requires the building of innovative partnerships among the private and public sectors and civil society actors. In the Finnish State administration, the Ministry for Foreign Affairs is responsible for relations with developing countries and for the network of diplomatic missions, but other administrative branches also develop partnerships with actors in developing countries. Many administrative branches could strengthen these partnerships, for instance in the sectors of the environment and natural resources, energy, social welfare and health, education, and civilian crisis management.

Partnerships between the private and public sectors and/or civil society actors have gained increasing attention in development policy and development cooperation. Partnerships supplement know-how and product development, and they improve understanding of the operations of various segments of society; partnerships can enhance credibility and legitimacy of cooperation in the eyes of other actors and commit local partners to cooperation. By means of partnerships, various parties can achieve results they would not be able to achieve alone.

Finnish society has much potential for expanding development cooperation projects grounded in partnerships among the public and private sectors and civil society actors so that opportunities are created for companies to respond to demand and to utilise their expertise both in Finland and abroad. A demand-driven approach means activities that satisfy the needs of developing countries and are based on their ownership. Other countries and international organisations have programmes and instruments for increasing partnerships; the Finnish State administration can investigate these for developing its own cooperation initiatives.

4.1 Examples of how partnerships are promoted

The World Bank developed a project-type cooperation arrangement (Business Partners for Development, BPD) for promoting partnerships between development cooperation organisations, the private sector and civil society. The project was carried out between 1998 and 2001. The goal of the BPD was to study, support and promote trilateral partnerships in certain fields and sectors in order to speed up community-based sustainable development.

The BPD consisted of four strategic clusters: 1) Natural Resources Cluster; 2) Water & Sanitation Cluster; 3) Global Partnership for Youth Development; and 4) Global Road Safety Partnership. Besides these, the BPD included an information resource group. Once the project ended, some of the clusters' work continued either as before or in a new form, while some work was integrated with other activities.

The BPD produced many good practices for building partnerships. It has served as the basis for new forms of partnerships developed by the World Bank together with other players. One of these is the InfoDev programme that promotes information society development and the application of information technology to development. This programme is also supported by Finland.

In **Sweden**, Sida (the Swedish International Development Cooperation Agency) has an extensive programme supporting Sida's cooperation with private sector actors. One component is the Business for Development Tool Box (B4D) that gathers Sida's instruments, cooperation forms and other good practices into one package (see Appendix 5 for more information).

Although some of the practices and instruments in the package have been in use for a longer time, B4D is important in that it brings together the collaboration opportunities provided by Sida for the private sector. B4D also offers ideas as to how development policy instruments could be developed in Finland, for instance, as regards the flexible financing mechanisms: the Challenge Funds and support to Innovations Against Poverty for the BoP market (Base of the Pyramid).

In **Denmark**, Danida (the Danish International Development Agency) has its Innovative Partnership for Development (IPD) programme, the overall objective being to reduce poverty by promoting economic growth and social development. The programme is used to encourage Danish companies and corporations to engage in development cooperation. The programme is organised into two flexible partnership facilities: the CSR (Corporate Social Responsibility) facility and the BoP facility.

The IPD programme supports corporate projects which have clear links to efforts to improve corporate social responsibility in developing countries. To receive support, the CSR activities of the cooperating companies must be strategic: they must either create new opportunities for trade or solve some of the problems faced by companies. The activities supported must be a natural element of the company's other activities, and they must be innovative in some way. For instance, the IPD programme can be used to support the testing of a product targeted at the poorest segment of the population (BoP).

The innovative feature in both the Swedish and Danish systems is that their instruments are flexible: they can be used to support a company, a business organisation or a civil society organisation.

4.2 The means available to Finland for promoting partnerships

4.2.1 Development policy instruments

The Ministry for Foreign Affairs has several development policy instruments for use by Finnish stakeholders to pursue development cooperation at national and regional levels. These policy instruments thus promote partnerships among the private, public and third sectors:

- Finnfund (The Finnish Fund for Industrial Cooperation Ltd) provides long-term risk financing for projects having the potential for profitable business in developing countries and Russia. The projects financed by Finnfund involve a Finnish interest and must have positive impacts on development and/or the environment. The Special Risk Finance instrument under preparation will increase Finnfund's opportunities in developing countries.

- Finnpartnership is a business partnership programme offering financial support for the planning and implementation of Finnish companies' business activities in developing countries, as well as advisory services associated with business activities in developing countries. The central factors of this instrument, too, are the development of profitable business between actors in Finland and partner countries, Finnish interest and the materialisation of development impacts.

- Concessional credits are used to support the exports of Finnish technology to developing countries when the technology has considerable favourable effects for the development of the partner country. In most cases, the projects are public-sector projects and in general they must be financially unviable.

- Civil society support can be granted for non-profit development cooperation projects carried out by associations and foundations. According to the new Guidelines for Civil Society in Development Policy (2010), business organisations are also encouraged to participate in development cooperation.

- The Institutional Cooperation Instrument (ICI) makes it possible for government agencies and institutions to participate in development cooperation. The objective of projects is to strengthen the skills and know-how of government actors, such as ministries and agencies, in developing countries.

- Universities and polytechnics can apply for financing from the Higher Education Institutions Institutional Cooperation Instrument (HEI ICI) for projects that strengthen the administrative and teaching capacities of institutes of higher education in developing countries and support their own development plans.

The various financing instruments within State administration can be developed further so that they would support the establishment of partnerships between the private and public sectors and civil society as well as possible. For instance, it would be good to explore the possibilities to make the application processes of various instruments more uniform. Development cooperation projects carried out by means of partnerships bring together know-how in a way that is not possible when acting alone.

The working group recommends that the Government promote development cooperation projects implemented by means of partnerships among the private and public sectors and civil society actors. This can be done by developing simple and flexible facilities for joint financing with development policy instruments and other instruments, for instance, by exploring the possibilities to make the application processes of instruments more uniform.

Apart from partnerships between the public and private sectors and civil society actors, partnerships can emerge, for instance, within the private sector, or they can be sector-specific, thematic or country-specific clusters gathering various actors, or some other types of networks. In addition to development policy clusters (see Section 4.2.3), other administrative branches have cluster activities, such as the cluster planned for education exports. Smaller clusters and networks can emerge as needed. Clusters and networks may be led not only by government bodies but also by companies, business organisations, education institutes, civil society organisations or volunteer groups.

In order to promote development cooperation partnerships, the operating and financing options for partnerships must be developed. The entire State administration needs to continue developing the policy instruments, together with other stakeholders, in order to bridge potential gaps in the coverage of the existing instruments, to reinforce the joint use of instruments, to address the demands set by administrative processes, and to meet the Finnish private sector's increasing interest in developing countries.

Development policy instruments and cooperation possibilities have already been significantly developed during the last few years. By using the experiences gained and evaluations, the Ministry for Foreign Affairs continues to develop the instruments more company-oriented and strives to provide sufficient resources for them. In this work, the Ministry can utilise information on the instruments used by other countries and develop its own solutions. Initiatives include the provision of sufficient capital for Finnfund and the Special Risk Finance instrument, the Ministry's communications directed at the private sector and other stakeholders[13], and diverse stakeholder activities, such as activities implemented within the framework of development policy clusters and the Trade and Development theme.

The working group recommends that the Government continue to improve the palette of development policy instruments. Among other things, the working group recommends that:

- ***the Ministry for Foreign Affairs continue its work to develop and simplify the administration of development policy instruments;***
- ***the Government act quickly to take the scholarship programme for students from developing countries to the decision-making stage, start the programme's implementation and reserve sufficient resources for it;***
- ***the Government consider raising Finnfund's capital.***

In future, climate funding will be an important part of development cooperation. In the mitigation of and adaptation to climate change, it is sensible to work together with Finnish companies. This would involve many opportunities for pioneering work in the utilisation of technology, in public–private partnership, and in the achievement of development and climate policy objectives.

The working group recommends that the Government encourage the private sector to participate in the implementation of development policy, for instance, by improving the communications of various actors within State administration and by developing customer-oriented advisory services for companies with projects in developing countries and on development financing.

4.2.2 Partnerships in development cooperation

Civil society organisations and companies have also started to look for new types of partnerships that benefit both parties by intensifying activities, enhancing competence, improving the personnel's well-being and by introducing new ways of working.

Organisations are already involved in multifaceted cooperation with companies: they share know-how and develop technical solutions and new ways of working; their personnel participate in events organised by both parties; and organisations and companies together develop new innovations. Cooperation between companies and civil society organisations also benefit organisations in the sense that the financing channelled by companies to organisations can be counted as the organisations' self-financing. To be eligible for financial development cooperation support, civil society organisations are generally required to provide 15% of their financing themselves. As the amount of self-financing increases, an organisation can apply for more support from the Ministry within the normal application process (the remaining 85%).

Aside from Finnfund, other examples of the partnerships between the Ministry for Foreign Affairs and the private sector include the regional Energy and Environment Partnerships (EEP). The partnerships leverage private investments in sustainable energy generation in developing countries through

13 For instance, the one stop shop for information on the Ministry's website under the headings "Services" → "To companies", linking the same information to the EnterpriseFinland portal, and the brochure on the services for the internationalisation of companies compiled jointly by the Ministry for Foreign Affairs and the Ministry of Employment and the Economy.

development cooperation funds. Finland launched the first EEP partnership in Central America in 2003. The partnership model has also been replicated in East and Southern Africa, in the Mekong region, in Indonesia and in the Andean region.

Another good example is the InfoDev partnership where the Ministry for Foreign Affairs, the World Bank and Nokia Corporation promote the development of information society and the role of information technology in development. The objective of InfoDev is to utilise information society policies, actions and strategic technology applications to combat poverty in developing countries. Finland's programme, "*Creating Sustainable Businesses in the Knowledge Economy*", supports capacity building for companies by means of business incubators and the utilisation of technologies for mobile data transfer especially in the development of rural livelihoods.

The Ministry of Employment and the Economy (MEE) also works to promote partnerships. The strategy approved by the Ministry for the implementation of Finland's Development Policy Programme in December 2009 encompasses the entire MEE Concern. Within the Ministry's administrative sector, especially the Geological Survey of Finland and VTT Technical Research Centre of Finland are already active in the implementation of several development cooperation projects in Africa and Asia. Finpro supports Finnish companies' internationalisation and export efforts. The Finnish Funding Agency for Technology and Innovation (Tekes) finances projects that can improve living conditions in developing countries. In addition, the FinNode network, which promotes strategic cooperation and partnerships on the markets and in the innovation areas of the greatest interest to Finland, works in Japan, China, Russia and the United States, and as of the beginning of 2011 also in India.

4.2.3 Development policy clusters

The aim of development policy clusters is to mobilise actors in Finnish society in order to make efforts towards the goals of the Development Policy Programme. Cluster activities engage various ministries and other government agencies, consulting firms and civil society organisations, private sector organisations and companies, and research institutes and universities. Clusters operate in the following sectors: forestry, energy, water, information society, agriculture, the environment/climate, and local/territorial development. Various activities can be pursued within clusters: exchange of information on the forms of development cooperation; mapping of activities in each sector; review of policies under preparation; networking; and discussions of possible strategies and projects.

Cluster networks have operated in a variety of ways. The water sector cluster has had the most systematic approach and is formally organised as the Finnish Water Forum (FWF). It brings together Finnish actors engaged in water issues in the private and public sectors as well as civil society organisations and has established a cooperation network that promotes wide-ranging exports of Finnish water know-how and opens new business opportunities for its members. Supported by the Ministry for Foreign Affairs and the Innovation Department of the Ministry of Employment and the Economy, the information society cluster is also about to become an organised network with its own action plan.

Cluster activities have proved to be a good way of gathering various actors in the same sector together in order to implement development policy goals. The Government continues cluster work and considers the establishment of new sector-specific or thematic clusters in cooperation with other administrative branches. The education cluster under formation in order to put the Government's Education Export

Strategy into action is an example of new opportunities where development cooperation may play an important role. The cluster-based partnerships for development cooperation can be further advanced by making the financing instruments clearer.

The working group recommends that, when implementing development policy guidelines, the Government develop mechanisms and create practical prerequisites for the establishment of demand-driven partnerships and support cluster activities within development policy. Civil society actors, companies and corporations are encouraged strongly to seek cooperation opportunities in a manner that benefits all parties.

4.2.4 Tax deductibility from the perspective of partnership promotion

Sponsorship is one way for a company to gain publicity and visibility. The costs incurred therein can generally be regarded as marketing and publicity costs. By virtue of Section 8, Subsection 1, Paragraph 5 of the Act on the Taxation of Business Income (360/1968), these costs are deductible expenses incurred in the income-generating activities. Deductibility requires that the company has a high enough profile in the operations or operating environment of the sponsored entity. Tax deductible expenses include those incurred in advertising, customer magazines and publications, normal promotional gifts, promotion events, etc.

According to the Finnish Tax Administration's harmonisation guideline (Dno. 1204/32/2009), small sums of money or objects of minor value donated for the public good and, at the same time, for a purpose that is local or close to the company's business sector can be considered public relations costs that are tax deductible. In the case of such donations, the maximum deduction that a company can make from its business income per recipient is 850 euros. In the working group's opinion, the harmonisation guideline should be clarified further so that the treatment of public relations costs in taxation would be more predictable for companies.

The working group proposes to the National Board of Taxes that the guidelines on companies' possibilities to deduct business, PR and sponsorship costs from their taxes according to the current legislation be clarified.

4.2.5 Example: The role of development cooperation in implementation of the Government's Education Export Strategy

Education exports are part of international trade in services. Finland's role in the international trade in education services has so far been fairly modest, even though Finland's know-how in this sector is internationally recognised. Finland's strengths include a competitive education system and – thanks to the excellent results in PISA surveys – a solid reputation as the developer of a high-quality and egalitarian education system. In fact, demand for Finnish expertise has greatly exceeded the ability of Finnish actors to meet it. In 2010, the Government adopted an education export strategy to promote the exports of Finnish education services.[14]

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14 *Finnish Education Export Strategy: Summary of the strategic lines and measures. Based on the Decision-in-Principle of the Government of Finland. Publications of the Ministry of Education and Culture 2010:12.*

The opportunities for development cooperation, including the financing options of development policy instruments, have been taken into account in implementation of the strategy. Sharpening of Finland's profile as an expert in the education and training sectors will continue, for instance, as concerns inclusive teaching and the utilisation of ICT. The strategy also mentions the possibilities of Finnish export companies to provide training and capacity building as part of their palette of products and services. The common themes shared by development cooperation and education exports could apply to the development and exports of teaching technology and education materials and the associated joint projects, the exports of consultancy services for the education sector, the training of the personnel and stakeholders of Finnish companies' subsidiaries in developing countries, made-to-order education, teacher education and its development, and the exporting of the Finnish education model.

According to the Education Export Strategy, education exports need a cluster. It has been proposed that Finpro could act as the coordinator for the cluster. Finpro has a project promoting education exports, *Future Learning Finland* (FLF), which encompasses about 70 Finnish companies under one education export network. It has been thought that the cluster would be broader than the FLF and should encompass all subsectors and players relevant for education exports. The FLF could be a part of the education export cluster, in which it would also be natural for the Ministry for Foreign Affairs to participate.

Financial resources are needed to make the cluster operational. Financing provided by the public and private sectors and civil society actors could be collected into a new fund or foundation or into a unit organised as a company, which would then grant funds for projects and programmes essential for implementing the export strategy and that the cluster considers important. Through this fund, foundation or company, development cooperation financing could be channelled to targets meeting the ODA criteria in developing countries. For instance, companies' training needs in developing countries (see Section 3.2) could be financed jointly from public funds, including development cooperation appropriations, and from companies' own resources.

The working group recommends that the Government reinforce the implementation of the Government's Education Export Strategy by channelling development cooperation funds for the action plan and financing of the national education cluster to be established.

5 Innovative financing mechanisms

Innovative financing mechanisms rose to the agenda of development policy debate at the Monterrey Conference on Financing for Development and at the Doha Follow-up Conference as an element of broad-based financing for development. Innovative financing mechanisms can offer private sector actors new opportunities for participation in development financing. However, innovative financing mechanisms cannot replace the traditional sources of financing.

Finland is committed to developing innovative mechanisms for development financing. Since 2007, Finland has been a member of the Leading Group on Innovative Financing for Development, which has discussed, in particular, the future of international taxation models and has striven to advance concrete initiatives.

Many financing mechanisms have been the topic of international discussions, and the Government of Finland has defined its position on them for decision-making in international financial institutions and within the EU. Finland's position has been rather reserved, especially as concerns new tax-based financing mechanisms.[15] It has been considered that the main challenge with these mechanisms is that they require broad political approval and global-level implementation; achieving this has been seen as unlikely. However, Finland has not excluded the adoption of new mechanisms provided that broad-based political consensus on their implementation and technical feasibility can be reached internationally.

5.1 Current debate on innovative financing mechanisms

The pressure to attain the UN Millennium Development Goals, the difficulties faced by donor countries in meeting their ODA commitments, and the increasing financial needs associated with climate change and other rapid changes in the global operating environment, such as the financial, food and energy crises, have fuelled the debate on innovative financing mechanisms. A recent study has estimated that the funding gap associated with the attainment of the UN Millennium Development Goals and with the mitigation of and adaptation to climate change will rise to about USD 330 billion per year during the period 2012–2017.[16] Of this sum, Official Development Assistance (ODA) is estimated to account for USD 168–180 billion per year.

Innovative financing mechanisms have also been brought up in discussions concerning the stability and regulation of international financial markets and the balancing of public-sector expenditure. These discussions have been conducted within the UN, in international financial institutions and within the EU. The experiences gained of the implementation of new mechanisms have for their part encouraged their development. For instance, according to the World Bank's estimate (2010), the air passenger levy produced a sum of about USD 600 million within three years (2006–2008). A financing instrument

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15 A report submitted to the Foreign Affairs Committee of the Finnish Parliament in 2006 focussed on the following financing mechanisms: the International Finance Facility (IFF); the International Finance Facility for Immunisation (IFFim); granting of Special Drawing Rights for development financing; taxation of international capital movements, such as the Currency Transactions Tax (CTT) and the Financial Transactions Tax (FTT); global environmental taxes; air passenger tax or levy; taxation of arms trade; a global lottery and a global premium bond. (UTP 4/2006; Innovatiiviset rahoitusmekanismit; selvitys eduskunnalle).

16 Globalizing Solidarity: The Case for Financial Levies, Report of the Committee of Experts to the Taskforce of International Financial Transactions and Development (2010).

targeted at immunisation programmes and launched in 2006 has so far collected about USD 2.3 billion from the international capital markets.

Debate within the EU has mainly concentrated on two financing mechanisms of the tax type: the Financial Transactions Tax (FTT) and the Financial Activities Tax (FAT).[17]

If implemented, the Financial Transactions Tax would apply to the exchange of financial instruments between two or more parties. At its most extensive, the FTT could cover all transactions in the financial sector. Alternatively, it could cover only some types of transactions, such as trade in shares or bonds or currency trade.[18]

The Financial Activities Tax would apply to profits made by companies operating in the financial sector and to the salaries and/or fees paid by them. According to the European Commission's proposal, the tax could be levied on: (i) all profits and wages (Addition-method FAT); (ii) income received in addition to the normal interest on capital and business profit[19] (Rent-taxing FAT); and/or (iii) profits made by means of financial transactions involving the greatest risks (Risk-taxing FAT). Contrary to the FTT, where all actors on the financial market are taxed on the basis of the transactions they have made, the FAT would only be applied to financial institutions and companies.

In addition to studies concerning the Financial Transactions Tax and the Financial Activities Tax, the EU intends to draw up an extensive survey of mechanisms that could also have the potential of channelling money to development cooperation (including innovative mechanisms for climate funding and for the financial sector). The objective is to deepen the existing studies and to analyse the financing potential of the mechanisms, in particular, from the perspective of financing for development.

5.2 Innovative financing sources for development at climate negotiations

The sharing of responsibility for climate funding and the likely shortcomings in the traditional budget funding vis-à-vis the financing needs have resulted in proposals for new innovative financing mechanisms. The EU has also had a favourable attitude to emissions trading in air and marine traffic.

The most important outcome of the UN Climate Change Conference in Copenhagen (COP15) was that industrialised countries agreed to finance climate measures taken by developing countries. The short-term pledge for financing, USD 30 billion in 2010–2012, is directed, in particular, at the least developed and the most vulnerable developing countries. The EU's target is EUR 7.2 billion. The conditional long-term global need for financing per year is USD 100 billion by the year 2020. Attaining the target is challenging but possible if all sources of financing can be put to effective use: a functioning carbon market, private and public funding, and international financial instruments, such as auctions of emission allowances or a carbon tax as well as the extension of these instruments to international air and marine traffic.

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17 Commission Staff Working Paper: Innovative Financing at a Global Level, April 2010; Commission Communication on Taxation of the Financial Sector, October 2010.

18 Although a tax levied only on currency trade is classified as a transaction tax, it is also called Currency Transactions Levy (CTL) or Currency Transactions Tax (CTT).

19 Known as "economic rent".

In the Copenhagen Accord, it was also agreed that the UN Secretary-General will appoint a temporary high-level advisory group on climate change financing, led by the Prime Ministers of Norway and Ethiopia, to study potential models and sources for long-term climate funding, including innovative sources of financing. In November 2010, the group produced a report on the sources of long-term financing for the Conference of the Parties (COP16) in Cancún. Many of the innovative sources of financing discussed by the group have already come up in international debate.

5.3 Finland's possibilities of adopting innovative financing mechanisms

In the light of the current debate, the Government of Finland must also redefine its position on various financing mechanisms and on the uses of the funds gathered. These uses include development targets, climate change, and the stability of the financial markets. In its positions prepared for the meetings of the Council of the European Union, Finland has stated that the implementation of the Financial Transactions Tax and the Financial Activities Tax at EU level, or even more extensively, is challenging. Especially tax-based innovative mechanisms concerning the financial markets require either global or otherwise adequately extensive adoption in view of the intended operations. If the scope is not wide enough, tax evasion becomes possible. The allocation of the funds to be gathered has given rise to different thoughts among various groups, both nationally and within the EU. Finland supports the Commission's proposal to draw up a comprehensive survey of the impacts of implementing financial market taxes, with the aim of issuing policy recommendations on the topic by summer 2011.

The potential of innovative financing mechanisms must be analysed openly and positively, while not forgetting the competitive standing of Finnish actors. It is also important to investigate the sources of financing for development and climate programmes holistically. The Leading Group discussing innovative financing mechanisms provides one forum for the examination of interlinkages and possible synergies between the various instruments. Moreover, with respect to climate funding, the proposals made by the high-level advisory group appointed by the UN Secretary-General should be brought to the agenda of international climate negotiations.

6 Increasing Official Development Assistance

In accordance with the Millennium Declaration, Finland is committed to raising its Official Development Assistance to 0.7% of the GNI by 2015. The EU has set an interim target of 0.51% for 2010, which Finland will exceed (preliminary estimate 0.55%). In contrast, the EU is falling short of this target because the international financial and economic crisis has caused budgetary constraints in many EU Member States.

The ODA eligibility of private money flows is not reviewed systematically and the OECE/DAC does not compile statistics on them. Thus, the donations for development cooperation made by private individuals and companies and activities of corporate social responsibility, including projects in developing countries, cannot be classified as Official Development Assistance. In addition, the DAC Working Party on Statistics has adopted the policy that tax concessions for donations cannot be counted as Official Development Assistance.[20]

Amending the ODA criteria of the OECD requires unanimity among the DAC member countries. At present, there is no unanimity about starting a discussion on amendments to the criteria.

20 *Counting as ODA the Value of Tax Concessions for Donations to NGOs (2002). OECD/DAC Working Party on Statistics. DCD/DAC/STAT(2002)9.*

7 Recommendations for increasing Finland's financing and partnerships for development

The working group presents recommendations for increasing Finland's financing for development and for promoting partnerships among the public and private sectors and civil society actors. Taking the recommendations forward requires political discussion and further technical processing.

Recommendations concerning partnerships among the private and public sectors and civil society actors:

1. The working group recommends that, when implementing development policy guidelines, the Government develop mechanisms and create practical prerequisites for the establishment of demand-driven partnerships and support cluster activities within development policy. Civil society actors, companies and corporations are encouraged strongly to seek cooperation opportunities in a manner that benefits all parties.

2. The working group recommends that the Government promote development cooperation projects implemented by means of partnerships among the private and public sectors and civil society actors. This can be done by developing simple and flexible facilities for joint financing with development policy instruments and other instruments, for instance, by exploring the possibilities to make the application processes of instruments more uniform.

3. The working group recommends that the Government reinforce the implementation of the Government's Education Export Strategy by channelling development cooperation funds for the action plan and financing of the national education cluster to be established.

4. The working group recommends that the Government encourage the private sector to participate in the implementation of development policy, for instance, by improving the communications of various actors within State administration and by developing customer-oriented advisory services for companies with projects in developing countries and on development financing.

Recommendations concerning the promotion of corporate social responsibility:

5. The working group recommends that the Government promote the private sector's responsible business, investments and other corporate social responsibility efforts in developing countries.

Recommendations concerning the tax deductibility of donations for development cooperation:

6. The working group recommends that the Government study how companies' financial inputs in training in developing countries could be promoted by granting, for instance, tax deductions for the costs incurred by the companies in providing education in developing countries.

7. The working group proposes to the National Board of Taxes that the guidelines on companies' possibilities to deduct business, PR and sponsorship costs from their taxes according to the current legislation be clarified.

Recommendations concerning development policy instruments:

8. The working group recommends that the Government continue to improve the palette of development policy instruments. Among other things, the working group recommends that:

- the Ministry for Foreign Affairs continue its work to develop and simplify the administration of development policy instruments;
- the Government act quickly to take the scholarship programme for students from developing countries to the decision-making stage, start the programme's implementation and reserve sufficient resources for it;
- the Government consider raising Finnfund's capital.

APPENDICES

APPENDIX 1 Minister Väyrynen's decision to appoint a working group to study financing for development cooperation

UM002:00/2010

Appointment By decision of Minister for Foreign Trade and Development Paavo Väyrynen, the Ministry for Foreign Affairs has today appointed a working group, whose task is to study means of increasing Finland's financing for development cooperation by strengthening cooperation between the public and private sectors and by creating conditions for the participation of private individuals and companies in the financing of development cooperation implemented by the public sector.

Term 15 April 2010–30 November 2010

Background Finland's development policy and development cooperation are guided by the Government Programme of Prime Minister Matti Vanhanen's second Cabinet and the Government's Development Policy Programme of 2007. The main goals of development policy are the eradication of poverty and the promotion of sustainable development in accordance with the Millennium Development Goals adopted by the UN in 2000.

For implementing development policy, the Finnish Parliament decides on the appropriations for development cooperation to be included annually in the State Budget and on the authorisations to grant funds and make agreements. The Government of Finland is committed to the decision made by the European Council in 2005 to allocate 0.51 per cent of the gross national income to development cooperation by 2010 and to reach the 0.7 per cent target set by the UN by the year 2015. It is anticipated that Finland's appropriations for development cooperation will reach 0.55 per cent of the GNI in 2010.

Aside from reaching the Millennium Development Goals, issues such as the mitigation of and adaptation to climate change, responding to the consequences of international economic, food and energy crises in developing countries, and the promotion of global security require considerably more development financing.

The financing needed for attaining development policy goals cannot be based solely on the growth of Official Development Assistance; instead, development financing must be examined from a wide perspective. Financing by the private sector, public–private partnerships, and other innovative solutions for the utilisation of private and public resources in the financing of the broader development agenda are necessary. The issue of the tax deductibility of private donations for development cooperation and humanitarian aid is also topical when considering the challenges associated with the future of development financing. At their disposal, many countries already have taxation policy means that are applied to increase the amount of private donations and thus to augment the resources available for development cooperation.

In addition to financing, the attainment of development policy goals requires that the quality of development cooperation be improved. In order to ensure the effectiveness of development cooperation, Finland has joined the Paris Declaration, adopted in 2005, which encourages donors to work in closer cooperation with each other and with partner countries to increase the effectiveness of aid.

Objectives

The working group's objective is to identify new sources of funding and instruments for increasing Finland's input in international development funding. The working group should determine how to create preconditions for closer participation of Finnish companies and private individuals in implementation of Finnish development cooperation so that the growth of financing for development is secured also in the long run. The private sector's expertise should also be utilised in development cooperation more than at present. The working group should also investigate whether some segment of the increasing contribution can be considered Official Development Assistance (ODA), as defined by the Organisation for Economic Co-operation and Development (OECD).

Tasks

The working group's principal tasks are:

1. To study the possibilities of expanding development cooperation programmes and projects based on public–private partnerships (PPP) so that prerequisites are created for utilising companies' expertise both in Finland and in developing countries.

2. To chart social projects carried out by some companies in developing countries within the framework of their corporate social responsibility and to determine 1) to what extent these projects can be classified as development cooperation projects eligible as ODA if they are implemented in cooperation between the government and the private sector, and 2) how the cooperation between companies and the public sector can be developed in the financing and implementation of the above projects when the goal is to increase the total volume of development funding.

3. To review the practices applied by member states of the OECD's Development Assistance Committee (DAC) in issues concerning the tax deductibility of private individuals' donations to development cooperation and the effect of tax deductibility on the amount of private donations.

4. On the basis of its investigations, to give recommendations for means of increasing Finland's financing for development cooperation.

Organisation

Chair

Ritva Koukku-Ronde, Under-Secretary of State, Ministry for Foreign Affairs

Members

Päivi Valkama, Senior Budget Secretary, Ministry of Finance
Simo Karetie, Chief Policy Adviser, Confederation of Finnish Industries EK
Thomas Palmgren, Manager of International Relations, Federation of Finnish Enterprises
Kristiina Kumpula, Secretary-General, Finnish Red Cross
Riitta-Liisa Korkeamäki, Professor, University of Oulu
Marko Katila, Partner, DASOS Capital Oy
Kim Nyberg, Special Advisor, Hill & Knowlton, EMEA
Okko-Pekka Salmimies, Head of Unit, Ministry for Foreign Affairs
Laura Torvinen, Senior Advisor, Ministry for Foreign Affairs

Secretary

Mika Vehnämäki, Economic Advisor, Ministry for Foreign Affairs

Experts

The working group may consult experts.

Costs and financing

No fees will be paid for attending meetings.

Individual decisions by the Ministry for Foreign Affairs are needed for any separate studies that might be needed for implementing the working group's tasks and for any other commissions giving rise to costs.

Each background organisation pays its representative's travel costs. The travel costs of the experts invited by the working group are paid by the Ministry for Foreign Affairs in accordance with the relevant State guidelines. The costs are paid under item 24.30.66.6 (Planning and support measures for development cooperation).

The working group cannot place orders or make other agreements, such as consultancy commissions, that would be binding on the Ministry for Foreign Affairs unless specifically approved by the Ministry.

Minister for Foreign Trade and Development Paavo Väyrynen

Director General Jorma Julin

APPENDIX 2 List of the experts and stakeholder representatives consulted

Experts heard at the working group's meetings

Auvinen, Anna-Kaisa; Senior Adviser, Confederation of Finnish Industries EK
Isosomppi, Pekka; Director, Social Regulation, Nokia Corporation
Kangasniemi, Jaakko; Managing Director, Finnfund
Karetie, Simo; Chief Policy Adviser, Confederation of Finnish Industries EK
Kataja, Nina; Adviser, Ministry for Foreign Affairs
Katila, Marko; Partner, DASOS Capital Oy
Kerola, Hannele; Ministerial Adviser, Ministry of Finance
Kumpula, Kristiina; Secretary-General, Finnish Red Cross
Lahti, Ilkka; Senior Adviser, Ministry of Finance
Niskala, Markku; Chairman, Service Centre for Development Cooperation KEPA
Seppälä, Jukka; Senior Vice President, Metso Corporation
Uimonen, Maija-Leena; Ministerial Adviser, Ministry of Employment and the Economy

Stakeholder representatives met by the working group

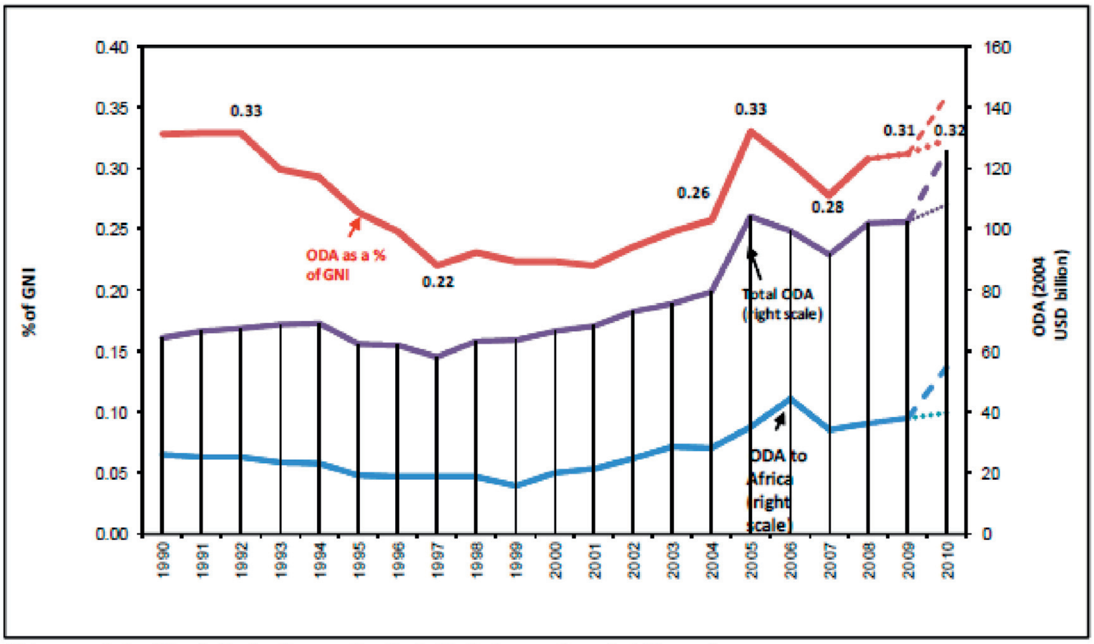
Addison, Tony; Chief Economist, UNU-WIDER
Aho, Tuomas; Attorney-at-Law, Bützow Attorneys Ltd
Brunila, Anne; Executive Vice President, Corporate Relations and Sustainability, Fortum Corporation
Frilander, Helena; CR Manager, Kesko Corporation
Hakkarainen, Tuuli; Development Policy Advisor, Service Centre for Development Cooperation KEPA
Hietanen, Kari; Group Vice President, Legal Affairs and HR, Wärtsilä Corporation
Holmström, Zabrina; Counsellor, Deputy Director, Ministry of Education and Culture
Korhonen, Kristiina; Fundraising Manager, Helsinki Deaconess Institute
Lappalainen, Timo; Executive Director, Service Centre for Development Cooperation KEPA
Lindholm, Max; Legal Adviser, Federation of Finnish Enterprises
Nahi, Tytti; Policy and Advocacy Officer, Service Centre for Development Cooperation KEPA
Niitamo, Veli-Pekka; Director, Future Learning Finland, Finpro
Palmgren, Thomas; Manager of International Relations, Federation of Finnish Enterprises
Palojärvi, Jaana; Director, International Relations, Ministry of Education and Culture
Porvari, Markku; Chairman of the Board, Finn Church Aid
Seligson, Peter; Chair of the Board, Ahlstrom Corporation
Sirnö, Minna; Member of Parliament and Chair of the "*Perjantai*" Group, Finnish Parliament

Persons met by the Chair of the working group

Braga, Carlos; Director, Economic Policy and Debt, World Bank
Brouwer, Maarten; Ambassador, Embassy of the Netherlands
Eduards, Helen; Head of Department, Ministry for Foreign Affairs of Sweden
Fiskaa, Ingrid; State Secretary, Ministry of Foreign Affairs of Norway
Fotiadis, Fokion; Director-General, DG Development, European Commission
Hyvärinen, Nina; European Commission, Commissioner for Economic and Financial Affairs Rehn's Cabinet
Jones, Christopher; Head of Cabinet, European Commission, Commissioner for Development Piebalgs's Cabinet
Lomøy, Jon; Director, OECD Development Co-operation Directorate
Masset, Christian; Director General, Ministry of Foreign Affairs of France
Morrison, James; Head of Cabinet, High Representative Ashton's Cabinet
O'Brien, Stephen; Under-Secretary of State, Foreign Office of the United Kingdom
Petersen, Ib; Under-Secretary of State, Ministry of Foreign Affairs of Denmark
Pezzini, Mario; Director, OECD Development Centre

APPENDIX 3 Trends in Official Development Assistance, private capital flows and remittances by migrants

Table 1 ODA of DAC members in 1990–2009 and a projection by the DAC Secretariat for 2009–2010

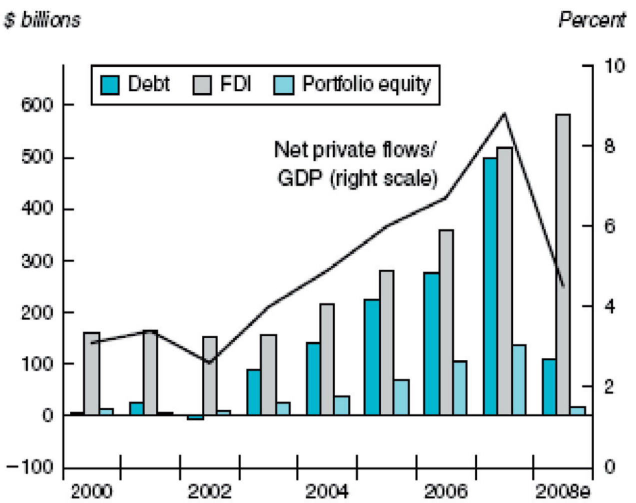


Note: —— dashed line indicates the growth-adjusted trajectory envisaged at Gleneagles.
........dotted line indicates estimates based on reported intentions or current 2010 budget plans made by DAC members.
........dotted line for Africa indicates a Secretariat estimate of likely actual spending.

Source: OECD/DAC (2010).

Table 2 Private capital inflows to developing countries in 2000–2008

Figure 2.1 Net private capital inflows to developing countries, 2000–08



Sources: World Bank Debtor Reporting System; staff estimates.
Note: 2008 figures are estimated.

Source: World Bank (2009) *Global Development Financing 2009*.

Table 3 Remittances by migrants to developing countries in 2000–2008

	2002	2003	2004	2005	2006	2007	2008e
All developing countries	115.5	144.3	164.4	194.8	228.7	280.8	305.4
as % of GDP	*1.9*	*2.1*	*2.0*	*2.0*	*2.0*	*2.1*	*1.9*
By region							
East Asia and Pacific	29.5	35.4	39.2	46.7	53.0	65.3	69.6
Europe and Central Asia	13.7	15.5	22.2	31.2	38.3	50.4	53.1
Latin America and the Caribbean	27.9	36.6	43.3	50.1	59.2	63.1	63.3
Middle East and North Africa	15.2	20.4	23.0	24.3	25.7	31.3	33.7
South Asia	24.1	30.4	28.7	33.1	39.6	52.1	66.0
Sub-Saharan Africa	5.0	6.0	8.0	9.4	12.9	18.6	19.8

Source: World Bank staff estimates. Remittances are defined as the sum of workers' remittances, compensation of employees, and migrant transfers – see www.worldbank.org/prospects/migrationandremittances for data definitions and the entire dataset.
Note: e = estimate.

Source: World Bank (2009) *Global Development Finance 2009*.

APPENDIX 4 Tax deductions for donations made for development cooperation and humanitarian aid in the OECD/DAC countries

Table 4 Income tax deductions on donations made for development cooperation and humanitarian aid, DAC members

Full tax deduction	Tax credit	No tax incentive
Australia Belgium Denmark Germany Greece Ireland Japan Netherlands Norway Switzerland United Kingdom United States	Canada (29 %) France (60 %) Italy (19 %) New Zealand (33 %) Portugal (25 %) Spain (25 %)	Austria Finland Sweden

Source: Roodman D. (2006), p. 15

Table 5 Estate tax exemptions on bequests to development cooperation and humanitarian aid, DAC members

Full exemption	Partial exemption	No tax exemption	No estate tax
Belgium France Germany Greece Ireland Japan Spain United Kingdom United States	Austria (5% charity rate vs 15% standard rate) Netherlands (11% vs. 30%)	Denmark Finland Norway Sweden	Australia Canada Italy New Zealand Portugal Switzerland

Source: Roodman D. (2006), p. 15

APPENDIX 5 *The Business for Development Tool Box* by Sida

The objectives of Sida's *Business for Development Tool Box* (B4D) are:

- to promote corporate social responsibility and sustainable business both in recipient countries and among Swedish export companies;
- to allocate 'challenge funds' to companies on the basis of competitive tendering; the funds can be used, for instance, for pilot projects within the DemoICT, DemoHealth and DemoEnvironment projects, where Swedish companies can be granted support for preliminary studies, and customers in developing countries can be helped to launch pilot projects;
- to co-finance public–private partnerships by means of the PPP Programme;
- in cooperation with companies, to create new financing solutions for developing countries. For instance, in health projects, Sida has created combinations of grants, loans, guarantees and private capital;
- to promote collaboration between civil society organisations and companies for transforming the local market environment (e.g. dialogue between stakeholders, voluntary certification);
- together with the Royal Institute of Technology and the Confederation of Swedish Enterprise, to develop product and service innovations that benefit the poorest market segments (Base of the Pyramid, BoP);
- to cooperate with "social entrepreneurs" in order to enhance employees' well-being and to improve the state of the environment
- to serve as a builder of clusters between civil society organisations and other organisations, companies, researchers and the authorities. The goal is to enhance cooperation between various bodies in Sweden and developing countries;
- to collaborate with business organisations in order to promote development cooperation.

APPENDIX 6 Examples of corporate social responsibility projects undertaken by Finnish companies

Rautakesko: A school in Cambodia

Rautakesko's Norwegian subsidiary Byggmakker provided Save the Children with about 57,000 euros in support in 2009. Among other things, the support was used to build a primary school in the Srey Snam District in Northwest Cambodia. Following the war, the district suffers from poverty and the level of education is rising only slowly. Over 30% of the school district's children do not go to school at all, and the pupils' learning results have been very poor. The new school building was inaugurated officially in late 2009. It has enough room for teaching primary school classes 1–6. A new building consisting of two separate latrines was constructed on the site and the previous latrine building of the same size was renovated. The well was also repaired. Thanks to the project, the number of children going to school has risen and the number of school drop-outs has fallen. (*Kesko Corporate Social Responsibility Report* 2009).

Metso: Developing occupational safety and health at a workshop in Brazil

The aim of the project carried out in 2009 was to develop occupational safety and health systematically at Metso's workshop and foundry located in Sorocaba, Brazil. The project focused on developing the general occupational safety culture among workers and subcontractors and on reducing work practices in conflict with the occupational safety guidelines. The results have been good: absences owing to illness and occupational accidents decreased by a total of 43% and absences caused by occupational accidents by 52% when compared against 2008. The commitment of the local management group to improving occupational health and safety was crucial for achieving the goals. The safety work will continue: the target set in Sorocaba is to reach the top class in occupational safety by the end of 2012. (*Metso Sustainable Development Report* 2009, 36).

Nokia, Nokia Siemens Networks, Save the Children and the Finnish Ministry for Foreign Affairs: Improving the access to and safety of water and development of education in Ethiopia

The "Alaba" project is a pilot project launched together by Save the Children, the Finnish Ministry for Foreign Affairs, Nokia and Nokia Siemens Networks. For its own part, the project promotes Finland's water sector development cooperation in Ethiopia and offers the corporate partners the opportunity to develop their corporate social responsibility programmes. The Ethiopian Government has joined the project at local level and has actively supported it both by facilitating activities and by providing funds. The principal beneficiaries of the project are the inhabitants of ten administrative districts (about 35,000), of whom about half are children. In all, the water outlets will probably be used by inhabitants of at least 40 communities; this will raise the number of people benefiting from the project to nearly 140,000. (Save the Children Finland, brochure, 2010).

Sinituote: A school in Tanzania

Sinituote, a Finnish family enterprise, is building a primary school in the village of Gendabi, which is the home of about 5,000 nomadic people in Northern Tanzania. Only about 15% of the inhabitants of this poor village can read and write and nearly all are living in natural economy. In 2006, when the Sinituote construction project was started, the only primary school in the village was overcrowded and many children were unable to go to school at all. Since then, accommodations for five teachers, eight classrooms and four teacher offices have been built. In addition, Sinituote has awarded 31 grants to the most advanced students, for further studies in the higher grades. The goal is to continue supporting the school in the coming years until the SINI Hargushay Primary School has room for over a thousand pupils. New grants will also be given annually to the most advanced students, for continuing their studies in the higher grades. Altogether 357 children go to the SINI Hargushay Primary School. Thanks to the school, the children in Gendabi village have considerably better opportunities to get a primary education and to have a better future. (Sinituote website, 2010).