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In 2003 Finland commissioned a Partner Review of its development cooperation in order to gain insight into its efforts and aims within the realm of fight against global poverty from a new perspective. A team of researchers and experts representing several of Finnish long-term partner countries was given a task to evaluate Finland's relations with developing countries, its successes and failures, challenges and possibilities, in the context of the specific characteristics of the Finnish society — with its past and present values and experiences, as well as its relative strengths and weaknesses. The Partner Review presented innovative ideas and reflected Finland as a partner in development cooperation, from the Southern perspective.

The review team consisted of a Zambian economist (Prof. Oliver S. Saasa), a Nicaraguan anthropologist (Dr. Galio C. Gurdian), an Ethiopian sociologist (Dr. Zenebeworke Tadesse), and a Nepalese lawyer (Mr. Gopal Siwakoti "Chintan"). The research was facilitated and coordinated by UNRISD (the United Nations Research Institute for Social Development).



MINISTRY FOR FOREIGN AFFAIRS OF FINLAND

Department for Development Policy

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## Improving Effectiveness of Finnish Development Cooperation Perspectives from the South



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Zenebeworke Tadesse, Gopal Siwakoti "Chintan"

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# IMPROVING EFFECTIVENESS OF FINNISH DEVELOPMENT COOPERATION

Perspectives from the South

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## Introduction

The main objective of this Assessment, that ran over the November 2002 to April 2003 period, is to record how researchers and experts from the South evaluate the present practice of Finland's relations with developing countries and as they see their role in the realisation of the Millennium Development Goals. The assessment took place in the context of Finland's own development lived experiences, opportunities and restrictions presented by the structure and dynamics of developments within the country. In this regard, the main aim of the Evaluation is to assess how well Finland has succeeded in implementing its policy goals; what opportunities exist that could be better utilised; and identification of the type of approaches and roles that could be particularly suited for Finland in pursuance of its development cooperation objectives.

The Assessment covered Finland's relations with developing countries, focusing on political, economic, development cooperation and cultural relations. The researchers collected considerable amount of literature that articulates key policy positions of the Finnish Government, supplemented by other relevant documents on the country's experience with respect to the establishment of a domestic social policy. Apart from extensive interviews within Finland during mid-January 2003, the Researchers visited eight countries in the South and conducted extensive interviews with both government officials and civil society actors. The countries covered were Ethiopia, Tanzania, Zambia, Namibia, Nepal, Vietnam, Nicaragua, and Honduras. A particular focus during missions to both Finland and the eight countries in the South was to assess Finland's role and influence in its relations with developing countries, paying particular attention on bilateral relations. The role of multilateral relations were also critically reviewed, focusing primarily on the EU, WTO and other multilateral financial institutions, OECD/DAC poverty reduction initiatives, and the UN Millennium Development Goals. The Draft findings of the evaluation were presented by the researchers to the Ministry for Foreign Affairs officials in April 2003.

To facilitate the implementation of the Study, the Ministry for Foreign Affairs of Finland reached an agreement with the United Nations Research Institute for Social Development (UNRISD) to identify the researchers to carry out the review; provide logistical support; and coordinate and administer the work. The researchers are greatly indebted to the Director of UNRISD, Prof. Thandika Mkandawire, for facilitating their involvement in this important task. Further gratitude goes to Ms. Anna Hemmingson who was specifically recruited by UNRISD to administer the Project.

At the Ministry for Foreign Affairs in Helsinki, the Researchers would like to express their appreciation of the logistical support extended by Ms. Krista Napola, Krista Napola, Programme Officer, Department for Development Policy and Mr. Timo Voipio, Adviser, Social Development Unit for Sectoral Policy, Department for Development Policy. Mr. Voipio's useful comments on the Researcher's working drafts were particularly insightful. Appendix 2 gives the list of persons met in Helsinki during the course of the Assessment.

This report begins with the Executive Summary of the Evaluation's main findings and recommendations. This is followed by Chapter One that gives the historical perspective of Finland. This is followed by Chapter Two that explores the multidimensional profile of poverty, then Chapter Three that addresses the form and nature of bilateral and multilateral cooperation in which Finland plays a role. Chapter Four on Democratic Governance follow, focusing on the relationships that exist between Finland and its Southern partners. Lastly, the Report presents the Study's main findings.

Oliver S. Saasa  
Team Leader  
7 May 2003

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## Acronyms

ADB	Asian Development Bank
AIDS	Acquired Immune Deficiency Syndrome
BMDP	Biratnagar Multifuel Diesel Plant
BPEP	Basic Primary Education Programme
BPPFP	Bara Pilot Production Forestry Project
CAS	Country Assistance Strategy
CCA	Common Country Assessment
CBO	Community Based Organisation
CCF	Country Co-operation Framework
CDF	Comprehensive Development Framework
CGR	CONTRALORIA GENERAL DE LA REPUBLICA
COMESA	Common Market of Eastern and Southern African Countries
CSO	Civil Society Organizations
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DANIDA	Danish Development Agency
DDC	District Development Committee
DEF	European Development Fund
DOE	Department of Education
EC	European Commission
ESAF	Enhanced Structural Adjustment Facility
ESF	Environment Support Fund
EU	European Union
FDI	Foreign Direct Investment
FIM	Finish Mark
FOREIBCA	FORTALECIMIENTO DE LA EDUCACION INTERCULTURAL BILINGUE EN LA COSTA ATLANTICA DE NICARAGUA
GASPP	Globalism and Social Policy Programme
GATA	Global Agreement on Trade and Service
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GOT	Government of Tanzania
GRC	Governance Related Conditionality
GRZ	Government of the Republic of Zambia

HDR	Human Development Report
HIP	Harmonisation in Practice
HIPC	Heavily Indebted Poor Country
HIV	Human Immuno-Deficiency Virus
HMG/N	His Majesty's Government of Nepal
HSSSSP	Health Sector Sub-Sector Support Programme
IFI	International Financial Institution
IMF	International Monetary Fund
IMG	Independent Monitoring Group
I/NGOs	International Non Government Organisation
I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessments
LGRP	Local Government Reform Programme
LLFSP	Luapula Livelihood and Food Security Programme (Zambia)
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organisation
OBA	Output-Based Aid
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
MDG	Millennium Development Goals
MFFA	Ministry for Foreign Affairs (Finland)
MoHSS	Ministry of Health and Social Services (Namibia)
NGO	Non Governmental Organization
NORAD	Norwegian Agency for Development
NPA	New Poverty Agenda
NTC	Nepal Telecommunication Company
PA	Poverty Assessment
PAF	Poverty Assessment Framework
PPA	Participatory Poverty Assessment
PRA	Participatory Rural Appraisal
PRBS	Poverty Reduction Budget Support
PROCAFOR	PROGRAMA REGIONAL FORESTAL DE CENTROAMERICA
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
RTAs	Regional Trade Agreements
RWSSP	Rural Water Supply & Sanitation Project
SADC	Southern African Development Community
SAP	Structural Adjustment Programme

SAREM	PROYECTO SAREM, Salud Reproductiva y Empoderamiento de la Mujer, Finlandia- Nicaragua
SPA	Special Programme of Assistance to Africa
SWAp	Sector Wide Approach
TA	Technical Assistance
TAS	Tanzania Assistance Strategy
TRIMs	Trade-Related Investment Measures
TRIPS	Trade-Related Intellectual Property Rights
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
UNIFEM	United Nations Development Fund for Women
UNICEF	United Nations Children Fund
URACCAN	UNIVERSIDAD DE LAS REGIONES AUTONOMAS DE LA COSTA CARIBE NICARAGUENSE
USAID	United States Agency for International Development
VDC	Village Development Committee
VFFP	Vietnam-Finland Forestry Programme
WB	World Bank
WFP	World Food Programme
WHO	World Health Organisation
WSF	World Social Forum
WTO	World Trade Organization

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## Executive Summary of Main Findings and Recommendations

This study has come up with a number of findings and recommendation for the Government of Finland regarding development cooperation. The following are the main ones.

### Main Findings

1. Finland is a young and successful society that was affected by poverty, hunger and wars in its recent past. Notwithstanding this, the country has been able to experience a profound transformation from a survival society to a post-survival ‘informational society.’ The combination of welfare society, popular participation, neutrality and private sector development has enabled Finland to maintain social cohesiveness based on its history, culture and ethos. This suggests that Finland has a lot to share with the rest of the world, particularly with countries in the South.
2. For Finland, poverty reduction entails sustained economic growth and equitable income distribution. It also entails the facilitation of special arrangements for supporting the poor to be engaged in productive activity. Finland, thus, clearly states that it sees “*sustained economic growth*” as being as important to poverty reduction as the need to assure *social welfare provisioning*.
3. There is an aggressive consolidation of a unipolar world order with ambitions to eliminate any challenges in the economic, social, political, cultural or military spheres. The UN system and other multilateral institutions that have been positive to Finnish survival and post survival strategies are currently under threat.
4. The most profound lesson that can be drawn from the Finnish experience in poverty reduction is that it should be confronted with full recognition of its multidimensional aspects. But the development community has recognised that the daunting challenges cannot be addressed by poor countries alone or through stand-alone projects that emanate from development cooperation. This has necessitated the current move towards new and more comprehensive poverty reduction policies and modalities of aid delivery such as the Poverty Reduction Strategy Papers (PRSPs) and the Millennium Development Goals (MDGs). Nevertheless, although Finland has decided to support the PRSP process, country ownership of this initiative is still highly limited by conditionalities attached to multilateral lending and debt relief as well as to new governance-related conditionalities. The poor continue to be voiceless and marginalised from the limited participatory process. The success of PRSPs is also constrained by the absence of resources needed to trigger pro-poor growth.

5. The goals of Finnish development cooperation are the alleviation of widespread poverty; the prevention of global environmental threats; and the promotion of equality, democracy and human rights. The challenges of globalisation also form the basis of Finland's policy on relations with developing countries. With the aim of reconciling the objectives of the country's foreign and security policy, trade policy and international development cooperation, Finnish development cooperation also focuses on aspects pertaining to political and economic dialogue/governance; principles of market economy; commercial and economic tools; cultural cooperation; and capacity building. The promotion of global security and the enhancement of economic interaction are also singled out as being among the important requisites for Finland's relations with its cooperating partners.
6. With a view of maintaining proper order and balance in foreign and security policy, on the one hand, and trade policy and development cooperation, on the other, Finland's development cooperation is being treated as "a coherent whole" in which the objectives of the various policy sectors are expected to be in harmony with each other. The new policy document on *Comprehensive Policy on Relations with Developing Countries*, thus, focuses on 'coherence' between different areas and tools of foreign policy and aims to better equip its cooperating partners in the light of globalisation.
7. Finland's development cooperation is routed mainly through bilateral and multilateral channels, primarily involving individual countries, international organizations and NGOs. Multilateral co-operation is seen to offer the Finnish government with opportunity to influence the development policies of those international organisations and agencies whose objectives and strategies coincide with those of Finland.
8. Finland's new '*Comprehensive Policy*' perceives a strong correlation between human rights and poverty reduction, and sees minorities, indigenous peoples, women, girls and the disabled as the obvious beneficiaries of its human rights interventions. Although there is evidently a growing scepticism among the Finnish aid bureaucracies around the inadequacy of the standard World Bank-funded household surveys as the basis of establishing the nature and gravity of rural poverty, the actual interventions still remain largely guilty of conceptualising the poor as a homogeneous group that are often given standard remedies. Despite its history, Finland, like the average donor, hardly engages into meaningful analysis on social security-related aspects pertaining to, *inter alia*, state-funded safety nets; communal resource-pooling and sharing; urban livelihood strategies; and the safety, security and quality of employment in its Southern partner countries.
9. One of the greatest weaknesses of many donor-supported interventions, including those by Finland, is the failure to analyse and conceptualise vulnerability within

the context of poverty dynamics. If this is done properly, it would ensure that anti-poverty strategies include the prevention of poverty as well as lifting people out of poverty (i.e. that they would include attention to people who are vulnerable but not 'poor').

10. Notwithstanding the virtues of joining the WTO, developing countries are increasingly becoming concerned by the fact that, despite their majority position in the world body, WTO still continues to remain as the rich nations' club that is effectively being controlled, if not governed, by industrialised nations. So far, Finland has not sufficiently demonstrated its readiness, as stated in its development policy, to champion the concerns of the Southern states in the WTO.
11. Although Finland supported the IMF- and World Bank-funded SAPs in most of the countries to which Finnish aid is given, it has become increasingly clear from the Southern standpoint that the Breton Woods Institutions over the past two decades have generally failed to bring about the anticipated level of improvement in economic performance and social welfare through their prescribed macroeconomic measures. In fact, many of these countries are left with huge and unsustainable debt. Another important consideration is that if one listens carefully to what the World Bank and IMF are saying in the PRSP approach, an echo of their old approach of focusing mainly on macro-economic issues and economic growth can be heard clearly, a phenomenon that does not seem to be fully acknowledged by Finland in its development cooperation initiatives although the country recognises that growth is a necessary but not sufficient factor for poverty reduction.
12. Developing countries generally agree that they should go forward towards new multilateral trade negotiations. Most of them understand that only in some kind of multilateral process that brings them together with the developed nations will their concerns about implementation, market access, and special and differential treatment ripen into real solutions. Outside the WTO and similar global arrangements, the treaty for the establishment of the African Economic Community, ratified by African governments and later operationalised through the formation of the African Union in 2001, envisaged the use of existing regional economic integration schemes as the 'building blocks' towards a full integration of the continent. At the African level, this initiative, complemented by NEPAD, SADC and COMESA, offers opportunities for South-South cooperation that donors such as Finland could subscribe to through technical and financial support.
13. Presently, there is very limited coordination and harmonisation of effort between Finland and other donors in the countries where it extends assistance. This calls for harmonisation among donors and between donors and countries in the South. Sector-wide approaches (SWAs) and decentralisation offer some hope at this



level. Notwithstanding this, experience in the South reveals that few decentralisation initiatives have managed to engage local communities in more effective, 'bottom-up' planning mechanisms. For the most part, 'planning' and 'decentralisation' seem to be mutually incompatible and a lot is yet to be done to design more participatory and inclusive mechanisms in the planning sphere.

14. The rule of law in Southern countries is narrowly defined and enforced to meet the growing interests of the neo-liberal actors. Finland's involvement in legal and judicial reform is quite limited and, consequently, it has been unable to address pro-people legal and institutional reforms. Presently, for example, Finland's existing focus on human rights is limited to a few individual rights of civil and political nature.
15. The issue of gender in development is a new phenomenon in most developing countries and Finland, despite its explicit reference to this in its development cooperation, is yet to show leadership and commitment to the integration of these issues in broader economic, social and cultural terms.
16. Finland-supported projects rarely respect ownership considerations to the extent that partner countries' involvement in project identification, management, and monitoring is still significantly being curtailed by over-centralisation of decision-making in the donor camp.
17. Although Finland's policy towards the promotion of dialogue on global governance is commendable, there is still considerable room for improvement in the area of strengthening the democratic reforms agenda in such multilateral institutions as IFCs, the EU, and WTO. The Helsinki Process gives hope in the global mission to transform the international system towards the development and consolidation of a more humane environment that take account of the interests of peoples in the South.

### **Main Recommendation**

1. Finland should increase support for historical, cultural and scientific exchange with partner countries. It also should provide the necessary resources and qualified personnel in its diplomatic missions to better address issues of intercultural and scientific exchange and implement programmes related to such issues. An important aspect of Finnish Development cooperation should be the sharing information on Finnish history, social and cultural values, and social organisations that have enabled the country to survive for centuries and build a successful welfare and informational society.
2. Finland should play a more assertive role at international Fora in defending and strengthening the role of more democratised multilateral institutions. It should

also try to forge wider alliances beyond the EU system to maintain the existence of multinational, multiethnic and multicultural world.

3. Maintaining a multipolar, multiethnic and multicultural world through new forms of development cooperation ought to be pursued by Finland as this is of strategic importance both to Finland itself and for countries in the South.
4. In the light of the experience both in Finland and in a number of countries of the South, poverty reduction requires country specific development policy that gives equal weight to both economic and social policy. Bilateral and multilateral partners in development should recognise that the trickle down and one size fits all approach regardless of its changing labels and packaging is unlikely to reduce poverty in the South. The contribution of Finland to these countries should emphasise the sharing of experiences, especially those related to an efficient formulation and implementation of social policy as a necessary complement to economic growth policies.
5. To the extent that both MDGs and PRSPs provide the opportunity for coordinated poverty monitoring and evaluation system, Finland should support the establishment of a truly consultative and participatory process that includes all concerned stakeholders and that enhance country ownership of the overall process of poverty reduction.
6. Support to the social sector should be supplemented with attention to growth-oriented interventions to ensure a balanced and multi-pronged assault on poverty. It ought to be recognised that sustainable *social welfare* is almost always founded on a strong national economic base and that it cannot - and should not - be founded on external assistance through development cooperation. The test of aid effectiveness should, thus, be judged on the ability of development cooperation to facilitate Southern partner countries with the requisite capacities (human, financial, technical, and social) to be able to improve the social welfare of their people. Support for *livelihood-based approaches* that enrich consumption-oriented interventions with conscious efforts that target the improvement of the poor people's income and assets are essential.
7. It is important that Finland appreciates the fact that *economic structure* (particularly the initial level of inequality in the countries that it supports) does affect the patterns of future growth but, perhaps more importantly, the *sectoral composition of growth* does possess major implications for poverty reduction and alleviation.

Thus, in countries like Zambia, Tanzania, Mozambique, Ethiopia, Namibia, Nepal, and Nicaragua where the poor are predominantly in the agricultural sector, poverty reduction strategies that neglect this sector would rarely improve, at least in the short-term, the socio-economic welfare of the disadvantaged population that depends on it.

8. From the Southern perspective, Finland ought to assume a more proactive role in championing the cause that would more positively integrate the poor countries of the South in multilateral institutions. The South, therefore, expects to see more pro-South actions by Finland in its relations with other developed country members in multilateral bodies.
9. Finland's support to the rule of law needs to be based on the development of law that incorporates all the fundamental principles and standards of human rights and social justice. It should also support the national parliaments and the judiciary towards defending the rights and interests of the people and also bring all actors of society, including the private companies, within the democratic framework of national law.
10. Finland should apply its own historic model of involving women in decision-making that affects their lives. Finland's most appropriate form of support to achieve this goal would be the promotion of free and compulsory basic education.
11. Finland, through the Helsinki Process and similar initiatives, should continue to play an active role with all the like-minded countries both from the North and the South. It should also promote the agenda of reforms of the UN system, particularly the Security Council, for a more democratic and balanced approach to multilateralism as against the increasing trend towards unipolarity. Furthermore, Finland should advocate for the UN principle of equal representation and democratic decision-making in all other multilateral institutions. The promotion of good governance and corporate accountability is another area that Finland ought to address.

## Chapter 1

# Background to Finnish Experience

## 1.1 The Country, the People, the History

### 1.1.1 The ancestors

Finland, a bilingual country with a 6 percent Swedish-speaking minority, has a culturally and ethnically homogeneous population. It has a small indigenous community in the North, the Sami, whose total number in Finland is about 5,000. Culturally, the Sami have been largely assimilated but still, the question of Sami cultural and economic rights remains partly unresolved. Finland also has a small Romani (or ‘gypsy’) community. It also has a small population of recent immigrants totalling about 100,000. The ancestors of the first Finns arrived in the area around 1500 BC while the first evidence of inhabitation in Finland dates back much further to approximately 73000 BC. The Finns belong to the Finno-Ugric linguistic group. Besides Finland, the countries with the largest Finno-Ugric populations are Hungary and Estonia. Philologists believe that the population of the country’s western interior divided into two groups around 1000BC and that the Baltic word *sämä* (land) was the origin of two different words: the people who adopted an agricultural culture called themselves *häme* (later the Finnish name of the province of Tavastia), while those who followed a hunting culture called themselves *sabme* (which is the same in modern Finnish and Swedish). In contrast to the view put forward by supporters of Hacıman’s dominant theory, Voionmaa argued as early as the 1940s that “other indications” proved that there was a “proto-Tavastian” population which cannot be identified with the Lapps.<sup>1</sup>

Neither cities, industries nor urban population ever became as important in the national self-consciousness as did the farmer, especially the poor peasant.<sup>2</sup> During the medieval period, Finland primarily developed cultural ties with France and its universities, followed in the Sixteenth century by Germany and its Lutheran universities. Finland’s first university, Åbo Academy, was established in Turku in 1640.

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<sup>1</sup> Jutikkala in Engman & Kirby, 1989:20.

<sup>2</sup> Klinge, 1990:26

### 1.1.2 Boundaries

Finland has a population of five million and an area of 337,000 square kilometres and shares borders with Sweden in the West, Russia in the East and Norway in the North. Estonia is Finland's neighbour to the South, across the Gulf of Finland. From the Mediaeval period of early state-formation to 1809, Finland was part of the Swedish kingdom. At this time, the country followed the christian religion. After prolonged missionary efforts involving much coercion and violence, the country became first catholic and later, in the 16th century, Lutheran. After the last of a series of Swedish-Russian wars, Finland separated from Sweden and became part of Russia in 1807. The separation from Sweden was a byproduct of the deal between Napoleon and Alexander I in 1807, in which the Russian Czar compelled Sweden to Join Napoleon's blockade against Britain. In the wake of the Bolshevik revolution, Finland gained independence in 1917.

The most profound upheaval for the Nordic countries occurred during the Napoleonic era when decisive ideological positions were taken. The Nordic countries as they are currently known are the result of this period of turmoil. The old Danish and Swedish kingdoms were torn apart. Norway was separated from Denmark, Finland from Sweden. Old ties and traditions were lost. The new states found it difficult to build up an identity, and the old states felt mutilated and threatened with annihilation like Poland in the previous century. Furthermore, the age's general ideological developments made deep wounds in the old religious and monarchist identities.<sup>3</sup>

The boundaries fixed the sphere in which each national culture has its being. A distinct but not precisely defined concept of Finland had already originated earlier. The traditional administrative, political and trading centre was Stockholm. The frontier adjustment left, on the Finns side were many Swedish speaking ethnic groups and, on the Swedish side, a large Finnish settlement. Lapland with its Lapps was also divided. But the greater part of Russia's tribes that spoke Finnish or closely related languages were not incorporated into the Grand Duchy of Finland. Thus, the geographical formation of Finland left it with two ethnic minorities which are still distinguishable, the Swedish linguistic minority and the Orthodox religious minority in Karelia.

### 1.1.3 Karelia: battlefield, bridge, myth.

Lake Ladoga has been the "primary sea" for the tribe which was given the name "Karelian" in the Novgorod chronicle in 1143.<sup>4</sup> The peace treaty of Nöteborg was

<sup>3</sup> Klinge, 1990:13–14.

<sup>4</sup> Sihvo in Engman & Kirby, 1989:62.

signed in 1323. Here the secular forces of the two churches, Rome and Byzantium, concluded “an eternal peace”. The peace treaty split the Karelian Isthmus in two while the border to the north was not specified in detail. This gave grounds for disputes, for moving the border a little at a time and even for falsifying the border deeds, and the exact location of the border has been a source of difficulty for researchers since. More important, the border continued to have an effect over the centuries on the structure of folk culture, and provided the justification for the division of Finland into east and west.<sup>5</sup> The treaty of Stolbova in some respects united Karelia, but it also ultimately separated a section of the Karelians to become a distinct eastern group under the Russian realm in the administrative districts of Olonets and Archangel.

In the building of a Finnish national identity in the nineteenth century, Karelia played a central role. The Finnish nation did not have its own history in the political sense, but with the publication of the Kalevala in 1835, it gained an imagined past. Lönnrot created “the dream of a land of happiness, which had been preserved for a poetry-less era in its original innocence.”<sup>6</sup> As part of an ideological tradition of Finnish patriotism inherited from the nineteenth century, Karelia and the Karelians evoke idealistic and ideological sentiments, Karelia is “the land of destiny”, the “Karelia of joy and sorrow”, the “land of folk poetry”, “the land of the Kalevala epic,”<sup>7</sup> the “Karelia of past, faden golden memories.”<sup>8</sup>

As a land of memories, Karelia is a double sided phenomenon. On the one hand, it is already a myth, part of a national archetype in which historically realistic events have been simplified or wrapped up in the guise of legends. The picture of Karelia has begun to parallel the romantic illusion about the past of the Finnish people created by Lönnrot’s Kalevala. On the other hand, there still exists an enormous amount of private, personal, family, kindred and community “memory albums” which will carry forward the traditions far into the future. A large part of the golden memories is taken up by

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<sup>5</sup> Sihvo in Engman & Kirby 1989:64

<sup>6</sup> (Sihvo in Engman & Kirby 1989:67).

<sup>7</sup> Finland’s national epic, the Kalevala (1849). It is composed of 50 poems (sometimes called runes), altogether 22,795 verses. The book starts with a creation-myth, then goes on to recount the deeds and adventures of the three protagonists, Väinämöinen the magician and bard, Ilmarinen the smith, and Lemminkäinen the wanton loverboy and warrior, and ends with the introduction of Christianity to Finland. Nevertheless, its role to the development of Finnish literature, arts and identity can hardly be over-estimated, and having been translated to all major world languages and lots of minor ones, it is no doubt the most important contribution of Finland to world literature. Lönnrot also published a counterpart to Kalevala, the Kanteletar, a collection of ancient lyrical poetry often sung by women. (WWW/Project Runeberg e-literature)

<sup>8</sup> Sihvo in Engman & Kirby 1989:57.

the extraordinarily substantial and flourishing Karelian literature. Popular literature associated with Karelia is thus thriving, and it includes the occasional work of real literary merit, but conversely there has not been much scholarly research into Karelian history and culture.

Over the decades since the Peace Treaty signed in March 1940, the Karelians have become assimilated into Finnish society. The process has taken more than four decades and it could be suggested that, to some extent, the whole of southern and central Finland has been affected by Karelian culture. That is to say that the Karelians were as far as possible settled in areas resembling their former home districts. Finland has, thus, been “karelianised” with Karelian woven wall-hanging and Karelian rice pasties. The exuberant but soft Karelian dialect and even the traditional wailing for the dead have become part of the Finnish scene.

During the Second World War, Finland lost ten percent of the Finnish land-area, predominantly parts of Karelia. The land was ceded to the Soviet-Union. At that time, some 400,000 people came to present-day Finland as refugees from the ceded areas. After considerable effort in a country of, then, some 3 million, the refugees were integrated into Finnish society.<sup>9</sup> Although Karelia, still plays a very important role in Finnish collective memory and imagined community, there are also practical reasons for not seeking the return of Karelia. The territory shows neglect and decay, poverty, and backwardness. An immense effort of reconstruction would be required to make the area once again habitable for Finns and no economic incentive for such an undertaking exists. Finland needs no more farmland, and the forest resources of Karelia are already exploited by Finnish industry across the border. An additional problem would be the incorporation within Finnish society and culture of the present population of about 300,000, mainly from Russia, Belarus, and Ukraine.<sup>10</sup>

#### **1.1.4 Independence: “Swedes we are no longer, Russian we cannot become: let us be Finns”<sup>11</sup>**

The independence of Finland was declared in December in 1917, but the birth of the nation took place a century earlier. The first essential step was not, as is commonly believed, freedom from Russian rule, but separation from Sweden. Paradoxically – or so it may seem today – it was the Russian conquest of Finland in 1808 that created the conditions in which a Finnish nation could emerge and ultimately gain independence.

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<sup>9</sup> Hakkarainen et al 2002:7.

<sup>10</sup> Jakobson 1998:105.

<sup>11</sup> Adolf Ivar Arvidson(Voipio 2002: 351)

As part of the Kingdom of Sweden, Finland had been a poor and neglected province, with no political or cultural identity of its own. The language of education and administration was Swedish; for a Finn the only option for social advancement was to be assimilated into Swedish culture. Finland was run at the time by small elite of nobles and a few educated burghers. The typical Finnish nobleman of the early part of the 19th century was a former officer of the Swedish army who farmed a modest sized estate. Finns were described in their passports as “Finnish citizens and Russian subjects”. Finland, it was said, took advantage of the security provided by the empire without paying for it.<sup>12</sup>

The men who ran Finland in the 19th century found that loyalty to the ruler paid off in terms of freedom of action in internal matters. They kept a low profile, avoiding any challenge to Russian security or prestige. They learned through practice the subtle art of steering Finnish autonomy past potential points of conflict with the vital interest of the empire. They cultivated a conservative social outlook, shielding the Finnish people from the influence of liberal currents of thought that might disturb the Russian autocracy. “Leave the Finns alone,” Czar Nicolas I is said to have told his ministers at the time of the Polish uprising in 1830. “It is the only part of my realm which never has given us any trouble.”<sup>13</sup>

Along with the rise of nationalist ideology, the labour movement, co-operatives, the women’s movement and the ideals of temperance gained a strong influence at all levels of society. Parliamentary reforms and the granting in 1906 of universal suffrage, including to women for the first time in Europe were important milestones. The fact that women not only got the right to vote but also the right to participate as candidates in elections made the reforms especially significant. Finland’s independence in 1917 and the following year’s legislation that gave independence to tenant farmers and the right to claim the previously rented lands were decisively important developments for the rural population.

## 1.2 Culture

Pre-Christian culture played a considerable role in the predominantly rural and self-reliant pre-modern Finland and retained its heathen popular wisdom, poetry and customs up to the 20th century. It testifies to Finland’s slow integration into modern, western culture that the folk epos Kalevala was compiled based on recordings of oral

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<sup>12</sup> Jakobson, 1987:19–21.

<sup>13</sup> Jakobson, 1987:23.



performances in Eastern Finland, Karelia and Inkerinmaa, which were made between roughly 1830 and 1850. The Kalevala remains one of the fullest and most impressive sources of knowledge and insight into the experience and worldviews of an essentially Northern, non-modernized, forest people. At the time of its appearance, the Finnish elite was still mainly Swedish speaking and Russian was the language of the state administration. Finnish and Swedish became the two national languages only after independence.

### 1.3 Finnish Literature Society

On 16 February 1831, a group met in Helsinki at the home of K.N. Keckman. The objective was to gather around him others of congenial interests and talents, a small school of scholars who could support and assist him with the lexical and grammatical problems that he had been encountering in his research for the Finnish dictionary.<sup>14</sup> The Finnish Literary Society was founded in Helsinki in 1831. It defined its objectives as follows:

- The achievement of a Swedish or German translation of the Kalevala;
- A compilation of Finnish mythology;
- A clarification of the Finnish reflexive verb;
- The production of a memorial publication in Finnish on Henrik Gabriel Porthan<sup>15</sup>;
- A Finnish translation of Runeberg's poem "The Elk Hunters";
- The compilation of a Finnish theory of poetry to establish whether Finnish poetry was based on the quantity or the stress of the syllable.

There were other interest represented at the early stages of the Society. One of the most influential members, was E. G. Melartin who recognized that the Society could make two substantial contributions to national life. Firstly, the Society could promote book publication in Finnish. Secondly, Melartin was convinced that promotion of the Finnish language could become a powerful political instrument. He also believed that Finnish should become the official language of the nation. The dominant character in Finnish-language literature was Aleksis Kivi. He was familiar with the life of the people

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<sup>14</sup> Klinge, 1990:128.

<sup>15</sup> Henrik Gabriel Porthan (1739–1804). He was one of the outstanding scholars and historian of the late 18th century. He was also a remarkable advocate of Finnishness and a significant developer of Finnish intellectual culture and education.

at their own level. He wrote his main works in the 1860s and 1870s, but was not widely known and recognized until the twentieth century. It was only after the great political and intellectual transitional period embracing the General Strike of 1905 that the upper and middle classes were ready to abandon the Runebergian popular portrait for the realistic image of Kivi. In his landscapes poems, Runeberg gave the painters of Finland's golden era the guidelines to which Kalevala elements were added later. The art of painting, thus, remained for a long time an extension of the national cultural tradition that was shaped in the first half of the nineteenth century.<sup>16</sup>

The drive to develop Finnish, spoken by the majority, into a modern language became the centerpiece of Finnish nationalism. In the 1860's Finnish was finally granted by law equal status with Swedish as an official language.

#### 1.4 The academic intelligentsia

The academic intelligentsia sought to begin building up Finland's national culture. The cornerstone were historical research, study of the language and folklore, and dissemination of the Kalevala and Elk Hunters. National and social thinking were combined in Finland in the mid-1840s by Johan Wilhem Snellmann. He was an opposition man during the reign of Nicholas I, but a government man and even a member of the domestic government under Alexander II. Snellman's great proposal was the replacement of a bureaucratic society with a civic society, but in Finnish conditions broad participation demanded a change in the language situation. Snellman doctrine embraced not only education of the masses but also nationalization of the educated class. He wished to preserve the old elite but change its language.

If liberalism was the cultural trend of the advancing bourgeoisie and towns, its counterweight from the 1860s on was the Fennomania which stressed agrarian values and found its political support in the traditional rural community among the farmers and the clergy. This trend gave itself out to be nationalistic and saw the moral and material values of the traditional rural society as the underpinning of the national culture. The leader of the movement, Yrjö-Koskinen, developed a new historical view, the history of the Finnish people, in which the past was explained in the light of the needs that had led to the growth and strengthening of Finnish nationalism. The fundamental elements for creating a collective memory and a sense of Finnish nationhood were created throughout the 19th century. First, Lonnrot compiled the Kalevala and the myth of peasant idyll, then Runeberg's lyrics of the folk and the

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<sup>16</sup> Klinge 1990:84

land, and gradually other literature of its own. Then came the national anthem, Finland's memorials to Porthan, Runeberg and Alexander II, the development of the press and the railway system. Finally Finland's great triad, Runeberg-Snellman-Lönnrot became emblematic of national culture (Klinge 1990:94).<sup>17</sup>

From the international perspective, two aspects of Finnish culture stand out, namely, its extremely good funding and its solidly centralized administrative organization. Cultural activities and funds are subordinated to a central Ministry of Culture. In principle, the Cultural Department of the Ministry of Education holds the power of veto and, thus, passes final decision over all suggestion made by the Art Council of Finland. It also has the ultimate authority in nominating recipients of government arts grants. Although such power of sanction exists, it cannot be said to have greatly influenced the work and opinions of artists. This is largely due to the alienation of art from politics and ideology. Members of the generation that insisted that everything was political are now 40 to 50 years old and comfortably seated in positions of influence. They have largely abandoned the radicalism of the 60s and 70s.<sup>18</sup>

A central issue was the building of a cultural connection between educated class and the nation. "The people meant above all an independent peasantry. The Finnish nationalists sought to form an alliance with the Finnish People," in other words to create a system of values in which the Finnish-speaking educated class took the central role and which was founded on a prosperous peasantry. Because the nationality struggle was in the first place about culture, it was the cultural affiliations of individuals in power which became the focus of attention rather than the bureaucratic power structure as such. It was the civil service, the administrative machinery of the grand duchy, which provided employment and sustenance for "persons of quality" in Finland. The peasants owned the land and were, therefore, the dominant land owning class. From the foregoing, it follows that many intellectuals were linguistic converts. The entire Fennomani movement was drawn from the Swedish-speaking educated class. Rather than promote the extension of political rights, the Finnish nationalists tried to serve the good of the nation by organizing mass movements in order to educate and elevate the peasantry to become useful members of society.<sup>19</sup>

When the First World War broke out, the nationalists' assumptions about the alliance of the intelligentsia and the people, with the intelligentsia acting as the spiritual leaders of the nation, still remained largely relevant. They were part of the ideology of the nation which the intelligentsia had created during the preceding half-century. Equipped

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<sup>17</sup> Klinge 1990:91

<sup>18</sup> Donner and Häikiö 1991:9–10

<sup>19</sup> Alapuro in Engman & Kirby 1989:148–9

with this view of their role in society, the intelligentsia were unusually poorly prepared for the blow they received in 1918. In January the Social Democratic Party staged an attempted revolution which was defeated three months later. The people, who were supposed to share the aspirations of the educated class, seemed to have planted a knife in its back. The Finnish revolution was not preceded by a ruling culture in decay, as was the case with the French and Russian revolutions. These were indeed also cultural revolutions which set up completely different ideological structures. In contrast to Finland, strong subversive patterns of thinking had already developed in these countries before the upheavals, and finally in the revolution itself the legitimacy of the old system was swept away. The activities of the educated class in the interwar period and for a long time after the Second World War can be seen as a reaction to the traumatic shattering of their nationalistic populist self image in 1918, and as attempts to reconstruct their lost contact with the people. The conflict itself was not always evident; it was rather imperceptible. It was the inability of the ruling culture to face up to this that loaded it with significance.<sup>20</sup>

Practically, the only area in which this cultural malaise could be expressed and the experience of the civil war dealt with openly was in literature, which had traditionally been the chronicler of the sensitive relations between the educated sectors of Finnish society and the common people. The best analysis of society in the interwar period is to be found in Finnish literature. The most important works turn repeatedly to themes of the agrarian people of the working class and their relations with others, often with members of the educated class.

But political reaction to the events of 1918 could only begin from the existing base of nationalistic ideology. Once more, the attempt was made to unite the people and the educated class. Now the legacy of the nineteenth century acted quite unambiguously against the working class. Entrapped by an “un-national” ideal, the working people were in fact excluded from the nation. The activists in the Academic Karelian Society (AKS), the principal student movement of the period, wanted to wash away the “bad dream” of 1918. In the 1920s, as before, the way forward was perceived through the idealization of the peasants and in the name of the peasantry. And like the Finnish nationalists of the nineteenth century, the AKS criticised those in power and ignored the structure of power as such.

The Academic Karelian Society sought connections with the Social democrats. After Hitler’s coming to power in the 1930s, their aim took on a fascist tinge. They wanted to construct an integrated nation by common consent through changing the State in a corporative direction. At the beginning of the 1930s, the semi fascist Lapua

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<sup>20</sup> Alapuro in Engman & Kirby 1989:155–6

movement – which was regarded as a movement of farmers – also propelled young educated people towards fascism. The old nationalist culture began to disintegrate from within in the 1950s. For the young generation of writers after the war – known as the fifties modernists – the grand ideologies of the 1930s were empty bastions, whether they were patriotic or left wing. “The poets did not launch an attack. By refraining from taking sides, and by focusing attention on linguistic and artistic problems, they brought about a new kind of cultural climate. Many cherished national myths began to crumble, and there emerged no new defenders of such myths. The content of the literature was less important than the new vision of the role of literature, an understanding of its autonomy. This modern notion of separating the different spheres of life brought into question the basic cornerstone of conservative nationalism, i.e. that culture as a whole should represent a uniform system of values. A similar emphasis on intellectual freedom and autonomy was also evident among scholars in the social sciences.

In the 1960s, Finland finally became an industrialised society. The social change was more tumultuous than in almost any other western European country: the number of university students multiplied; the farming community collapsed; the surviving farmers, including those with small acreages, finally entered the market economy; people moved en masse to the towns and to Sweden; the standard of living rose; and technical modernisation destroyed earlier group relations and bonds of solidarity in the industrial arena. An intellectual storm, which in the 1960s took the form of a new swing to the left among all the young Western intelligentsia, left its mark on the breakthrough. At the beginning of the 1960s, Finland’s educated class was still, practically speaking, anti-communist.

The traditional nationalistic culture was scooped out hollow but was not being replaced by anything new. In this situation, cultural concepts, and therefore the intellectuals also, attained an exceptionally pronounced role. The new values and ideas aroused considerable enthusiasm. There was a hazy feeling that the old ways of thinking did not answer the question “what really is happening?,” the title of a collection of verses by the archetypal poet of the 1960s, Pentti Saarikoski, published in 1962. Irony worked well, the last nuance giving rise to great dramatic suspense.<sup>21</sup>

When the 1950s modernists Paavo Haavikko and Veijo Meri each published a novel in 1960 which happened to be set in the year 1918, they in their individual ways planted a seemingly non ideological course of events. They placed civil war and all its implications into history from a new angle, away from the immediate area of the trauma. Their other output can be similarly evaluated. It was a positive step with a

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<sup>21</sup> Alapuro in Engman & Kirby 1989:160

clear social and historical importance. Most important, this literary debate had radical political repercussions. In 1960, the second part of Väino Linna's trilogy "Here under the Northern Star" was published. This book opened more locked doors than any other work. It showed the intellectuals and the entire bourgeois readership how the insurgents as activists and as sensitive people acted worthily and responsibly. It legitimised them as Finns and, as it were, gave them back their rights of citizenship. Many critics classed the work as beginning the tradition of the working-class novel but, in fact, Linna's heroes were not workers but small farmers, and their sons had all the characteristics of the peasantry.<sup>22</sup>

The ideal of pluralism burst to the fore in the 1960s. Linna's book fitted in with this trend and strengthened it. Because the burden of the past had been so heavy, the breakthrough of liberalism was impressive. The cultural radicalism of the 1960s was consciously opposed to the uniform culture of nationalism and proclaimed tolerance of differences and disagreements and the victory of rationality. It endorsed freedom, the recognition of the rights associated with the French revolution. The entire cultural scene was in a state of ferment.

In the long term, the revolutionary enthusiasm of the 1960s turned out to be a false dawn. What remains of the time is the political aspect of the tradition. In contrast to the countries of Western Europe, the left wing intellectuals in Finland soon found their way into the institutions of the state, often as civil servants or in other politically influential positions. It was the state which would resolve social problems and meet the needs of the nation. This state center tradition of political action had reaped the victory which it might have won in the modern state in any case. In the case of Finland, the difficulty in gaining recognition and understanding on its own terms, as an autonomous actor rather than a function of the policies of others, is compounded by the language curtain that conceals the innermost life of the Finnish people from outsiders.<sup>23</sup>

National habits of thinking are formed by the national past, which implies that historical iconography can have great importance. The younger generation, however, has no more than a shallow acquaintance with historical reality. The logic of the highest decision-makers in the country is alien to the younger generation. The typical top politician is a middle aged figure who orients himself on the basis of his experience in youth. He has almost no contact with the young generation, which is less and less interested in politics, and sees official social discourse as a relic from a bygone era. Under these conditions, officialdom speaks a different language from that of the young.

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<sup>22</sup> Alapuro in Engman & Kirby 1989:161

<sup>23</sup> Jakobson, 1987:7

A central question till after the Second World War has been the standing of the educated class as a representative of the nation in relation to the state, as a listener and formulator of the nation's voice, and as an intermediary between nation and state.

### 1.5 Nordic Identity: natural man

The idealisation of poverty became an important, almost central feature of the Nordic identity. It was given added vitality by the religious tradition and by the often harsh geographic and climatic conditions that prevailed in the north. The Nordic countries are among the richest in the world but the tradition of poverty persists, often giving rise to feelings of guilt. Lutheranism is probably one of the most characteristic elements of the Nordic identity from a historical point of view. At the Baltic Sea, it creates a clear border with the Lithuanian – Polish Catholic bloc. On the other hand, even today, it theologically unites the Nordic countries with northern Germany, birthplace and stronghold of Lutheranism. Only in the Nordic countries has the Lutheran state church survived in the form it took during the Reformation. In these countries, it seems natural for the head of state to appoint bishops. Only the Anglican Church can be compared to the Nordic Lutheran churches in this respect. As the number of Nordic countries rose from two to four, relations between the countries changed. In the wake of the tribulations brought about by international politics, the centuries old antagonism between Swedes (Finns) and Danes (Norwegians) began to subside. A “Nordism” or “Scandinavism” began to emerge. One of the uniting factors was the new belief in “natural man”, who was to be preferred to his civilized counterpart.

Northern man's self conception stresses the peripheral and virgin nature of his land. Nordic man was free, but not rebellious; his mission was to carry his culture and the knowledge of God ever more deeply into the wilderness through their poets, painters and composers, turned their relative peripherality into a virtue and an ideology, hence, the central role of the artist in Finland and Norway.<sup>24</sup>

The ideas of French enlightenment represented by Rousseau formulated and disseminated this ideology of the natural, which meant a negation of luxury, refinement, subtlety in art and science. The emphasis was no longer in industry and the cities, but on the moral superiority of rural life. Those who lived a simple and modest life were considered to be closer to the divine and the eternal than those whose minds were filled with thoughts of luxury, intrigue, and sophistry. According to Montesquieu and others, experience seemed to show that barren and cold climates would produce a

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<sup>24</sup> Klinge 1990:26

people who were intelligent, hardy, and freedom loving. It was believed that only those who were physically and morally superior could survive in these conditions.

After Copenhagen's bombardment by the British, the Danish clergyman Grundtvig began to formulate his idea of the Nordic countries as the new Greece. The inhabitants of the north and the Greeks were "natural" peoples with their own mythology and folklore, as opposed to "artificial" people, who did not create things themselves, but borrowed their cultures from others. Grundtvig's ideology made it necessary to exclude all that was Latin and Catholic. This Nordic fusion of folk poetry and neo-humanism ideals was basically populist but it was not a revolution in the French tradition. Instead of seeking freedom and equality through force, it hoped to achieve its ends through moral education. Sweden's greatest poets in the first half of the nineteenth century, Tegner and Geijer, were among the leaders showing how greatness lay in conquering oneself. This ideology was carried to its extreme by J.L. Runeberg, Finland's national poet who created an idealised picture of the Nordic man and his surroundings. Poverty is seen as the ideal. This view of life takes on a special meaning when contrasted with the revolutionary tendencies at the time it was written and published (1846–1848).<sup>25</sup>

The myth and ideal of the Nordic man contrasted, however, with some stark realities. In the 19th century, the size of the landless population grew in all the Nordic countries, but two factors made the problem much more severe in Finland. There was considerable emigration from Finland to the United States, but it never reached the same order of magnitude as in the other Nordic countries. The problem was so great in Finland that it could not be solved, as in Western Europe and the other Nordic countries, by market forces. Instead, the Finns sought a solution in several ambitious agrarian reforms intended to distribute land to the landless.

The irreligious and ahistorical outlook of the Nordic people goes far to explain Nordic passion for good causes such as the peace movement and the plight of Third World countries. Some argue that what they have is a bad conscience, brought on by the contrast between their own material good fortune and the terrible conditions under which the majority of humanity must live.<sup>26</sup> However, it is in the cultural sphere that Finland diverges most clearly from the other countries of the Nordic region, even if Finnish culture and cultural life also contain many striking Nordic elements. At present, the Nordic internationalist and welfare state traditions are at risk in all Nordic countries, due partly to neo-liberal tendencies of a domestic nature and partly because of membership of WTO, the European Union and the European Monetary Union (EMU) of which Finland is the only Nordic member.

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<sup>25</sup> Klinge 1990:18

<sup>26</sup> Klinge 1990:50



## 1.6 Political and military events shaping Finnish Nation State and society

In the 19th century, Finland proximity to St. Petersburg, at that time the important westward-looking capital of Russia, contributed to the Finnish consciousness of taking part in world affairs. Many Finns served in high posts in the Russian Imperial army, and in that milieu, developed global views. Russia demanded political loyalty, and during the European revolutions of 1830 and 1848, the Finns were able to maintain their status as an autonomous Grand Duchy, by not joining revolts in the rest of Europe and being loyal to the Russian Czar. As recognition to that loyalty, Russia maintained the main lines of autonomy and the order established in 1809. However, at the end of the 19th century, the situation began to change. The Russian military leadership was concerned about Finland maintaining its autonomy and culture as a separate nation with its own laws, legislature, civil service, judiciary, currency, customs tariffs, and its own army for the defence of Finnish territory. The Finnish system of constitutional government came under increasing criticism from Russian conservatives determined to defend autocracy at home. The autonomy of The Grand Duchy was perceived under Nicholas II as a dangerous precedent because it encouraged separatism in other parts of the empire and demands for constitutional reform in Russia herself. By the end of the 10th century, the Czar and his leading advisers had decided to end Finnish autonomy and integrate Finland militarily and administratively into the Russian empire.

The Russian repression produced a campaign of civil disobedience. Civil servants that resisted the Russianisation policies were dismissed and banished to Siberia or exiled, and many young men migrated to the US to avoid conscription into the Russian army. The political conflicts with Russia triggered an internal debate within Finland between a wide spectrum of political forces: the conservatives who advocated appeasement of Russian power as the only means of preserving Finnish society, culture and institutions; the liberal constitutionalists who stressed legal rights regardless of the consequences; the activists who prepared for direct action; and the revolutionaries who identified with their Russian counterparts in their objectives to overthrow the Czarist regimen as the only way of obtaining national liberation and social reforms. The Bolshevik revolution and the collapse of the Czarist regime in 1917 provided Finland with the opportunity to declare full independence on 6 December 1917. Lenin's government was the first to recognise the independence of Finland but forty thousand Russian troops remained in Finland. A formal peace treaty with Soviet Russia was concluded in 1920. Just after independence, in the winter and spring of 1917–18, Finland suffered a large-scale civil war between 'reds', fighting for a socialist republic and the victorious 'whites' representing the a wide spectrum of right wing political forces. In the aftermath of these events the communist party was banned and repression was severe.

The Civil War in 1918 for decades split the Finnish nation politically into two antagonistic political camps: those who had fought in with the “white army” and the “the reds.”<sup>27</sup> In the early 1930s, a right-wing coup against parliamentary democracy was defeated and the constitutional regime gradually became stabilized in the decades after the Second World War. During the war, Finland first defended itself in the Winter War of 1939–40 against Soviet-expansion. Box 1 describes the Finnish Parliament, President and Government.

### **Box 1: Finnish Parliament, President and Government**

#### **Finnish Parliament**

People are represented in Parliament by 200 elected representatives elected for a four-year term. All Finnish citizens, 18 years of age or older, are qualified to vote in parliamentary elections. Finland is divided into 15 electoral districts. The function of parliament is to promulgate laws, to approve the state budget, to check on the legality of the activities of the government and the national Ombudsman, to ratify international treaties and together with the President to decide in question of war and Peace, and to revise the borders of the country (Häikiö, 1992:15).

In the 1991 elections: 77 women out of a total of 200 (38.5%). In Parliament, women have been particularly involved with legislation concerning social issues, culture and education. In the last elections, in 1999, 74 women were elected, 37% of the members of the house. Almost throughout the 1990s, the Speaker of Parliament has been a woman, marking a new era in the 90-year history of our national assembly.

#### **President**

Is elected to office in a separate election every six years. Previously the president was elected by indirect vote of an electoral college of 300 electors (since 1981, 301 electors). Since year 2000 the president of Finland has been elected by a two-phased popular vote. According to the new procedure, voters cast their ballot directly for the presidential candidate of their choice. If no presidential candidate is able to secure a simple majority, the two candidates with moist votes participate in a second round of direct voting.

#### **The Finnish Government**

Article 2 of the Finnish Form of Government decrees that in addition to the President of the Republic, a State Council also governs the country. The State Council, composed of a Prime minister and necessary ministers, shares highest executive power in the country with the president...The prime minister is the central figure in the government although he does not have executive authority over the other ministers. The State council has seventeen ministers including the prime minister The greatest authority is exercised by the ministry of finance because of its responsibility for preparing the budget.

<sup>27</sup> Voipio 2002: 603–621

## 1.7 The survival society: The Winter War and its consequences<sup>28</sup>

In October 1939, the Finnish government was invited to send a delegation to Moscow to discuss two basic Soviet Union demands: that the Finnish border be moved farther north from Leningrad and that the Soviet Navy had to have a naval base in Hanko, on the southern coast of Finland close to Helsinki. The Finnish leaders agreed to give up some territory north of Leningrad but refused to provide space for the naval base, fearing it might be used against Finnish independence. The talks in Moscow broke down, and on 30 November, 1939, the Soviet army attacked the Finnish eastern border. For a hundred days the Finns held out. Ultimately, the Finnish government decided to accept the peace terms proposed by the Soviets, which meant ceding to the USSR more territory than up to then had been given up by the army. In the later phases of the Second World War, Finland became a “co-belligerent” party with Germany against the USSR.

The Second World War transformed deeply the socio-political context in Finland. Industrial and agricultural production decreased due to men’s mobilisation to the warfront. Women’s work and participation increased dramatically. Inflation soared. Scarcity became prevalent. A Finnish NGO (Finland’s Relief) was founded to plan and distribute aid received from abroad. The most dramatic effect of the war was the loss of human lives: 5.5% of all Finns in total. 86,000 men died on the front, and 200,000 were wounded. 50,000 war orphans had to be cared for, and 24,000 war widows had to find new ways to support their families. Valuable productive capacities (almost 10% of the pre-war capacity) were lost with the lost territories, and much of the productive facilities and infrastructures of the rest of Finland were damaged. In addition, the peace treaty signed with the USSR at the end of the war forced Finland to pay war reparations to the USSR, for the value of USD 300 millions (in 1938 prices). These reparations in the form of machines, ships and forest industry products, were a heavy burden for the small Finnish economy, represented almost 6% of Finnish GDP.

The aftermath of the war was characterised by ambivalent feelings and a fragile moral and mental situation. On the one hand, Finland had lost the war but defended successfully her independence. There were enthusiastic expressions of national pride. On the other hand, there were painful and traumatic collective memories, accompanied with concrete problems of lost infrastructure and homes, scarcity, broken family relationships, alcohol abuse, and sexually transmitted diseases. There was a new beginning and the social policy efforts were primarily focused on two objectives:

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<sup>28</sup> This section relies heavily on Voipio, 2002.

Rehabilitation of the war veterans and war refugees, and improving living conditions of family with children.

The war reparations forced Finland to modernize her productive facilities immediately after the war. Although a burdensome task at the beginning, it was highly beneficial in the long run because it enabled the country to participate in export production as soon as the payments to Russia for war reparations were completed in 1952. Forest industries were the most important but the composition of exports was rapidly diversifying. The resettlement of the Karelians of the lost territories and of war veterans required and implied to launch an ample new land reforms and construction project and social change. The inhabitants of each lost village were kept together as far as possible and all resettled not far from each other. State-owned land was made available for resettlement but also a lot of private land-owners' land had to be expropriated in the receiving communities, which created conflicts on both sides. However, a new sense of nation wide solidarity and spirit of reconstruction helped Finnish society to overcome those conflicts and tensions.

During the war, the state planning machinery had assumed a central role in the management of the national economy, and even after the war the role of the public sector remained more important than it had been before the war. The rising prices of imports led to frequent calls for pay rises which accelerated inflation and decreased average consumers' purchasing power. The need for comprehensive social policy reforms was widely felt and discussed but at the end of the 1940s, the government was still too busy in its effort to fulfil reparation payments, reconstruction and resettlement to discuss and plan for comprehensive reforms of social policy.

The normalization of family life after the war resulted in an unprecedented baby-boom in Finland between 1946–1949. Family policies became a special focus of social policy. A system of universal child allowances was created in 1948, initially with employers' funding, which was criticised because it, in fact, constituted a substantial redistribution of income from the urban industrial sectors to the rural agricultural sector where birth rates were highest. In volume terms, too, the child allowances were the most expensive component of the Finnish social policy system.

In the aftermath of the war, rural nationalistic values dominated the intellectual, political and ideological landscapes. However, gradually, the trends of the modernizing, industrializing and urbanizing West impacted on Finland. After the war, for obvious reasons, the German influence on Finnish academic life ceased. New approaches in economics and social planning were developed based on the writings of John Maynard Keynes and William Beveridge.

Finland of the late 1940s and early 1950s was still a predominantly rural economy and society. Therefore, Governmental planning first focused on resettlement and regional planning and afterwards on social welfare planning. Due to the relative political

strength of the rural lobby, the rural-urban conflict of interests characterized Finnish societal planning and politics until late 1970s. However, a newly created positive atmosphere, based on the survival experience of comradeship that emerged between socialist and non-socialists at the war front and the reconstruction effort, helped to reach constructive consensus and agreement between the labour movement and the bourgeois parties. This was reflected in the area of poor relief movement or social assistance'. The requirement that public assistance should only be provided after demonstrating indigence and based on labour contributions became more flexible. Now it became acceptable that the government had the obligation to assist ordinary families, because it was "functional" and even necessary for the whole society to support the families whose fathers were needed on the national reconstruction efforts. The eligibility for social assistance was, thus, now based on fulfilling certain legally set of eligibility criteria rather than detailed individual means testing.

A fundamental aspect of the wartime survival experience was the emergence of a shared feeling of common destiny for all Finns. That sense of surviving due to a shared struggle strengthened the goal of *equality* as a core value and goal of Finnish social policy and social security. As the wartime administrators had tried to plan the rationing of scarcity as equally as possible, so also now the fruits of post-war development were to be as equally and fairly allocated as possible among the citizens. Equality also implied, "positive discrimination in gender relations". The important productive role that women had played during the war in agricultural and industrial production facilitated a broader consensus about the need of more equality in working life.<sup>29</sup>

The wartime feeling of a 'common destiny' also helped the labour movement and the employers to develop a closer understanding of their mutual interests and reach consensus which in other circumstances would probably have led to controversies. The ideas of collective bargaining and broad-based unionisation of workers were then accepted by the employers. In September 1990, the Finnish government unilaterally abrogated the clauses contained in the 1947 peace treaty that imposed limitations on Finland's armed forces and declared that the references to Germany as a potential enemy in the Finnish Soviet treaty of 1948 had lost their validity. But it waited until October 1991 before renegotiating the treaty itself, and the new version remained unsigned when the Soviet Union ceased to exist.<sup>30</sup>

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<sup>29</sup> Voipio 2002: 603– 621

<sup>30</sup> Jakobson, 1998:104

## 1.8 Neutrality

The CSCE has become Finland's most significant point of reference in international relations. The aim was to define neutrality as the main goal of Finnish foreign policy, to extract recognition from the West, and ultimately to win respect in the East as well. After the war in 1948, Finland formed a Treaty of Friendship and Mutual Assistance with the Soviet-Union. Nevertheless, under the presidencies of, first, J.K. Paasikivi and, then, U.K. Kekkonen (1956–1981), Finland successfully struggled to define itself as a neutral and non-allied country. The Conference on Security and Cooperation in Europe held in Helsinki in 1975 was the high point of this sustained political effort. In terms of North-South relations and from the mid 1960s, Finland became known as part of the 'like-minded' group of countries in North Western Europe, playing an active role in the United Nations and contributing, especially in the 1980s, considerably to multilateral and bilateral development financing.<sup>31</sup> Box 2 gives the chronology of major events in Finnish history.

## 1.9 From Survival Society to Information Society

Finland displays a dynamic integration in the global economy, fully fledged membership of the European institutions, and a strong affirmation of its culture, unique language, and national identity. It is this identity, which provides a key foundation for political legitimacy, that enables the role of the state in the building of the information society.<sup>32</sup> The main question is why the country's dual economic nature (welfare state and private enterprise), unique culture, language and national identity, do not seem to be reflected in Finnish cooperation. Is Finland's membership of the European Union, Bretton Woods and multilateral institutions compromised the country's rich national identity as earlier presented? The Finnish model has been able to attain the highest level of information society combined with a continued improvement of social justice-cum-welfare. Elsewhere, different attempts to develop information societies are being challenged by social conflicts, ideological critiques, and resistance identities. By contrast, Finland stands out in terms of both technological development and social justice. How does Finland combine the information society with the welfare state and what is the relation of Finnish society to economic development? Finland has demonstrated that technological and economic dynamism may be combined with the welfare state and

<sup>31</sup> Hakkarainen et al 2002:7

<sup>32</sup> Castells and Himanen 2002:4

## Box 2: Finland Chronological History

- 1808–1809** Russia attacks Finland, Sweden is forced to give up the territory to Russia.
- 1809** Russian Tsar Alexander I convenes the Diet, Finland's first legislature, and grants Finland autonomous status.
- 1812** Helsinki becomes capital of Finland.
- 1863** Alexander II re-convenes the Diet.
- 1899–1905** Russia's first period of repression against autonomous Finland.
- 1907** Finland elects its first Parliament through universal, equal suffrage.
- 1908–1917** Russia's second period of repression against Finland.
- 1917** Finland gains independence.
- 1918** Civil War between the Whites and Reds.
- 1919** Finnish Constitution ratified.
- 1920** Peace treaty with Soviet Russia.
- 1939** Soviet Union attacks Finland, Winter War begins.
- 1940** Peace treaty with Soviet Union, Finland loses much territory.
- 1941** Finland joins war as co-belligerent of Germany
- 1944** Finland signs separate peace with Soviet Union.. German troops expelled from Finland
- 1947** Treaty of Paris signed.
- 1948** Finland and the Soviet Union sign Treaty of Friendship. Co-operation and Mutual Assistance (FCMA).
- 1955** Soviet Union returns Porkkala naval base area, Finland becomes member of United Nation and Nordic Council.
- 1956** J.K: Paasikivi's presidential term ends; Urho Kekkonen inaugurated
- 1961** Finland becomes associate member of European Free Trade Association (EFTA)
- 1973** Finland signs free trade agreement with the European Economic Community (EEC).
- 1975** Conference on Security and Co-operation in Europe (CSCE) summit in Helsinki.
- 1982** Urho Kekkonen leaves office; Mauno Koivisto inaugurated.
- 1986** Finland becomes full member of EFTA:
- 1992** The Treaty of Friendship, Co-Operation and Mutual Assistance between Finland and the Soviet Union nullified; new treaty signed with Russia.
- 1992** Finland applies for European Community membership.
- 1993** Finland, Austria, Norway and Sweden simultaneously launch membership negotiations with the European Community; the EC becomes the European Union.
- 1994** Mauno Koivisto's presidential term ends; Martti Ahtisaari inaugurated.
- 1994** In a referendum, Finns approve membership agreement with the EU:
- 1995** Finland joins the EU.
- 1999** Finland joins the European Economic and Monetary Union (EMU)
- 1999** Finland holds EU's half-year rotating presidency.
- 2000** Martti Ahtisaari's presidential term ends; Tarja Halonen inaugurated. New constitution takes effect.

Source: (TAT Group, 2001:10)

legitimizing identity, thus, proving that the network society does not necessarily destabilize social order.<sup>33</sup> By highlighting the notion of the *Finnish model*, it is not suggested that Finland's experience should be imposed or imitated by countries in the South in their quest for social and economic improvement. Rather, what the Finnish model really does is precisely to reject the notion that there can be only one model that post-industrial, information societies should follow.

The argument is that it is possible to build a successfully developed information society, based on historical values and experiences expressed in a democratic welfare society and state. Within the same techno-economic paradigm (informationalism), there is considerable room for political choice based on values. And it is necessary to articulate sustainable values for the transformation of society and the economy, otherwise the contradictions of the social transition will trigger social explosions and violent opposition from a diversity of quarters.

The main elements of the Finnish welfare state include a number of features. Firstly, there are free education (no fees from pre-school, plus a student grant for further education); very cheap health services (mainly free health centres, low-priced hospital facilities, subsidised drugs, home-care support, etc.), and social protection through income transfers (retirement insurance, child-care support, and income support). Secondly, welfare rights are based on citizenship (or, lately, residence) and, thus, the level of welfare benefits that a person is entitled to does not primarily depend on his or her income (although income and need are taken into account). Thirdly, most welfare services are provided publicly (e.g., virtually all schools and 76% of health expenditure are public). In other words, the Finnish welfare-state model is institutional and 'social democratic'

The Finnish model combines a dynamic informational economy with stronger social justice and a collective protection of labour- the old tasks of the welfare state- than the global trend. However, it is no longer the old model of welfare state, which was often just seen as the alleviator of the economy's worst effects and occupied a fundamentally defensive position against the (market) economy. Castells and Himanen propose the concept of the 'informational welfare state' to describe a democratic and participatory welfare state that forms a virtuous circle with the informational economy.<sup>34</sup>

There are close connections between the welfare state and informational society. First, the Finnish information society creates the financial basis for the welfare state for without tax income, society cannot finance its welfare state. And without increased productivity, taxes would be too high to be acceptable to the people. The information

<sup>33</sup> Castell and Himanen 2002: 10

<sup>34</sup> Castells and Himanen 2002: 87



society, therefore, needs to grow faster than the costs of the welfare state. In countries such as Singapore and the United States, there are clear tensions emerging between the rise of the network society and cultural identity. The dominant global trend is that the progress of the global informational economy creates a strong resistance, based on the experience that the development tends to threaten cultural identities. Thus, nationalism and religious fundamentalism are increasing with the rise of the network society. One factor that makes Finland interesting is the absence of a significant ultra-nationalist movement or religious fundamentalism as is the case in many other European countries and in the United States.

The reasons for such empathy between information society and Finnish identity include the nature of the relationship between the post-industrial information society and the identity that is different from the global tendency. From a southern perspective, the most appealing aspect of the Finnish model of the information society is the fact that it is built on, and supported by, the Finnish history, culture and identity. The integration of the information society in Finland with the welfare state – which ameliorates the socially divisive impact of the information society and makes the success of the information society a financial basis of the welfare state– has been a major reason for the lack of a strong resistance against the information society in Finland.

The first matter to consider in understanding both these elements of Finnish identity is the country's history of survival. For most of Finland's history, extreme and adverse weather conditions (cold winters) have been a challenge to survival. The summers were a preparation for the winter and if the winter lasted longer than the average or the summer was not warm enough, the lost harvest made the following winter even harder. Throughout history until very recently, cold weather has killed more Finns than wars.

Finland has existed as an independent country for only three generations, and many grandparents of the present third generation have themselves experienced hunger and eaten "pettuleipa", an emergency bread made from pine bark. Economically, Finland has been a poor country for most of its history. It was an agrarian or even subsistence economy much longer than other European countries, with most Finns living as peasants. As late as the beginning of the 1950s, Finland could be considered fundamentally an agrarian society, with about half of the population still in agriculture (70% at the beginning of the twentieth century).

The second dimension of the Finnish history of survival is in its politico-cultural context. Finland is located between the West and the East. The survival of the Finnish nation has never been guaranteed. From the thirteenth century until the beginning of the nineteenth century, Finland was part of Sweden. Then, for more than a century, Finland was part of Russia. However, even after its formal independence in 1917, Finland has had to do its best to prevent itself from becoming part of the Soviet Union

or Germany. World War II was a critical time for Finland: First the Soviet Union attacked it in November 1939 (the Winter War), and then Finland was compelled to enter into a war alliance with Germany and allowed the latter to use its land for an attack on the Soviet Union in 1941, bringing German soldiers to Finland and threatening its independence.

Since World War II, Finnish national survival has depended on maintaining a neutral stance between the West and the Soviet Union. The term '*finlandisation*' was used in the West as a derogatory term to describe a subtle ally of the former Soviet Union. The Soviet Union forced Finland to sign a Treaty of Friendship, Cooperation, and Mutual Assistance in 1948, as it had done with other Eastern European countries (although the terms of the Finnish treaty were significantly different whereby it was not a Soviet satellite). Only since the collapse of the Soviet Union in 1991 has Finland been totally free of Soviet influence. Finally, since Finland applied for membership in the EU just a couple of months after the collapse of the Soviet Union and became a full member at the beginning of 1995, there is the new question of surviving as a sovereign nation in the European network state- an issue that Finland shares with all other members of the EU.

With respect to the political survival of the nation, the survival of the country's culture has been an important question, particularly the fate of the Finnish language. Under the control of Sweden and then Russia, Finnish was not the language of the ruling class in the country. Until the end of the nineteenth century, most cultural expressions were in Swedish. As a consequence, the preservation and creation of the Finnish culture became very much related to the project of asserting Finland as a nation. Finnish media and literature developed very much as a nationalist project guided by the principle of 'one language, one nation.' The national epic, *kalevala*, was published in the mid- nineteenth century based on a long oral tradition but deliberately edited to construct a mythical Finnish history.

The Finnish state has been a fundamental instrument for the survival of the Finnish nation and there are several important identity factors that are derived from this history for the Finnish information society. It is quite clear that the development of the information society has become a new survival project that legitimises the state in so far as the people see that it advances the country's political survival. On the other hand, the strong Finnish national identity – relying on ethnic homogeneity and a common language, without being ultranationalist – is an important basis for the consolidation of the information society. An interesting dimension of the Finnish phenomenon is that its identity has triggered and led the information society but also dependent on it. The short and fragile history of Finland as an independent country is significant in understanding how the information society became, and remains, an identity-building project: many grandparents of the younger generation lived under

Russian rule. The Finns do not feel that their country has matured enough, unlike other European countries with thousands of years of history. Currently, the society and its culture are in a transitional stage, from the survival culture to the post-survival culture and oriented towards the future. The information society project suits a young country that is still partly in search of an identity.

This orientation toward the future has clearly made the transformation of Finland into an information society easier than in some older European cultures, which carry with them a long cultural history. However, not all of this is attributable to 'Finnishness.' It is also a structural feature of the informational economy, in which companies and countries compete in the context of the culture of speed by promising that the future will arrive faster through them than through their competitors. There is a positive link between the Finnish attitude to technology and the country's history of survival. From a historical viewpoint, a life without the struggle for survival is a new experience for Finland, which technology has made possible. In its struggle to survive, the Finnish attitude has been quite pragmatic: if a new tool helps, it is welcomed without the kind of skepticism about a technological way of life that has been strong in older European cultures. Finns do not see technology in contradiction to culture but as a tool for creating a new culture here and now. Some would call this 'victory over nature', but in the Finnish context it is not the industrial idea of subordinating nature.

There is also something distinct in Finnish identity as a result of Finland's history of survival. The experience of being part of another power has shaped Finnish identity as a 'subaltern identity.' The Finns were an oppressed and subaltern group for almost eight hundred years and became the majority in their country only three generations ago. In such a short time, Finnish historical identity has not changed completely and the Finns continue to think of themselves as a minority in the world. That feeling of being a minority continues to be a source of difficulties, when relating to multiculturalism, which increases with the global information society.<sup>35</sup> This feeling of being an oppressed minority is perhaps related to the self confessed reluctance and timidity by Finns to be more outspoken and forthcoming in presenting the unique positive aspects of their own history and experience to the outside world.

There has been a lot of discussion of the Finnish national experience of inferiority and it is something that seems to influence Finnish culture. The feeling seems to be best explained as a minority attitude. Because of this feeling of inferiority, the image of Finland as seen by others has been very important for Finns. Due to having always been a minority, in second place to someone else, the idea of winning has gained exceptional importance for the Finns. In this regard, the idea of becoming the world's

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<sup>35</sup> Castells and Himanen 2002:134

‘number one’ information society must have boosted the Finn’s national self-esteem. For Finns, the information society is a new identity, which is designed to replace the earlier images of Finland as a forest economy or a satellite of the Soviet Union. Information Technology is, for Finland, a way to show to itself and to the world that it is no longer a poor or subdued country. This way of reacting to the colonialist history under Sweden and the Soviet Union is more productive than national bitterness because it orients Finland toward what could be done in the future.<sup>36</sup>

### **1.10 The Finnish Welfare State as a Post Survival State and a Legitimiser of the Nation State.**

The Finnish national project not only strengthens the country’s social project but also builds a new identity and a new version of the Welfare State. The two ideological roots of the Finnish welfare state are the nineteenth and twentieth century social movements (the labour movement and the women’s movement) and their Protestant religion. Although they may not have been created by survival struggles, they were certainly intensified by them. The suffering of the workers in the Hunger Years was an important trigger in the formation of the Finnish labour movement. In the nineteenth century, the women’s movement was also closely related to charity work in the survival struggles. Since then, Finnish women have been central in building a welfare state based on the ideas of equality and inclusion. In fact, continuing the active political role of Finnish women (which includes the fact that they were the first to acquire the right to vote in Europe in 1906), they took an especially central decision-making role in shaping the Finnish welfare state, beginning in the 1960s.

Women have had a decisive role shaping the welfare state. Many aspects of the Finnish welfare state were actually created to give women the same opportunities as men: women’s entry into the job market was made possible by the introduction of a long paid parental leave, high-quality subsidised children’s day care, free school meals, etc.

The second source of the Finnish welfare state can be found in the Protestant religion, and is based on the Lutheran emphasis on pursuing an equal society rather than individual merit. It also emphasises the importance of christian vocation and the importance of human life in the world. ‘Even if the world would disappear tomorrow, I would plant today an apple tree’. Finnish society seems to be an expression of the Lutheran principle of justification by faith: “For we hold that a man is justified by

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<sup>36</sup> Castells and Himanen 2002: 134

faith (alone) apart from works of law.”<sup>37</sup> The word alone was retained by the Reformers after Luther because it seemed to safeguard this important doctrine against such perversions as might seem to make salvation dependent on human achievement or a reward for human merit. The Finnish welfare society is essentially a social interpretation of the principle “love thy neighbour as thyself”. It is the Christian idea of imagining yourself in a different place in society and, thus, building a just society from the viewpoint of not knowing in which situation you may find yourself. About 85% of Finns continue to belong to the Protestant church, and it continues to influence Finnish identity even more widely.

Another important factor behind the Finnish welfare state can be related to the particular history of Finnish survival. That is the Finnish experience of a national “we” that links Finns together. By this notion, it is meant, on the one hand, the ability to form networks of direct and informal communication among this ‘us.’ This ability can be seen as an adaptation to the conditions in which Finns have had to act. For eight hundred years, the Finns were controlled by a non-Finnish group, which made the Finns part of a relatively homogeneous peasant class. There was a top-down hierarchy between the powers-that-be and the Finns but not much differentiation among the Finns themselves who were, compared to other societies, more on the same horizontal level and had to network with each other to survive. As a consequence, most Finns form a relatively close social background and treat each other in communication as equals based on origin from the same class (and often knowing each other through some relative or friendship link). The experience and construction of a ‘we’ implies leaving no one behind and the building of a welfare state. The experience of a ‘we’ also means the idea of leaving no one behind, which was strengthened by the Finnish survival battles, especially during World War II.

Key survival and military experiences throughout the 20th century shaped the construction of the common ‘we’. The Soviet Union’s attack on Finland in November 1939 started the Winter War, in which the Finns stood united against the much bigger and better armed military force of the Soviet Union. The experience of World War II – and related to it, the reconstruction of Finland, the paying of the war indemnity to the Soviet Union, and the international recognition of Finland’s independence – collectively united the nation through struggling together. The war made the Finns think of themselves even more strongly as a cohesive group, which has strong solidarity and does not leave any members behind.

Together these factors have created the identity basis for the Finnish welfare state, whose goal is to guarantee a ‘post-survival’ life for all of Finnish citizens. This welfare

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<sup>37</sup> Rom. 3:28

state has given Finland a less money-driven identity, which supports the kind of ethos and innovative spirit required by the social use of information technology.

The Finnish Welfare State has had a key role in maintaining the current stability and well-being of Finnish society: The welfare state produced citizens/workers that are well educated and socially well-protected people. Finnish citizens are covered by a comprehensive health system, and have access to affordable housing, efficient public transportation, child care, and a wide range of urban amenities. They are supported by public programmes when affected by unemployment or illness. Therefore, Finnish citizens are not at risk when the country engages in a major social and economic overhaul: this means that resistance to necessary change is much lower as the personal and social cost that could result from the change are limited.<sup>38</sup>

The Finnish state is supported in its action by a triple source of legitimacy: it is a democratic state; it is a redistributive state, seen as an equalizer and a social protector by the majority of the people; and it embodies the national project of an independent and self-assertive Finnish nation. There is also an intimate connection between identity, communal feeling, history of survival and social stability: Finnish society has strong ties of identity and communal feeling based on its history of survival, which has preserved social and ethnic homogeneity. A society of citizens/workers, protected by the state, and anchored in its identity, is a major source of social stability, providing business operations with a predictable environment, and also giving business room for maneuvers to restructure itself whenever necessary.

The Finnish model of the information society emerging from the specific history and culture of Finland. There is here a success history, that needs to be shared with the rest of the world, especially with peripheral/southern societies, desperately looking for opportunities to share the experiences that are more attuned to their history, values and human resources under conditions of extreme poverty.

The Finnish model is, however, confronted with the global process of structural transformation and is constrained by this global environment. It is increasingly being shaped by the characteristics of the socio-technical paradigm typical of the information age. However, it is also uniquely shaped by the interaction between social, political, and economic actors within Finland. In this sense, it is uniquely Finnish. But this particularity does not mean that the rest of the world cannot draw important lessons for the relentless effort, under way throughout the world, of building an information society for the benefit of humankind.

The Finnish experience shows that the Silicon Valley model is not the only way to build and advanced information society but that there is choice, the people's choice.

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<sup>38</sup> Castells and Himanen 2002: 146

Some of the key characteristics of the Finnish model of the information society differentiate it clearly from Silicon Valley and Singapore, the other well known models of an information society. However, that Finnish success in building a welfare state and society while at the same time reaching the highest levels of scientific and technical achievements is not usually represented to the external world, and even less to those countries that receive Finnish aid. There is a need to have ample, popular and systematic information and publicity about the Finnish model in partner countries and multilateral institutions.

### **1.11 Main Weaknesses of Finnish Welfare state and Information Society**

For a long time, Finland has been able to represent itself as a timid, shy and neutral society between world powers and empires in order to survive. Foreign cooperation has not been an integral part of her survival or post-survival strategy. It has been rather a feature of the generous and charitable Lutheran spirit. However, there is an evident and aggressive emergence of a new unipolar world order, with aggressive ambitions bent on disallowing any challenge to the economic, social, political, cultural or military spheres. The neutral and multilateral approach that Finland has used until now in a very efficient and useful way is being bypassed, downplayed, and even eroded by external forces. For Finland and other small nations, to maintain that order is a matter of life and death. It should be also a matter of survival, a crucial feature of Finnish history and culture, to maintain a diverse, multiethnic and multicultural world. From the southern perspective, Foreign cooperation, not foreign 'aid' should be a crucial instrument for that goal of maintaining a multipolar and multicultural world. For the South, it is also a crucial matter to maintain that pluralistic, multipolar, and multicultural world. For the South, Finland's history, experience and values which have enabled it to survive for centuries and build a successful Welfare Society should be shared.

However, the Finnish experience and society is facing new challenges that would have to be addressed in order to maintain the unique blend of social welfare, private enterprise and economic growth that characterise Finnish informational society. The challenges include the following:

- The divide between the old and the new economy;
- The contradiction between the information society and the structures of government of the industrial age;
- The rise of new inequalities;
- The conflict between the current needs of the new economy and the lack of business-oriented entrepreneurialism among the young;
- The divide between the old Protestant ethic and the hacker ethic of the information creators;

- The vulnerability of Finland to the volatility of the global economy;
- The contradiction between a strong national identity and integration in a multicultural world;
- The tension between being part of multilateral institutions, such as EU, and the Bretton Woods institutions that are increasingly being challenged in a unipolar world; and
- The role played in this new scenario by development cooperation.

## 1.12 Development Cooperation

In spite of official documents related to foreign policy, there seems to be different perspectives on the nature of Finnish development cooperation. Finnish business community usually considers that foreign cooperation should have clear economic benefits for the companies or corporations involved. For them, humanitarian or solidarity motives in economics are secondary. Therefore, people who join the development movement with philanthropy or human responsibility as their motives are imbued with some idealism.<sup>39</sup> Box 3 gives impressions on Finnish cooperation in its early period.

### Box 3: Lessons from Finnish History

When missionary Kurvinen asked King Sikongo of Ovamboland (Namibia) whether they wanted teachers, the King told him that they do, but that more than anything else, they would need smiths who knew how to produce ox-carts and mend rifles (Voipio 2002). This episode of the Finnish missionaries with King Sikongo in Ovamboland seems to be an adequate synecdoche for the asymmetric and unequal perceptions that throughout history have evolved among Finns and southern societies, especially in matters related to aid and development. Finland is a young country, which has been able to experience a profound transformation, has a lot to say and share to the rest of the world without much fanfare and pretension. For centuries, Finland has been able to play most of the time 'opposum', or timid, or shy or neutral between world powers and empires in order to survive. Foreign cooperation has not been a necessarily integral part of her survival or post-survival strategy. It has been rather a feature of the generous and charitable lutheran spirit.

<sup>39</sup> Swantz in Hakkarainen et al 2002:20



For many decades, critics of Finnish development co-operation have questioned the way development projects are administered and controlled. Their criticism is aimed specifically at the excessive control practiced in the administration of development co-operation. The possibility for recipients to somehow feel that they are owners of these processes is very limited in the current bureaucratic system of tight controls.<sup>40</sup> The issues of respect to national cultures, values and histories are also important in third world societies and apparently not enough in Finnish foreign cooperation at this age of multilateralism and globalisation. Somehow, Finnish policies of foreign cooperation seems to lose their specificity and identity related to Finnish experience and values once Finnish cooperation becomes part of multilateral packages for “foreign aid”.

In the issue of foreign cooperation, Finland seems to confront a dilemma. Initially, foreign cooperation was a sovereign decision-making area for the national state and was justified based on Finnish strategic interests and foreign policy. This was at a time when Finland was struggling to maintain its independence and neutrality in the cold war era. With the end of the Cold War and Finland’s decision to join the European Union and multilateral institutions, the possibilities of maintaining a national imprint on foreign cooperation seems to have diminished dramatically. There is talk about ‘aid fatigue’ and the difficulty to find resources for development co-operation. Some argue that it is necessary to overcome the national perspective and find new arguments – at a different level – for development co-operation. In this context, the debate on globalisation is very important. For countries in the South, it is vital that Finland rescues and revalues its unique experience of creating a democratic welfare state while at the same time achieving the highest levels of economic and technological development. Such a model conjoined with Finland’s strategic conception of creative neutrality is crucial for the survival of third world societies in a growing unipolar world reluctant to recognise and respect different historical, political, economic and cultural options.

### 1.13 Historical Background to the South’s Perception of Finns

On 18 September 1867, the General meeting of the Finnish Evangelic Lutheran Missionary Society (FELM) after receiving a letter from German missionaries asking for European missionaries, decided to send its first ever missionaries to work among the Ovambo people in what is now Namibia. Over two years after those missionaries left Finland, they arrived to Ovamboland. The next morning, the missionaries met King Sikongo, who welcomed them in a friendly manner and offered them beer. In

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<sup>40</sup> Swantz in Hakkarainen et al. 2002:20

his introductory address, the Finnish missionary Pietari Kurvinen had the following to say to the King and his people: “Two years ago, while we were still in our faraway home country across the seas, we got a message telling that you wanted to receive missionaries. This gave us the reason to leave our homes, relatives and friends, and to hurry our way to you. God helped us on our journey over the mighty seas, and now we are happy to be here with you. We only ask: Are you happy, too, that we have arrived? We have not come in search of any material gain, but for the sake of the salvation of your souls. For do not assume that human souls disappear when human beings die. No, those favoured by God, whom you call “Kalunga”, will join him in eternal joy.”<sup>41</sup> In his reply, King Sikongo said: “Your words are good. We do want to do as you say.” When Kurvinen asked him whether they wanted teachers, the King told him that they do, but that more than anything else, they would need smiths who knew how to produce ox-carts and mend rifles.<sup>42</sup>

The early missionaries’ letters to Finland indicated a degree of realism in the way they explained their relatively successful early years. From the point of view of the Namibians, the missionaries were neither Finns nor Germans. They were “white men”. The Ovambos called the whites ‘osilumbu’, or “white ghosts”. The whites were thus not conceived as “human beings” in the sense Namibians conceived themselves. They, however, were beings with whom it was considered wise to be in good terms, for they had access to some “mighty, scary powers” that the Namibians were not familiar with. Only by the use of such powers of the invisible world, the Namibians reasoned, could the whites have acquired their extraordinary wealth.

Also the healing powers of the few European drugs the missionaries had with them, and which they shared with Namibians, made a strong impression on the Africans. Among the “genuinely poor local people”, as Kurvinen described the Namibians, such material bounty gave the white men a magic image. Thus, also the African kings’ desire to learn to read was probably linked to similar magical beliefs: the kings wanted access to the powers that the white men, always carrying their Bibles and other books with them, had in their books.

This episode of the Finnish missionaries with King Sikongo seems to be an adequate synecdoche for the asymmetric and unequal perceptions that throughout history have evolved among Finns and Southern societies, especially in matters related to aid and development. For the common people of Nicaragua and Honduras, “The whites” (The Cheles) are good, generous, some times arrogant, and most of the time they have been able to have access to wealth and resources that are not available for most of the members of peripheral and impoverished Southern societies.

<sup>41</sup> Voipio 2002: 462–509.

<sup>42</sup> Voipio 2002: 462–509.

In the late 19th century, the Caribbean region was culturally and climatically an unknown area for Finns. At the beginning, the men who arrived to the hot region of Costa Rica were covered and stuffed with sheep skin. Therefore, black and indigenous Costa Ricans probably considered the travellers as an exceptional phenomena and there was a mutual exchange of exoticism between Finns and locals.<sup>43</sup> Finland's official policy towards Latin America has usually been subjected to Finnish trade policies. In the 1960s, development cooperation became an important aspect of Finland's foreign policy. Development cooperation has focused mainly on forestry and lumber industries. Currently, Finnish cooperation for development supports peace processes and the promotion of human rights in Central America. It also supports ecological and health projects in Latin America. During the late 1970s Finnish NGOs became interested in Latin America. From 1963 onwards friendship societies were created, whose boards of directors were presided by parliamentary representatives to give political weight to NGOs. Box 4 presents some of the perceptions on Finnish development cooperation in Nicaragua and Honduras.

#### **Box 4: PERCEPTIONS FROM THE SOUTH. Nicaraguan and Honduran partners' opinions on Finnish Cooperation**

##### **SAREM**

"Finnish T.As" and the "Cheles" (Whites) did not share what they considered crucial and sensitive information.

Spoke Finnish, when they did not want Nicaraguan personnel to understand what they were communicating among the foreign personnel .

They came to evaluate with foreign models, ignoring national culture, and the role and experience of Nicaraguan midwives.

The whites ("cheles") underestimated us.

They make us feel they were in command and took all the decisions because they owned the money.

The T.As were too schematic and rigid

The power to have access to the financial resources of the project, provoked too many tensions. We were not able to have access to budgetary information by any means whatsoever. That way of handling the budget was not a good example of accountability and transparency. The Ministry of Health that was in charge of implementing the project did not have access to budgetary information.

<sup>43</sup> Pakkasvirta and Aronen 1999:7

	<p>We the local technical personnel, although equally qualified, were the underdogs. The perquisites and privileges were for the international T.As., only.</p>
<b>PROCAFOR</b>	<p>The end of the project and the transition to a new stage has not been planned. We would like not to deliver papers and documentation only.</p>
<b>CONTRALORÍA</b>	<p>The project to strengthen accounting controls through the State's auditing office was done using the most rigorous methodology. It is one of the most controlled projects I have seen. It had three decision levels. It also had checking and auditing levels.</p>
<b>URACCAN</b>	<p>The environmental development plan supported by Finnish cooperation constitutes a very important landmark in the autonomous regions. However, it seems to be clandestine. Nobody knows or has access to it. They (Finnish representatives) should follow up that plan in order to maintain their contribution to sustainable development.</p> <p>We disagree with new trend of foreign donors based only on SWAPs. They should continue promoting foreign cooperation through projects channelled through civil society and not follow the tendency to reorient all foreign cooperation based on sectorial approach and bilateral relations. Such a tendency does not help to strengthen the autonomy process of indigenous peoples nor helps to deepen democracy in Nicaragua. It is good they continue the process of harmonization through FICCA (Forum of International Cooperation with the Caribbean Coast of Nicaragua). However, the harmonization process should promote policies and programmes that are inclusive and participatory of local actors, not only of national ministries and institutions, especially in issues related to forestry, health and bilingual/ intercultural education.</p>
<b>SAREM</b>	<p>The turnover of project personnel has been high.</p> <p>The high proportions of the TA costs of the local project budget and the difficulties of the consultant to recruit suitable expatriate personnel have been criticized.</p> <p>The Sarem project personnel have not been content with cooperation among themselves or with the local embassy or the MFA. The Mid-Term Review was not seem to reflect the experience of project staff, but the same consultant was used by the MFA for planning Phase II.</p>
<b>FOREIBCA / URACCAN, PROCAFOR</b>	<p>The project intervention in the Atlantic Coast should take into account more explicitly the different cultural groups and communal bases of those groups.</p> <p>Procafor is a regional program with individual country projects only loosely bound together. The commitment of the national implementer has been weak, causing the project to gear its work towards the local level actors</p>

Finland, for historical and economic reasons, has decided to become intrinsic part of the European Union. However, the South expect that membership of the EU by Finland should not means a negation of Finnish experience, history and values. For Southern societies, to share and learn about Finnish survival experience and its willingness and methods to overcome adversity should be an intrinsic part and parcel of our partnership and cooperation with Finland.

Of special relevance to the debate has been to realise that the notion of welfare society developed by Finnish people does not entail a bureaucratic project built and imposed from the top down upon members of society. It has been an extremely complex and painful process, developed and built throughout centuries, from the bottom up, by common people, churches, community and labour organisations, private companies, political parties of different ideologies that, because of Finnish religious, cultural and historical background, have been able and willing to learn of their mistakes, differences and common interest to build a civil and political society for all Finns. In Southern societies that are destroyed by extreme poverty and civil and political strife, the Finnish experience represents an extremely valuable resource, as important if not much more important than Finland's financial resources. The South sees the Finnish experience and as an alternative model worthy of consideration.

## Chapter 2

# Multidimensional Profile of Poverty

At root is the problem that global integration can destroy hard won social gains in many countries – driving them down to the lowest common denominator in a competitive market – or, on the contrary, integration can begin to raise social standards towards levels attained in the most successful cases. The future welfare states will depend partly on how they compete in this global marketplace and partly on the rules of the game that regulate this competition, on the political decisions made about this.

Deacon et al, 1997: 203

## 2.1 Introduction

It is increasingly being questioned whether the nature, magnitude and severity of poverty can be fully appreciated and understood using the current tools of its quantification. The difficulties encountered in developed countries' current efforts to assist countries in the South to come up with poverty reduction strategies that reflect the specific realities of these countries underlay the growing recognition that new tools and indices have to be developed to better understand this phenomenon. Indeed, without a proper definition and diagnosis of the poverty problem, the interventions that ultimately are prescribed would continue to bear little meaning to the affected people. In this regard, at the core of concerns with poverty reduction is the very meaning given to poverty and the approaches used to overcome this daunting challenge. Profiles of poverty have for far too long been dominated by the money-metric or income approaches to poverty. Much has been said about the limitation of such an approach especially since the launching of the *Human Development Reports* in the 1990s with their emphasis on social and human poverty. The limitations of the unidimensional approach based only on income or consumption is not limited to a narrow approach based on variables that are relatively easy to quantify.

Of greater concern are the fundamental assumptions regarding poverty reduction that is embedded in the money metric approaches to poverty especially those related to the imposition of a minimal state, and the consequent erosion of the fledgling social protection in countries of the South. The income approach to poverty is premised on the assumption that employment is the main means of fulfilling basic needs. Moreover, it is assumed that needs ought to be satisfied on a private basis and principally through the markets of labour, goods and services. In this context, poverty is defined

as the process of exclusion from the market. Social transfers are reserved for those who are considered most needy but unable to acquire their means of subsistence on these markets. The defining characteristic of such an approach is the minimal role it preserves for state-based entitlements.

There have been long term and varied efforts at developing alternative conceptualization poverty. Thus far, the major outcome of such initiatives has been the portrayal of the multidimensional and context-specific nature of poverty. A case in point includes the formulation of the Human Poverty Index (HPI) an approach that translates the multidimensional nature of poverty into well-being or quality of life indicators. Influenced by Amartya Sen's conceptualization of poverty as 'a deprivation of basic capabilities' reflected in 'premature mortality, significant undernourishment, persistent morbidity, widespread illiteracy and other failures',<sup>44</sup> this composite index incorporates indicators of deprivation concerning longevity, knowledge and living standards. Accordingly, the HPI encompasses the percentage of people expected to die before age 40, the percentage of illiterate adults, the proportion of malnourished children under the age of 5, and of people without access to health services and safe water.

Sen's usage of 'capabilities' and 'entitlements' shift the analysis of poverty and vulnerability from a focus on income shortfalls as the main attributes of poverty to bundle of assets or endowments held by the poor, as well as the claims attached to them. Poor harvest, lack of markets, unemployment and price shocks may increase the vulnerability of particular individuals, depending on their asset bundle and their capacity to mobilise the resources at their disposal to withstand crisis and shocks. In cases of 'entitlement failure' and other forms of deprivation, it is assumed that the predominant responsibility for overcoming such adversities and deprivations falls on the state together with a democratically regulated market and other forces in society, including the poor who are the key agents in overcoming poverty. The notion of assets and capabilities underscores the relational character of poverty that is not only relations between different social actors but also the institutions with which they must engage in order to survive. "Poverty in this framework is not about falling below a certain income threshold, but also about having the abilities and assets from which people can derive a livelihood in the future."<sup>45</sup>

Such reflections, together with the increased use of participatory methodologies, have made it possible to comprehend the multidimensional nature of poverty and the type of pro-poor public policies that have the potential to substantively reduce poverty. Participatory methods that solicit the 'voices of the poor' have revealed both the material

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<sup>44</sup> Sen, 1999: 20

<sup>45</sup> May, 2001:32

and the non-material dimensions of poverty such as trust, solidarity and respect. Poverty is indeed a complex and multifaceted but not a static phenomenon. While some individuals and households are chronically poor or destitute, others move in and out of poverty. Poverty has economic, social, cultural, political and environmental dimensions. In addition to the well-known features of unemployment, underemployment, landlessness, homelessness, harsh working conditions chronic food insecurity and vulnerability, poverty also means social isolation, powerlessness, and violation of dignity, voicelessness and time poverty.

In multiethnic and multicultural countries such as those being closely looked at in this partner review, poverty is aggravated by processes of ethnic, cultural and linguistic differentiations that manifest themselves in country and sub-region specific patterns of social and political exclusion and marginalization that amount to second-class citizenship i.e. the indigenous people in Nicaragua, ethnic minorities in Ethiopia or the untouchables (Dalits) and indigenous population in Nepal. In these cases, the success of poverty reduction depends on the extent to which these forms of deprivations are addressed along with other socio-economic and political concerns. Another issue that is a major contributory factor to poverty in Southern countries is the diverse set of challenges emanating from environmental change. Here again, poverty reduction strategies have to identify ways of building a strong social pillar of sustainable development. This Chapter examines various responses to poverty that have been taking place at least since the 1990s with emphasis on anti-poverty strategies addressed by Finnish development cooperation. In line with the major focus of this partner review, the exploration of anti-poverty strategies will be preceded with a brief review of the Finnish experience in overcoming poverty.

## **2.2 Lessons from the Finnish Experience**

### **2.2.1 Growth with Equity**

Looked at from Southern perspectives, striking features of Finnish development of the not too distant past (see Chapter One above), are the similarities with the South's current realities. These features included a predominantly agrarian economy, large-scale poverty, and harsh climatic conditions. In the 1940s, the major mode of livelihood for over half of Finland's population was farming. However, by 1970, the proportion was down to 18 percent and by the 1990s, it was a mere 8 percent. Observers note that the magnitude of economic growth and structural change that took place in Finland in the 1960s is unprecedented in the history of Europe and that during the 1970s and 1980s, Finnish economy expanded faster than any of the industrialized European



countries. What were the key factors that underpin this phenomenal transformation from a predominantly agrarian society to a society leading the European Union in the shift to the information society in such a short span of time? The factors are numerous but at the risk of simplifying complex realities, two major contributory factors can be isolated. These are the implementation of growth-promoting universal social policy simultaneous to a strategy of diversification of the economy. A key lesson from the Finnish experience is that there need be no trade off between equity and growth. In a recent comparative review of the characteristics of the Nordic welfare states, the following were highlighted:

- Wide scope of public social policy
- Strong state involvement in all policy areas
- High degree of universalism
- Income security based on both flat rate and earning-related schemes
- High quality of public services
- Even income distribution
- Gender equality<sup>46</sup>

### 2.2.2 Strong State Involvement

The scope of public social policies refer to the wide range of welfare measures that in Finland include child benefits, old age and disability pension system, sickness insurance, housing provisions. Contrary to the prevailing orthodoxy, Finnish development is the outcome of strong state involvement in all policy areas. However, in this case, state involvement has not crowd out the private sector as it too plays an important role in the provision of goods and social services. In this context, Kautto (2002) defines welfare states as a democratic state that devotes a disproportionate amount of its fiscal resources to servicing the needs of the welfare of the population as opposed to countries that have other priorities. To be sure, social policies are the result of diverse social structures, historical and political processes and it will be erroneous to isolate single determinant or a sole powerful causal force of successful social policies. Social policies and responsive institutions of the state evolved over a long period of time.

The high degree of universalism implies that all citizens as well as residents are entitled to public services and income transfers on the basis of citizenship or residence in the country. Moreover, a person does not have to have a family or be gainfully employed to be eligible. This form of eligibility that does not depend on marital status was one of the factors that enhanced gender equality. This degree of universalism was

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<sup>46</sup> Kauto et al, 1999

the result of political competition and coalition among diverse types of political parties, both of which influenced the timing and scope of social policies.

### **2.2.3 Inclusive Citizenship and Political Stability**

In turn, redistributive social policy promoted a sense of inclusive citizenship and served as a crucial instrument of conflict management. Absence of social and economic polarization made it possible to build consensus regarding policy changes. The resultant political stability was a prerequisite for sustained economic development. Access to universal state-based entitlements which are equally available to all members of a society ensured transparency and efficiency. In addition, expansion of social services led to the expansion of markets as well as gainful employment. For example, the housing policy served as a tool for the improvement of living conditions and the expansion of the construction industry.

### **2.2.4 Gender Equality and Child Welfare**

In the case of Finland, progress towards gender equality was achieved through a variety of measures ranging from the provision of voting right to a bundle of other services that supported women in their childbearing and child-rearing functions through the provision of generous benefits. These measures included women's entry into the labour force, access to quality social services, access to social security as independent citizens and not as dependents of men. More importantly, the provision of municipal day care or child home care allowance reduced or compensated for women's responsibility for childcare.<sup>47</sup> In turn, these measures together with focused attention on child welfare by charitable organizations, political parties and subsequently the state led to the provision of better nutrition, health care, clothing and improved housing and helped to overcome child malnutrition and infant mortality, two major features of poverty.

### **2.2.5 Crisis Management**

In the 1990s, Finland experienced the most severe economic downturn as evidenced by negative GDP growth for three years in a row, five-fold growth in unemployment and increased debt as percentage of GDP. Globalization, integration into the European Union and other factors have led to welfare state adjustment. All these factors as well as increasing trans-border activities and volatile financial markets have led to a

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<sup>47</sup> Peitila, 2001; Hiilamo, 2002

considerable shift in the quality and quantity of state power and authority, including the possibility of exercising 'sovereign' macroeconomic policies.<sup>48</sup> Despite these changes, however, it could be argued that it is the solid gains from the universal social welfare policies that mitigated the social impact of the crisis and the rapid recovery.

On the other hand, both the crisis and Finland's enhanced participation in multilateral and financial institutions have brought considerable changes in its relation with countries in the South. The development cooperation of Finland is promoted through bilateral assistance as well as through multilateral, regional and international financial institutions. In what follows, this Chapter explores the role of Finnish development cooperation in the evolving global effort at poverty reduction with an emphasis on the potential role it could play in promoting the interests of Southern countries.

## 2.3 Responses to Poverty

With the recognition of the magnitude and depth of poverty, there have been a variety of responses ranging from responses by households, communities, governments, multilateral institutions as well as international financial institutions. The most influential response has been and continues to be those that are promoted by international financial institutions. The 1990s have witnessed an accelerated focus on poverty reduction signalled by the 1990 World Development Report of the World Bank which ushered in the 'New Poverty Agenda' (NPA). The new agenda consisted of a three-pronged strategy, comprised of labour-intensive growth, human capital development and the provision of safety nets. Despite an apparent shift in emphasis, the underlying assumption informing the 'new agenda' was based on an almost exclusive focus on economic growth and a slightly expanded notion of the residual model of social welfare.

### 2.3.1 Labour-intensive Growth

The major factor that led to the search for a new strategy was the severely deleterious social and political impact of the Structural Adjustment Programmes (SAPs) of the 1980s and a response to the calls for 'Adjustment with a Human Face'. This led to the first prong of the new strategy focused on labour-intensive market-led growth that was to be achieved through growth in agricultural productivity and incomes. However,

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<sup>48</sup> Kautto, 2002

there was to be no change to the macroeconomic framework that promoted deregulation of agricultural marketing, commercialisation of agricultural services and liberalisation of financial services. It was argued that these measures would restore agricultural growth and improve rural incomes and livelihood. In addition to 'getting prices right' that dominated the first adjustment decade, there was a new emphasis on the need for institutional reform as expressed in terms of 'getting institutions right.'

The emphasis on the need for a minimalist state whose role was limited to provision of infrastructure that would stimulate investment by the private sector continued to be a major component of the strategy. In the case of agriculture, the antipathy to the role of the state led to the reduction in critical public expenditure outlays on agricultural input subsidies, marketing boards and research and extension services. The removal of subsidies and the introduction of cost recovery for agricultural services have resulted in limited gains for a handful of smallholder farmers, a deterioration of food security and declining income of the majority of poor farmers.

### 2.3.2 Access to Social Services and Willingness to Pay

The second component of the 'new' approach to poverty reduction focused on the development of human capital through the provision of basic social services especially primary health and education. Following a decade or more of cuts in social spending and the severe depletion of human resources in large number of countries, the emphasis on increased public spending on the social sector was a much-needed initiative. The emphasis on efficient public investment in health and education implied 'a redirecting of spending from the urban, the rich and the tertiary sector toward the rural, the poor and the primary sector.'<sup>49</sup> However, there was clear shift from the earlier view of health and education as basic rights as this new emphasis was based on an instrumentalist view of social services.

This instrumentalist view of social services continues to inform development cooperation. This is much more evident when one looks at the rationale for increasing girls' access to education. Education for girls is justified in terms of high economic and social returns to such investment. Education for girls is not considered a basic right, but an investment that will promote lower fertility rates, better health for children and increased labour and economic productivity. Moreover, the emphasis on increased social spending is being promoted along side cost recovery schemes that tend to decrease access to primary services by the poor. Far from reducing poverty, SAP-induced cutbacks in public expenditure, the removal of subsidies, and the introduction of user fees have

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<sup>49</sup> Whitehead, A & Lockwood, M 1999:34

tended to worsen child malnutrition, increase women's workload, and caused a decline in the gross primary enrolment for girls in most countries in Sub-Saharan Africa, Nicaragua, Honduras and Nepal.

### 2.3.3 Towards a Residual Social Policy

The third component of the 'new poverty agenda' entails the provision of safety-nets. In most cases, these are limited to income maintenance programmes that are meant to protect those that are incapable to work and earn income and those individuals and households facing adverse outcomes caused by bad harvests, economic recession and the death of breadwinners. As of the late 1980s, the World Bank introduced 'social funds' in recognition of widespread poverty that has also resulted from SAPs and other factors such as conflicts. This residual model of social welfare emerged as a response to transitional poverty in countries enjoying full employment "but has been diffused uncritically by the World Bank to very different socio-economic contexts."<sup>50</sup>

These 'demand-driven' projects that presumably respond to the 'priority needs' of the poor are often administered by an autonomous unit outside government and implemented by Community-based Organizations (CBOs), NGOs, municipalities and private firms. With their emphasis on the improvement of economic infrastructure and social services, these funds tend to create parallel structures to the sectoral ministries responsible for infrastructure and services while their responsiveness is limited to those who can make financial and labour contributions. In the case of Zambia, for example, the contribution by community groups constituted 25 percent of project costs and failed to include explicit strategies that address inequities within communities and households.<sup>51</sup>

### 2.3.4 Poverty Assessment and Participatory Poverty Assessments

In the context of elaborating the NPA, the World Bank launched Poverty Assessments (PAs) in a large number of countries. The significance of this undertaking is that, in addition to being used to formulate policies by the World Bank, it is also used as a basis for formulating development cooperation by other donors, such as Finland, who do not engage in major data collection exercise. The PAs are aimed at highlighting the poor's own perception of poverty. Although, the PAs are based on diverse definitions and measurements of poverty, most give priority to an income and /or consumption

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<sup>50</sup> Kanji, 2001: 112.

<sup>51</sup> Kanji, 2001: 115.

definition, a money-metric poverty line, and quantitative estimate of the percentage of the population in poverty.

The PAs have been subjected to numerous criticisms. These include the failure to identify the causes of poverty; the inability to move the analysis from individuals and undifferentiated households through micro-meso-and macro-levels and the links between these levels; and finally, the failure to provide a gendered analysis of poverty. More significantly, the PAs have been criticised for the gaps between evidence, analysis and policy,<sup>52</sup> as indicated in Box 5. The most important point is the relation of the research output and the policy context. Indicative of the Bank's orthodoxy on poverty reduction strategy, the "overall policy climate embodies assumptions about what can or cannot be done, and what should or should not be done in the realm of poverty."<sup>53</sup> Accordingly, those research findings that point to the need for a change in policy are ignored.

#### Box 5: Gaps between Evidence, Analysis and Policy in Poverty Assessment

Poverty description and analysis find their way into policy in Tanzania PA selectively (World Bank, 1996b). A lack of rural infrastructure and education are evoked, as are safety nets. Agricultural growth is argued to be key, achieved through better technology, to come from research and extension. Although the income sources of the poor and non-poor differ mainly in the latter getting more from off-farm sources, this is not followed up in policy selection. Credit and input availability is downplayed, although they were heavily weighted in the PPA. The mechanics of the relationship between education and poverty is not explored at all. The issue of remoteness is addressed by proposing more roads rather than rethinking of liberalization of marketing, which is clearly the problem in the analysis. The Tanzania PA is one of the two PAs with a whole chapter on gender issues, including discussions of education, legal rights and poverty in relations to sex of the head of the household. In the policy section, however, gender appears only in a recommendation about female education and the need for targeted social spending

- - - We have argued that the gaps between evidence and analysis on one hand and policy on the other reflect a process by which policy sections of the PAs came under close peer scrutiny and review. While differing empirical specifics of poverty are consistent with the Bank's position, on poverty reduction, different models for poverty reduction are not.

Source: Whitehead, A and Lockwood, M (1999)

<sup>52</sup> Hammer et al. 1997 and Whitehead and Lockwood, 1999

<sup>53</sup> Whitehead and Lockwood, 1999: 42

On the positive side, the growing use of Participatory Poverty Assessment has enhanced the South's understanding of the multidimensional nature of poverty. More importantly, it has facilitated the involvement of the poor in problem identification and finding remedies, even if the voices of the poor do not influence the nature of the policies. "An important claim for PAs is that because they are locally owned, in a way that conventional poverty measurement is not, they open up a national debate on poverty and make it a visible and legitimate issue of political discourse. Certainly, there is evidence that the PAs are opening up lively and productive debates at both national and international levels. It is too early to judge whether or how soon this will lead to shifts in political priorities and policies."<sup>54</sup> As can be seen below, current debates on the Poverty Reduction Strategy Papers confirm the validity of the authors' observations both in terms of the emergence of vibrant debates, and breaks and continuities in political priorities and policies.

## 2.4 Sustainable Development

At the international level, most of the UN conferences that took place throughout the 1990s kept up the debate on the complex nature of poverty and identified priorities and 'global compacts' with values and norms that are now accepted as global standards. A case in point is the emergence of 'sustainable development' that has figured prominently in the 1992 United Nations Conference on Environment and Development (UNCED). The Rio Declaration on Environmental and Development, often referred to as 'Agenda 21' and considered as 'a blueprint on how to make development socially, economically and environmentally sustainable' promoted the concept of sustainable development. Subsequently, the United Nations World Summit for Social Development also highlighted sustainable development to underscore the interdependence and complementarities between social development and environmental protection. The major concern conveyed by the term is the issue of intragenerational and intergenerational equity that is the promotion of social equity between and within each generation. Based on a paradigm that simultaneously addressed development and the environment, Agenda 21 envisaged the eradication of poverty, changing consumption and production patterns.

However, sustainable development in the last decade has become a term that conveys "different and often contradictory meanings for the diverse groups promoting it."<sup>55</sup>

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<sup>54</sup> Whitehead, A and Lockwood, M. 1999:28

<sup>55</sup> Barraclough, 1999

In other words, sustainable development in the discourse of many development agencies and the public has often come to mean only the conservation of the environment and its natural resources while neglecting social equity. In the decade between the Rio conference and the World Summit on Sustainable Development held in Johannesburg in September 2002, the concept of sustainable development has both been enriched by social movements and highly contested by powerful global forces. Two of the underlying aspects included in the Rio Declaration guiding sustainable development were the principle of common but differentiated responsibilities and the precautionary principle.

The principle of common but differentiated responsibilities implies that the countries that are the biggest contributors to environmental problems should take the lead in cleaning up the environment and changing consumption and production patterns. Similarly, the precautionary principle states that in case of threats of serious and irreversible damage, the lack of scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation. In the build up to the Johannesburg meeting and at the meeting itself, the US opposed both the principle of common but differentiated responsibilities and the precautionary principle, while the European Union supported the latter.

The other contentious issue was that related to role of trade liberalization in promoting sustainable development with environmentalists concerned about sustainability impacts of trade agreements. Although the EU had commissioned a sustainability impact assessment of trade agreements, it supported statements that referred to the role of trade liberalisation in promoting sustainable development. A second trade-related contentious issue was the removal of 'perverse' subsidies, in particular agricultural subsidies. Both the EU and the US took a defensive stance in view of the subsidies (increased subsidies in the case of the US) that they continue to provide to agriculture. Yet another contentious issue was the binding framework on corporate responsibly and accountability.

In Rio, the biggest concerns of the South were the social goals of development such as poverty eradication. The consensus was that environmentally sustainable growth based on changing patterns of production and consumption was necessary for poverty eradication. In reality, what has been taking place is the acceleration of growth patterns that are harmful both to the environment and human reproduction. Concerns with fast returns on investments have meant the dissemination of toxics into the air, into water and into food chains.

Similarly, chemical, military and bio-industries poison the environment, human bodies, and jeopardise reproductive health. Rising income disparities and poverty also undermine human health and reproduction. In addition to preventative environmental policies and management practices, poverty reduction necessitates sharing and



preventing the social costs of economic growth as well as a strong framework for sustainable development. In other words, “the package of policy measures and tools to operationalise a social framework for sustainable development should include a living wage; affordable health care; access to land, including land reform; safe drinking water and access to sanitation; clean and affordable energy for household needs; access to public education; minimum pension security guaranteed by the state.”<sup>56</sup>

In addition to such a comprehensive social policy, there is a clear need for new development paradigms and both global and national regulatory mechanisms. Some of these additional measures include the formulation of new economic models that take production, consumption, and social and environmental reproduction into account; the development of country and region specific social, environmental and economic policies based on a participatory process and genuine partnership; changing the pattern of production, implementing the precautionary principle, and putting a mandatory licensing system on the chemical industry; and government regulation of the market and safeguarding social and environmental reproduction, including the fair sharing of its costs within households, between countries and between and within North and the South.<sup>57</sup>

## 2.5 Towards Universal Coverage of Basic Social Services

### 2.5.1 The Fundamentals

Based on the conviction that the delivery of basic social services is one of the most effective and cost-effective ways of combating poverty, several United Nations organizations and the World Bank launched the 20/20 Initiative at the World Social Summit in 1995. Based on calculations with regard to the state of coverage in basic social services and the unit cost of providing such services, the Initiative proposed that in order to achieve universal coverage of basic social services, 20 percent of budgetary expenditure in developing countries and 20 percent of aid flows should, on average, be allocated to basic social services. In other words, the assumptions regarding resource availability is that total government spending in countries of the South will remain between 20 and 25 percent of GDP and that donors will make progress towards the goal of allocating 0.7 per cent of their GDP to overseas development assistance.

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<sup>56</sup> DAWN, 2002

<sup>57</sup> DAWN, 2002

The Initiative had the merit of highlighting the major constraints that stand in the way of universal coverage of basic social services. The first challenge faced by the advocates of the Initiative is a lack of a consensus on what constitutes basic social services. The 20/20 Initiative defines basic social services as comprising basic education, primary health care and family planning services, low-cost water and sanitation, and nutrition programmes. The determination of public expenditure on basic social services is rendered difficult by the variation in the specific definitions of social services like education and health and the classification of these items in national budgets. A related problem is the lack of clear consensus among donors on which development activities constitute basic social services and the lack of consistent reporting on funding of basic social services by donors. Hence the need for the standardisation of national budgets and establishing common standards of reporting on bilateral assistance by donors, such as Creditor Reporting System (CRS) developed by the Development Assistance Committee (DAC) of the OECD.

Reviews of public expenditure on basic social services have also highlighted the need for restructuring health and education budgets in favour of basic services, the reallocation of resources that are already being spent on non-basic social programme such as military spending, and increasing the budget allocated for low-cost water and sanitation. It is important to recall that while the budget allocated by large number of Southern countries to water and sanitation was inadequate, this trend has been exacerbated by externally-derived policy advice against public investment in water and sanitation projects based on “cost-effective” considerations. Government investments in water and sanitation projects have been discouraged on the grounds that “such subsidies compromise the demand-driven approach to services (that is, provision of services that people want and are willing to pay for); lack of accountability and inefficiency are inevitable consequences.”<sup>58</sup>

Moreover, the review of expenditure on the social sector in a large number of countries, including Nepal, Vietnam, and Zambia, reveal that slow progress towards universal access to basic social services is more a result of debt service rather than lack of commitment by governments to social expenditure.<sup>59</sup> Box 6 shows the face of poverty in Honduras. Thus, the major challenge lies in the mobilisation of additional resources. Improving the efficiency of tax collection is one way of augmenting resources. But what is needed to ensure substantive resources is a reconsideration of tax policies that have been imposed as part of trade liberalisation. Trade liberalisation has meant avoiding taxes or limiting tax increases on corporate and personal incomes because of their adverse effects on investment and capital flows, and lowering trade taxes.

<sup>58</sup> World Bank, 1993: 93

<sup>59</sup> Harrington et al. 2001

### **Box 6: The effects of SAP and PRSP in Honduras. Weakness, Inequality and Complicity**

Honduran society has extreme inequalities and is going through a crisis that is directly affecting the weakest social groups, while at the other extreme a handful of people is growing opulently rich. The figures are as stark as the general levels of indifference: the poorest 20 % of the population receive only 2.65% of the national income, while the wealthiest 20% have their hands on 57.3%.

The only institutional "response" to this abyss is the Poverty Reduction Strategy (PRS). It is being presented as the nation's most important social proposal, but it is not yet being implemented and does not address the country's inequalities even theoretically.

The last household survey showed that 64.4% of Honduran households are living below the poverty line, with 47.4% living in extreme poverty. In rural areas, poverty affects over 70% of the households. One of the few practical results of the PRS in 2002 was to create a strategy consultative group, which consists of six representatives from the government sector, five from civil society and one each from municipal government and international cooperation.

The official strategy is to target 80 of the country's 297 municipalities, some of which have living conditions similar to the worst cases in Africa, with social compensation actions. The civil proposal, on the other hand, is to promote regional strategies to fight the causes of poverty rather than simply palliate it.

Perhaps what the official strategy and the civil strategy really share is the lack of any nation based project. Neither vision offers a model of society that is significantly different from the current one.

In its first year in office, Ricardo Maduro's government team concentrated on promoting the maquiladora free trade zone assembly plants, tourism and a housing construction program, which it was calculated would generate 50,000 new jobs a year. But so far the prevailing feeling has been that the country is drifting in a climate of economic uncertainty amid indecision and unfulfilled expectations. The new government was unable to reach an agreement with the IMF in its first year. The main unachieved IMF goals were of a fiscal nature, such as the expenditure level dedicated to central government wages and net national financing for the public sector. The discrepancies between the government and the IMF are not really fundamental in nature; they have more to do with form and time periods. Both agree on the need for the mass layoff of public employees, but while Maduro is worried about the political price he would have to pay for such a decision, the IMF is only interested in numbers. It is most probable that the government will sign its letter of intent with the IMF in the first half of 2003 and the citizenry will not be involved in the process.

As far as the political panorama is concerned, the first year's gloves are now off and the air is thick with the smell of confrontation, as proved by the Liberal Party's critical analysis of the Maduro administration. The Liberals demanded that the government do everything that they failed to do during the previous eight years when they were in power. But then politics in this country has always been more motivated by the plain calculation of interests than by the scruples or ethical considerations.

A good point of convergence between the government and the citizenry in 2003 would be the demand for state decentralization. To date, the relationship between the government and the population has been predominantly top-down and never vice-versa. The decentralization favored by the State has been understood more as privatization or concessions for exploiting strategic resources such as water than a mechanism to strengthen civic participation or co-management. At the grassroots level of society, however,

efforts are still being made to mobilize communities under different organization forms, including associations, and there are many positive experiences whose value transcends the local sphere. The government's need to find civilian interlocutors will be even more indispensable in 2003, a year already charged with high levels of social conflict, once initial expectations are adjusted with a good measure of realism. The conflicts with secondary school teachers and coffee growers will remain latent, although it is evident that the conflictive agenda will increase and become more heterogeneous. In addition to answers to its problems the Honduran population is seeking an alternative national channel through which to express its discontent, protest and proposal. No such channel currently exists. On the contrary, there is a grassroots leadership vacuum at the local level. It should also be recognized that no group is capable of channeling so many different demands at the same time because existing organizations do not represent all of the country's grassroots social sectors. Nor have they been able to come up with the internal unity of criteria and common political lines needed to deal coherently with the different problems. (Envio, Vol. 22 # 260, March 2003)

For instance, customs and excise taxes were a central source of tax revenues in many Southern countries especially in Africa. Eliminating or significantly lowering these taxes has left governments with few alternative revenue sources. The other strategies likely to increase spending on basic social services include debt cancellation and increased bilateral assistance. Finland supports the principles behind the 20/20 initiatives and has supported groups calling for debt cancellation. It would seem that the most important contribution that Finland can make in this regard is to lend support to groups advocating alternative monetary and fiscal policies based on its own experiences of tax collection and redistribution. In responses to increasing poverty, concerns on the severe reduction of resources for the social sector and the debt overhang, the World Bank and the IMF launched the Poverty Reduction Strategy process in 1999.

### 2.5.2 Poverty Reduction Strategy Papers

By the end of the 1990s, it had become obvious that the 'New Poverty Agenda' that the Bank launched in 1990 had not succeeded in significantly reducing poverty. According to its own estimates, the number of the poor (less than \$1 PPP per day per capita) increased from 1.2 billion in 1987 to 1.5 billion in 1999.<sup>60</sup> In early 1999, the Bank signalled a shift in policy with the launching of the Comprehensive Development Framework (CDF) for each country in which it has programmes, with the aim of

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<sup>60</sup> World Bank, 1999

making Bank lending more effective in promoting sustainable growth and poverty reduction goals.

The CDF principles call for country ownership of the long-term national development policy agenda; a framework that integrates macro, social, structural and institutional policies; working strategically with the country's development partners; and a clear focus on development outcomes related to the international development goals. Based on such considerations, In December 1999, the boards of the International Monetary Fund and the World Bank launched a new poverty reduction instrument, the Poverty Reduction Strategy Papers (PRSPs), that aimed at being a framework for concessional lending. PRSPs were intended as a basis for external debt relief under the Heavily Indebted Poor Country Initiative (HIPC) that was launched in 1996 and revised in 1999.

The PRSP process seeks to consolidate budgetary support, debt reprieve, and national planning and participatory methods into a single package. Based on the principles of CDF, PRSPs are also based on six core principles. First of all, PRSPs promote poverty reduction strategies that are country-driven. In other words, this principle encapsulates the growing concern with 'national ownership'. According to the CDF, poverty reduction strategies are to be formulated in each country in 'partnership' with governments, multilateral and bilateral agencies, and civil society in all its forms, and the private sector, making them joint 'owners' of the strategy.

Indeed in most of the countries covered under this partner review, the preparation of PRSPs has entailed varying degrees of participation by a range of social actors. However, if PRSPs are to be truly country-driven, the notion of country ownership through a process aimed at creating 'national consensus' necessitates a dialogue on the macroeconomic, social, structural and institutional policies contained in the PRSPs. However, in most cases, participation has been limited to the social sector components with the exclusion of any discussion on the macroeconomic framework. As a recent critique of such limitation noted:

"The emphasis on participation and ownership in the current approach should help improve policy design and reduce slippage in implementation. However, attention should be paid to the fact that IFIs continue to exert influence on policy design through conditionality rather than playing a primarily supportive role. Countries appear to have greater autonomy in designing social safety nets and targeted spending programmes than in formulating their own development strategies. The emphasis on ownership and participation might thus be perceived as having the objective of mobilizing greater popular support for the conventional adjustment and stabilization policies rather than of giving recipient countries greater autonomy in designing their stabilization policies and development strategies. This factor underlines the recent call by HIPC Ministers for a more dramatic streamlining of conditionality and greater room for the countries to define alternative paths to poverty reduction, with more emphasis placed on growth. A close examination of the macroeconomic and structural

adjustment policy contents of PRSPs shows that there is no fundamental departure from the kind of policy advice under what has come to be known as the “Washington Consensus.”<sup>61</sup>

Supportive evidence indicating the continuity between SAPs and PRSPs and lack of participation by those most affected by poverty has emerged in a number of countries. The observations made on the PRSP process in Nicaragua (Box 7) reflect the reality prevailing in a large number of highly indebted poor countries.

### Box 7: Reliance on Nicaragua’s Poverty Reduction Strategy Paper (PRSP)

As stated in July 2001 comments on CIDA’s Aid Effectiveness paper, “CCIC strongly support aid programs that are directed by authentically-owned and broadly-participatory country poverty strategies, for which a PRSP may, or may not, be relevant in a given country” (CCIC 2001: 5) However, in the case of Nicaragua, the evidence indicates that the PRSP process was neither authentically-owned nor broadly-participatory, and therefore not reflective of the development needs of the Nicaraguan people. Following the World Bank / IMF’s economic model for development, Nicaragua’s I-PRSP works from a narrow and strict definition of poverty, the most fundamental causes of which are said to be economic collapse, limited access to employment infrastructure, and limited access to public infrastructure and services (Government of Nicaragua 2000: v). Confronting the challenge of poverty also requires a clear understanding of the magnitude of the problem. Clearly conditions have deteriorated since the early 1990s... (Bradshaw and Linneker 2001: 6).

In terms of *ownership of the PRSP*, the failure to effectively analyze the causes of poverty is closely related to the Nicaraguan PRSP’s limited consultation process and subsequent consensus. An official consultation process took place between January and July 2000. Through the National Council for Social and Economic Planning (CONPES) – an economic advisory body created by the Nicaraguan government in 1999 – a number of civil society organizations submitted their comments and recommendations. These included concerns regarding the identification of cross-cutting themes (ecological vulnerability, social equity, and decentralization) without any corresponding goals; the targeting of the plan more towards international obligations than to the development of the country; and, the need for a social auditing mechanism in the PRSP in order to ensure greater transparency and accountability. However the Interim PRSP, having been finalized only in English, was presented to the Bank and Fund prior to having been shared with those organizations involved in the consultation. As a result, they were left unaware of the extent to which their suggestions had been taken into account.

Since the approval of the I-PRSP, another official consultation has begun. Unfortunately, civil society organizations have remained frustrated with the lack of openness and opportunity for participation. A review of Nicaragua’s final Interim PRSP, carried out by Oxfam International, indicates that the

<sup>61</sup> UNCTAD, 2002: 5

recommendations provided by alternative consultations were neither reviewed, nor analyzed, nor taken into account. Given these challenges and limitations, the ownership of the Nicaraguan PRSP remains open to question (Bradshaw and Linneker 2001; Government of Nicaragua 2000).

With respect to *gender and diversity analysis*, The sectors of the population most adversely affected by poverty are women, boys and girls, and adolescents. In Nicaragua, where 43% of the population is under the age of 15 and one in three women have been victims of domestic violence at least once in their lives (UNDP), the situation is particularly alarming. Poverty also has a racial dimension, with higher concentrations among indigenous and Afro-Nicaraguan communities located on the Atlantic Coast. Despite this reality, the Nicaragua I-PRSP lacks significant data and analysis on gender, age, or race. Similarly, though CIDA's Programming Plan includes a brief paragraph that identifies the importance of gender policy and analysis, the plan itself does not mention or analyze the gender, age, or race disaggregated impact of poverty.

Regarding the *underlying economic framework*, the PRSP model builds on the tradition of SAP, which, over the last twenty years, have had proven negative impacts in terms of increased poverty and marginalization in Nicaragua. In the context of its discussion of emerging stability in Nicaragua, CIDA states that "The [Nicaraguan] government is meeting its macroeconomic targets and implementing its IMF structural reform program" (CIDA 2001: 6). What goes unstated is that Nicaragua has faced tremendous challenges in meeting these targets, and further, that "In the last few years, under a new and ongoing ESAF, poverty in the country has worsened: according to official government figures, there are 200,000 more poor people today than five years ago" (Oxfam International 2000).

Entrenched in the World Bank / IMF model, the I-PRSP strategies offer little hope that poverty will be eradicated in the medium or long term. Rather, it supports the creation of targeted mechanisms to pick up the pieces, ameliorating some conditions for the most adversely affected populations.

The UN Commission on Human Rights – not just NGOs – is calling into question the IMF / World Bank approach. In a 2001 report on foreign debt and structural adjustment policies, UNCHR Independent Expert, Fantu Cheru underscores "the 'policy disconnect' between poverty reduction and macro-economic goals." According to Cheru, this disconnect "is due to the unequal power relations between indebted countries and the institutions managing the HIPC process"(UNCHR 2001: 11–12).

With respect to *civil society engagement*, the process of popular / civil society consultation has been tremendously flawed. As in the Honduran case, frustration with the limitations of official consultations led NGOs and municipal organizations to organize consultations of their own in the hope that the commentary that they collected would ultimately feed into the final document. In the absence of effective consultation, popular participation in the development of the PRSP or in its ultimate implementation is highly unlikely.

Very often, broad-based participation has been limited to consultation and has not been institutionalized as an ongoing component of the PRSP process. But as the case in Box 8 illustrates, although the participatory process was not inclusive, civic engagement in the PRSP process can have other beneficial outcomes.

### Box 8: PRSPs: A Case of Macrolevel Civic Engagement

Between 1999 and 2001, around 50 countries prepared interim or full Poverty Reduction Strategy papers (PRSPs). They are now the primary source of lending for most poor countries. Although triggered by the Group of Seven (G-7) initiative to relieve the debts of the Highly Indebted and Poor (HIPC) countries, and by the World Bank and International Monetary Fund (IMF) requirement that countries must articulate how they have sought to channel resources to fight poverty after debt relief, the PRSPs have now developed into an elaborate development policy vehicle of their own. According to the World Bank, there is a renewed emphasis on six basic approaches: a) a country-driven process, b) results-orientation, c) comprehensive coverage of issues, d) prioritizing of issues for improved implementation, e) a strong base in partnerships, and f) a long-term perspective. A feature most worth noting in the PRSPs is that they are supposed to be prepared in a participatory manner. While in the interim PRSPs participation is not mandated-the only requirements is a plan indicating how participation will be cultivated-at the full PRSP stage.

Over the past two years of PRSP preparations, there have been numerous assessments by leading nongovernmental organizations (NGOs) and agencies external to the World Bank and the IMF. Some of the recurring findings on civic engagement that emerge are as follows: a) there is considerable divergence in the conceptual understanding of civic engagement; b) the breadth and depth of civic engagement is insufficient, with the real poor, ethnic minorities and the poor outside urban areas not generally consulted; c) civic engagement has enriched and widened the description and analysis of poverty, but has not influenced much the technical areas of macroeconomic choices and public expenditures; d) the participatory processes have spun off many positive externalities, such as new legal developments and creation of civil society alliances; and e) correlates of an open regime, such as freedom to speak and to form socio-political organizations, seem conducive for the flourishing of civic engagement processes, although little direct link is observed between a political regime per se and quality of a civic engagement process.

Source: Malick, K & Wagle, S (2002)

How does one assess the results of PRSPs? The second principle of the CDF is that PRSPs must be result-oriented, focus on outcomes and show how the outcomes benefit the poor. Given the limited time during which most PRSPs have been launched, it is not rational to expect tangible results. However, it is legitimate to ask that if SAPs that were promoted as of the 1980s did not result in significant growth rate and given the fact that poverty and inequality continue to grow and deepen in poor countries of the South, what is the likelihood of significant poverty reduction through PRSPs?

There is a consensus that poverty reduction requires rapid and pro-poor growth. But it is not clear how policies emphasising the primacy of the market mechanism in such areas as trade, finance and agriculture can be reconciled with the improved access of the poor to productive resources. Similarly, sustained reduction in poverty depends on a social impact analysis of stabilisation and adjustment measures on economic



growth and income and well-being of the poor and reorienting them as needed.<sup>62</sup> In the absence of such an analysis, PRSPs are premised on unrealistic high growth rates and ambitious targets. For example, the Ethiopian PRSP anticipates a growth rate in real terms of 5.7 percent per annum until 2015. In the case of Zambia, the anticipated annual growth rate is 6–8 percent to achieve poverty targets by 2015.

Substantive and pro-poor outcomes will also depend on external constraints and support such as the removal of trade barriers and increased capital inflow through development cooperation. However, not only are ODA resources on a downward trend but that a large number of countries, especially in SSA, are going to face further reduction in development assistance as result of the shift from ‘aid as entitlement’ towards ‘aid selectivity’ premised on an emphasis on results and performance. In other words, new priorities in development assistance have meant that flows in ODA are no longer an exclusive function of need. In 1989, Africa received 40 percent of ODA flows but only 29 percent of total ODA in 1999.<sup>63</sup> Such a downward trend implies lack of investment that would have set off an accelerated and pro-poor growth in SSA. Internal policies that promote efficiency in investment and savings are necessary but inadequate in the absence of substantive net capital inflows. Finally, without a new and more extensive debt reprieve, the anticipated pro-poor growth is most unlikely.

## 2.6 Multidimensional Nature of Poverty

The third principle of CDF refers to comprehensiveness of PRSPs and recognition of the multi-dimensional aspect of poverty. Compared to the pervious money-metric and, hence, uni-dimensional focus of poverty analysis, most PRSPs provide a more complex and country-specific profile of poverty. However, there is a disjuncture between these complex realities and the almost identical policy priorities in PRSPs akin to that already indicated in the case of Poverty Assessment exercises informing the New Poverty Agenda of the 1990s. The World Development Report of 2000/1 of the World Bank, focused on the ‘Voices of the Poor’ covering 24 Southern Countries reveals the multidimensional nature of poverty and the diverse experiences and policy aspirations of the poor.

However, once again, ‘there are inconsistencies between the demands of the poor and the policy components of PRSPs. In some instances, their demands go far beyond what is proposed in PRSPs.’ In other areas, i.e. positions on agriculture, labour markets,

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<sup>62</sup> UNCTAD, 2002: 6

<sup>63</sup> Baris et al., 2002

macro-policies, income distribution and the private sector, ‘the aspirations of the African poor directly conflict with the policy approach incorporated in the PRSPs.’ Nonetheless, ‘in these areas, policy preferences of IFIs and/or national governments rather than the aspirations of the poor appear to have prevailed.’<sup>64</sup> The problem is compounded by the lack of effort to translate the aspirations of ordinary people into consistent and coherent policy decisions through the democratic and parliamentary process.

### 2.6.1 Pro-Poor Governance

History has clearly shown that democratic governance is a prerequisite for poverty reduction. In current debates, the need for democratic governance in order for sustainable poverty reduction to succeed is widely accepted. To be sure, most PRSPs give a high priority to ‘governance reform’ that encompass large areas of reform: decentralization; anti-corruption measures; public sector reform; legal reform aiming at securing property rights; reform of procurement systems; rule of law and human rights. Yet, most PRSPs fail to show the link between proposed reforms i.e. the type of public administration reform that is being promoted and poverty reduction.

The major driving force of these reforms is donor conditionality. This reality and the related issue of aid-dependency raise fundamental issues related to accountability and transparency. In large number of countries of the South, there are profound problems of accountability emanating from deficiencies in the political process. However, even consolidated democracies experience major deficits in accountability. In aid-dependant countries where states possess weak capacity to generate their own income through domestic revenue, and where aid covers a large proportion of the expenditures on services, governments are accountable to donors rather than to their own citizens. Thus, aid dependence weakens already fragile institutional accountability mechanisms.<sup>65</sup>

Moreover, even in cases where some degree of success has been registered in the implementation of governance-related reforms, e.g. Tanzania, the sustainability of these reforms is questionable due to the risk of ‘reform overload’ resulting from the concurrent implementation of the major cross-cutting reforms of the civil service, local government, public sector management and numerous sectors. Again, most of the reforms that are currently underway are not the result of a political consensus of what needs to be done and a co-ordinated strategy of how to go about it.<sup>66</sup>

<sup>64</sup> UNCTAD, 2002: 9

<sup>65</sup> Therkildsen, 2002: 8

<sup>66</sup> Therkildsen, 2001:18

Furthermore, growth of institutions takes place through long historical process and some of the features that are now regarded as prerequisites for successful economic development were in fact the outcomes rather than causes of economic development in Northern countries. Superimposing a uniform institutional standard on all countries despite considerable institutional diversity is likely to be counterproductive.<sup>67</sup> The governance agenda of the IFIs as well as those of bilateral donors places considerable emphasis on anti-corruption measures given the real and anticipated link between corruption and the effective utilisation of aid resources allocated to Southern countries. Since the late 1980s, a core component of donor promoted governance programmes has consisted of rolling back the state and downsizing the public sector partly as a way of reducing corruption. The outcome of such measures was the severe erosion of the public sector and a considerable increase in corruption. Despite the switch to 'right sizing' the public sector and the creation of merit-based civil service by creditors and donors through governance-related conditionalities, most PRSPs continue to emphasise downsizing.

While many countries that implement PRSPs have created new agencies to fight corruption, the focus is often limited on public offices and institutions and tends to neglect corrupt business practices, audit firms, and the larger societal values, institutions and behaviours that might contribute to, or avert corrupt practices. In terms of poverty reduction, the poor are much more concerned with "irregularities in their daily contacts with public administration, including the police, the judiciary and the agencies responsible for social services, such as health, employment and social assistance, and are particularly concerned with maltreatment [and nepotism] at the hands of government officials..."<sup>68</sup> Very little attention, if any, is given to these types of concerns in PRSPs.

More importantly, there is inadequate discussion of the contributory factors to the phenomenal increase in corruption such as the role of reform measures through downsizing and salary cuts, privatisation of public enterprises, and financial liberalisation accompanied by the creation of an unaccountable technocracy. It is only through such broad based and context-specific discussion of corruption that viable anti-corruption measures are likely to be identified and successfully implemented.

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<sup>67</sup> UNCTAD, 2002: 31

<sup>68</sup> UNCTAD, 2002: 32

## 2.6.2 Strengthened Partnership

Throughout the 1990s, there have emerged varying degrees of donor coordination in line with changing modalities of development assistance i.e. Consultative Groups, Sector Wide Approaches (SWAs), budget support and other fora concerned with the aid review process. Since the late 1990s, there has also been concerted effort in reforming and coordinating UN activities. These reforms have introduced Programmes of Common Country Assessment (CCA) and a United Nations Development Assistance Framework (UNDAF). The central objective of the reform programme is to enhance the capacity of the UN to implement its development mandate. The UNDAF is the planning framework and consists of common objectives and strategies of cooperation, a programme resources framework and proposals for follow-up, monitoring and evaluation.

The Common Country Assessment is the first step in the preparation of the UNDAF. It consists of country-based review and analysis of the national development situation and is intended to provide a common understanding of development needs, problems and priorities of the country concerned, and to further partnerships within the UN system and with key development actors. More specifically, the CCA process is expected to lead to “improved United Nations collaboration, strengthened analytical capacity of the partners involved and a common understanding of major development challenges and key issues for priority attention.”<sup>69</sup> While, this move towards collaborative programming and a common UN response to the needs of countries is a positive trend, in most of the countries under review, the evolving PRSP process has overshadowed the reform. As rightly observed by a recent evaluation of the process, “Although the UN agencies have assisted the PRSP process, the UN has rarely been able to fully realise its role as an impartial advisor, broker and social advocator in the otherwise Bretton Woods-dominated process.”<sup>70</sup>

In many instances, the launching of the PRSP process appears to have strengthened donor coordination both at the country and global level. The latter include OECD/DAC Partnership Meetings; Meetings of the Special Partnership for Africa, as well as recent meetings aimed at harmonising donor practices. Box 9 provides one example of the lessons learnt by the Development Assistance Group (DAC) in Ethiopia from engagement in the PRSP process.

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<sup>69</sup> COWI, 2001: 5

<sup>70</sup> COWI, 2001: 52

### Box 9: Development Assistance Group and PRSPs in Ethiopia: Milestones and Achievements to Date

- Galvanized national focus on poverty and pro poor development strategies.
- Initiation of broad-based participation in policy processes from local level and non-state stakeholders.
- Partnership building across government, civil society and development partners towards more effective delivery of aid.
- Emerging consensus on the MDGs and harmonization with long-term PRSP targets
- Consistent high level of donor interest in the PRSP, coordination and synergy of support efforts.

#### Key Lessons learned from the PRSP Processes to Date

As a policy instrument has served as a new channel of rethinking national development strategies and assistance, the poverty focus and broad-based participation have the potential to make a difference in realizing poverty reduction with concrete results in the lives of the poor. Some key lessons learnt to date:

- The PRSP as a long term, continuous and iterative process with strong national ownership-need to maintain a balance between ownership and partnership
- The PRSP has enabled a better understanding of national development processes and policies and a better understanding of the different roles/responsibilities of development actors in the strategy development process-multilateral, bilateral, government and civil society
- Multifaceted high poverty level in Ethiopia presents a challenge for prioritization and selectivity of strategy foci in the context of existing macro economic and fiscal frameworks
- Strong potential to further shift partnership parameters towards a mutual commitment and accountability
- Enhancement of donor effort through creation of a common agenda and pooled funding mechanisms
- Need for further democratization of policy process such that local/community levels and non-state actors are empowered to participate in decision-making and their own self-development
- Civil society could benefit from enhanced advocacy and policy level engagement; shifting focus from service delivery to community empowerment and building partnerships with the government.

Source: DAG "Briefing on DAG Engagement in the PRSP Process" Addis Ababa, May 2002

In the case of Tanzania, efforts at improving donor coordination seem to have made considerable progress through the formulation of the Tanzanian Assistance Strategy (TAS). The strategy is "a coherent national development framework for managing external resources to achieve the development strategies as stated in the Vision 2025, the National Poverty Eradication Strategy and the PRSP."<sup>71</sup> Since the mid-1990s, there has been a concerted effort to improve relationships between the Government of

<sup>71</sup> GOT, 2002: 1

Tanzania and aid donors, resulting in a 1997 agreement between the two parties to jointly set out a programme to redefine the terms of their development cooperation. The result was a set of 'agreed notes' stating among other things, that there was a need to ensure enhanced government leadership in development programming, increased transparency and accountability and efficiency in aid delivery. This process culminated in the formulation of the Tanzania Assistance Strategy, a framework for partnership which defines the role of external resources for development. TAS is a three-year strategic framework that is monitored annually by the Independent Monitoring Group.

The unfolding PRSP process seems to have accelerated donor coordination and moves towards programme support as evidenced by arrangements for Poverty Reduction Budget Support (PRBS). Such initiatives have led to improved policy dialogue between the government and the PRBS Steering Committee. In addition, a Performance Assessment Framework (PAF) has been formally agreed between the Government of Tanzania and PRBS donors, intended to provide a common and systematic process for assessing progress towards agreed objectives and implementation of agreed measures. The framework is also intended to facilitate the setting of mutually accepted priorities. Efforts are presently underway to harmonise the World Bank's Poverty Reduction Support Credit (PRSC) with the PRBS.<sup>72</sup>

The adoption of a long-term perspective as one of the principles of PRSP is a welcome departure from a focus on short-term adjustment that has tended to dominate development work during the last two decades. Although most PRSPs have a three year time horizon, the long term perspectives denotes the 1990–2015 time frame adopted by the Millennium Development Goals (MDGs), and leads to the search for an explicit link between PRSPs and the MDGs. However, at present, not sufficient effort has been made to link these two initiatives and more importantly to adopt the MDGs to country specific realities.

## 2.7 Millennium Development Goals

### 2.7.1 Objectives and Strategies

The continued search for a comprehensive approach and a coordinated strategy aimed at tackling numerous challenges simultaneously across a broad front culminated in the adoption of the Millennium Development Goals during the UN General Assembly of 2000. The origin of the MDGs dates back to the various UN conferences that took

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<sup>72</sup> IMG, 2002

place throughout the 1990s and the donors consortium, the Development Assistance Committee (DAC) of the organization of Economic Co-operation and Development (OECD) that formulated the ‘international development targets’ in May 1996. The change from ‘international development targets, DAC targets’ international development strategy’, and ‘development partnerships strategy,’ to targets of the Millennium Development Goals underscores the evolving concern with principles of ‘ownership’ and ‘partnerships’ in the realm of development cooperation. Moreover, attaching quantifiable, monitorable and time-bound targets to most of the Millennium Goals clearly signals the predominance of the new performance-driven management approaches in development cooperation with their emphasis on results.

Set within this framework, the eight outputs of the Millennium Development Goals aim at economic well-being, social development, environmental sustainability and global partnership and include targets and performance indicators (see Appendix 1). The eight goals to be reached by 2015 are:

- The eradication of extreme poverty and hunger
- Achieving universal primary education
- Promoting gender equality and empowerment
- Reducing child mortality
- Improving maternal health
- Combating HIV/AIDS, malaria and other diseases
- Ensuring environmental sustainability
- Developing a global partnership for development

Setting goals and time-bound targets have a number of advantages. Targets serve as tools to mobilize people and governments into action and to generate resources. They can also be used as benchmarks to measure progress and hold governments accountable. Targets also make it possible to evaluate the effectiveness of the approaches used and to change course when necessary. But there is also the danger that targets will be used in a top down, mechanistic way without sufficient voice for the people that they are supposed to serve. Hence, it is crucial to focus on the means used to promote the ends.<sup>73</sup> To avoid such a danger, it would be best to view targets as a way to achieving human rights. In other words, it is a rights-based approach and creative interpretations of human rights provisions such as those encompassed in ‘the right to an adequate standard of living’ and ‘the right to social security in the event of unemployment, sickness, disability, widowhood old age or other risks such as lack of livelihood that could help avoid a mechanistic implementation of the MDGs.

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<sup>73</sup> UNIFEM, 2000:58

### 2.7.2 Measuring Progress

The setting of the MDGs has been followed by a number of initiatives. These initiatives include measuring and monitoring progress both globally and nationally. First, the global and annual assessment will be included in the report of the UN secretary-Generals on the Millennium Declaration. Second, at the National level, country-led assessments will be released in the Millennium Development Goal Reports. The preparation of such reports could, if properly planned and resourced, create sustainable research infrastructure in Southern countries and enhance the capability of researchers in these countries to carry on analytical and pro-poor policy research and monitoring.

According to UNDP, these reports will have different uses for donors and Southern countries. "So for donors, they will become a tool that can be used by a member of congress or parliament wanting to check whether the aid dollars or Euros they are being asked to vote for are having a real impact on what is happening on the ground. And for developing countries, they will become a guide and goal post for what is being achieved, where most progress is needed, and where support in terms of policies partnerships, resources-is most needed."<sup>74</sup>

The third strategy comprises the millennium research project being carried out by prominent academics from the North and South, central statistical offices and bilateral donors and aimed at identifying the type of policies and interventions and the kind of support that countries might need to meet the goals. Finally, the fourth component consists of a series of advocacy and awareness raising campaigns based on the outcomes of the Millennium Research Project and the MDG Reports. It is hoped that both the various research initiatives and the advocacy campaigns will be able to challenge current orthodoxies regarding macroeconomic frameworks and explore the intersection between human rights and poverty reduction in keeping with the mandate of the UN.

The UNDP Human Development Report of 2002 has begun the task of measuring progress of the MDG. Given that the starting point is 1990, the effort at accessing progress towards the goals is premised on the assumption that trends over the next decade will be the same as over the past decade.<sup>75</sup> Accordingly, the HDR of 2002 assesses how likely countries are to achieve the Millennium Goals by 2015 if recent trends continue. Countries are classified as achieved, on track, lagging far behind, or slipping. The report concludes that many countries have made progress. But much of the world, generally the poorest countries, seems unlikely to achieve the goals. Although 55 countries, with 23 percent of the world's people, are failing on more than half the

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<sup>74</sup> Brown, M. M, 2002

<sup>75</sup> UNDP, 2002: 17



goals, “Especially extraordinary efforts will be needed in Sub-Saharan Africa where 23 countries are failing and 11 others do not have enough data to be assessed – a possible indication that they are even further behind. That leaves just 10 Sub-Saharan countries on track to meet at least half of the goals.”<sup>76</sup>

Table 1 shows the progress made and the challenges facing the countries covered in this partner review. The picture for most countries under review is rather gloomy and requires extra effort in both improving data availability and understanding the factors contributing to regression and/or lack of substantive progress.

Focusing on each of the millennium goals, the HDR highlights the underlying factors that are likely to facilitate progress. These factors vary from achieving about 4 percent GDP growth rate to measures such as ensuring immunisation of children, eliminating trade barriers, doubling development assistance and directing it to countries that need it to countries that need it most and that could allocate it to the right sectors to promoting democratic governance.

Doubling of aid in the current climate is unlikely. In recognition of the problems associated with the current ‘aid fatigue’, there are now a number of proposals to replace aid with other forms of resource transfer. Based on the principles of human rights such as the right of every human being to a minimum standard of living, a number of advocacy groups have proposed the establishment of new international development fund. This would require a contribution by each high-income country a fixed percentage of its GNP to the international development fund, which would be governed by a council, composed of representatives from both better-off and poor countries. A key role of the council would be to decide on the transfers required to bring each country’s average per capita income up to an agreed minimum. In this case, even if the contributions to the fund remain about half of the UN target of 0.7 percent of the GNP of Northern countries, the proposed imitative would still generate far more resources that is currently available through aid programmes.

Another proposal is related to the establishment of new global taxation. Of this, the most familiar is the Tobin Tax on foreign exchange transactions, which globally now run at \$1.5 trillion per day as well as other services that have strong international dimensions. Such charges could be levied by national tax authorities and some of the revenue used by national governments. But a certain proportion, perhaps half, could be allocated to the UN for a range of activities, including social programmes, environmental protection or humanitarian interventions. A part might also be

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<sup>76</sup> UNDP, 2002: 17. The report further notes that “a goal that cannot be monitored cannot be met or missed and one of the most startling conclusions is the lack of data. The targets for poverty, HIV/AIDS and maternal mortality cannot be monitored directly with current international data..” (p. 17).

Table 1: Progress towards Millennium Development Goals

	Goal 1 Eradicate extreme poverty and hunger	Goal 2 Achieve universal primary education	Goal 3 Promote gender equality and empower women	Goal 4 Reduce child mortality	Goal 7 Ensure environmental sustainability
	Target Halve the proportion of people suffering from hunger	Target Ensure that all children can complete primary education	Target Eliminate gender disparity in all levels of education <sup>a</sup>	Target Reduce under-five and infant mortality rates by two-thirds	Target Halve the proportion of people without access to improved water sources
	Undernourished people (as % of total population) <sup>b</sup>	Net primary enrolment ratio (%)	Female gross primary enrolment ratio as % of male ratio	Under-five mortality rate (per 1,000 live births)	Population using improved water sources (%)
Ethiopia	..	Far behind	Slipping back	Far behind	Far behind
Honduras	Far behind	..	..	On track	On track
Namibia	Far behind	On track	Achieved	Far behind	Lagging
Nepal	Far behind	..	On track	On track	On track
Nicaragua	Far behind	On track	Achieved	On track	On track
Tanzania	Slipping back	Far behind	On track	Far behind	Far behind
Viet Nam	On track	..	On track	Lagging	Lagging
Zambia	Far behind	Slipping back	On track	Slipping back	On track

distributed among developing countries, so that countries with the lowest per capita income received the largest amount.<sup>77</sup> Unfortunately, this form of global citizenship is only supported by a handful of NGOs.

### 2.7.3 MDGs and Lessons of the Finnish Experience

Most of the Millennium goals were challenges faced and overcome by Finland in the not too distant past and, hence, numerous lessons can be drawn from the Finnish experience in the unfolding debate on how best to achieve the MDGs. For example, sharing Finnish experiences in bringing about substantive progress towards gender equality in Finland would be highly instructive and hopefully change one of the most disappointing targets of the MDGs that which is suppose to measure progress towards the 'Promotion of Gender Equality and Empowering Women.'

Currently, the targets are limited to eliminating gender disparities in education and increasing the number of women in decision-making structures. Despite weighty evidence indicating the complex and multidimensional nature of gender subordination, it is not clear why it has been narrowed to two targets and justified in instrumental terms. Even within this limited vision, the MDGs make no reference to the continuing gender disparities in return to education in those countries that have eliminated the gender gap. Moreover, most available data indicate the magnitude and depth of poverty that is disproportionately faced by women in almost all countries. Yet the MDGs do not include any specific goals for reducing women's poverty and economic equality. The current sets of targets do not include the objective of the economic, political and social empowerment of women.<sup>78</sup>

Moreover, almost all the MDGs are the very same concerns that current Finnish development cooperation has selected as areas of focus prior to the Millennium declaration. Already in 1996, Finland had identified the following priority areas in order to maximise its effectiveness in poverty reduction: basic services in education and health care (including reproductive health, support for food security through self-reliant subsistence farming, advancement of the participation of women and girls and promotion of the status of the disabled.<sup>79</sup>

It is important to note that the reference here is to affirmation of previous engagements in the aforementioned areas as Finland has been engaged in these areas for relatively long time in partner countries. Here again, Finland can play a critical

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<sup>77</sup> UNRISD, 2000:32

<sup>78</sup> UNIFEM, 2000: 58

<sup>79</sup> MFAF; 1996

role by sharing best practices as well as pinpointing constraints faced at the operational level with a view to influencing global, European and national actors towards a more focused pro-poor direction. Finally, the unfolding MDG process provides Finland in collaboration with other like minded-donors a key role in advocating for a human rights-based approach in the implementation of the MDGs thereby minimizing the danger of a top-donor and technocratic approach to meeting targets.

All the initiatives related to implementation and monitoring of MDGs provide entry points for sharing the Finnish experience in overcoming poverty through building a democratic welfare society especially the distributive social policy. This could, for example, be carried out through continued support and wider dissemination of the findings from the Globalization and Social Policy Programme (GASPP). Finland could also actively advocate for equitable social policy during all its participation in multilateral fora. Similarly, Finland can facilitate a South –South dialogue on social policy.

## 2.8 Lessons from Target Setting

To the extent that target setting is not a new approach, it is important to draw lessons from prior efforts at setting targets. There are at least three examples of missed targets. The first of these is the Alma Ata Declaration of 1978 whose overarching goal was ensuring ‘Health for all by the year 2000’ through the provision of universal access to health services. The declaration reflected the values of social justice and social rights that prevailed in the 1970s. The failures in achieving the goals were many, and resulted from a combination of internal and external factors. The major contributory factor was selective implementation with an emphasis on the most cost-effective type of medical intervention. Having gained substantial support from bilateral, multilateral agencies and international financial institutions, selective and vertically oriented strategies became the predominant mode of health service delivery. The shift away from comprehensive provision of health services was accelerated by the adoption of SAPs in a growing number of Southern countries. To the extent that a large array of factors such as income, nutrition and working conditions influence the determinant of health and access to health care services, the consequences of SAPs on the health and well-being of the poor went beyond reduced public expenditure on health.

In other words, policies that led to the removal of price controls and subsidies on basic essentials such as food and transport, wage freezes and devaluation of the currency all had particular effects on the health and wellbeing of poor women, children and poor families in general. Far from merely failing to reach the targets, the lessons from the Alma Ata Declaration raise profound questions related to overall efforts at poverty reduction and social transformation, some of which are depicted in Box 10.

A second example of target setting relates to the UN target calling on donors to commit 0.7 percent of their GNP to international development cooperation in 1970. The trend for most of the 1990s has however been a reduction of development assistance as a share of donor GNP. For example, over the 1992–1997 period, the OECD countries reduced by one-third their combined ODA as a share of GNP—from 0.33 per cent to 0.22 percent of GNP.

### Box 10: Health Care Reforms

The Alma Ata Declaration of 1978 brought to the forefront the essentially political nature of health care. The meeting received considerable international support for its promotion of the wider distributive and developmental aspects of a public health care system premised upon equity of access. But in the two decades following Alma Ata, many countries have failed to reach the basic health indicators set by the 'Health For All' agenda. Many countries also appear to be losing the opportunity to build health services based upon the principle of universal access. In sharp contrast to the principles of re-distribution and development, the health sector in developing countries is increasingly influenced by private interests and by the principles of 'willingness to pay'. Health care reforms, have, in effect, encouraged the growth of private providers in health care and further legitimized private services for the affluent sectors of the population while limiting public provision to selective basic services to the poor.

The lessons from history clearly indicate that in order to build an effective health system providing care according to need, it is essential to cover the largest number of people by pooling risks and resources. The current policy of allowing some people to opt out of the public health system into private services seriously hampers the continuity of public services through segmentation and inequality of access, and causes deterioration of quality by subsidizing private provision by the public sector alongside the general shrinkage of public resources. Rather than reform for 'betterment' the current process resembles a return to the colonial era when elite and minority classes enjoyed access to supposedly international 'quality' services, while the rest of society went without or depended on the services of charities and churches."

Source: Sen, Kasaturi, Koivusalo Meri.(1998).

A third target and one considered relatively successful in achieving some of the targets is the World Summit for Children that set the goal of basic education for all children by 2000, in addition to other goals related to children's health and nutrition. The World Summit for children introduced a new approach to monitoring progress that has been followed by most of the subsequent UN conferences of the 1990s. This included the promotion of country ownership through the formulation of National Programmes of Action for Children and a mid-decade review of progress toward the summit goals through the use of intermediate targets. In terms of progress towards achieving the goals, the mid-decade reviews of the Children's Summit indicated mixed

results. A number of countries showed major achievements in reaching some goals while the results were poor in other countries. Furthermore, progress varies between those targets that are amenable through the use of relatively simple technological interventions and those that require a longer period and more complex and systemic change. But even the limited success has been achieved through very high demands on women's time.<sup>80</sup> In other cases, targets might be reached with very little regard to quality.

An additional and important lesson was that targets might be achieved but the achievements might not be sustainable. "Sustained success tends to require wider systemic changes and not just a momentary inflow of resources directed towards particular target. In addition, hitting a particular target can set back progress on other dimensions of development that have not been targeted. For instance, school enrolments are easier to measure than quality of education (which is multi dimensional) and, therefore, easier to target. But enrolments are merely a necessary condition, not a sufficient one, for ensuring that all children enjoy their right to education."<sup>81</sup>

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<sup>80</sup> Desai, S. 1994

<sup>81</sup> UNIFEM, 2000: 57

## Chapter 3

# Bilateral and Multilateral Cooperation

History tells us that the most successful cures for poverty come from within. Foreign aid can help but, like windfall wealth, can also hurt. It can discourage effort and plant a crippling sense of incapacity. As the African saying has it, '*The hand that receives is always under the one that gives.*' No, what counts is work, thrift, honesty, patience, tenacity... But at bottom, no empowerment is so effective as self-empowerment.

Landes, 2000: 523

### 3.1 Introduction

This Chapter looks at the notion of development cooperation and how, from the Southern perspective, the role of Finland therein appears to have fared. The Chapter begins with the overview of Finland's priorities and guiding principles in its cooperation with developing countries. This is followed by the presentation of the country's bilateral cooperation with countries of the South after which a review is made of the multilateral approach to development assistance. This focuses on such institutions as UN agencies, the World Trade Organisation, OECD, the World Bank, the IMF, and regional development financing institutions such as the African Development Bank. This is followed by a brief presentation of other routes through which Finland channels its support that include NGOs and humanitarian assistance. The chapter ends with a critical review of Finland's bilateral cooperation and its role in multilateralism. In this regard, the Chapter, firstly, makes a critical review of Finnish cooperation, focusing its general approach, generally, and on how the manner the country conceptualises poverty has an effect on its form and mode of support to developing countries. Secondly, the role of Finland in globalisation is critically assessed, focusing on its position in such institutions as the World Bank, the IMF (with respect to structural adjustment programme and the PRSP), and the World Trade Organisation. Finnish government position on debt is also analysed. The analysis of the role of Finland in multilateral institutions is followed by the examination of South-South cooperation, addressing trade and investment challenges and opportunities. The Chapter then turns to the new challenges posed by donor-cum-aid harmonisation and the position of Finland in this. Lastly, a review is made of the aid relationship and how this conditions the effectiveness of development assistance, in general, and Finnish cooperation with countries in the South, in particular.

### 3.2 Overview of Priorities and Guiding Principles

Development cooperation policy of Finland is guided primarily by two documents, namely, *Finland's Policy on Relations with Developing Countries*, and *Decision-in-principle on Finland's Development Cooperation*. The latter gives the goals of Finnish development cooperation as follows:

- o alleviation of widespread poverty
- o prevention of global environmental threats
- o promotion of equality, democracy and human rights.

In its Decision-in-Principle released in February 2001, the Government of Finland provided guidelines on the operationalisation of its development policy objectives. Development cooperation's role as a significant part of foreign policy is seen in the following context:

The Government's aim in development cooperation policy will be to strengthen preparedness in developing countries to prevent conflicts and to improve security and well-being. The Government is committed to a comprehensive policy of reducing poverty, combating global threats to the environment and promoting equality, democracy and human rights in the developing countries. Finland participates in the resolution of the debt problem of the world's poorest countries. The Government will increase its appropriations for development cooperation and aims to reach the level recommended by the United Nations when the economic situation so permits.

The challenges of globalisation also form the basis of *Finland's Policy on Relations with Developing Countries*. With the aim of reconciling the objectives of the country's foreign and security policy, trade policy and international development cooperation, the policy paper presents a diverse list of strategies that include political and economic dialogue/governance; principles of market economy; commercial and economic tools; cultural cooperation; capacity building; and influencing public opinion. The promotion of global security and the enhancement of economic interaction are singled out as being among the important requisites for Finland's relations with developing countries. Box 11 presents Finland's development policy aims.



**Box 11: Finland's Development Policy Aims**

The Cabinet October 15, 1998

**1. Promotion of global security**

Finland's security policy is based on a broad perception of security which in addition to military security issues includes peacebuilding and the development of human and ecological security.

Finland's aim in the developing countries is to help manage the political and economic process of change and to create the preconditions for sustainable development and welfare. Regional cooperation, supported by Finland and the EU, promotes security. Support for political and economic institutions, civil society and conflict prevention is crucial.

**2. Reduction of widespread poverty**

Finland's premise is that economic growth alone cannot remove poverty and that its reduction requires a democratic political system which ensures an even income distribution and the creation of a social security system for the weakest members of society. Finland participates in international efforts to reduce poverty by supporting democratic development through development cooperation and by writing off loans which burden the economies of the developing countries. Peace and security facilitate economic progress and investment.

**3. Promotion of human rights and democracy**

The promotion of human rights and democracy is one of the central goals of Finnish foreign and development policy. The universality of human rights and international human rights agreements, which are binding on governments, entail that the international community has a legitimate right to intervene in human rights violations wherever they occur. Intervention in human rights violations must be consistent and must not be influenced by economic interests. Finnish human rights policy focuses on the rights and equality of minorities, indigenous peoples, and women and children, particularly girls. In its development cooperation Finland emphasizes the improvement of the conditions of disabled people.

**4. Prevention of global environmental problems**

Finland encourages strong commitment by its partner countries – both industrialized and developing countries – to sustainable development. The concept 'sustainable development' is used to refer to the adjustment of economic and social development to ecological realities. One of the key goals of Finnish interaction and dialogue is to encourage all states to comply with international environmental and other agreements and to fulfil their obligations under such agreements. Finland supports the harmonization of trade and environmental norms in cooperation with the developing countries.

**5. Promotion of economic dialogue**

Finland promotes the liberalization of trade and investment in the trade policy forums created for this purpose, particularly through the EU in the World Trade Organization (WTO) and in the Organization for Economic Cooperation and Development (OECD). Finland also supports the development and implementation of international environmental and labour norms within the EU and in the developing countries. Within the

WTO, Finland stresses the importance of paying sufficient attention to those trade policy issues which are important to the developing countries, and particularly to the least developed countries, and is ready to support these countries' adjustment to the world economy in a manner which takes their own special situation into account. Finland also underscores the consolidation of private enterprise and self-reliant development. Furthermore, Finland supports the development of education and human resources in order to manage the process of globalization.

Finland is increasing measures to encourage imports from the developing countries. Finland encourages Finnish companies to invest in and export to the developing countries, for example, by promoting the liberalization of trade and investment, by supporting ethical trade, by developing the role of FINNFUND and by arranging high-level visits.

Source: <http://global.finland.fi/english/newpoli.html>

With a view of maintaining proper order and balance in foreign and security policy, trade policy and development cooperation, Finland's development cooperation policy is being treated as "a coherent whole" in which the objectives of the various policy sectors are expected to be in harmony with each other.<sup>82</sup> The new Comprehensive Policy on Relations with Developing Countries, thus, focuses on 'coherence' between different areas and tools of foreign policy and aims to better equip the country in its assistance to these countries in the light of globalisation. The concept of *coherence* has also brought a new dimension to the analysis of the Finland's role in poverty reduction as an integral part of its foreign policy.

In the context of the OECD-DAC strategy on development co-operation (*Shaping the 21<sup>st</sup> Century*), Finland also looks at development cooperation through real partnership with the recipients of its assistance. This position is also maintained in the context of Finland's membership to the European Union under which members are obliged to follow the policy lines collectively agreed upon under Article 130u of the Maastricht treaty that commits them to (a) the promotion of sustainable economic and social development in developing countries, especially in the least developed ones; (b) harmonious and gradual integration of developing countries into the global economy; (c) efforts to combat poverty in the developing countries. In this regard, the Finnish government is reorienting all forms of its foreign relations in a manner that would ensure that its policies and actions at both the bilateral and multilateral levels would fulfil the same central objective, namely, the reduction of global poverty.

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<sup>82</sup> It is noteworthy that EU procedures also expect member countries to treat political issues, trade policy and development cooperation as a single entity.

Finland's development cooperation is routed mainly through bilateral and multilateral channels, primarily involving individual countries, international organizations and NGOs. These forms of development cooperation are mutually complementary and have been used in a multiplicity of combinations. Box 12 gives development policy measures agreed upon by the Finnish Cabinet in October 1998.

### **Box 12: Development Policy Measures** The Cabinet October 15, 1998

Finland promotes its goals through political and economic dialogue and discussions on trade policy both bilaterally and as a member of the EU, and also through Nordic cooperation.

The most important multilateral channels for the promotion of global goals and interaction include UN organizations, the WTO, the OECD, the World Bank, the IMF, regional development financing institutions, international environmental agreements and funds and the Geneva Disarmament Conference. Dialogue is also promoted at the level of non-governmental organizations. Dialogue is pursued in a variety of forums openly and in a spirit of partnership on any subject that Finland wishes to influence. Finland promotes coherence and complementarity between participant organizations on the understanding that they should all strive in their own sectors towards the achievement of mutually agreed goals. Finland is striving to increase coherence and coordination in the preparation of its own measures and policy perspectives in order to be better able to influence the work of these organizations.

Commercial and economic interaction with developing countries promotes the goals and interests of both Finland and the developing countries themselves. Finland uses its development cooperation as a development policy instrument to improve human security, reduce poverty, promote sustainable development, democracy, good governance, human rights and equality, and support the integration of the developing countries into the world economy.

- o Finland intends to increase cultural cooperation with the developing countries.
- o Finland also intends to increase its expertise on the developing countries and global issues.
- o Finland intends to step up the dissemination of information on the developing countries and Finnish development policy and promote interaction between Finnish organizations.
- o Finland intends to monitor and assess the achievement of the goals it has set and develop its strategy and performance on the basis of experience.

Source: <http://global.finland.fi/english/newpoli.html>

## **3.3 Bilateral Cooperation**

The Finnish budget appropriation for development cooperation has been cut drastically since 1991. For example, whereas development cooperation payments stood at 0.8 percent of gross national income in 1991, this dropped to only 0.3 percent. Finland

aspires, in the long-term, to achieve the Nordic level of development assistance<sup>83</sup> and, in the short term, reach the EU level. Table 2 gives a comprehensive picture of the various categories of Finnish ODA flows. Appendices A-1 and A-2 at the end of this Report give Finnish ODA over the 1961 to 2000 period.

Mindful of its declining contribution to the global development cooperation, the Finnish government decided in August 2002 to examine the level and quality of Finland's development aid (Box 13).

### **Box 13: Finland should bear its share of responsibility for development and security**

In August 2002, Finland's Minister for Development Cooperation, Suvi-Anne Siimes, requested Councillor of State Harri Holkeri to set up and lead a special committee to examine the level and quality of Finland's development aid. The committee was set up in order to enable Finland's promises in favour of development aid to be transformed into real decisions. The committee drew up an interim report on the level and quality of development cooperation, presenting it to Development Cooperation Minister Siimes on January 9th, 2003. The committee proposes that the funds allocated to development cooperation should be increased from the present 0.348% of GNI in stages in order to maintain a high level of quality and effectiveness in development cooperation. An intermediate goal of 0.55% share of GNI is to be achieved by 2007. The UN's recommended 0.7% share would be reached in 2010. The UN's Millennium Declaration and its development goals are to serve as guidelines for Finland's policy regarding developing countries and for allocating funds.

Although Finland is committing itself to the quantitative increases above, the country maintains that the increase in aid volume should be subordinated to the issues of the quality of assistance, measured in terms of its lasting impact.

Finland's current partner countries fall under the following categories:

- o Countries in the midst of a serious crisis; for them, as a rule, humanitarian aid is the only option.
- o Countries recovering from war, requiring support for the reestablishment of peace and security and for reconstruction.
- o Countries in political transition, needing support for a certain period in order to establish democracy and promote equality.
- o Countries in economic transition, needing support to promote conversion to a market economy; use of new financial instruments will also be involved.
- o Poor but politically stable countries, requiring long-term support channelled into reinforcing human resources and national institutions, and fulfilling the basic prerequisites for development.

<sup>83</sup> This stood at over 0.8 percent of gross national income in 1999.

**Table 2: Finland: flows by type in 2000**  
*US\$ million*

	Total DAC Countries	Finland
<b>NET DISBURSEMENTS</b>		
I. Official Development Assistance (ODA) (A + B)	53 734	371
ODA as % of GNI	0.22	0.31
A. Bilateral Official Development Assistance (1 + 2)	36 048	217
1. Grants and grant-like contributions	33 028	219
of which: Technical co-operation	12 767	71
Developmental food aid	1 180	–
Emergency and distress relief	3 574	39
Contributions to NGOs	1 200	4
Administrative costs	3 083	16
2. Development lending and capital	3 021	– 2
of which: New development lending	3 306	– 6
B. Contributions to Multilateral Institutions	17 685	154
Grants and capital subscriptions, total	17 799	154
of which: EC	4 950	51
IDA	3 672	14
Regional Development Banks	2 187	22
II. Other Official Flows (OOF) net (C + D)	–4 537	2
C. Bilateral Other Official Flows (1 + 2)	–4 355	2
1. Official export credits (a)	–1 237	–
2. Equities and other bilateral assets	–3 118	2
D. Multilateral Institutions	– 182	–
III. Grants by Private Voluntary Agencies	6 934	5
IV. Private Flows at Market Terms (long-term) (1 to 4)	77 657	709
1. Direct investment	70 359	530
2. Private export credits	7 352	673
3. Securities of multilateral agencies	–3 369	–
4. Bilateral portfolio investment	3 315	– 494
V. Total Resource Flows (long-term) (I to IV)	133 788	1087
Total Resource Flows as a % of GNI	0.56	0.91
<i>For reference:</i>		
<b>GROSS DISBURSEMENTS</b>		
Official Development Assistance (b)	60 008	378
New development lending	8 571	–
Food aid, Total bilateral	1 561	3
Other Official Flows	10 521	2
of which: Official export credits	3 974	–
Private export credits	16 566	3
<b>COMMITMENTS</b>		
Official Development Assistance, total (b)	62 202	353
Bilateral grants, Total	35 133	183
Debt forgiveness	1 862	–
Bilateral loans, Total	10 166	17
<i>Memo items:</i>		
Gross ODA debt reorganisation grants	2 224	–
of which: debt forgiveness	1 989	–
Net ODA debt reorganisation grants	1 755	–
Refugees in donor countries	1 361	16

Source: OECD-DAC statistics

After the Decision-in-principle of 1996, Finland expanded its bilateral cooperation, based on the so called *flexibility principle*, to countries that include South Africa, the Palestinian Autonomous Territories, Kosovo and other parts of the Federal Republic of Yugoslavia, Bosnia and Herzegovina and East Timor. Finnish assistance has in the past couple of years been targeted at roughly 34 countries and averaging about FIM500 million. Aid to each one of these countries has generally been in small amounts (approximately FIM13 million per country) with the exception of Mozambique where assistance exceeds FIM50 million. Bilateral partners, falling under two categories ('long term' partners and 'other' partners) are selected and supported in the context of broad approaches (Table 3).

Table 3: Two partnership categories		
Description	Long-term Partner Countries	Other Partnerships
Duration	sustained partnership	duration determined case by case
Nature of cooperation	reduction of poverty is the main objective (though thematic cooperation is not excluded) active and continuing participation in dialogue with the partner country at various levels provision of resources for the implementation of government programmes	cooperation is targeted thematically, e.g. environment, good governance, equality, human rights, conflict prevention and mitigation, transition to democracy, HIV/AIDS, international trade issues support is channelled to the development of personnel and other resources in public administration, the private sector and the civil society
Instruments of cooperation	political dialogue with the government of the partner country partnerships are based on government-to-government development programmes and projects (bilateral projects and programmes) in addition, a wide range of other tools are used (including commercial and economic cooperation) the administrative foundation of cooperation is specified in an Agreement on General Terms and Procedures for Development Cooperation	cooperation through NGOs, as well as humanitarian, multilateral, and commercial and economic cooperation depending on the situation in the partner country, government-to-government programmes and projects may also be involved
Presence	normally a Finnish diplomatic mission in the partner country	normally through multilateral and EU organisations, non-governmental organisations, etc., in cases when Finland does not have a diplomatic mission in the country

Long-term bilateral cooperation in the form of projects and programmes is primarily confined to a selected number of 'long-term' partner countries and the criteria for selecting these are given in Table 4.

**Table 4: Criteria for long-term partner countries**

Criteria	Criteria for long-term partner countries
Need for assistance Commitment to development	<p>poverty (an LCD country or a low-income country)</p> <p>the country systematically harnesses available resources to poverty reduction by promoting economic growth based on the principles of market economy, by expanding universal access to basic services, such as primary health care and education, and by promoting equal distribution of income</p> <p>the country's economic policy provides an enabling environment for development cooperation the country makes determined efforts to advance democracy and equality and to reduce corruption</p> <p>the government of the country is committed to improving the human rights situation</p> <p>the country invests in sustainable use of natural resources and in the protection of the environment</p> <p>the country endeavours to be integrated into the world economy and international trade systems in order to promote its own development agenda</p> <p>the country promotes peaceful development in its region</p>
Prerequisites for Finland's assistance	<p>Finland has a diplomatic mission in the country</p> <p>Finnish actors have experience of cooperation with the country and possess expertise that the country needs</p>
Prerequisites for effectiveness	<p>Conflicts, or the threat of acute or imminent conflicts, do not hamper cooperation</p> <p>the administrative capacity of the country is at a level which allows effective use of the resources made available through the cooperation</p> <p>experience of the effectiveness of cooperation is positive</p>

Currently, the countries classified as Finland's long-term partners are Egypt, Ethiopia, Kenya, Mozambique, Zambia, Namibia, Nepal, Nicaragua, Peru, Tanzania and Vietnam. Table 5 gives Finnish bilateral development cooperation for the countries above over the 1991 to 2000 period. Table A-3 in Appendices gives detailed Finnish ODA flows to all the countries.

**Table 5: Finish Bilateral development assistance by continent and recipient country 1991–2000 (Million Euros)**

Country or region	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>AFRICA, TOTAL</b>	<b>199,99</b>	<b>152,37</b>	<b>83,70</b>	<b>80,39</b>	<b>63,05</b>	<b>64,98</b>	<b>62,40</b>	<b>65,10</b>	<b>68,61</b>	<b>75,74</b>
Egypt	14,58	12,53	4,72	6,04	3,77	3,21	2,45	2,13	2,54	3,76
Ethiopia	12,43	6,00	1,26	3,35	5,62	5,60	5,78	6,29	5,57	6,14
Kenya	23,20	15,55	7,31	5,28	4,51	2,52	3,72	4,68	3,85	4,38
Mozambique	16,42	17,20	9,17	11,03	8,70	8,39	8,77	10,96	13,88	12,59
Namibia	11,93	7,34	7,65	8,13	5,82	5,95	6,59	5,41	6,43	7,15
Tanzania	27,59	26,34	15,15	19,78	6,88	6,98	8,72	10,71	9,97	13,49
Zambia	17,26	23,47	14,59	11,49	8,73	9,07	7,40	6,40	3,55	3,63
<b>AMERICA, TOTAL</b>	<b>28,87</b>	<b>21,05</b>	<b>22,34</b>	<b>11,11</b>	<b>13,27</b>	<b>8,16</b>	<b>11,56</b>	<b>11,79</b>	<b>16,20</b>	<b>16,92</b>
Nicaragua	16,71	10,56	7,74	4,45	4,71	3,97	6,54	6,75	9,07	8,51
Peru	5,08	3,01	1,91	0,14	2,15	0,45	0,19	0,20	0,63	1,30
<b>ASIA, TOTAL</b>	<b>98,93</b>	<b>72,30</b>	<b>74,13</b>	<b>50,23</b>	<b>49,42</b>	<b>50,39</b>	<b>53,78</b>	<b>61,99</b>	<b>63,02</b>	<b>67,90</b>
Nepal	12,23	12,14	5,69	5,62	4,47	4,24	5,80	11,72	5,36	6,02
Viet Nam	12,49	9,72	7,04	7,06	8,22	7,47	7,17	7,82	7,21	6,27

Source: Ministry for Foreign Affairs – Department for International Development Co-operation

The poorest countries that show increasing commitment to development and where the prerequisites for effective development cooperation obtains are targeted for more aid in the next couple of years. This category of countries includes Mozambique and Vietnam. At the same time, Finland plans to phase out long-term bilateral grant assistance in the form of projects in middle-income countries such as Egypt, Namibia and Peru, although other cooperation instruments, particularly in the fields of trade and private sector development, will be employed to continue cooperating with these countries. In those countries that are perceived to be problematic such as Kenya, Nicaragua and Zambia, the Decision-in-Principle document states that these country's "compliance with the criteria of cooperation based on bilateral grant assistance will be actively monitored." A new government is already in place in Zambia for over a year now while a 'regime change' was witnessed more recently in Kenya. It is, thus, anticipated that the two countries may receive a more favourable support from Finland.

In its bilateral development cooperation, Finland believes in capital deepening rather than capital spreading. Thus, the country's aid has been concentrated on fewer partner countries and larger country programmes, primarily targeting poverty reduction.



### 3.4 Multilateral organisations

Multilateral co-operation is seen to offer the Finnish government with opportunity to influence the development policies of those international organisations and agencies whose objectives and strategies coincide with those of Finland. In the allocation of Finland's support to the various multilateral agencies, consideration is given to the recipient agency's operative capacity and its ability to enhance Finland's stated development cooperation objectives (see Box 14). Within the WTO, Finland stresses the importance of paying sufficient attention to those trade policy issues that are important to developing countries. Finland channels a large proportion of its development aid through multilateral bodies, the most important ones being the UN agencies, the World Trade Organisation, OECD, the World Bank, the IMF, and regional development financing institutions such as the African Development Bank. In the past couple of years, total disbursements to multilateral bodies have been approximately FIM 1.0 billion, with the UN system (that is perceived by Finland to be the 'international development leader'<sup>84</sup>) taking up about 40 percent of this. It is Finland's intention to enter into multi-annual financing commitments with the more strategic UN agencies, particularly, UNDP,<sup>85</sup> UNFPA,<sup>86</sup> UNICEF, WHO and WFP. The UNAIDS, in particular, is earmarked for more Finnish support in line with the country's increased attention given to HIV/AIDS pandemic.

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<sup>84</sup> The Millennium Summit, held in 2000 and chaired by President Tarja Halonen of Finland, gave added prominence to the UN "as a vehicle of multilateral development co-operation." The summit of over 160 head of state and government adopted the Millennium Declaration that, inter alia, define the goals for development co-operation in the new millennium.

<sup>85</sup> The UNDP's objectives are perceived by Finland to be in agreement with the Finnish development co-operation policy, and Finland regards the organization as efficient and capable of swift action – the backbone of the UN development co-operation. Finland has also supported the current extensive reforms undertaken by the UNDP.

<sup>86</sup> UNFPA's objectives are in agreement with the Finnish development co-operation policy, particularly those that focus on poverty reduction, reproductive health (particularly with regard to young people), the promotion of reproduction rights and gender equality, increasing the sense of responsibility of men, and elimination of violence against women and girls, in particular.

### Box 14: Finland joins International Organizations

<b>1948</b>	The World Bank (IBRD) and International Monetary Fund (IMF)
<b>1949</b>	General Agreement on Tariffs and Trade (GATT)
<b>1956</b>	United Nations and Nordic Council
<b>1961</b>	European Free Trade Association (EFTA), associated member.
<b>1969</b>	Organization for Economic Co-Operation and Development (OECD)
<b>1986</b>	Full membership in EFTA
<b>1989</b>	Council of Europe
<b>1994</b>	European Economic Area (EEA), NATO partnership for Peace.
<b>1995</b>	European Union

Source: TAT Group, 2001: 87

Finland maintains that, to the extent that international development financing institutions help to improve the economic and social development of poor countries through the provision of development capital, its membership to these institutions consolidates its position internationally. The Council of State's Decision-in-Principle of February 2001 on the operationalization of Development Policy co-operation sees multilateral financial institutions as "indispensable." Currently, international developmental financing institutions' share of Finnish development assistance has been in the region of 25 percent. The World Bank and regional development banks (the African, Asian and Inter-American Development Banks) are among Finland's main targets at this level. In the most recent replenishments, The World Bank's IDA credits has benefited from Finland, as has been the Nordic Development Fund, and the NORساد Fund, and the regional development banks (mainly African Development Bank Group, Asian Development Bank Group, Inter-American Development Bank, and Inter-American Investment Corporation.) In addition, Finland channels minor sums through a large number of special funds such as the Special Programme in Africa.

Approximately 30 percent of Finnish aid is routed through the EU structures. The European Development Fund (EDF) that has been receiving Finnish contributions since 1998 has been earmarked for increased flows from the country. The EC/ACP Council of Ministers (the highest joint body of the African, Caribbean and Pacific (ACP) states and the European Union) decided to allocate uncommitted cooperation resources that were available during the transition from the Lome Agreement (that ended in February 2000) and the Cotonou agreement. It is particularly noteworthy that Finland is one of the first EU states to ratify the Cotonou Agreement. In terms of the Asian and Latin America countries, the European Commission (EC), to which Finland subscribes, extends assistance to 33 Asian and Latin American countries. Finland finds the EC's general development policy to be in line with its development policy.

## 3.5 Other Forms of Cooperation

### 3.5.1 Development cooperation through NGOs

In an effort to use resources targeting civil society more efficiently, Finnish global development assistance is also being channelled through NGOs. Currently, NGOs take about 11 percent of total Finnish aid. NGO development co-operation complements bilateral development co-operation and reaches grassroots people in areas that are often bypassed by the conventional official aid routes. Development cooperation through NGOs also offers opportunities for much closer North-South cooperation, acting on equal terms and pursuing common agendas. According to the Finnish government's Decisions-in-Principle on development cooperation, Finland aims to route a total of 10–15 percent of operational development aid appropriations through NGOs. More than 90 percent of these resources are expected to support projects run by Finnish NGOs and the balance is for project run by international NGOs. Traditionally, Finnish NGOs focus more attention on health care and the social sector, particularly education and training, with Africa taking nearly half of the total global activities of Finnish NGOs. In 2001, almost two-thirds of the support was directed to projects in these sectors. In the past three years, nevertheless, Asia and Latin America have been receiving an increasing share of Finnish NGOs.

The Service Centre for Development Co-operation (Kepa) is the Finnish NGOs umbrella organisation, boasting of approximately 200 NGO membership. Apart from information dissemination as well as organising training programmes for its members, Kepa also works to influence public opinion in Finland regarding development co-operation of Finland, in the EU and other international organizations. It is noteworthy that most of the Kepa funds come from public development co-operation appropriations. In 2001, the Finnish Ministry for Foreign Affairs gave Kepa EUR 4.54 million for its member's activities in 11 countries in Asia, Africa and Latin America. In conjunction with four Finnish organizations (the Finnish Youth co-operation allianssi, the Finnish Branch of Service Civil International, Maailmanvaihto ICYE Finland and Tinku in Finland), Kepa administers and coordinates a voluntary service programme for young people covering such countries as Zambia, Tanzania, Nepal, Peru, India, Malaysia, Thailand, the Philippines, Bolivia, Ecuador and Nicaragua. Finland has also continued to play its part in the EU joint funding of NGO projects.

### 3.5.2 Humanitarian aid

Finland is also involved in the provision of humanitarian aid in response to acute crises, taking into account, nevertheless, the country's foreign policy objectives and

focusing on preventive action and on finding lasting solutions to crises. Notwithstanding this, Finland maintains that, to the extent that most crises are man-made, more focused long-term development cooperation should significantly minimise the occurrence of such calamities. Consequently, humanitarian aid has decidedly been kept at 10–15 per cent of Finland's total budget for 'development cooperation proper.'

### **3.6 View from the South: Critical Overview**

#### **3.6.1 NGOs**

From the Southern perspective, a number of challenges emerge that deserve careful scrutiny here, looking at both the process and content of Finnish intervention. At the level of process, it is commendable that a significant proportion of Finnish assistance to developing countries (between 11 and 15 percent) is routed through NGOs. NGOs play an important role in the strengthening of global solidarity among Finnish people and between Finnish and developing countries' grassroots communities that are often neglected by their respective governments. They offer both Finnish and developing countries' citizens an opportunity to directly participate in development cooperation in a manner that is more direct and generally unrestrained by the government bureaucratic red tape.

Notwithstanding this positive window of opportunities, the reality is still that a larger proportion of Finnish development assistance is still primarily routed through the traditional channel, namely, the central governments of the recipient developing countries. Consequently, there is still a problem regarding how best supra-national and sub-national level actors could be integrated into the developmental agenda.

#### **3.6.2 Conceptualisation of Poverty in Development Cooperation**

It is clear from the preceding presentation that Finland development assistance focuses, both in principle and in strategy, primarily on the "poor" and, hence, its development policy is presently focusing on how best to reduce poverty in the countries that it supports. This places Finland squarely with the current global focus by other bilateral donors and multilateral institutions. As clearly stated in one of its policy documents,

...It is Finland's particular task to put special efforts to co-operating with the weakest governments and with the poorest population groups of the developing countries, in order to ensure that these states and population groups will not be marginalised in the globalising world. Especially the LLDC-

countries need Finland's support in order to be able to reap benefits from economic and social development and increasing living standards.<sup>87</sup>

For Finland, poverty reduction entails sustained economic growth and equitable income distribution. It also means the facilitation of special arrangements for supporting the poor to be engaged in productive activity. This means that Finland sees "*sustained economic growth*" as being as important to poverty reduction as the need to assure *social welfare provisioning*. Although there is no direct reference to the on-going Poverty Reduction Strategy Papers (PRSPs) that presently form the basis of interventions in this area, the Finnish government lists the following as the principal ingredients to its poverty reduction approach in its development cooperation:

- o continued support to economic reform programmes in terms of their content and substance, paying attention to both *the generation of economic growth* and *the promotion of social development*;
- o facilitating the strengthening of *human resources capacities* of developing countries;
- o stressing *basic education and health services*, including support to the improvement of basic health services, particularly family planning and reproductive health;
- o supporting *food security* through the encouragement of environmentally sustainable food production techniques;
- o facilitating the strengthening of *women's participation* in social and economic activity, including access to basic education by girls and women; and
- o focusing on the improvement of the *status of disabled people*.

The 'official Finnish' conceptualisation of the poor entails those without access to basic education and health services; those whose food supply is insecure; those women and girls who lack the education that could empower them to take their legitimate roles in social and economic activities – and the disabled people. The new '*Comprehensive Policy*' perceives a strong correlation between human rights and poverty reduction, and sees minorities, indigenous peoples, women, girls and the disabled as the obvious beneficiaries of Finland's human rights interventions. At bilateral level, to target interventions towards "a poor area of a poor country" is the general Finnish pro-poor approach in its effort to reduce poverty. The '*rural integrated*' development programmes have tended to predominate the Finnish development assistance.<sup>88</sup> Although there is

<sup>87</sup> MFAF, 1998

<sup>88</sup> Among such programmes in the countries that are being studied in this Report are, for instance, the FADES local government support and the Region V livestock project in Nicaragua; RIPS rural integrated programme (Mtwara-Lindi), East-Usambara forest conservation and Zanzibar forestry in Tanzania; Lumbini water in Nepal; Amhara water, Selale smallholder dairy and Lalibela town planning in Ethiopia; Ohangwena water in Namibia; Luapula rural livelihoods in Zambia; and Bac Kan forestry and the new rural integrated project in a poor rural region, Quang Tri in Vietnam.

evidently a growing scepticism among the Finnish aid bureaucracies around the inadequacy of the standard World Bank-funded household surveys as the basis of establishing the nature and gravity of rural poverty, the actual interventions still remain largely guilty of conceptualising the poor as a homogeneous group that are often given standard remedies.

The developing country's policy also matters since the key elements of a pro-poor intervention largely depend on government policy irrespective of how the donor country perceives poverty to be and how it intends to proceed. An important first step in any country is to make poverty reduction a priority objective in national development. Looking at the Finnish policy statements, poverty reduction has been fully acknowledged. It is, therefore, clear that Finland's *policies* are generally in line with the average Southern government's policies. It is at the level of poverty reduction/eradication *strategy* where major differences emerge. In Zambia, as is the case in Namibia, the focus of Finnish aid has traditionally been in the support for the social sectors, an understandable preference given the country's strong social welfare policies and its historical experiences. It is equally important to recognise that support to the social sector, much as it is commendable to the extent that it sustains life and builds the requisite human resources needed for national development, should be supplemented with attention to growth-oriented interventions to ensure a balanced and multi-pronged assault on poverty. It is rarely appreciated that sustainable *social welfare* is almost always founded on a strong national economic base and that it cannot – and should not – be founded on external assistance. The test of aid effectiveness should, thus, be judged on the ability of development cooperation to facilitate Southern partner countries with the requisite capacities (human, financial, technical, and social) to be able to improve the social welfare of their peoples. Consumption-based approaches are important particularly in countries with high levels of poverty and where social protection, particularly in the earlier phases of socio-economic development, is mandatory if access to such necessities as basic health, education and general social welfare for all is to be guaranteed. But to *reduce* poverty in a sustained manner, (as opposed to merely *alleviating* it), *livelihood-based approaches* that enrich consumption-oriented interventions with conscious efforts that target the improvement of the poor people's income and assets are essential. Livelihood systems entail activities that households undertake (through a combination of empowerment mechanisms from the state and elsewhere) to earn a decent living and to ensure the availability of their basic needs and requirements. Investment in human capital through basic and vocational training; provision of credit and extension services to agricultural communities; facilitation of economic diversification through, say, well targeted technical and financial support structures; capacity strengthening of institutions that support the poor's socio-economic activities; etc. combine to provide the needed stimulus for livelihood-based support.

In this regard, livelihood systems go beyond social welfare provisioning to encompass productive activity that members of the household undertake to sustain themselves. They include household assets accumulation; income security; and food security.

The reduction of the poor's vulnerability to crop failure in drought-prone parts of Sub-Saharan Africa where the people are predominantly agrarian, for example, becomes an important consideration that ought to be addressed by national and donor-supported policies that advance livelihood-based approaches. The enhancement of the household's capacity to cope with fluctuations in the market prices of their main economic activity constitutes another important consideration. In this regard, a policy that focuses on the enhancement of a livelihood system would guarantee, *inter-alia*, food security and sustainable acquisition and safeguarding of household assets. Under such conditions, household vulnerability to economic shocks would be minimised and the distress disposal of household assets significantly curtailed. A livelihood-based poverty reduction approach is, thus, recommended since it targets the poor themselves in a manner that improves the household resilience in the face major threats to their economic and social welfare.

How poverty is defined matters and it is important that Finland development cooperation policies, to the extent that they place a high premium on poverty reduction, looks at this more carefully. Many donors often loose sight of the right targets in their poverty profiling prior to their interventions in poor countries and Finland has not exhibited any signs of departure from the common trend. Lack of specificity about key categories of poor people; lack of explicit linkage between the means and processes of identifying the poor; and rather spurious choices of anti-poverty strategies have all tended to characterise many donors' interventions. Looking at the pro-poor Finnish interventions, there still remains the need to strengthen the capacity of developing country governments with respect to clarity and strategy-relevance of poverty profiling at four different levels:

- o Income-based definitions and measures have not been used consistently in the average recipient of Finnish aid. For example, there is no discernible rationale underlying choices between poverty lines relating to basic food requirements and more inclusive measures covering food and non-food requirements.
- o Where non-income criteria are acknowledged and used, the information is even patchier in most of these countries, and there is no clear pattern underlying the selection of indicators. In the case of Zambia, Chapter 17 of the country's PRSP that covers, *inter alia*, monitoring and evaluation is woefully deficient in this regard.
- o In most PRSPs so far developed in the countries supported by Finland, disaggregated information on specific categories of poor people has generally not made explicit the theories of causation that appear to underlie some of the

correlations. For example, 'female-headed households' are singled out in the Zambian and Namibian PRSPs as a key category of poor people with little attempt to identify what causes make some kinds of female-headed households more poverty-prone than others.

- o Key categories of poor people are often not linked in any systematic way with strategic priorities, such as targeted provision of goods and services.

It is equally noteworthy that the notion of 'the poor' does not seem to recognise the strengths (e.g. the creative capacities and human dignity) of those that are captured in this 'categorisation net.' Consequently, the chosen policies for poverty reduction often assume/imply that the poor are passive and that they lack human dignity.

Although the African countries' PRSPs disaggregate the poor to some extent, the information tends to be incomplete. More systematic disaggregation is, thus, required that would show how the interventions proposed at the sectoral levels are underpinned by information on poverty and by analysis of opportunities for specific kinds of improvement among specific categories of people. The broad-brush classifications used in many PRSPs, as has been the case in the definition of the poor by many donors, tend to limit opportunities for better targeting since the poor are typically identified in very broad categories covering the majority of the population. More detailed information on various categories of poor people would have more obvious strategic relevance if it referred to specific dimensions of poverty or to the depth of poverty. In this regard, to form the basis of prioritizing and targeting, the identification of the extremely poor or destitute people who are likely to remain in need of special attention is important.

One of the greatest weaknesses of many donor-supported interventions, including those by Finland, is their failure to analyze and conceptualize vulnerability within the context of poverty dynamics. There are two distinct, though overlapping, reasons why donor interventions should pay particular attention to vulnerability:

- o to ensure that anti-poverty strategies include the prevention of poverty as well as lifting people out of poverty (i.e. that they include attention to people who are vulnerable but not 'poor');
- o to ensure that security, rather than just productivity, is understood by donors and recipient country policy-makers as a key livelihood objective for poor and non-poor people alike (i.e. that strategies address the need for risk management at national as well as micro-levels, which will involve balancing trade-offs between income/productivity gains and security).

As regards the first, the key question is whether the pro-poor strategies currently championed by Finland under its development cooperation do identify categories of



people who are vulnerable but not poor (and if so, whether they offer strategies that address their needs separate from the needs of people who are already poor). On this, the answer is a clear 'No'. The Finnish development cooperation policies rarely mentions vulnerable people, and where they are mentioned and/or implied, the policy tends to use this term as a synonym for poverty. Consequently, the tendency has been to focus primarily, if not exclusively, on those people that are currently perceived to be poor and leaving out that may easily fall into poverty but who are not yet there.

With respect to the second reason for vulnerability analysis, the answer is more complex. Finland, like the average donor, hardly engages into meaningful analysis on social security-related aspects pertaining to, *inter alia*, state-funded safety nets; communal resource-pooling and sharing; urban livelihood strategies; and the safety, security and quality of employment. Finland's interventions in Namibia with respect to an attempt to help in the development of a social welfare policy for the country is definitely a step in the right direction and ought to be supported and replicated in other countries.

The limited attention paid to social processes, empowerment, and rights is evident in the many countries that receive Finnish aid and it is one area where direct support from Finland is urgent. Deficiencies in social relations and social status are real dimensions of poverty that are of major concern to poor people. Yet these dimensions are scarcely mentioned whereas income – which is only a proxy indirectly related to the quality of life – is given prominence in many poor countries' effort towards poverty reduction. This may be explained by at least two factors: first, a fear of introducing politically controversial or divisive topics such as regional biases in projects allocation, ethnicity and citizens' rights; and second, a pervasive focus on measurability and, hence, on numerical rather than qualitative presentation of information. A major challenge in assessing poverty trends is to, therefore, include *well-being* indicators in poverty profiling. This will, however, complicate the process of collecting, processing and comparing the well-being of the poor, and will require enhanced emphasis on qualitative assessment and participatory learning strategies. Paradoxically, the poverty reduction effort in most countries generally exaggerates the reliability of income and consumption measures as proxy indicators of well-being. Further, where efforts are made to capture information on well-being more directly, this is distorted by overemphasis on measurement at the expense of qualitative information and analysis.

Thirdly, targeting is also not articulated in any meaningful manner to the extent that the reader is left wondering as to what shall be the main focal points during implementation. 'Targeting' as normally understood is distinct from 'sectoral prioritizing' in that it involves directing resources towards categories of people and areas rather than towards needs and forms of production. The two overlap to the extent that categories of people and areas are distinguished by particular needs or

forms of production (for example, prioritizing agriculture can usually also be seen as 'targeting' rural people, although it is possible to target urban cultivators). The identification of key categories of poor people and clearly targeting them through well-articulated interventions is pivotal in poverty reduction. This is not evident in Finnish pro-poor interventions.

The absence of prioritisation of intervention (both cross-cutting and sectoral) seems to place equal weight on all the poverty interventions in a typical donor-supported programme. Economic structure (particularly the initial level of inequality) does affect the patterns of future growth but, perhaps more importantly, the *sectoral composition of growth* does possess major implications for poverty reduction and alleviation. Thus, in countries like Zambia, Tanzania, Mozambique, Ethiopia, Namibia, Nicaragua, and Honduras where the poor are predominantly in the agricultural sector, national growth/development strategies that minimize this sector (or places it on equal footing with all the other sectors) would rarely improve the welfare of the disadvantaged population that depends on it. This suggests that in those countries where the majority of the poor depend on agriculture for their human survival-cum-livelihood, the recorded poor growth of the agricultural sector on the African continent remains one of the major factors that explain the worsening poverty conditions.

### 3.7 The Role of Multilateral Institutions

Finland maintains that globalisation, to the extent that it facilitates the integration of the world economy through freer movement of private investment, has the potential to benefit developing countries if it is well managed/governed. In this regard, Finland, as earlier demonstrated, looks to multilateral channels as another route through which development cooperation could be productively enhanced.

From the Southern perspective, Finland ought to assume a more proactive role in championing the cause that would more positively integrate the poor countries of the South in multilateral bodies. Presently, the poorest countries of the South are not benefiting from global economic integration, a state of affairs that is actually deteriorating. Despite the advances made, more than 1.3 billion people in developing countries presently live in abject poverty, contrasting quite markedly to the more favourable global trend elsewhere. As NEPAD explains,

While globalisation has increased the cost of Africa's ability to compete, we hold that the advantages of an effectively managed integration present the best prospects for future economic prosperity and poverty reduction... The case for the role of national authorities and private institutions in guiding the globalisation agenda along a sustainable path and, therefore, one in which its benefits are more equally spread, remains strong... Africa, impoverished by slavery, corruption and economic

mismanagement is taking off in a difficult situation. However, if her enormous natural and human resources are properly harnessed and utilised, it could lead to equitable and sustainable growth of the continent as well as enhance its rapid integration into the world economy.<sup>89</sup>

As the situation obtains presently, it is evidently clear that, to the contrary, *'equitable and sustainable growth'* and the continent's *'rapid integration into the world economy'* are, under the circumstances, mutually exclusive. Although Africa's share of global trade declined during the 1980s and 1990s, the volume of exports increased. This was principally because the value of sub-Saharan exports was cut in half relative to the value of imports from the North.<sup>90</sup> Such form of marginalisation has occurred not because of absence of integration into the global system but, to the contrary, due to *'too much integration'*, of the wrong sort. It is clear that integrating more rapidly and in an unregulated and *'ungoverned'* manner into the global economy through export-led growth and under the current conditions is more likely to minimise sustainable growth opportunities of the economies of the countries in the South. Globalisation's underlying philosophy; its advocates' incorrect assertions regarding the South's growth potentials under the current conditions; ineffectual practical strategies so far being proposed; uncreative and inappropriate demands on poor countries; and counter-productive state-to-state alliances that generally marginalise civil society in multilateral negotiations.

Finland's current development cooperation policies acknowledge the importance of some of the above considerations and, because of this, the South expects to see more proactive actions by the country in its relations with poor countries. Presently, Finland maintains the following positive postures:

- o Greater prosperity promotes political stability and security, reducing the threat of crisis and war.
- o Repelling threats to the global environment and protecting biodiversity in developing countries contributes to ecological security worldwide.
- o Addressing the causes at the root of conflicts and checking them before they arise helps forestall international problems associated with refugeeism.
- o Helping developing countries gain a position as equal trading partners in the international economy promotes global economic development.

From the above and given Finland's history, culture, experience, and values, it could be deduced that, in an increasingly unipolar world, the quality and quantity of Finland's

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<sup>89</sup> NEPAD, 2002: 28,40,52.

<sup>90</sup> Toussaint, E.:2001

cooperation with countries in the South become both an ethical obligation and part of a survival strategy.

At the supra-national level, it is clear that Finland aspires to take full advantage of its membership of multilateral agencies/organisations such as the UN bodies and the World Bank with respect to the advancement of its global developmental agenda. The new '*Comprehensive Policy*' of Finland also calls for the country's active and direct participation in positive interventions that advocate pro-poor changes to international trade policies at the levels of, say, the WTO and the EU. For example, Finland has championed the calls for debt relief for poorest countries through the HIPC-initiative and through the Paris Club. The new Finnish policy is also aligned to the international Jubilee-2000 campaign that calls for a complete debt cancellation for the poorest countries.<sup>91</sup> The new policy also calls for concerted actions towards regional economic integration and South-South economic co-operation.

The World Trade Organisation (WTO) is another multilateral institution to which Finland subscribes and where opportunities for advancing the interests of developing countries are numerous. WTO was established in 1995 provides the political and legal framework that currently governs the multilateral trading system and Finland supports the entry of developing countries to this global body. Most developing countries have readily adopted economic liberalism as the broad framework for their development policies and have continued to seek to be active in the WTO. The WTO currently projects itself as a rules-based system that facilitates the free and fair international trade in its member's best interests. The WTO is, therefore, expected to be a public good that the community of trading nations ought to preserve and develop in the interest of multilateralism and free trade. To be a member of WTO, rigid qualifications are demanded. The so-called "*Single Undertaking*" demands from all aspiring members compliance with, and implementation of all the Uruguay Round agreements. It is noteworthy that while GATT that was established in 1947 as a club of only 22 predominantly developed world signatory nations significantly grew in membership over the years, the membership of WTO, in its seven years of existence thus far, now boasts of more than 135 members and over 20 countries presently seeking membership. What used to be an exclusive club of rich nations now counts more developing country membership. The rules have, however, not changed much. Even more importantly, while the contracting parties to the 1947 GATT merely entered into an agreement (rather than an organization per se) that functioned very much as a 'gentleman's agreement' with consensus on international commercial principles and without binding

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<sup>91</sup> The Finnish government was among the first Northern governments that openly declared their support for the Jubilee-2000 campaign, although how exactly this should be done is not as yet clear.

rules, developing countries that joined WTO have now discovered that they are confronted, not with a mere 'agreement' but a fully-fledged institution that possesses very strict, Western law-laden, rules that are enforced through a quasi-judicial structures and systems with institutionally-approved punishment against 'law breakers' who are subjected to an elaborate dispute settlement mechanism. There has been recognition during the Uruguay Round trade negotiations that developing countries' peculiar circumstances are real and that these nations required both technical assistance for capacity strengthening as well as special and differential treatment. Such treatment includes delayed implementation of new rules.

Notwithstanding the virtues of joining the WTO, it is clear that there are genuine concerns from the Southern perspective. Developing country's growing apprehension with the structure and rules of the current multilateral trade regime became more evident during the disgraced WTO Seattle Ministerial Conference of November 1999 that closed without reaching the desired outcome. It is increasingly becoming evident that developing countries are collectively raising their voice regarding their concerns and their collective resolve to challenge the evolutionary development of WTO, particularly with respect to the inclusion, through the so-called 'Built-in Agenda,' of new issues and rules. The case of US-sponsored 'labour standards' and 'the environment standards' items on the WTO agenda, for example, have caused considerable friction with many developing countries that see it as a non-trade issue that should be referred to the ILO. Developing countries were opposed, not because their governments are hostile to worker rights or environmental protection. Rather, they are opposed to this because these are perceived to be thinly disguised protectionist measures masquerading as 'good standards' for inclusion in WTO rules.

Many developing countries currently fear that WTO, if not checked, would accommodate as 'trade issue' submissions that its more influential members failed to pursue successfully under a different structure and then brought to the world body. From the Southern perspective, there seems to have emerged a war of *obligations* vs. *rights*: the strong feeling that while the rich countries seem to concentrate more on obligations of developing nations under WTO, there is very little consideration of their rights under the same rules. Developing countries are also increasingly becoming concerned by the fact that, despite their majority position in the world body, WTO still continues to remain as the rich nations' club that is effectively being controlled, if not governed, by the so-called 'Quad Nations'<sup>92</sup> and OECD members. Indeed, developing countries were not included in the private 'green rooms' negotiations that discussed strategic policy issues during the WTO meetings in both Singapore and

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<sup>92</sup> i.e. the EU, USA, Japan, and Canada

Seattle, thus, in developing countries' view, revealing the 'exclusive' character of the club and the growing irrelevance of the poor countries in the multilateral trade institution. However, the Seattle clashes revealed more clearly than before that while WTO may still be the rich countries' club, the growing cohesiveness of developing countries in aggressively championing their cause is an indication that the direction the world body would now take would have to accommodate the concerns of these poor countries. The failure of the Seattle Conference was seen as a success for these 'weak' countries.

Finland has supported the IMF and World Bank-supported structural adjustment programme as well as the adjustment-related policies of the EU towards developing countries although, it is acknowledged, economic growth alone will not be able to eradicate poverty. Complementary to this, Finland has continued to support the democratisation processes in the recipient countries as well as "locally adapted systems of social security" in order to secure, at the sub-national level, the welfare of the disadvantaged and marginalised sections of the community, particularly the disabled, the aged, women and children that are often poorly served by SAP-induced austerity measures.

Although Finland supported the IMF- and World Bank-funded SAPs in most of the countries to which Finnish aid is given, it has become increasingly clear from the Southern standpoint that the Breton Wood Institutions over the past two decades in many African countries have generally failed to bring about the anticipated level of improvement in economic performance and social welfare through their prescribed measures. In fact, many of these countries are left with huge and unsustainable debt. For Zambia, for example, the debt burden has escalated and the incidence of poverty has actually worsened during the period when SAP was being religiously embraced. The granting of debt reduction for these countries, albeit in different form and magnitude, has, therefore, become a major development issue that is put on the agenda of both developing and developed countries (including Finland). A good number of poor Southern countries argue in earnest that the cancellation of the debt that was contracted through structural adjustment is an *unconditional right* of the borrower developing countries and should not be considered as a good-will gesture of the creditors. Their position is based on the argument that the financial loan extended by the World Bank and the IMF was accompanied by policy prescriptions that failed to bring forth the promised results. Since borrowing countries did not acquire unconditional financial resources, which they could have utilized on their own ways, it is argued that the creditors need to take responsibility and cancel the debt.

The counter argument maintains that there is no inherent problem with SAP policies *per se* and puts the blame squarely on the commitment made by borrowing countries and faulty structures and institutions in these states. Notwithstanding the contrasting

views, what is obvious on both sides of the debate is generally clear: highly indebted poor countries need to acquire some level of debt relief in order for them to be able to revive their economies and continue to engage in viable multilateral and bilateral development partnerships. It was actually out of the above deadlock that the Poverty Reduction Strategy papers (PRSPs) approach emerged that necessitates responsive steps to be undertaken both by borrowers and creditors. So far, the voice of Finland in the current debate is absent. Given the Finnish experience and model, the South a more assertive role of Finland in guiding and/or enriching the views of the Bretton Woods institutions, given its values and rich experience in social welfare provisioning.

African countries are required now to demonstrate strong commitment to poverty reduction by developing and implementing home-grown strategies involving a broad spectrum of stakeholders. On the other hand, creditors commit themselves to the cancellation of debt to countries that show strong commitment to poverty reduction as evidenced by the formulation and implementation of the PRSP. While the PRSP is not an entirely new approach, its principles (especially its priority focus on poverty reduction and participatory and result-oriented approaches) are welcomed by most development practitioners. In effect, this revitalised approach can be considered a triumph to civil society organizations that in the past campaigned strongly against the World Bank/IMF policies in the name of the poor.

Although the PRSP approach can hardly be challenged in terms of its principles, it cannot, however, escape skepticism about its intentions and final outcomes. On the supportive side, there are many analysts in the South that believe that this new approach potentially provided an opportunity at the country level that was previously unavailable. It provides opportunity for the governments of less developed countries to be in the driving seat and potentially ensures the participation of civil society organizations, thereby promoting accountable and transparent concerted effort against poverty. This new framework is also seen as a key entry point for revitalizing the entire system and methodology of development assistance. PRSP is, therefore, labelled a 'sea-change' in policy to the extent that poverty concerns are being placed at the heart of the policy making process.

PRSP is also envisaged to act as a vehicle for realizing the goals of the HIPC initiative. Hence, the implementation of this new approach is expected to facilitate the reduction of the debt stock of poor countries to 'sustainable levels'. By helping to reduce the overall debt overhang on a country, PRSP is expected to strengthen the development effort of the country and provides the potential for economic growth and poverty reduction. Most importantly, it is perceived to facilitate the provision of some additional fiscal space for implementing social programmes. Whether the PRSP would lead to faster, deeper and broader debt relief, as envisaged in the enhanced HIPC initiative, depends, however, on how smoothly and flexibly this approach is designed and

implemented. It should also be borne in mind that this contribution is made possible by virtue of the PRSP being put as a condition to debt relief, rather than generated by its own inherent feature.

Another compelling potential value of the PRSP lies in the role it can play in catalysing National ownership by developing country governments, civil society organizations and peoples of their country's poverty reduction strategies, a phenomenon that is highly valued in Finland's current development cooperation policy. In practical terms, national ownership means the government is responsible for preparing the PRSP by allowing the participation of the civil society, the private sector, the communities at large and donors. Whether a given PRSP is regarded as nationally owned will depend, however, on the extent to which the government engages civil society and others in the process and how far their concerns are reflected in the final PRSP document itself.

Another perceived strong feature of the PRSP is its attempt to address poverty reduction in a comprehensive manner integrating macroeconomic, structural, sectoral and social elements in a consistent and integrated policy framework, again, an aspect that tallies well with Finland's holistic policy of coherence. In designing poverty reduction strategies, countries are required to take account of the multi-dimensional nature of poverty.

PRSP sceptics, on the other hand, point to many observable flaws in this new framework and it is important that donors, including Finland, take note of these. They argue, for example, that the PRSP tends to strengthen conditionality and, thus, constitutes a new mechanism to delay debt cancellation/reduction. They, thus, call for unconditional full cancellation of debt for highly-indebted countries. Inherently, it is further argued, the PRSP approach could ultimately lead to the punishment of the extremely poor countries. In the final analysis, the PRSP process seems to be built on the logic that the extension of aid, concessional loans and debt relief to poor countries should be made as a reward to their effort, valued in real outcomes, in reducing poverty among their peoples. In other words, countries with strong capacity to demonstrate commitment and achievement will have a better chance of acquiring the promised benefits than countries with low capacity. Hence, the poorest countries that have weak capacity to design and implement an acceptable PRSP may loose from the PRSP process.

Equally important, it is highly questionable to what extent PRSPs can be expected to be truly government- or nationally-owned when, in the final analysis, their adoption depends on whether or not they get endorsement by the World Bank and IMF Boards. Moreover, PRSPs do not do away with policy conditionality in an already complicated qualification process for HIPC debt relief initiative. A more suitable condition for debt relief, it is argued, ought to be introduced. Some analysts are also concerned that the level of participation or quality of the poverty reduction strategy could take second place to a government's desire to secure debt relief as early as possible.



Another important consideration is that if one listens carefully to what the World Bank and IMF are saying in the PRSP approach, an echo of their old approach of focusing mainly on macro-economic issues and economic growth can be heard clearly, a phenomenon that does not seem to be fully acknowledged by Finland in its development cooperation initiatives although the country recognises that growth is a necessary but not sufficient factor for poverty reduction. At least from the perspective of the experiences of Zambia, Namibia, and Nicaragua, poverty issues are essentially microeconomic. More substantially, how macroeconomic policies influence microeconomic poverty outcomes is not yet clearly defined (a gap in the economic theory and modelling). Hence, the pressure on PRSP to fulfil macroeconomic conditions, on the one hand, and accommodate microeconomic poverty issues, on the other, may finally break down the process and the PRSP may fall apart. The tension is likely to be reflected between a government trying to satisfy the World Bank and IMF subtle conditions and civil society demanding direct poverty reducing interventions. There are many analysts in the South that believe that it will be business as usual with a greater focus on social sectors and better safety nets to address the poverty element. The most important question is how far the World Bank – and especially the IMF – is willing to be flexible in letting go the failed and despised elements of the SAP era. In Nicaragua, the national budget for 2003 was rejected by the two Bretton Woods institutions because the National Assembly decided to allocate a greater amount of money to the social sector and salaries of teachers and health workers.

Moreover, meaningful participation of the civil society envisaged in the PRSP process, generally, and in the developmental process, as pursued by Finland in its development policy, may well be an ambitious goal given the willingness and capacity issues that exist both on the government and civil society sides in the average developing country. The one-year of experience with the development of PRSPs in Africa suggests that both general and specific capacities in government are being stretched to the limit by the PRSP processes. The same conditions prevail in Nicaragua and Honduras. Poor quality of available data, weak infrastructure and resources for collecting additional data, and low analytical capacity are, for example, some of the constraints that are characteristic in an average developing country. Non-governmental interest groups in some countries are also poorly organized for policy dialogue, a phenomenon that has ironically left operational space for foreign NGOs possessing a much larger latitude to influence policy than the indigenous non-governmental bodies/structures. Under such circumstances, mere 'consultation' often serve to rubber-stamp and legitimize policy strategies that civil society has not really had influence over. Hence, in Finland's current effort to give 'voice' to the marginalised in policy dialogue as part of its development cooperation strategy, a distinction ought to be made between mere *consultation* – where the views and ideas of civil society are merely solicited – and full *participation*, where

the civil society share in decision making. The majority of low-income countries are, at best, semi-democratized states, with quite fragmented policy processes (low coordination between different centres of decision making, and between policy formulation and implementation). These countries are generally characterized by high levels of institutional aid dependency, and correspondingly low accountability to domestic actors. Administrative systems have similarly been characterised by low morale and weak performance incentives. All these factors combine to compromise the needed political will for the effective realisation of some of the noble expectations of Finland in its development interaction with poor countries.

### **3.8 South-South Cooperation: Trade and Investment Challenges and Opportunities**

Developing countries generally agree that they should go forward towards new multilateral trade negotiations. Most of them understand that only in some kind of multilateral process that brings them together with the developed nations will their concerns about implementation, market access, and special and differential treatment ripen into real solutions. Outside the WTO and similar global arrangements, the treaty for the establishment of the African Economic Community, ratified by African governments and later operationalised through the formation of the African Union in Lusaka in July 2001, envisaged the use of existing regional economic integration schemes as the 'building blocks' towards a full integration of the continent. At the African level, this initiative, complemented by NEPAD, offers opportunities for meaningful South-South cooperation that donors such as Finland could subscribe to through technical and financial support. Two of the main regional economic integration schemes in the Southern African region are the Southern African Development Community (SADC) and the Common Market for Eastern and Southern African States (COMESA).<sup>93</sup> In terms of trade and investment opportunities, the COMESA region forms a major market place, with a total surface area of over 9 million square kilometres and endowed with generally favourable agro-ecological potential, hydroelectric power generation capacity, and abundant mineral resources, including oil.

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<sup>93</sup> The membership of the latter, which is larger than the former (but with overlapping membership), include Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

Notwithstanding the region's potential that could open opportunities for new and more proactive commercial and investment links with countries like Finland that already is emphasising this route in its future development cooperation with Namibia, Southern Africa has so far fared badly in terms of investment and trade. The region's national markets are generally too small to take advantage of increased large-scale production and the lack of competition resulting from the long period of operating under sheltered markets has culminated in the production of uncompetitive goods (in both quality and price) in the average Southern African country. Due to socialist orientation, foreign direct investment (FDI) was generally discouraged, resulting in insufficient levels of investment taking place. The situation in Southern Africa is no much different from the rest of Sub-Saharan Africa. FDI in Africa, generally, is negligible, at approximately 1 percent of GDP, representing a merger 0.8 percent of the world total and 2.1 percent of all developing countries' global share.

Both the agricultural and industrial sectors have registered declining trends. Presently, the agricultural sector in many COMESA countries account for between 50 and 75 percent of GDP and yet it's annual growth in the average country has been only around 2 percent in the past 30 years. It is noteworthy that population in the COMESA region is growing at an average of 3.2 percent, thus, outstripping agricultural and food production. Less than 10 percent of the region's arable land is under cultivation and only about 4 percent of the regional hydroelectric power potential is being tapped. Much of the poor performance of the agricultural sector in the region is attributable to a host of factors that include poor agricultural policies, inadequate investment in output-enhancing infrastructure; low budgetary allocations to the sector; and bad weather (either floods or recurrent drought). Consequently, the COMESA region's agricultural exports have declined significantly in the last decade while food imports are on the increase, with the cereals' annual bill standing at over US\$2 billion. This heavy and chronic dependence on food imports is particularly dangerous for COMESA. Opportunities for development assistance in tapping the regional potential above would, thus, bring about a more meaningful form of cooperation beyond the traditional support to the social sectors such as education and health.

The industrial sector in the average COMESA region is also disappointing, again opening further opportunities for productivity-enhancing forms of development cooperation. The industrial sector has lagged behind the annual growth rate target of 8 percent that the Industrial Development Decade for Africa (IDDA II) anticipated. The present underdeveloped industrial sector of the regional economies exemplify the underlying structural problems that include inadequate infrastructure services, underdeveloped financial systems; unsupportive institutional structures; weak inter- and intra-sectoral linkages; and human resources and technology needs. Sheer bad policies, not excluding those derived from structural adjustment reforms, have also

impacted negatively on the region's manufacturing sector. Consequently, Africa's share of global manufacturing value added has generally hovered around 1 percent.

The above state of affairs has been worsened by the region's declining terms of trade that has fallen by more than 15 percent since 1970. Sub-Saharan Africa's share of world trade stands at less than 1.5 percent, thus, relegating the region to the fringes of the global economy at a period when globalisation is consolidating itself. The composition of African trade is also of an inferior form, characterized by high dependence on primary commodities as the main source of the continent's foreign exchange (Table 6).

**Table 6: Major exports of SADC countries, 1993**

	COMMODITIES AS percent OF TOTAL EXPORTS	PRIMARY PRODUCTS & percent OF TOTAL EXPORTS
Mozambique	76.3	Fish (27 percent), Cashew nuts, Sugar Cotton
Tanzania	79.3	Coffee (24,8 percent), Cotton (22,9 percent), Cashew nuts (1,6 percent), Sisal (4,8 percent), Manufactures (4,9 percent), Mineral (5,6 percent), Petroleum (n.a.)
Zambia	90.0	Copper (84 percent), Cobalt (n.a. Zinc(n.a.))
Namibia	95.0	Uranium (24 percent), Diamonds (40 percent), Base metals (n.a.), Beef (n.a.), mutton (n.a.), lamb (n.a.), Hides (n.a.), pelts (n.a.), karakul (n.a.), Fish (n.a)

Sources: *SADC Economic Review*, May 1993; South African Trade Statistics, 1994.

Given the fact that the lack of complementarity in regional production structures is one of the major obstacles to trade, it is rarely acknowledged by the advocates of the multilateral trade regime, including Finland, that it is industrial development and diversification that will better enhance developing countries' intra-regional and global trade, rather than the mere removal of barriers to trade *per-se*. Hence, the most crucial challenge for developing countries, particularly those in Africa, in the areas of trade and investment should fundamentally focus on enhanced production of tradable intermediate goods and services. In this regard, the most basic challenge for Africa and similar developing regions is to advocate development cooperation with donors that would maximise industrial output growth rate through, *inter alia*, (a) increasing the range of manufactured exports; (b) increasing the value-added for developing countries'

primary exports; and (c) consolidating, in a guarded way though, market liberalisation in a way that allows national producers to respond promptly and positively to economic-market signals. Global liberalisation under conditions of unequal actors necessarily means that it should be regulated/governed thorough institutions that safeguard the interests of both developed and developing countries.

The existing rules and institutions and how they have to be reformed, thus, calls for a common ground among countries in the South. However, an important dimension of the structural characteristics of developing economies is that they are generally competitive rather than complementary, with many countries producing a similar range of primary products and competing for the same export markets, a phenomenon that often threaten the attainment of the needed cohesion among these countries.

Trade and investment opportunities, much as they should be given added attention in development cooperation between poor countries and donors, also ought to be understood in the context of the threat being posed by the HIV/AIDS pandemic, an area that Finland has directed more attention lately. The HIV/AIDS pandemic (and its adverse effect on developing countries' human resource base) is a major developmental challenge. The Sub-Saharan African region, for example, has recorded one of the highest prevalence levels of HIV/AIDS, with some countries registering figures higher than 30 percent of the population. Emerging statistics shows that the HIV-related mortality in the average African country is evidently much more devastating than earlier envisaged. In the 30 Sub-Saharan African countries that have registered the highest HIV/AIDS prevalence levels, the average life expectancy has already started to decline, standing at about 47 years, roughly 7 years lower than what would have been the case in the absence of the pandemic. In Zambia, life expectancy has fallen to about 38 years. The challenge of HIV/AIDS on the public and private sectors of Africa are obvious. Principally, it reverses and impedes the continent's capacity by shortening human productivity and life expectancy. The complex relationship between economic growth and HIV/AIDS is increasingly being recognised: the epidemic is as much likely to affect economic growth as it is affected by it. In most African countries, the economic shock of AIDS on the labour market has translated into severe loss in economic productivity. This state of affairs is worsened by civil strife and political instability, factors that have further affected the continent's investment and trade prospects.

Could the formation of regional trade agreements (RTAs) such as COMESA provide hope for developing countries given the evident challenges that come with globalisation as epitomized in the 1999 Seattle deadlock? In other words, is there room for South-South cooperation at the regional level and to what extent should donors like Finland support these? By the beginning of 1999, there were at least 162 RTAs globally, exceeding the number of WTO members, then standing at 134. Among the reasons

why RTAs are so attractive is that they offer a forum for coordinating positions in the multilateral trading system. The European Community, for example, acts as one in the WTO, and the ASEAN Free Trade Area members as well as those of MERCOSUR have, to a considerable extent, projected common positions on matters of mutual interest. They conduct consultations on issues on the WTO agenda.

COMESA, likewise, has sought to help member states raise and project a common platform on matters affecting them and has applied for observer status at the WTO. Indeed, COMESA had sent representatives to meetings such as the WTO Ministerial Conference held in Seattle in December 1999 and, later at Doha. The African Union also envisages employing existing regional economic communities as its 'building blocks' towards a continental union.

The WTO system does encourage regional economic integration schemes in the belief that, in the long run, the goal of achieving global free trade would be attained through them. In fact, increasingly, the perceived importance of regional trade pacts rivals that of the WTO system of trade regulation. This is essentially the paradox: the compatibility of the multilateral trading system and RTAs has emerged as a debatable subject and is currently an issue the WTO Committee on RTAs is mandated to study. RTAs as a concern for the multilateral trading system is principally founded on the worry that, if their proliferation is not well managed, this would threaten to replace or undermine multilateralism as the better way of managing international economic relations. Indeed, there is a growing concern that the rules governing RTAs as enshrined in the WTO Agreement and in GATT prior to 1995, are systematically being flouted by members of the over 150 RTAs world-wide. This concern is not unfounded. RTAs do threaten multilateralism if they are closed and when they adopt programmes that disregard the broad framework and rules of the WTO, including the dispute settlement mechanisms. RTAs could threaten free trade if they become protectionist by, for example, raising barriers to the trade of third countries through unbridled common external tariffs.

The WTO rules, therefore, aim to keep RTAs within the framework of the multilateral trading system and to have RTAs that are open and that do not aim to raise barriers to the trade of third countries. In this regard, RTAs are to be notified to the WTO and are expected to be examined by the WTO Committee on RTAs for compliance with the world body's rules and obligations that are specific to members that form RTAs. However, the rules have proved to be remarkably unclear to many developing countries (both in terms of content and interpretation) and have, at best, been disregarded altogether by most African members, a phenomenon that has threatened the capacity of RTAs in developing countries of Africa to comply with the WTO framework.

COMESA is currently using or intending to use various liberalisation and integration schemes to facilitate both intra-regional trade and economic integration effort in the region. The key trade liberalisation scheme is tariff reduction. COMESA effected in October 2000 a Free Trade Area (FTA) through member states' commitment to the eventual elimination of tariffs. The Organisation also envisages the establishment of a Common External Tariff (CET) by 2004. Significant work has already been undertaken on the design and implementation of a CET, all with financial and technical support from the European Union.

Notwithstanding the above concerns regarding the general hostility towards developing countries under the current multilateral trading system, it is a truism that if the Southern countries are to achieve significant economic growth, they must do this through full integration into the world economy within the framework of WTO. As they consolidate their membership of the global body, they will realise that it is in their interest to address the following agreements in the contemporary multilateral trading regime that constitute an integral part of the evolving global village:

- o the Agreement on Trade-Related Investment Measures (TRIMs) that prevents member states from utilising a minimum level of inputs in manufacturing, and to export at least as much as they import<sup>94</sup>;
- o the General Agreement on Trade in Services (GATS) that recognises 'commercial presence' as one of the ways in which services are traded; and
- o the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) that obliges member states to grant minimum periods of protection to copyrights, patents and trade marks.

Furthermore, developing countries, by being members of WTO, will have to face the implications of not only their place in the current multilateral trading system but, more specifically, the real meaning of the current Uruguay Round agreements; rules pertaining to WTO notification procedures; and trade dispute prevention and how the existing settlement mechanism affect them. Similarly, the challenges that the global trading system brings about with respect to the existing regulations regarding subsidies and countervailing duties; dumping and anti-dumping measures; duty draw-backs; free trade zones and free processing zones are all of special interest to the developing countries as globalisation gathers momentum. What is of immediate concern is that while it is important that developing countries should strive to make the global trading system more responsive to their peculiar circumstances, it is also true that early compliance with negotiated rules of the WTO would send the right signals to potential investors.

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<sup>94</sup> COMESA rules of origin have not yet taken into account the TRIMS guidelines.

In the light of the above, it is advisable that developing countries should develop the requisite skills to meaningfully participate in the new multilateral trade negotiations and it is at this level that donor-supported capacity strengthening is most urgent. It is only through such participation that these countries can better table and argue for such things as enhanced market access and special nonreciprocal treatment in the global marketplace. Indeed, developing countries have already paid too dear a price for joining WTO and their exclusion at this stage should not be an option. In this regard, the challenge for developing countries should be less of opting to withdraw and more to strive to be affective and active participant in the setting up and refinement the new rules of WTO. Indeed, if developing countries are to increase their share of world trade and global foreign direct investment flows, they must strive for full integration into a more responsive multilateral trade regime. One consolation is that the problems that were witnessed in Seattle did succeed in sending the right message to the rich nations if one is to believe the post-Seattle joint statement of the United States and the EU:

A new Round has to be definitely different from its predecessors. It should encompass the built-in agenda of agriculture and services, further and effective market access liberalisation, support our efforts to harness globalisation by strengthening and extending WTO rules, and address the concerns of both developing countries and civil society...[We] need to take full account of the lessons of Seattle. In particular, work should be directed towards a set of measures that will provide better opportunities for wider participation by all members (including developing countries) in the decision-making process of the WTO; offer greater transparency; and improve public access... to WTO documents and enhance consultation procedures with civil society.

One point of insistence that developing countries could collectively pursue, preferably through their respective regional integration schemes, regards preferential world market access of their commodities as well as persuading developed members of WTO to accept, within the context of the world body itself, the creation of an integrated framework that harmonises trade policies with debt relief and enhanced aid and investment flows in a manner that addresses pro-poor development. Finland can play an important role in this regard as a conduit through which the voice of the South could be heard – and felt – in the corridors of both the EU and WTO.

### 3.9 Aid Harmonisation

Presently, there is very limited coordination and harmonisation of effort between Finland and other donors in the countries where it extends assistance. The reason for developing countries' preference for donor harmonisation is multifold. Firstly, the efficacy of external assistance is better realised when donors operating in the same field/sector collaborate and harmonise their effort and build local institutional capacities



in the areas of planning, implementing, monitoring and evaluating their own projects/programmes themselves. Secondly, experience shows that the proliferation of uncoordinated donor projects has placed overwhelming functional strain on the average recipient country's ill-equipped government bureaucracy. The sheer number of donors, the multiplicity of their uncoordinated projects; and their different planning, reporting accounting, administrative and legal requirements have brought about fragmentation in aid management. As one report that argued for sector-wide approach (SWAp) to development cooperation noted:

On the whole, funding agency-attributed projects undermine government leadership, contribute to policy fragmentation, duplicate approaches, distort spending priorities and insufficiently address institutional development and sustainability issues. The tradition of stand-alone programme implementation units drains capacity of government's own management systems, creates managerial overload fielding separate funding agency missions and distorts salary scales and other incentives.<sup>95</sup>

Under SWAp, the Zambian government has sought "basket" arrangements in which external resources from a multiplicity of donors are placed into a common pool of a comprehensive sector programme. Under this arrangement, both policy reforms and sectoral capacity strengthening are concurrently discussed by both donors and the Zambian government in the spirit of *partnership* in development. It is maintained by the Zambian officials that this form of aid disbursement and management facilitates better collaboration and co-ordination among co-operating partners. The funding agencies that have adopted SWAp, including Finland in the Zambian educational sector, have acknowledged that effective partnerships are strategic in their external support efforts, incorporating broad-based stakeholders *beyond* governments. SWAp also entails donors' surrendering the right to select projects for funding and, in return, are allowed to directly participate in, and influence the negotiations on how programmes are designed; resources allocated and spent; and sectoral/programme performance monitored and evaluated. The Zambian government finds the initiatives by these donors as being useful to its aid management.

One of the perceived advantages of decentralisation is that it is intended to improve access to decision making for local communities by bringing planning closer to the grassroots. Empowering local communities to be involved in planning is expected to improve the opportunity for their demands to be met, increases their control over the decision-making and resource allocation process, and enhances transparency and accountability. In this regard, principles of decentralised planning work towards ensuring the plurality of community involvement in project/programme design and implemen-

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<sup>95</sup> Ratcliffe, M. & Macrae, M.: 1999

tation through, inter alia, the strengthening of the relationship between the state and local communities. Notwithstanding this, experience in the South reveals that few decentralisation initiatives have managed to engage local communities in more effective, 'bottom-up' planning mechanisms. For the most part, 'planning' and 'decentralisation' seem to be mutually incompatible and a lot is yet to be done to design more participatory and inclusive mechanisms in the planning sphere. The main challenge in this regard is, therefore, to design ways and means of involve local communities without losing the central role governments still have to play in directing the more global macro challenges of development.

Another dimension to the above concerns is the realisation that the Finland-supported SWAp approach in its development cooperation at the bilateral level does emphasize centrally planned sectoral blueprints for given sectors with little, if any, allowance being extended to the more decentralised, community-determined project choices. In a number of African countries today, particularly in Zambia, Tanzania, and Ethiopia, although donors have supported government in many creative district-focused projects, the policies of some of them are reportedly undermining effective decentralisation because they prefer sectoral financing as opposed to the integration of their grants into the established government planning and budgeting process. To ensure quick delivery of the projects they finance, many donors still continue to create parallel *ad hoc* implementation structures and negotiate projects with line ministries without regard to the impact of their decisions on the fiscally strapped local authorities/municipalities. It is now being understood globally that donor-created parallel structures jeopardize sustainability and can, and often do undermine accountability. The potential clash between SWAp and decentralized mode of resource planning and management, thus, seems eminent and it is one issue that Finland should be sensitive to.

Despite the positive changes that the SWAp approaches introduce in the area of development cooperation, perhaps the biggest challenge regards actual *outcomes* and *impact* that have generally been disappointing or difficult to measure. In the Zambian health sector, despite the more participatory decentralised mode of doing things, all health indicators are deteriorating. The quality of educational services is also declining despite promising signs of the Basic Education Sub-Sector Investment Programme (BESSIP) at the primary/basic education level and in which Finland is participating. Under-funding does explain a significant proportion of this poor performance in a country where the economy is poorly performing and poverty levels worsening. Notwithstanding this, it is increasingly becoming clear that SWAp advocates, particularly donors, have grossly underestimated the institutional constraints of the government system and the importance of the need to build and, perhaps more importantly, retain human resource capacities that is so pivotal in the planning and implementation of very complex SWAp approaches to service delivery. The policy and

institutional limitations of the recipient governments often receive scant attention in donor's efforts to improve aid effectiveness. Box 15 gives the capacity limitations in Zambia that have continued to check the effective application of aid for the realisation of desirable results. Box 16, in turn, gives the perceived burdens that are imposed on developing countries by donors.

### **Box 15: Zambia's Weak Environment for Aid Effectiveness**

The Zambian government's felt burdens emanating from donors' lack of harmonisation ought to be appreciated within the context of the government's own system. It is increasingly being recognised that one of the most important pre-requisites to effective aid management and donor harmonisation is a functional and thought-out national institutional framework within which external resources are mobilised and finally utilised in a way that safeguards the country's priorities. The typical donor-aided project in Zambia has received limited guidance from the government at almost all the levels of its circle. For reasons not readily apparent, the Zambian government has generally tended to place considerable faith in the donor in the definition of what is required and how best it could be attained. The era of structural adjustment was particularly noteworthy in this regard. Although external pressure-cum-conditionalities clearly played a significant role in policy choices and speed of implementation, Zambia generally stood out among other developing countries for following external prescriptions almost religiously. For example, Zambia was 'credited' by the World Bank for being the fastest privatising country in Africa at a time when the requisite capacity to meaningfully manage the privatisation process was generally weak and the chaos that followed testify to this. Evidence suggests that because of the absence of sufficient political will and technical/management skill to better guide donor activities; weak institutional structures; low analytical capacity; and lack of clarity of policy in some cases (there is presently no aid policy in Zambia), the government has often found it difficult to 'voice' its concerns or offer alternative developmental agenda to that of external actors even in cases where it believes the interests of the country are not best served by the prescribed route. This state of affairs has contributed to the perpetuation of many of the donors opting to operate with considerable and uninterrupted freedom outside the government system. This raises serious questions regarding local ownership and the sustainability of what is being externally supported.

The Zambian government at the macro level also suffers from serious structural and human capacity limitations that include weak organisational systems; inadequate and unreliable policy-cum-planning database; and poor financial management and accounting systems that have tended to threaten accountability and, thus, encourage donors to either include capacity-threatening 'gate-keeping' functions in their aid support and/or simply go around the government system altogether by creating parallel project management and implementation systems and structures, including the general donor insistence to open separate accounts for their supported projects/programmes. Moreover, the analytical capacity of the aid co-ordination institutions in the country is generally limited to the collection of basic data on aid flows with very little effort towards policy-relevant analyses that would guide government to better interact with donors with respect to its developmental priorities, in general, and poverty reduction, in particular. Behind these shortcomings lie both the lack of adequate, well-trained, remunerated, motivated and experienced personnel that is required to perform the basic functions of aid co-ordination and management. The

existence of a multiplicity of donor procedures, demands and conditionalities has worsened the capacity difficulties of the government as it has tended to generate an overload on the already ill-equipped and over-stretched state bureaucracy whose aid absorptive capacity is clearly weak.

The evident lack of cooperation among different and functionally disjointed wings of government that include the Ministry of Finance and National Planning (MFNP), the Bank of Zambia, other sectoral ministries, and statutory bodies has further worsened the situation. These arms of government have continued to receive aid with only rudimentary system of reporting to the supposedly central co-ordinating body (MFNP).

The weaknesses in the processes of aid co-ordination under the current conditions in Zambia have resulted in the marginalisation of external resources in national planning and budgeting. Although the periodic Consultative Group (CG) meetings between Zambia and her main external resource providers do allow for a certain degree of dialogue on the setting of priority areas for aid intervention, such consultations and the timing of the disbursement of pledged resources are still not adequately synchronised. Consequently, not only is it difficult under such conditions to integrate external aid and national development planning and budgeting but, equally important, counterpart funds required to be sourced from the government's internally-generated revenue for the purpose of complementing external flows are often non-existent or have to be obtained from extra-budgetary sources. This has continued to threaten the effectiveness of donor-supported projects.

### Box 16: The burdens on partner countries

The first objective of the survey on *Harmonising Donor Practices for Effective Aid Delivery* was to identify donor practices that placed the highest burdens on partner countries in terms of ownership, aid transaction costs and aid effectiveness. To this end, each respondent was asked to name the three most important burdens with regard to effective aid delivery. The responses were then aggregated into eight categories that were then organized according to the severity of concern. The responses were ranked according to the frequency of mention as follows:

- 1 Donor driven priorities and systems
- 2 Difficulties with donor procedures
- 3 Uncoordinated donor practices
- 4 Excessive demands on time
- 5 Delays in disbursements
- 6 Lack of information
- 7 Demands inconsistent with national systems
- 8 Demands beyond national capacity

The main finding above show that that there is a significant lack of national ownership. This has been defined in the survey as partner governments' ability to design and manage its own development plans while relying on development assistance. The survey also confirmed what many people in the donor community already knew — managing different donor procedures is a major burden for partner countries. Both lack of ownership and the cost of uncoordinated donor practices are brought to bear on partner countries in different ways.

Source: OECD/DAC, *Harmonising Donor Practices for Effective Aid Delivery*, 2002

### 3.10 Planning and Management of Development Cooperation

The analysis of institutional capacity issues has revealed that a number of areas require attention if aid management and effectiveness are to be meaningful. Firstly, one of the most important pre-requisites for effective aid management is a functional and thought-out national institutional framework within which external resources are mobilised and finally utilised in a way that recognises the recipients' priorities (be they defined as the whole country itself or the actual target community/group within the country). And yet in the *Zambian* and *Namibian* cases that were studied with some detail, institutional weaknesses at both the national and sectoral levels have been uncovered that have contributed significantly to aid ineffectiveness. Box 16 presents Zambia's weak environment for aid effectiveness. Presently, despite the existence of institutions and mechanisms that are supposed to provide the forum for improved aid management and co-ordination at the national and sectoral levels, such arrangements are not performing adequately. Capacity and organisational weakness at both the national and sectoral levels still continue to make aid co-ordination a somewhat superficial exercise. The absence of effective consultative mechanisms in both *Zambia* and *Namibia* that bring together aid agencies within the government system has continued to allow donor activities operate with considerable latitude outside the rather unclear government framework.

Secondly, aid monitoring and evaluation at the national level tends to be led by donors in both countries and has assumed bilateral character (particularly in *Zambia*) whereby in the absence of a meaningful multilateral arrangement, each donor has continued to monitor and evaluate its own activities usually with some input from the government. Annual programme/project reviews are common. It is, nevertheless, not uncommon for a number of donors to independently monitor and evaluate their respective activities without government involvement. Expensive external 'experts' are normally brought into the country by donors for brief periods to evaluate the performance of externally-supported projects. A number of donor agencies have recognised the adverse effects of donor-dominated project and programme monitoring and evaluation mechanisms and have, thus, tried – and quite successfully in a number of cases – to involve the recipient government and local experts in such exercises. The adoption of well structured counterpart arrangements also tends to strengthen not only the notion of local ownership of donor supported projects but, more importantly, aid effectiveness and project sustainability.

Thirdly, the weaknesses in the processes of aid co-ordination under the current conditions in *Zambia* and *Namibia* have resulted in the marginalisation of external resources when it comes to planning and budgeting. Consequently, not only is it difficult under such conditions to integrate external aid and national development

planning and budgeting but, equally important, counterpart funds required to be sourced from the government's internally-generated revenue for the purpose of complementing external flows are usually non-existent or have to be obtained from extra-budgetary sources. Consequently, the effectiveness of donor-supported projects is often adversely affected.

Related to the above is the problem of characteristic overcentralisation in both Zambia and Namibia. Because of over-centralisation, the demands on the centre in terms of planning and implementation have introduced a functional strain on the entire bureaucracy. Moreover, the existence of a multiplicity of donor procedures, demands and conditionalities has tended to generate an overload on the already ill-equipped and over-stretched government bureaucracies whose absorptive capacity is evidently weak. Equally revealing is that all the aid co-ordinating institutions (the National Planning Commission in Namibia and the Ministry of Finance and National Planning in Zambia) suffer from institutional and human capacity limitations, a phenomenon that has encouraged some donors to either include 'gate-keeping' functions in their interaction with the recipient and/or simply go around the government system altogether by creating parallel project management and implementation systems.

Given the growing concern regarding the effectiveness of aid, especially in Zambia where aid dependence is worsening, most donors, including Finland in both Zambia and Namibia, presently subscribe to the Sector-Wide Approach (SWAp) to external assistance as a possible means of improving aid effectiveness and efficiency in a sustainable manner. This mode of development cooperation is found to be attractive because of the following:

- o It encourages the government to take a leadership position and use donor resources in accordance with the laid down national priorities;
- o It guarantees a constructive donor-recipient dialogue based on the government's own policy objectives;
- o It enhances donor co-ordination;
- o It realises a better link between the financing of sectoral development and the country's macroeconomic objectives;
- o It makes transparent the utilisation of both donor and local resources; and
- o It improves financial sustainability of the sector activities.

Recognising the problem of aid management, the Government of Namibia, with the assistance of Finland set, first, to identify the development cooperation problems in the social sectors that are the primary target of Finnish aid and, second, to develop a policy on development cooperation in this area. Box 17 presents the highlights of the Draft Policy on Development Cooperation in the area of health and social services.

### Box 17: Development Cooperation in the Social Sectors: Namibian Government expectations

The Namibia health sector has been receiving significant amount of external assistance. The National Planning Commission has recognised that policy reforms will be necessary to achieve improvement utilisation of external assistance and has embarked on a process of developing appropriate policies and strategies. A policy Framework paper sets out the guidelines and institutional structure for development cooperation, and this is supported by a series of follow up guidelines and procedures currently being written. This policy for MoSHSS is in line with principles for development co-operation as outlined in the policy framework and the second National Development Plan. The Ministry of Health and Social Services (MoHSS) policy framework for health provides a direction for development assistance:

*Namibia will maintain its membership of the World Health Organisation Programmes of assistance with UN agencies, NGOs, international and Regional Organisations and individual countries will be actively developed. All such programmes will be coordinated to avoid duplication or a piecemeal approach to health and social welfare in the country. A fundamental requirement of all development co-operations shall be to help Namibians help themselves'.*

The second National Development Plan clearly states the ways in which development assistance to Namibia should be utilised and coordinated, based on strong leadership by the Government of Namibia. It should be:

- o Guided by national development priorities as expressed in the National Development Plans and public sector investment plans.
- o Geared towards institutional and human resources capacity building.
- o Demand driven
- o Utilised efficiently and effectively.
- o Should not perpetuate dependency or undermine country's priorities, development efforts or policies.
- o Should be supported by an appropriate and suitable institutional framework with the financial and human resources to maintain and operate projects and programmes initiated through external aid.

Experience has shown that an absence of strong government direction and reliance on a project driven approach aid delivery have resulted in adverse effects in some cases. Typical problems include:

- o Inconsistencies between policies and resources allocation caused by a mismatch between donor and government priorities;
- o Donors funding projects that have unsustainable recurrent costs;
- o Differences in standards of service coverage and institutional performance between those isolated pockets that receive external assistance and the majority of institutions and regions that do not.
- o Lack of government ownership and hence limited commitment to the achievement of project objectives and outputs, particularly where project formulation is donor driven;
- o Weakened managerial and administrative capacity since government personnel spend time dealing with project specific issues to the detriment of overall sector management, particularly where there are numerous donor specific reporting and accounting requirements.

More specifically to MoHSS, the Ministry currently implemented approximately 30 different projects with various development partners and although some activities are now carried out in all 13 regions and 34 health districts, inequitable allocation of resources is evident. Problems include the following:

- o MoHSS currently lacks the capacity to manage this number of projects effectively.
- o Each development partner has different procedures for all stages of the project management cycle, and MoHSS is obliged to comply with them. A particular problem is that reporting arrangements to MoHSS are not standardised.
- o As a result of poor transparency, development partner's funding, even when programmed into projects, is not always perceived as reliable, as there is insufficient information available for MoHSS staff to adequately plan activities.
- o GRN and MoHSS have well-articulated national development priorities as expressed in NDP1 and 2. Development Partners are aware of these priorities but this has not guided their programmes because usually their funds are independently earmarked for particular activities and areas. Project identification is often done by donors.
- o Much donor aid has tied "conditionality." Donors are often required to procure equipment from their countries even when the equipment policy of the Ministry stipulates otherwise. Similarly high levels of technical assistance limit the resources transferred to GRN.
- o Despite ongoing work towards decentralisation, aid management procedures remain centralised. Staff at operational level is usually not involved in the planning and preparation process of projects, which leads to a lack of information, understanding and ownership at lower level.

In the light of the above, the policy for development cooperation is based on the principles that development assistance to the Health and Social Welfare should be based on the principles of promoting *equity, availability and accessibility, affordability, community involvement, capacity building and sustainability*.

Specifically, development assistance should be:

- o based on the philosophy of stakeholder *ownership* in project identification, design, implementation, monitoring and evaluation.
- o geared towards institutional and human resources *capacity building* at all levels of MoHSS.
- o managed in a way that will ensure *sustainability*.
- o *demand driven*, with the process of project identification, project steering and management, lead by MoHSS.
- o *utilised efficiently and effectively* in a way which avoid overlap and duplication, minimises the additional administrative burden on MoHSS, and which emphasises the transfer of resources from government.
- o *transparent* with respect to financial disbursement to projects and effectively communicated through regular sharing of information with MoHSS. Project design, should be sufficiently *flexible* to enable projects to be responsive to development at the operational level.
- o supported by appropriate project management structures with the necessary financial and human resources to maintain and manage projects and programmes funded by external assistance.

Source: Government of Namibia, 2002



In addition to this, Finland's Health and Social Sector Support Programme (HSSSP) has assisted the Government of Namibia to develop the "Developmental Social Welfare Policy" for that country. The social development objectives in the policy document are listed as follows:

- o Reduction of poverty and inequalities, including those related to gender;
- o Promotion of self reliance and people's participation in the economic, social, cultural and political life of their communities;
- o Ensuring access to the basic collective and personal and basic social security for all;
- o Universal primary education for all;
- o Reduction of vulnerability through social protection and basic social security for all.
- o Giving high priority to children and the youth ;
- o Improving coping capacities of people through community development and provision of access to basic social Welfare services;
- o Emphasising the prevention of social problems rather than curative services; and
- o According higher priority for social issues in national development.

Zambia too has identified a host of problems that are associated with the manner development cooperation has been conducted by the country's major bilateral donors that include Finland. Based on the findings from a recent study,<sup>96</sup> Table 7 presents perceived problems that, according to the Zambian government, have compromised the effectiveness of ODA, generally. The table also presents the suggested solutions to the identified problems.

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<sup>96</sup> Saasa, Oliver & Jens Claussen, 2003.

**Table 7: Perceived problems with Development Cooperation in Zambia: Government expectations**

Perceived Problem/Burden	Proposed Remedies
<p><i>Perceived Problems Caused by GRZ Systems</i></p> <p>1. The typical donor-aided project in Zambia has received limited guidance from the government at almost all the levels of its circle.</p>	<ul style="list-style-type: none"> <li>o GRZ should develop, as a matter of urgency, Aid Policy that would provide guidance on the areas open to donors, the aid modalities, and the expected GRZ-donor relationships.</li> </ul>
<p>2. Effective aid management within GRZ is compromised by lack of adequate, well-trained, remunerated, motivated and experienced personnel that is required to perform the basic functions of aid co-ordination and management.</p>	<ul style="list-style-type: none"> <li>o Zambia should rededicate itself to the restructuring of the public service and ensure that professionals are better remunerated.</li> <li>o Donors should consider the meeting of some recurrent expenditures, including salaries for professionals, in order to motivate and retain them (particularly for the key economic ministries)</li> </ul>
<p>3. Aid resource mobilisation and co-ordinating institutions at the macro level (mainly MFNP) suffer from serious structural and human capacity limitations, e.g. weak organisational systems; inadequate planning database; and poor financial management and accounting systems</p>	<ul style="list-style-type: none"> <li>o Government should review its aid management structure/system, focusing primarily on institutional structures for external resource mobilisation development of aid resource database, and financial management, accounting and oversight systems               <ul style="list-style-type: none"> <li>o provision and retention of adequate, well-trained, remunerated, motivated and experienced personnel that is required to perform the basic functions of aid co-ordination and management.</li> </ul> </li> </ul>
<p><i>Perceived Problems Imposed by Donors</i></p> <p>4. There is weak involvement of GRZ during donors' preparation of their respective country support programmes, resulting in the problem of donors picking items for funding without sufficient consideration of GRZ prioritisation.</p>	<ul style="list-style-type: none"> <li>o Donors should prepare their Country Programmes/Strategies in collaboration with GRZ to ensure consistency with nationally owned PRSP and share their plans with key stakeholders in the spirit of real partnership.</li> </ul>
<p>5. There is very limited level of GRZ predictability of aid flows in terms of both volume and the timing of disbursements. This has prevented GRZ to better integrate aid into its macro economic planning and budgetary management. It has also contributed to its current inability to publish reliable and updated details of aid that is received by the various arms of GRZ.</p>	<ul style="list-style-type: none"> <li>o Donors should programme aid over a multi-year timeframe and develop and agree on common performance indicators with GRZ and other partners.</li> <li>o Donors should, where possible, make multi-year funding commitments to enable GRZ plan its medium term macroeconomic and fiscal projections as this is particularly important in the context of the adoption and application of MTEF</li> <li>o Donors should provide full information on aid flows in a timely manner and in simplified formats.</li> <li>o Donors should release their pledges in a predictable and timely manner.</li> </ul>

<p>6. Donors are avoiding budget support in spite of it promise for better integration of external resources in national budgeting and resource management.</p>	<ul style="list-style-type: none"> <li>o There is need for a more thorough and better coordinated effort on the part of donors in exploring how best and how soon to provide adopt budget support.</li> <li>o Timing of donor budget support commitments and disbursements should be aligned with GRZ financial cycles to ensure harmony of effort.</li> </ul>
<p>7. Technical assistance is generally costly and unhelpful and is perceived to be imposed on the recipient, thus, leaving the latter with very little room for manoeuvre in decisions pertaining to the transfer of such 'experts' and 'advisors'.</p>	<ul style="list-style-type: none"> <li>o A TA pool through which donors channel their resources and managed collectively by both GRZ and donors should be studied/explored as a possible option for sourcing and applying technical assistance personnel in a more cost effective and transparent way, bearing in mind the need to strengthen the more sustainable indigenous human resource capacities.</li> </ul>
<p>8. Basket funding is not being done well since money is not flowing into the central accounting system (the treasury) and that ministries are forced to open separate accounts (as a conditionality).</p>	<ul style="list-style-type: none"> <li>o There is need for conceptual clarity on exactly what the government's preferred mode of donor resource inflow to avoid sending conflicting signals to donors. This calls for a review of the current GRZ financial systems and regulations.</li> </ul>
<p>9. Donors prefer to monitor expenditures rather than actual activities</p>	<ul style="list-style-type: none"> <li>o Both GRZ and donors should place more emphasis on the monitoring of outcomes and impact of donor-supported interventions while recognizing, nevertheless, that expenditure monitoring is also importance for accountability and transparency in the use of both domestic and external resources.</li> </ul>
<p>10. Project and financial reporting and monitoring systems are generally not country owned and led as donors tend to take the leadership regarding the procedures, processes, timing, and content of what is reported and monitored</p>	<ul style="list-style-type: none"> <li>o Reporting and monitoring systems should be country owned and led. This calls for the strengthening of GRZ capacity to manage and monitor its own programmes rather than donors setting up monitoring and information systems for their own requirements only; utilization of reporting and monitoring systems to support Zambia's own information needs; donors, in collaboration with GRZ, developing a single reporting system and framework within supported sector and for similar activities; and reaching consensus between donors and GRZ on common formats, content and frequency for periodic reporting.</li> </ul>
<p>11. There is very limited access by both GRZ and other stakeholders to project information that is generated by donors' reporting and monitoring mechanisms</p>	<ul style="list-style-type: none"> <li>o There should be improvement in the transparency and availability of monitoring information so that all stakeholders have access to it to inform decision-making. The development of a website could be one of the solutions to effective information sharing.</li> </ul>
<p>12. The multiplicity of donor financial and reporting and accounting systems has confused the public sector accounting structure and standards and, if unchecked, could threaten the smooth functioning of MTEF.</p>	<ul style="list-style-type: none"> <li>o Donors should rely on Zambia's financial reporting system. When the system is considered inadequate to meet the public sector accounting standards, donors should help develop the requisite capacity rather than develop parallel alternative systems.</li> </ul>

More specifically with respect to Zambia, the country was granted the status of a priority partner for Finnish development assistance in 1972. During the 1970s and 1980s, Finland was one of Zambia's main external partners. The situation changed during the 1990s when the levels of aid declined in nominal terms to only 15 percent of their peak level, a trend that has not been reversed in any significant way up to now. This has made Finland a modest contributor to Zambia's external assistance (Table 8). It is clear that this state of affairs is to do with the general declining in Finnish assistance globally as well as the perceived poor record of the former government's commitment to human rights, democracy and good governance, identified as strategic objectives of Finland's development assistance programme. Finnish aid is currently concentrated in the educational and forestry sectors. A sizeable amount of Finnish aid to Zambia is channelled through NGOs, mainly targeting disabled people.

**Table 8: Finnish Aid to Zambia: 2001 – 2005 (Euros)**

	2001	2002	2003	2004	2005
Forestry	1,253,000	1,140,000	1,409,000	200,000	–
Education	2,792,000	2,151,000	1,901,000	1,300,000	–
Energy	–	67,000	–	–	–
Agriculture	–	–	64,000	–	–
Local Co-operation Fund	662,000	706,000	555,000	–	–
Environment	–	–	505,000	589,000	589,000
Programme planning	95,000	85,000	168,000	168,000	150,000
Humanitarian support/WFP	168,000	200,000	–	–	–
Direct Support to NGOs from MFP 1)	420,000	383,000	–	–	–
SADC Forest college project 2)	–	103,000	63,000	16,000	–

Zambia was granted the status of a priority partner for Finnish development assistance in 1972. During the 1970s and 1980s, Finland was one of Zambia's main external partners. The situation changed during the 1990s when the levels of aid declined in nominal terms to only 15 percent of their peak level, a trend that has not been reversed in any significant way up to now. This has made Finland a modest contributor to Zambia's external assistance. It is clear that this state of affairs is to do with the general declining in Finnish assistance globally as well as the perceived poor record of the former government's commitment to human rights, democracy and good governance, identified as strategic objectives of Finland's development assistance programme. Finnish aid is currently concentrated in the agriculture, forestry and education sectors. A significant level of Finnish aid to Zambia is channelled through NGOs, mainly targeting disabled people.

Grant aid has over the years been the predominant form of Finnish external assistance to Zambia and for much of the 1970s and 1980s, the country targeted forestry, forest

industry and agriculture. The transport sector also received sizeable share of Finnish aid to Zambia, particularly during the 1980s. The energy sector was added to the portfolio of Finnish aid, particularly during the 1990s, and so was education and agriculture. In the past five years or so, about 20 percent of Finnish bilateral assistance has been channelled through NGOs, which is more than the 15 percent Ministry for Foreign Affairs target for its total aid. Much of the NGO-routed aid is targeting areas of good governance and disability-related activities by civil society bodies.

Generally, the programming practices in the Finnish development cooperation entail Finnish Parliament setting ceilings of the financial commitments. After this, the Ministry for Foreign Affairs of Finland allocates to individual countries in the context of the existing multi-year budgetary commitment. During the annual country negotiations, Finnish aid programming is agreed upon. Apart from the examination of the performance of the on-going projects, some policy questions are discussed. It is the Agreed Minutes of the annual consultations that form the basis of aid programming and actual project preparation and implementation. It is during these annual negotiations that Finland informs Zambia of any changes in its development cooperation approaches or prioritisation.

At the more operational level, the main instrument for programming has been the annual country negotiations for bilateral development cooperation. In earlier years, the annual country negotiations focused almost exclusively on the general and practical operational issues of on-going projects with little attention being given to relevance or impact of Finnish aid interventions. During the 1990s, however, annual consultations have included the more pertinent aspects of project effectiveness and impact, also touching on aspects of governance, both political and economic. The design, implementation and monitoring of the Luapula Livelihood and Food Security Programme (LLFSP) marked an important era of sensitivity in the Finnish aid management in Zambia that focused on aid effectiveness and sustainability. Box 18 summarises the results of the evaluation of LLFSP.

### Box 18: FINNIDA's Luapula Livelihood and Food Security Programme

FINNIDA support to Luapula Province began in the early 1980s, focusing up to 1992 on agricultural extension and training; livestock development and animal draught power; co-operative development; agriculture marketing; and support to the provincial planning. The Luapula Livelihood and Food Security Programme (LLFSP) was then conceived beginning with a transitional phase from September 1994 to March 1995 while awaiting the appointment of a Finnish consultancy firm to implement the programme. The Programme effectively started in March 1995 with funds from the Government of Finland (92 percent). The remaining 8 percent is the Zambian government contribution, principally in cash and in kind.

The overall objective of the Programme is the provision of improved livelihood for rural households; improved resilience of households to food and nutritional insecurity; stabilised access of households to food in food deficit periods; and increased levels of income in the rural households. Female members of households, women headed households and other resource-poor farming households are the main targets of the Programme. This is planned to be achieved through diversification in production and improved soil management; improved extension and research; introduction of livestock and animal draught power; increased income earning and credit opportunities; and community awareness building and training, focusing on women producers.<sup>97</sup> From these objectives, it is clear that the project is poverty-focused.

At the Programme appraisal stage, the beneficiaries' priorities were established through a series of Participatory Rural Appraisals (PRAs). This resulted in the identification of seven areas of intervention, namely, Cattle Development and Animal Draught Power; Seed Multiplication; Extension Support; Soil Fertility; Household Labour; Income Generation; and the Reserve Fund. The Programme design stage was initiated by a team leader from Finland who was supported by local consultants. Based on the output of the highly participatory programme appraisal, five components of the Programme were identified and supported. These were Participatory Extension and Research (PEAR); Soil Fertility Improvement (SOFI); Seed Multiplication (SMP); Livestock and Animal Draught Power (LIVE/ADP) and the Reserve Fund.

To ensure sustainability, all the projects were undertaken by local actors through collaborative links with other institutions at the local level. The day-to-day management functions of the Programme are handled by a Programme Management Unit that is directly involved in day-to-day operations of the Programme which are handled by a Finnish consulting firm, Oy Finnagro Ab, headed by the Project Co-ordinator who is an employee of the company. Other Finnish TAs include the financial Controller and the Programme Advisor.

The Mid-term evaluation found that the Programme was functioning fairly well although it stressed the need to integrate more Zambians in the day-to-day management of the Programme. The dominance at the management level of TAs operating under a foreign firm seems to cause concern among local professionals. The Mid-term Review, thus, recommended that a senior government official, at the level of deputy provincial agricultural officer, be seconded to the Programme. The improvement of the monitoring and evaluation processes were also recommended.

<sup>97</sup> LLFSP, 1994.

The 1996 mid-term review of the Programme was apprehensive about its effectiveness and pointed out that "...due to the deficiencies...regarding the preparation of the Programme document with its lack of focus on beneficiaries' needs and the concentration on the delivery approach, a blue print implementation would not lead to the intended impact." The review reported that the data that is collected from PRAs is not documented and that there is the absence of detailed data regarding the beneficiaries' socio-economic characteristics. Consequently, the review concluded that the Programme does not have enough knowledge of the effects of its interventions on the target population. Notwithstanding this critical assessment, the Programme registered a number of positive outputs that are worth noting. For example, the PEAR component has expanded to new camps; and staff graduated as trainer of trainers; more than 300 community groups formed, with 43 percent being women. In 1996, of the 654 persons that received loans from the Programme, 53 percent were women. Loan recovery was recorded at around 86 percent. In terms of rights, women are increasingly becoming more independent.<sup>98</sup> A more recent evaluation of the Programme, based on the views of the beneficiaries themselves, revealed that, overall, there has been agricultural output improvement attributed to the Finnish support.

**Source:** Saasa, O.S. (with Jerker Carlsson), *Aid and Poverty Reduction in Zambia: Mission Unaccomplished*, Uppsala, Nordic Africa Institute, 2002.

For Namibia, Box 19 shows the nature of Namibia and Finnish development cooperation while Box 20 summarises the country's development cooperation with Nepal and Vietnam.

### **Box 19: Namibian-Finnish Development Co-operation**

The choice of Namibia as one of the major partner countries for Finnish development co-operation was made in anticipation, several years before actual independence. The decision was based on several historical and political facts: the long relationship between Christian churches in both countries, Finland's strong support to SWAPO in its effort at liberation, and the active participation of Finland in the UN in matters related to Namibia. Finnish missionaries had been at work in the former Ovamboland in Northern Namibia since 1870, and had established schools and health clinics there. A Memorandum of intent was signed between Namibia and Finland in Windhoek on 22 March 1990. The memorandum indicated those sectors where co-operation would take place: education and training, primary health care, water and sanitation, Forestry and environmental protection and training and technical assistance in the mining sector. Assistance would also be channelled to Namibia through NGOs.

<sup>98</sup> Previously, women obtained loans through their husbands; now they do so in their own right.

The Protocol from the 1991 annual negotiations explains that the selection of projects was made with the particular aim of improving the living conditions of the protest segments of the society. Since the beginning of Namibia-Finnish development co-operation, the Namibia Ministry of Health and Social Services has been very active in presenting proposals for co-operation. Thus the first extensive example of this co-

operation was the Engela Area Integrated Health Project which had four separate components: 1) construction of Engela Hospital, 2) strengthening of primary health care, 3) human resource development, and 4) strengthening health management. The Finnish Ministry for foreign affairs (MFA) was initially not eager to finance the construction of the new hospital at Engela. However, the Namibians insisted, and the decision to include the building of the hospital in the healthy sector programme was made. Construction began in 1992.

Other support areas exist. During the first six years of the 1990s, Namibian-Finnish development co-operation in forestry consisted of several small projects: a project on the institutional strengthen of the forestry sector (phases I and II), forestry inventory project, and a project on the prevention of bush fires. A programme of considerable size was also planned for the education sector. However, due to the severe economic crisis that occurred in Finland, which led to deep cuts in the development co-operation budget, support on education concentrated only on a cross-curriculum development project. After the 1994 reassessment by the Finnish MFA official, the original education sector programme was cancelled. Finland also supported the production of computerised geological maps and the training of Namibian geologist in Finland.

In 1994, Namibia and Finland concluded agreements to continue co-operation in health care and in forestry, which were also priority sectors in the national development plan of Namibia. Finland also expressed its willingness to support the decentralisation process in Namibia. In the annual negotiations mandate prepared by the MFA for its representatives in the 1996 negotiations with Namibia, the strategy for Finnish cooperation with Namibia is outlined. The 1996 mandate states that aid to Namibia will gradually be channelled to only a few preferable extensive, programmes. The crucial sectors were defined as the promotion of democracy, equality, human rights and good governance, reduction of poverty, and the environment. According to the 1996 mandate, funds would in future be gradually channelled direct through the Namibian State revenue fund, as Namibian capacity to administer the process increased. The 1997 annual negotiations include an even more detailed description of the objectives of Finland bilateral development co-operation with Namibia that those given in 1996. The Finnish delegation stated that they would like to see the emphasis in this co-operation put on democracy, good governance and human rights, as well as on combating threats to the environment. It was also pointed out in the negotiations that the coming ten year period would be a transition stage between development co-operation and other new, forms of collaboration.

The GoN expressed concern over the proposed future of volume of Finnish support to be given to promote democracy, good governance and human right in proportion to the volume to be given to the established sectors of co-operation. In the 1997 annual negotiations, Namibia requested that the emphasis of Finnish support continue to be put on the social sector and forestry. During the latter half of the 1990s, the social sector programmes, that is, the projects on health and water sanitation, were included in the co-operation under the title of poverty reduction. In 1995, Namibia and Finland signed an agreement on a Health and



Social Sector Support Programme (HSSSP). In 1996, a new water and sanitation sector programme was initiated under the name "Community Water Supply Management Support Programme". New projects were planned for the sector of the environment, as well as in the sector of democracy, good governance, and human rights.

Towards the end of the 1990s, the scope of the annual country programme negotiations between Namibia and Finland changed. Finland wished to extend the dialogue to include political, regional and trade issues instead of discussing only the technical issues relate to development co-operation. Consequently, Finland began to raise politically sensitive issues in the annual negotiations.

Source: Ahonen et al., 2000.

## Box 20: Finnish Development Cooperation in Nepal and Vietnam

### Cooperation with Nepal

The development cooperation between Finland and Nepal began in 1983. The assistance started with the delivery of chemical fertilisers but soon extended to forestry and rural electrification, and gradually to other sectors like energy, rural water supply, telecommunication, mapping etc. Currently, the focal areas of cooperation between Finland and Nepal are confined to water supply, education, environment and the development of human rights, democracy and good governance. Finland has recognized Nepal as a long-term partner country. The total volume of Finnish aid to Nepal was 7,852 million Euro in the 1990s, which amounted to 3 percent of the total Finnish bilateral aid for that period.

### Cooperation with Vietnam

The development cooperation between Finland and Vietnam began in 1973. The assistance started with support for major infrastructure development projects such as repair shipyards and bridges. The major sectors supported presently include urban water supply and sanitation, rural development, forestry and health. Finland has also recognized Vietnam as a long-term partner country. The total volume of Finnish aid was 8,626 millions Euros in the 1990s, which was 3.4 percent of the total Finnish bilateral aid for the period.

Source: Helsinki Conference 2002

## Chapter 4

# Democratic Governance

If we look at how the countries of the world would be represented in a World Parliament based on demography, the inequalities in the present power relations are eminent ... On our way towards global democracy we should be searching for more democratic North-South relations by moving from conditionality to partnership.

Rikkilä & Patomäki, 2001: 13

### 4.1 Introduction

Governance is all about the whole society working together whilst exercising political, economic and administrative authority to manage the nation's affairs. The laws, rules and regulations that govern the interaction of various actors in the political arena significantly influence the nature of the relationships that emerge and whether those relationships adhere to the people's defined acceptable norms of democratic governance. For the government to facilitate a hospitable environment where good governance obtains, what is required is, *inter-alia*, political will, integrity, and honesty required to manage change as well as to facilitate the implementation and upholding of the outputs of the change (see Box 21)

The principle of democratic governance in the legal context is where there is separation of powers of the three organs of state, namely, the Legislature, the Judiciary and the Executive. When this is done successfully, it results in a well functioning state system that interacts well with civil society in the running of state functions. Separation of powers also enhances accountability and transparency.

The concept of Constitutionalism that is so central to the issue of democratic governance is basically about a political, social and legal order founded on accepted fundamental rules for governance of polity. These rules define the institutional structures of the State, and how they relate to each other, and between the State and the people. They further define the powers, functions, duties and privileges of State institutions in relation to each other and between the State and the individual and the public at large. Constitutionalism also imposes limitations on the exercise of powers of the State especially of executive power, i.e. limitation by law. The will of the people must be the basis of the authority of government. Constitutionalism demands that governments should respect and operate in accordance with the law as opposed to acting arbitrarily. It requires that those wielding power must not become authoritarian and impervious to the concept of public accountability. Therefore, the rule of law and

the guarantee and respect for human rights are indispensable constituents of Constitutionalism and, consequently, important elements of democratic governance.

The Millennium Declaration includes a commitment to human rights, good governance and democracy which are already found in various United Nations (UN) instruments developed since 1945. It is also understood that democratic governance is crucial for meeting the various MDGs. This chapter explores Finland's commitment to human rights, good governance and democracy, as well as how the country contributes to the elements of democratic governance and, therefore, to the MDGs. The chapter explores how the rule of law, human rights, gender, transparency, accountability, decentralisation, popular participation and ownership, are all inter-related elements that contribute to more open, genuine and effective democratic governance. It also explores how international financial institutions and donors, with particular reference to Finland, are supporting the democratisation of developing countries. How the neo-liberal character of globalisation is affecting all of the above elements is also being examined.

### Box 21: Good Governance and Human Rights

From the human development perspective, good governance is democratic governance. Democratic governance means that:

- People's human rights and fundamental freedoms are respected, allowing them to live with dignity.
- People have a say in decisions that affect their lives.
- People can hold decision-makers accountable.
- Inclusive and fair rules, institutions and practices govern social interactions.
- Women are equal partners with men in private and public spheres of life and decision-making.
- People are free from discrimination based on race, ethnicity, class, gender or any other attribute.
- The needs of future generations are reflected in current policies.
- Economic and social policies are responsive to people's needs and aspirations.
- Economic and social policies aim at eradicating poverty and expanding the choices that all people have in their lives.

Source: *Human Development Report 2000, Deepening democracy in a fragmented world, UNDP & Oxford, p. 51.*

Human rights and human development – for freedom and solidarity, to secure:

- Freedom from discrimination – by gender, race, ethnicity, national origin or religion.
- Freedom from want – to enjoy a decent standard of living.
- Freedom to develop and realize one's human potential.
- Freedom from fear – of threats to personal security, from torture, arbitrary arrest and other violent acts.
- Freedom from injustice and violations of the rule of law.
- Freedom of thought and speech and to participate in decision-making and form associations.
- Freedom for decent work — without exploitation.

Source: *Human Development Report 2000, Human rights and human development, UNDP & Oxford, p. 1.*

## 4.2 Finland at Home

Finland is one of the wealthiest countries in the world, with comparatively low income disparity. It is widely believed that this is due to its long welfare history which has been based on the principles of democracy, social justice and equality, and collective responsibility, as well as on a consensus between the employers and the unions or between capital and labour (See Chapter One for more details). High social service expenditure included the provision of services, not just monetary benefits, so that everyone benefited from education, health, and transportation services, as well as other instrumental services such as child care. Therefore, although Finnish citizens and employers had to put up with progressive taxation, the benefits were felt by everybody, thereby legitimising the state and the system. According to Pietila, Finland's democratic welfare system demonstrates the successful "interplay of socialist and capitalist forces together with the strong democratic ethos."<sup>99</sup> Furthermore, the state is seen as a 'mechanism for redistribution of wealth, rights and utilities' and the regulation of the economy as a crucial element of the system. However, it states in the *Nordic Development Policies and Priorities* that 'a welfare state is not a manifestation of a centrally planned public system that ignores the potential of the private sector'. It also states that a large proportion of social insurance in Finland is managed by private institutions, although the system is obligatory and statutory.

It is argued that neo-liberal policies in Finland are undermining its very democratic governance and threatening the welfare system as the state is becoming less responsive to the needs of people and more predisposed towards corporate interests. In 1995, Finland joined the European Union which imposes economic globalisation in its member countries with the transfer of power to the centralised EU's commercial structures. Pietila argues that privatisation and liberalisation are reducing the government's ownership over resources and production and, therefore, minimising its ability to control the economy. Rather than providing services and regulating the market, the state's function is now gradually shifting to the legitimisation of the free market. In addition, as the availability of services depends on demand, services are disappearing from areas where population is sparser, less wealthy and needier, thereby increasing disparities and inequalities. In this light, economic growth in today's Finland is perceived to be at the expense of social development.<sup>100</sup>

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<sup>99</sup> Pietila, 2001: 83

<sup>100</sup> Pietila, 2001: 91–95

### 4.3 Rule of Law

Lawlessness and corruption occur in both the developed and developing countries. They affect the order in society, the efficiency and distribution of resources, and have a negative effect on the legitimacy of the state and public bodies. The main function of any law is to govern social, economic and political behaviour in order to maintain the appropriate order and control in society, and to help in protecting the rights of the people. This can only happen under a democratic system where the state is accountable to the people. To what extent the laws reflect the will of the people and ensure equality and social justice among all largely depends on the degree and nature of democratisation.

In a system of democratic governance, the genuinely elected representatives of the people make the laws and govern the country. It can be in any form and not necessarily in a form of western style of parliamentary where the main criterion is majority rule. In many countries, including the West, this dogma of multi-party system has unjustly legitimised either the dictatorship through fraud and rigged elections or even two-party dictatorship. However, democratic governance stipulates that they are equally accountable to both the state as well as society, that they equally represent the voices of the minority who did not vote them and other marginalised groups and that they respect the freedoms, human rights and independence of other countries and societies as well. The principle here is that no one should act above the law at national or international levels. Unfortunately, the Iraq crisis has made the US and its coalition forces as the mockery of Western democracy which is not something the South need to learn about.

According to *Finland's Policy on Relations with Developing Countries* (1998), the Finnish government promotes the rule of law in partner countries in the South by supporting networking and cooperation between parliamentarians, public authorities and non-governmental organizations. For example, Finland is supporting Nepal towards the promotion of the rule of law through a UNDP project on Strengthening the Rule of Law and Reform of the Judiciary in Nepal. Previously, Finland also contributed to the Forestry Master Plan in Nepal that has been in operation since 1989 in policy-making and programme formulations. But the problem in Nepal lies in Finland's leaning towards the promotion of private and corporate interests rather than of those that are to be served. The legal and judicial reforms programmes are defined more in technical terms rather than the recognition and protection of the rights of the victims of a development projects. On a positive note, Finnish support to the Nepali government's policies of decentralisation through the strengthening of locally-elected bodies is an important input to the promotion of the rule of law. Finland is also supporting and promoting the Grassroot Democracy Decree, yet another area of development cooperation that enhances the empowerment of the Vietnamese people

and the accountability of their local government system. Finland has also been supporting the implementation of the Land Law in Vietnam. This law was recently amended to provide for land allocation to women, as well as men, thereby making it more just. The Vietnam-Finland Forestry Programme (VFFP) has further supported land use planning and allocation under this law, which is said to contribute to better forest management. There is, however, criticism that the Vietnamese Land Law (1993) provides for farm land to be freely transferred, or sold, a phenomenon that is found to be objectionable in some quarters to the extent that it opens the way for “the appropriation of large tracts of land by urban merchants and money-lenders.”<sup>101</sup>

Finland’s development cooperation with Nepal has on many occasions gone against the rule of law by encouraging and/or tolerating the violations of human rights and challenging the authority of the state. In the case of the most controversial Bara Pilot Production Forestry Project (BPPFP) in Nepal which was withdrawn by Finland in 1996, direct pressure was put upon the Nepali government to change the national laws regarding the export of natural resources, and insistence that expatriates be exempted from paying tax and their imported equipment coming in duty free. Moreover, the BPPFP Contract Proposal stated that, “The company shall have full authority to manage the Project under the rules established by this Contract, which for the duration of the Project shall replace and be superior to the forestry regulations if there is any conflict between these Contract rules and the forestry regulations.” In this way, Finland tried to manipulate and undermine national legislation, contrary to the spirit of the rule of law and democratic governance. The Finnish government cited corruption in Nepal as the main reason why it decided to pull out of the forestry sector. There were allegations, however, that the Finnish company, Enso, which was to be involved in the joint venture, offered bribes to local officials and activists to withdraw their protests against the project.

#### 4.4 Human Rights

The first international consensus on human rights was articulated in 1948 in the aftermath of the disastrous wars that adversely affected the dignity of human persons. Delegates to the UN Commission on Human Rights crafted the language of the Universal Declaration of Human Rights (UDHR). It was at this time that the “inherent dignity and inalienable rights of all members of the human family” were proclaimed. Over the past 55 years, the UDHR and subsequent instruments have formed a

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<sup>101</sup> Chossudovsky, 1997: 47

constellation of basic norms, principles and standards to which all peoples of the world should aspire. The premise underlying the UDHR is that all human beings are born free and equal in dignity and rights and, thus, no one should be discriminated against in his or her enjoyment of the rights and freedoms with which one is born on any grounds, such as race, colour, sex, language, religion, political or other opinion, national or formal origin, property, birth sexual orientation or other status. Similarly, a number of substantive rights are proclaimed, governing political, civil as well as economic, social and cultural rights. These rights and freedoms may be restricted but only for protection of the rights and freedoms of others and meeting the just requirements of morality, public order and the general welfare. The restrictions are valid only if they can be justified in a democratic society and are provided under law and not exercised merely through administrative discretion. UDHR can be treated as the preamble to all the evolving international human rights instruments. The International Bill of Human Rights<sup>102</sup> forms the core of these instruments that are legally binding for all UN Member States that have signed and ratified them.

There is also the 1986 Declaration on the Right to Development adopted by the UN General Assembly. This concept and framework of the right to development has been reiterated and elaborated upon by consensus at several UN conferences. The Declaration makes it clear that the right to development is an “inalienable human right” of “every human person” and “all peoples to exercise full and complete sovereignty over all their natural wealth and resources” in pursuit of “their economic, social and cultural development.” The Declaration defines development as “a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals” in which all human rights and fundamental freedoms can be fully realised.

In modern terms, human rights include both the civil and political as well as economic, social and cultural dimensions, including the right to environment, development and peace. However, when it comes to the point of their recognition and implementation in practice, particularly the rights requiring the mobilisation of states’ resources, they are systematically ignored. They, for example, include the right to adequate living standards, education, health care and social security for the disabled or the elderly. Human rights also have their own roots, contexts, and practices. The quotation of Rómulo Santiago, the Municipal President of Huayapam, Oaxaca, is

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<sup>102</sup> In addition to UDHR, the other instruments are the International Covenant on Economic, Social and Cultural Rights, and the International Covenant on Civil and Political Rights combined with the two optional protocols relating to complaint procedures and the abolition of the death penalty.

relevant here, who said, “I can no longer do what is fair. Every time I try to bring justice to our community, applying our traditional practices to amend wrongdoings, a human rights activist comes to stop me.”<sup>103</sup> Nobel prize winner Amartya Sen talks of different “... types of instrumental freedoms: (1) political freedoms, (2) economic facilities, (3) social opportunities, (4) transparency guarantees and (5) protective security. These instrumental freedoms tend to contribute to the general capability of a person to live more freely, but they also serve to complement one another.”<sup>104</sup> According to him, “the basic idea is that enhancement of human freedom is the main object and the primary means of development. The objective of development relates to the valuation of the actual freedoms enjoyed by the people involved. Individual capabilities crucially depend on, among other things, economic, social and political arrangements.”<sup>105</sup>

To what extent the rights and responsibilities are recognised and shared also depends on the countries and the way that people conceptualise and determine their rights. The nature and the contents of rights and responsibilities also depend on the types of governments as well as local and national cultures and traditions. But defining or imposing rights and responsibilities more in favour of free market neo-liberal forces and less of the countries and the people seriously puts into question the whole logic of governance, the rule of law, and the motive of development cooperation. Under democratic governance, people’s rights are enabled and protected under the rule of law formulated and enforced through accountable and transparent public institutions. Therefore, human rights contained in the national legal system for a long period of time are more people-centred than those imposed from outside in the name of their universality. This is not to say that the rigorous campaigns of the United Nations and its specialised agencies over the past decades towards the protection and promotion of all human rights for all have no effects. The main problem is the selectivity of rights by the developed countries more in line with their own economic and political interests.

The recent trend of anti-civil rights and anti-immigrants legislation in the US and EU countries are not in the interest of countries in the South. Furthermore, developed countries are more rigid in recognising basic economic and social rights compared to developing countries and yet these rights are essential to the elimination of poverty. Indeed human rights are mentioned in the MDGs. Those who have signed up to the UN Millennium Declaration have resolved, “to strive for the full protection and promotion in all our countries of civil, economic, social and cultural rights for all,” and recognise, “a collective responsibility to uphold the principles of human dignity,

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<sup>103</sup> Esteva & Prakash, 1998: 110

<sup>104</sup> Sen 1999: 38

<sup>105</sup> Sen 1999: 53



equality and equity at the global level,” Finland has emphasised human rights since the early days of its development cooperation. In 1993, the promotion of social equity, democracy and human rights in developing countries became a major goal of Finnish development cooperation.

A series of fundamental human rights have been provided for in the 1990 Constitution of Nepal, but, as in many other countries, serious flaws exist in their implementation. Finland is supporting Nepal in the field of human rights through ‘Assistance to the Human Rights Commission in Nepal’ together with the Rule of Law Programme. Additionally, Finland has introduced a ‘Local Fund for Democracy, Good Governance, and Human Rights’ in Nepal and had assigned FIM 4 million for 1999 and 2002. One of the main objectives of this Fund is to, increase respect for human beings and secure their basic rights, including the social, economic and political rights. It is not known yet whether the funds have been fully utilised or how effective this initiative has been.<sup>106</sup> Regarding other projects in Nepal, e.g. the BPPFP, there has been little involvement of local people during their planning and implementation, a phenomenon that raises serious questions regarding local ownership. Similarly, the Biratnagar Multifuel Diesel Plant (BMDP) in Nepal seriously violates the right to health of the local residents. The continuous creation of intolerable amount of noise, release of poisonous gas emissions, the effects of sludge which overflows into nearby farmyards and the contamination of surface water have all brought serious health and environmental consequences to the local communities.

In Vietnam, Finland’s support to the urban water supply projects in Hanoi and Haiphong cities, has enabled the public entities to provide water to the residents as a basic human right. In addition, the RWSSP in Nepal also provides for water supply and sanitation facilities to the local communities in the Lumbini Zone of Nepal. However, it is not clear how the poorest of the poor, who cannot afford to pay the bills or provide their contribution in kind, will have continuous access to water and for how long. The fundamental question is whether Finland still recognises water as a basic human right and that the state always has a duty to perform accordingly instead of adopting the policy of privatizing water or other public utilities. The argument is not that the state has to provide water free of cost for all, but the state has a public duty to guarantee equal access to water for all in an affordable manner. In this regard, the principle that Finland should promote is not the privatisation of water for profit, but its ‘communitisation’ for better management and sustainable use – keeping the rights and ownership of the local peoples intact.

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<sup>106</sup> Access to documentation on this project was denied during the course of this study.

There is no question that Finland is one of the few countries that believe in the international and regional system of the protection and human rights through the UN or EU. The question is whether Finland gives priority to these international human rights issues. The growing supremacy of international economic and trade regime over the old and legitimate human rights regime is something that countries like Finland need to give a serious thought to. Corporate interests are challenging the existence of basic human rights in every front impelling them to do their business with complete impunity. It is apparent that effectiveness of the provisions for the protection of equal human rights for all depend on adjustment of power relations within countries and internationally. But whether this is possible in the currently unregulated global neo-liberalism is not clear. The situation challenges the existing power structure and the status quo. Finland, unfortunately, is not applying the comprehensive framework of human rights, and many of the projects studied show a substantive denial of the framework and practice of human rights from their feasibility to planning and implementation.

In the light of the above, Finland needs to increase its support to states which are providing more for human rights, and to broaden the scope and definition of human rights in funding local initiatives. It also needs to be committed more towards the expansion and protection of human rights in a broader sense rather than limiting itself to a few isolated projects of training or awareness. Finland also needs to focus more on the economic, social rights and community rights issues rather than traditionally populist civil and political rights if it intends to apply human rights standards in the sphere of poverty reduction.

## 4.5 Gender

Unlike many other Western countries, Finland has accorded an equal status to women, but this did not happen overnight. In Finland, women were given the right to vote in 1906, and peer initiatives taken by the Martha organisation contributed to the empowerment of housewives. Gradually women became more involved in the political and economic spheres, reinforced by the democratic state, which accorded men and women equal rights, and by the welfare system, which provided child care and other benefits pushing more women into the labour force. In the developing countries, the condition of women is very different. Women are accorded a lower status than men, in law, attitude and social practice. Women's participation in the economic and political spheres is relatively low, and they are given fewer opportunities in education and employment. Often women find themselves confined to the roles of daughters, wives, and mothers, and their activities are limited to carrying out household work in addition

to raising children. They lack the power to make decisions that affect their own lives and their surroundings.

Development assistance to developing countries has, over the 1990s, become more focused and conditioned on gender equality and empowerment of women. At the national level, donors are trying to influence policies so that gender aspects are taken into account in all areas of governance, decision-making, and project implementation. They are trying to promote the involvement of women in the political and economic spheres at all levels. Donors have also committed themselves to addressing gender issues in theory and practice. But they need to be more pro-active when it comes to the implementation of their own policies and projects.

The MDGs emphasize the promotion of gender equality and empowerment of women, but only in the context of education. The target is to eliminate gender disparity in primary and secondary education, preferably no later than 2015. Finland also tries to follow this target. The 1996 *Decision-in-principle* on Finland's Development Cooperation and the country's *Policy on Relations with developing countries* (1998) indicate that Finland is highly gender-sensitive. The focus is on improving the status of women and girls, and emphasis is upon women's participation in social and economic activities. Similarly, Finnish human rights policy focuses on the rights and equality of minorities, indigenous people, and women and children, particularly girls. Finland's *Comprehensive Policies for Relations with Developing Countries* stipulates that the objective of promoting human rights and democracy is closely related to the respect for the rule of law and good governance, and thus, to the promotion of social and gender equality.

Earlier, Finnish projects in Nepal, such as those in the areas of mapping and telecommunications, did not demonstrate gender sensitiveness. These projects also failed to incorporate or encourage female participation. The projects, for example, did not employ women in these sectors or promote equal opportunities for women. Similarly, the 'Capacity Building in the Ministry of Trade' project in Vietnam, from 1997 to 2003, also lacked gender balance in the training courses.

However, latter projects have generally been more gender-sensitive. Regarding RWSSP in Nepal, the notion of gender equality and participation has been quite encouraging. The project focuses on equal gender participation. When the user committees are formed, there is a requirement of 50% participation of female as members otherwise, the water scheme is rejected. Women also equally participate in the implementation of the water scheme. Likewise, the Environment Support Fund (ESF) also addresses gender issues. There has been some progress in that seven out of the 42 local groups are led by women although the ratio is still significantly low. In Vietnam, Finland argues that the activities of the 'Vietnam-Finland Forestry Programme' and 'Rural Development Programmes' promote the participation of women as well that of the ethnic minorities and the poorest households. Finland also supports

the government to promote education for girls through the Basic Primary Education Programme (BPEP).

## 4.6 Transparency

Transparency is being open and willing to be scrutinised, criticised and be ready to be asked questions on how public affairs have or have not been carried out. Transparency is especially crucial when dealing with public offices, public finances and budgetary allocations. To foster transparency, there is need to have accurate data and information readily available for public scrutiny and public debate that is timely, accurate, relevant and comprehensive. The World Bank defines transparency as a process of “information sharing ... to ensure that all affected individuals or communities receive adequate information in a timely and meaningful manner.”<sup>107</sup>

Transparency contributes to a more genuine democracy and effective governance. It encourages popular participation of the people and promotion of human rights and contributes to accountability and compliance. If negotiations and agreements are not transparent, it is very difficult to hold parties accountable. Therefore, transparency helps reduce corruption and increase efficiency, thereby sustaining the legitimacy of governments and institutions. Transparency is also beneficial in sharing information and learning about good and bad practices, and then applying the lessons learnt. It thus contributes to the overall progress by avoiding unnecessary controversies and delays.

Democratic governments are elected by the people and are accountable to them. Therefore, governments are more obliged to be transparent and people have more legitimate interests and concerns in demanding more transparency. Otherwise, governments and the concerned institutions risk losing people’s trust and support. Democratisation with true participation of the people and operational decentralisation further encourages and ensures transparency. In the *Operationalisation of Finnish Policies*, it states that attention will be given to transparent and accountable administration in both the public sector and civil society participation, transparency does not receive much attention in the Finnish policies.

According to the Finnish Embassy in Nepal with regards to their projects, such as RWSSP, ESF, and the Local Fund for Democracy, the NGOs have demonstrated financial transparency. But the question of transparency should not be interpreted as the mere showing of financial records to the Embassy. It is more about how the projects

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<sup>107</sup> World Bank, 1996: 174

are designed and funded and at what competitive costs. It also entails that local beneficiaries have a right to know the full details of it, which generally is not the case in Nepal (see Box 22 and Box 23). Regarding RWSSP, funds contributed by the project, VDCs and DDCs, and the local people, are kept in a special account of the Users' Committees, which utilise the funds as and when needed. It is a good example of financial transparency at the local level. However, it is not apparent how Finland is encouraging the transparency of bilateral public undertakings or private companies involved in the projects.

### **Box 22: Arun III Fiasco in Nepal and the Fight to be Informed**

Arun III hydroelectric project, cancelled by the World Bank in 1995, was Nepal's first largest undertaking. The project to be funded by the World Bank, ADB, Finland, Germany, Japan and Sweden also became the first and the most controversial development project. The main controversies included the denial of basic project documents and information, lack of meaningful public participation, lack of study of cheaper and better available alternatives, inadequate EIAs and insufficient mitigation plans, lack of proper compensation and rehabilitation for the affected families and communities, absence of provisions for benefit-sharing. The World Bank's conditionalities of indefinite increase in electricity tariff, undermining the social sector investment, imposition of unsuitable macro-economic framework for Nepal and the provision of budgetary approval, made the project even more controversial politically.

Led by a coalition of various human rights, environmental and energy groups from the Arun Valley and the capital, Kathmandu, they first won the case of full access to information from the Supreme Court in May 1994 and successfully filed the first-ever-claim before the newly established Bank's Inspection Panel in Washington, DC in October of the same year. The Panel gave its critical findings in July 1995 in favour of the claimants leading to the unilateral withdrawal by the Bank in the following month.

If the Nepali constitutional right to information, the criteria and guidelines developed by the Supreme Court and the World Bank's own information policies and procedures are combined and respected by all, including the donors, in Nepal, there would be no problems with regards to access to information and transparency in development projects. But the problem still exists today due to the donors' ignorance or negligence to these judicial and institutional development relating to the release of project documents and information. The case of Finland is relatively better but there are worse cases and practices of such denial both by EU member countries and the IFIs.

*Source: Water and Energy Users' Federation-Nepal (WAFED), also [www.bothends.org](http://www.bothends.org)*

### Box 23: Finland and Transparency

Regarding Finland's own transparency, it leaves a lot to be desired. As mentioned already, one of the major drawbacks of the BPPFP was the lack of transparency. Information dissemination was neither appropriate nor timely. Indeed, people came to know about the project only at the implementation phase. People were not aware of what the Enso Company was proposing and how they would benefit from the project. Therefore, the lack of transparency caused a lack of trust amongst the people and Finland. As a result, Enso also lost its legitimacy, and ultimately had no choice but to pull out of the project in a very embarrassing position nationally and internationally. There have been some lessons learned from this episode but, surprisingly, only at the cost of Finland's total withdrawal from the forestry sector project in Nepal.

Similarly, no information was disseminated regarding the construction and extension of the BMDP in Nepal. According to the local people, attempts were made even to mislead the people by giving wrong information to those interested regarding the plant construction and its impacts. Moreover, the lack of financial transparency up to now has prevented public scrutiny of its economic sustainability. The project was planned to run just at peak times which was financially feasible, but has during some periods been running 24 hours a day at a considerable financial loss for the government.

As already mentioned, the Finnish Embassy in Nepal demonstrated its lack of transparency when it denied access to any documents regarding the Local Fund for Democracy, Good Governance and Human Rights.

The lack of transparency in Finnish supported projects, as illustrated above, has violated the fundamental right to information which is constitutionally guaranteed in Nepal. It further prevented the stakeholders from meaningful participation and involvement in the planning, implementation, monitoring and the evaluation of the projects as well as processes. It is apparent that transparency and accountability largely depends on who Finland feels accountable to, e.g. Finnish or Nepali taxpayers or both, or the donors or the concerned governments or the markets. Finland's lack of transparency in these various projects and activities also clearly illustrates the absence of accountability towards the local people, particularly those who are supposed to be benefiting most with the poverty reduced if not eliminated.

## 4.7 Accountability

Good Governance includes accountability and transparency in the management of national affairs and the discharge of the responsibilities of public office. Public office is a trust held for the benefit of the general public, the governed, and is not for private profit or gain. It is necessary to have checks and balances which compel an individual to render an account, and to explain how he/she has discharged his/her public responsibilities; and this must be done fully and clearly, for the purpose of accountability

in public office. Therefore, men and women who hold public office should be prepared to submit to public scrutiny and questioning as part of the process of rendering an account for the discharge of their public responsibilities. More often than not, however, public office resent accountability and transparency, thereby making the attainment of good governance that much difficult, hence the need to have state mechanisms that are effective enough to compel compliance.

Against the above background, accountability means that groups, individuals and organisations charged with particular tasks are answerable to that society which put them in office. This means that they can be called upon by civil society to account and be answerable for their actions and decisions, whether positive or negative. The legitimacy of any given government is measured by how accountable and transparent its policies and programmes are. Accountability can be measured in terms of clearly well articulated rules and regulations; policies and programmes which the civil society can effectively and efficiently identify themselves with and thereby have a sense of belonging and ownership. Accountability has three dimensions:

- *Political Accountability* that applies to people such as politicians who should answer to their electorate for the success or failure to initiate developmental programmes in their constituencies.
- *Administrative accountability* that refers to administrative structures of government i.e. civil service. This should have clear rules, roles and responsibilities and provide checks and balances for administrative performance. These officials are held accountable to the people.
- *Financial and Budgetary accountability* is the ability to account for the allocation, use and control of public funds, public assets and properties. This is done through honouring the laid down financial accounting systems, rules, regulations and procedures.

Governments, multilateral institutions, companies or corporations and NGOs, both local or national and international, must take responsibility for their actions and results. Accountability does not only mean financial reporting as being largely understood but its full disclosure to the public. Therefore, it is the issue of power relationships, approaches, and procedures throughout the project cycle.<sup>108</sup>

Accountability is important to ensure that all plans are properly implemented, promises kept, and targets met. It helps the states or governments to be more representative, reflective, and responsive to people's needs and priorities, thereby increasing legitimacy of governance. Accountability is essential for democratic

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<sup>108</sup> Blackburn & Holland, 1998: 145–152

governance, but democracy alone does not guarantee accountability. It is further said that accountability is “no guarantee for a self-corrective mechanism.”<sup>109</sup> In addition, with ownership comes responsibility/accountability and vice versa. Therefore, the trend to promote partner country ‘ownership’ promotes that country’s accountability as well.

Accountability is dependent on the rule of law, transparency, monitoring and evaluation, participatory decision-making, and awareness of human rights. For example, if people are not aware of their rights, they cannot hold parties accountable for the violation of their rights. In addition, to ensure appropriate results, the local people must be involved, not simply consulted for the sake of formality in making appropriate decisions whether or not they want a project, and for what reasons. Some parties may avoid accountability by deferring responsibility/liability which is normally the case in most of the failed aid projects.

Finland states that ‘attention will be given to transparent and accountable administration in both the public sector and civil society participation.’ On the group, direct interventions by Finland is targeted more NGOs and CBOs that it works with. This study revealed that there is very little attention being directed towards ensuring that private companies are held accountable to the local people. In the case of RWSSP in Nepal, some positive development has been registered whereby local stakeholders have been included in the project planning, implementation, maintenance, and evaluation. This has not only improved the project’s accountability but it has also spread the responsibility and accountability among the various stakeholders. On the other hand, BMDP and BPPFP lacked transparency due to the absence of meaningful and informed participation in the projects. Regarding the Bara project controversy, apart from the lack of transparency and effective participation mentioned above, Finland conditioned forestry sector assistance on the approval of the BPPFP despite public protest against the latter. This controversy raised the fundamental issue of whose interests Finland was serving when assistance was withdrawn.

Transparency is also measured by the degree to which project performance could be assessed against its set objectives. In Vietnam’s Finnish-supported Rural Development Programmes, there has been no comprehensive assessment of the activities’ contribution to poverty reduction. In a sense, to the extent that there are no effective monitoring and evaluation of what is being done in this area, there is absence of accountability towards the targeted beneficiaries. Various studies show that Finland needs to improve its transparency and the level of local people’s participation throughout the project cycle.

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<sup>109</sup> Bhaduri, 2001: 41



## 4.8 Decentralisation

Issues of decentralisation is currently being debated under a renewed context of democratic governance that borders on community involvement in the identification of the problems as well as their role at the levels of planning, implementation, monitoring, and the implementation of the identified programmes/projects. Experience from many countries confirms that decentralisation and effective service delivery are best handled with the collaboration of decentralised agencies such as local government, the local communities, NGOs, the private sector, etc.

Decentralisation, under democratic governance, is the “deconcentration of decision-making, devolution of power, and delegation of authority and responsibility from the higher bodies to the local self-government institutions.”<sup>110</sup> The principle/belief is that the central government cannot make appropriate decisions for all situations and localities, and the local bodies are in a better position to do this job. Decentralisation helps remove barriers to participation in democratic processes and enhance people’s social, economic, and political power to make decisions. Therefore, it transfers the responsibility and ownership of local development to the local communities. It also encourages and enables people to demand transparency and accountability from the central government.

Decentralisation could be incorporated into laws but would be effective in practice only if the actual power of decision-making and resources are also distributed with the strengthening of local capacity to cope with more responsibility. It has been said that the real decentralisation must be grounded in self-reliance, which implies the “orientation of the production process towards the people’s needs, improving their access to resources, knowledge and information, and increasing their autonomy and power for their general well-being.”<sup>111</sup>

Decentralisation in Finland as a democratic and welfare state has contributed to equality among the regions. Local bodies have had the authority to make decisions regarding local or regional development and the state has a policy of distributing resources in an equitable manner. Support to decentralisation is part of Finnish policy of development cooperation. In Nepal, the Decentralisation Act came out in 1992. It also has been the priority in the 8<sup>th</sup> and the 9<sup>th</sup> Five Year Plans. The Local Autonomous Act (1999) has further provided for decentralisation. In Vietnam, the 1998 Decree Promulgating the Regulation on the Exercise of Democracy in Communes, popularly known as ‘Grassroot Democracy Decree’ (Box 24) promotes democratic decentralisation and Finland is contributing to the local democratisation and decentralisation processes.

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<sup>110</sup> Bongartz & Dahal, 1996: 22

<sup>111</sup> Isaac et al, 2001

### Box 24: Grassroot Democracy Decree in Vietnam

Vietnam's Regulation on the Exercise of Democracy in Communes, popularly known as Grassroot Democracy Decree, is the most interesting development in that country in recent years. The Decree, promulgated on 11 May 1998 by the government, is also complemented by the Directive of 15 May for its implementation. The Decree could be considered a kind of Bill of Rights for Vietnam which defines the work to be:

- informed and publicised by the local administration to the people;
- directly discussed and decided by the people;
- consulted by the people before being decided by the State agencies; and
- supervised and inspected by the people as well as the forms of implementing the democracy regulations.

The other features of the Decree are: promotion of representative democracy regime; direct democracy regime in localities; rights with obligations; information to the people on the State's policies and laws, socio-economic development and land use plans, local budgets and funds for projects, community programmes, cases of corruption and all other matters relating to the localities. According to the Decree, the local people have a right to discuss all infrastructure projects and public welfare works, mobilisation of resources as well as the elaboration of village conventions, rules of cultural villages, building a civilized life style, maintenance of security and order, abolishment of bad practices, superstition and social vices. The discussions and decision-making by the people are led and co-ordinated by the Party committees and the People's Communes. The quorum for the meetings is at least two thirds of the people or households. Decisions are made through both open and secret ballots and also poll cards. The donors are pushing for the implementation of the Decree nationwide and also through its enactment as a fundamental law of the land.

Source: Decree No. 29/1998/ND-CP of May 11, 1998 Promulgating the Regulation on the Exercise of Democracy in Communes, and the Directive No. 22/1988/CT-TTg of May 15, 1998 on the Implementation of the Regulation on the Exercise of Democracy in Communes.

Finnish support for democratic decentralisation in Nepal is mixed. In the earlier projects, such as the BMP and the BPPFP, local people and their elected institutions were not informed and involved adequately in the process of decision-making. In the case of the RWSSP, elements of decentralization are evident. Local people are responsible for defining their needs and priorities through village and district development committees that are given the responsibility of planning, assessments, project approval, mobilization of funds and assisting the user committees in their work. Consequently, the devolution of decision-making power and the rights and responsibilities over the projects and resources are placed in the hands of the communities. This bottom-up approach involves people and local bodies in all phases of the project cycle. However, although decentralised decision-making may be replicable in other areas, this model may only be suitable for

communities that are financially strong and self-reliant, as the financial contribution, both in cash and kind, is a requirement, especially in Phase III. Thus, the replication of this model in poor and remote districts of Nepal would be difficult.

Finland is also supporting decentralisation through its participation in the BPEP in Nepal. One key feature of this programme is emphasis on the democratic formation of school committees that plan improvements for the school and submit them to the local education offices. Furthermore, one of the key elements of the Finnish-supported Local Fund for Democracy, Good governance and Human Rights Initiative is the decentralisation of decision-making by, inter alia, strengthening the capacity of local authorities and civil society, community and individual to become self-reliant and sustainable partners in development. In this regard, Finland's support for democratic decentralisation is encouraging. Finland could now concentrate more on how to develop self-reliance in areas that are still very poor, and on how best to improve the flow of funds from the centre to the lower levels.

#### 4.9 Popular Participation

Popular participation means the full involvement of the people, not just a selected minority or the favoured one but the whole heterogeneous population. It refers to people's participation in social, economic, political, and cultural affairs from planning to project implementation and benefit sharing. It is argued that a participatory development process encourages ownership, as people take on rights and responsibilities and, therefore, leads to the increased empowerment of citizens. It is clear that there cannot be popular participatory democracy if the majority of the people are not involved in the process or if power relationship remains the same. Popular participation contributes to genuine democracy. Democracy encourages popular participation also through formal democratic processes such as periodic elections to enable people to participate in political decisions. The processes of democratic decentralisation and transparency influence people's participation. Another influencing factor is the extent to which popular participation is considered as a human right and, therefore, to what extent the lack of participation is considered a suppression of those rights.

Finland believes that democracy, human rights, and good governance should be promoted by means of participatory approaches. It recognises that by encouraging the participation of stakeholders, it will promote social equity, democracy, and human rights at large, and that the active participation of the society improves public services as well. The Finnish Poverty Reduction Policy (1998) states that the poor people of both sexes must have the opportunity to participate in decisions that affect their lives, and that participation helps to focus on the root causes of poverty. It has already been

mentioned how the lack of transparency in the BPPFP and the BMP led to lack of participation by the local people. On the other hand, the RWSSP in Nepal depicts a satisfactory amount of public participation in its water schemes. In Vietnam, Finland records that the Rural Development Programmes and Forestry Programme promote popular participation and ownership. They use PRA techniques to identify villagers' key priorities for rural infrastructure. However, the villagers' choices are just a first step in the process and priorities, and plans are reviewed at higher levels. The Finnish internal evaluation itself argues that participatory methods, "instead of furthering participatory democracy..., have merely strengthened the power of the provincial or district level administration, or that of mass organisations like the Women's Union, which are allied to the party."

As with many other aspects, it is apparent that effective participation depends on the motivations/interests of those in power and their will/commitment to adjust/maintain societies' existing power relations. The above examples show that the Finnish projects are slowly acknowledging the importance of participation and since the mid-1990s, they have been trying to promote it extensively. However, they still need to go a long way to meet the level of popular participation in a true sense. Furthermore, Finland also needs to give careful consideration on who participate and how. The quality of public participation is very limited in the case of projects managed by private companies who are solely focused on profit-making while disregarding accountability.

#### 4.10 Ownership

There are different interpretations of this concept. However, it can be said that ownership refers to people's rights and responsibilities over the management of their own resources or activities. Therefore, if the states or people own a resource, they have a primary right to its control, access and use. But in the case of development activities, the issue of ownership is influenced by who contributes to it financially and who benefits from it. With responsibility comes accountability and ownership encourages accountability. Ownership also contributes to popular participation and sustainability of activities as people have more influence and will to plan, implement, and maintain projects as their own and according to their needs and interests.

As democratic or representative governments are to be elected by the people, the people should have more ownership in their governments' policies. But the problem in most of the cases is that the elections are fraud and bought by the power of money, muscle, and machine. There are also cases where even the political parties, including those who have strongholds in the national parliaments or councils, are bypassed in the decision-making process. This also has given a bad name to multiparty democracy

as the multiparty dictatorship. This also means that civil societies and the communities are also effectively excluded from the decision-making and monitoring process. Furthermore, decentralisation under democratic governance is supposed to transfer ownership, rights, and responsibilities of local development to the local communities. However, this system may still exclude minority groups and indigenous peoples, and does not guarantee that the government adopts policies that respond to the people's needs and interests.

It is acknowledged that the 'transfer' of ownership implies a process, it is not immediate, and the capacity of the recipient must be considered when transferring ownership. If states or local bodies do not have the capacity, e.g. knowledge, skills and capital, to fulfil those rights and responsibilities, then ownership can actually be debilitating. Therefore, it is necessary to build up the self-reliance of local communities and states so that they can manage their new rights and responsibilities. The key issue, therefore, is how to strengthen the capacities of local institutions and organizations to encourage this process.

The 1996 Decision-in-Principle highlights the role of Finland as a catalyst in its development cooperation. It further adds that the partner countries assume responsibility for, and ownership of, all operations and that each country has a development programme drawn up by the country itself, to which the foreign assistance from various sources is channeled. However, in the case of Bara, the whole conflict was over ownership. The primary users, whose daily livelihood depends upon the forest, demanded the rights over the forest and its resources. Therefore, any decision on the management and utilisation of natural resources should involve its primary users. However, in the case of Bara, the HMG/N and the Enso Company assumed the right and responsibility to make decisions about forest use by completely disregarding the ownership of the local people, both as a traditional as well as a legal right.

On the other hand, RWSSP supports people's participation and decentralisation, and in this way supports ownership. It works through locally elected bodies, which the local people view as more accountable than the bureaucrats. The aim of the local people's contribution both in cash and kind is to generate ownership among the users. Local people also have some responsibility for planning, implementing and maintaining the projects, and for enhancing their feeling of ownership.

#### **4.11 Nature of the State and the Issue of Ownership**

The nature and the role of the state is fashioned by the unique histories of the country as well as external factors both past and present. But the most important point is that the "[e]mpowerment of people is a central theme of people-centered development,

and the development of people-responsive governance processes is one of its central concerns.<sup>112</sup> Presently, democratisation and good governance have become conditions of development cooperation. The nature of the state and all the elements of democratic governance are, thus, conditioned by the neo-liberal expectations and agendas of the cooperating partners. Democratisation and macroeconomic reforms under SAP have been promoted with the belief that the market and democracy are mutually reinforcing. However, the neo-liberal agenda has often undermined the role of the states as well as people's participation in national life. The policies of the World Bank, IMF, WTO and the governments of the developed countries have rarely considered the interests of countries in the South in their quest to liberalise the global production and trading system where the interests of multinational corporations are generally protected. Far from enabling the state to regulate the economy and fulfil its responsibility of providing and protecting people's rights, these policies have actually contributed to the decline in the people's rights. Furthermore, it is not only the capacity and character of the states that are changing, but also their role in legitimising the market.

To what extent and how has Finland been supporting economic growth through neo-liberalism and why is there a general absence of application of its rich history in its interaction with countries in the South? It is clear from the new Finnish policies and principles on development cooperation that it is moving towards a sectoral programme approach. However, Finnish assistance is still mainly in the form of projects and there is still a general reluctance to hand over full responsibility of project management to the recipient countries' governments. Perhaps this is because Finland does not trust its partner in utilising the funds appropriately and effectively. It is noteworthy that the sectoral approach will not be different from the current project approach unless the scope of the stakeholders is redefined and extended beyond the centralised bureaucracies and central governments who are acting as the main stakeholders in bilateral and multilateral development relations.

#### 4.12 Non-State Actors

Non-state actors include all organisations, institutions, companies, and communities or groups that operate independently and outside the realm of the state. Adoption of free market economy has led to a greater role for the non-state actors. Donors often channel their development assistance through non-state actors, arguing that they are more efficient and can better monitor or ensure accountability.

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<sup>112</sup> Korten & Klauss, 1984: 241

The role and contribution of international NGOs (I/NGOs) in the development field is debatable. The mainstream understanding about these I/NGOs is that they contribute to social and human development through raising awareness, promoting alternatives, and providing opportunities. There are reasons to believe that local NGOs are considered to be more cost effective and able to reach more people and ensure their participation in development activities. However, the main question is how to guarantee the transparency and accountability of these actors. I/NGOs have no specific constituencies and they are not elected by their constituencies where they operate. The projects and activities of I/NGOs often adopt top-down approach with limited input from local stakeholders. In many countries in the South, they operate parallel systems and structures to those of the government and they are rarely monitored and regulated even though they use both public and private funds.

The Decision-in-Principle on Finland's Development Cooperation has mentioned development cooperation with I/NGOs as one of the major channels. In addition to the increasing assistance to Finnish or other I/NGOs, it also intends to encourage the participation of local NGOs in bilateral projects in the field of humanitarian aid. The RWSSP and ESF programmes are examples of Finnish utilisation of NGOs/CBOs in Nepal. In the RWSSP, NGOs take a lead role in mobilising the people and provide necessary information and help in implementing the project. In the ESF programme, Nepalese NGOs/CBOs and local groups are provided with small grants for supporting environmental projects through training, technical assistance, and small project grants.

With regard to private companies as non-state actors, these are seen to play a necessary and often positive role in building entrepreneurship and contributing to economic growth. However, it is argued that neo-liberalism has increasingly transferred ownership, rights, and responsibilities over resources to them. This empowerment of the private sector is less transparent and accountable to the needs and priorities of the peoples and the countries in which they operate. Procurement procedures and competitive bidding may increase efficiency and cost-effectiveness, and therefore allow for better provision of goods and services. However, in many cases, competitive bidding is restricted to foreign companies and local or regional companies are excluded from the process, as was the case in Nepal's controversial Melamchi drinking water project and in the case of the privatisation of water supply system in the Kathmandu Valley.

It, however, can be acknowledged here that the operational regime of private companies, particularly Foreign Direct Investment (FDI), is very much a function of the legislative environment at both the national and international levels. It also implies the capacity of the respective governments to enforce the corporate regulatory provisions. Thus, the level and degree of private companies' lack of accountability to the local constituencies (governments, municipalities, local/beneficiary communities) can sometimes be blamed less on the companies' 'profit motive' *per se* (for they come to

invest for this very reason) and more on the political will and the capacity to regulate them in a manner that meets the best interests of the hosting country. At this level, the national and global system of FDI facilitation and regulation, not excluding the WTO provisions, could be targeted as the source of some problems. Government corruption in the South also worsens the situation.

Finland has an unfair inclination towards the Finnish private companies. In all of its projects in Nepal, the project contractors were Finnish companies such as Enso Company in the case of BPPFP, Wartsila Diesel Company in the case of the BMDP, PVO-Engineering in the case of the Khimti Transmission Lines and Sub-stations, IVO Consulting Engineering Ltd. and Nokia Corporation in the case of Pokhara Rural Electrification project, and again Nokia Engineering Ltd. and Telecon Oy as in the case of TELE IV and FM-International Ltd, and FINNMAP as in the case of Eastern Nepal Topographic Mapping project. This shows that the Finnish government is creating a market for its own private companies in the name of development cooperation and a large proportion of the grants is going back to Finland. In some of the projects, the Finnish and the Nepali governments have not considered it necessary to promote global bidding. Although, FDI and development cooperation are treated separately in official development assistance, they are mutually reinforcing. The same framework of operation and accountability must be applied to all the companies who get involved in ODA projects without any distinction.

Private sectors do have a role in the development process, but Finland must ensure that private companies are in line with the Southern governments' needs, priorities, and processes. The private sector needs social regulations as well, and the states must manage appropriate transfers to the private sector, retaining the important provisions for social responsibilities. Finnish projects should also consider local contractors and consultants.

#### 4.13 Global Level

With globalisation and social, economic, and political actions bearing transnational consequences, it is becoming more urgent to have international laws to govern the behaviour of various international players in the process of development for the protection of genuine sovereign national interests and the people's rights. Again, the degree of international democratic governance decides to what extent laws are democratic and reflect the peoples' views and needs.<sup>113</sup> To the extent that multilateral

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<sup>113</sup> Bruin et al, 1994



institutions such as the IFIs and WTO are extending their spheres of influence and are becoming increasingly involved in prescribing or shaping countries' policies, they are becoming "de facto" governments. Thus, it is important to ask in whose interest they operate; the social policies they prescribe; and how they are governed.

The policies of the international financial institutions, such as the IFIs are decided by their Board of Executive Directors made up on the basis of their share-holding and their self-defined and self-appointed stakeholders. Therefore, the USA is the largest shareholder of the World Bank with more representatives on the Board, and more decision-making power in its hand. The United Nations is supposed to be the most democratic global institution as each member state has equal voting right, and therefore the same power to influence. However, even the UN is not outside the influence of particular interests and pressures as is evident below. The illegal invasion of Iraq is an example of blatant violation of the UN Charter and imposition of deplorable acts by two permanent members of the UN Security Council. If this pattern continues, it may even lead very soon to the death of multilateralism and takeover of the world by one empire and its handful of allies against the interest of their people and the world public opinion.

It is being argued that the UN and the World Bank are competing to define good policies and practices and the World Bank is winning. The social policy perspective of the UN prescribes a greater role for the states in distribution, social protection, and on social regulation of the economy. On the other hand, the social policy perspective of the IFIs prescribes a greater role for the market and assumes that the liberalisation of trade will increase welfare as a result of economic growth. And yet the neo-liberal agenda actually increases inequality and reduces the state's role and capacity in providing for equitable services. The World Bank's mandate does include combating poverty and protecting the environment. However, to what extent its policy is reflected in practice remains questionable (see Chapter Two).

In addition, although political intervention is not in the World Bank's mandate, it is argued that it still manages to influence country politics through its so called good governance strategies. There are concerns that these types of political conditionalities threaten the stability and legitimacy of democracies as states become more of a device for legitimising the market. The lack of good governance and domination of financial and corporate interests within the World Bank also challenges its right to set political conditionalities for others.

Developing countries are now criticising the IMF for the failure of its international monetary and fiscal governance. The IMF is also blamed for most of the recent financial crises from Mexico to 'Asian Tigers' and Argentina. There are growing demands for the overhaul of Bretton Woods institutions. Some of the expectations from, and the criticism of, EU (of which Finland is a member) is as follows:

These governments should ensure that their voting and lobbying records at the Fund are fully coherent with their state policy goals of furthering poverty eradication and sustainable social and economic development around the globe. So far, however, the European governments have stayed on the sidelines, only emerging as a chorus line to support Washington in urging the Asian governments to comply with the demands of the IMF<sup>114</sup>

In the case of the WTO, it has been criticised that it is taking responsibility for policy-making away from the UN agencies, and undermining and diminishing the role of the UN in the field of trade and services. For example, the WTO Agreements, such as TRIPS and GATS, have implications for health and basic services policies. It is strongly argued that the “implementation of the TRIPS Agreement may have relatively large cost implications for smaller and poorer countries...; may not be the most efficient allocation of their public resources, which would be better spent on education and health.”<sup>115</sup> All these agreements have come about through the most undemocratic and unrepresentative processes dominated by a handful of industrialised countries.

It is not only these financial and trade institutions that lack democratic governance. It is argued that industry is increasingly included in policy-making at the UN level and is entering into new relationships and partnerships with the private sector such as Global Compact, reflecting a shift in the overall policy paradigm towards globalisation and market orientation. It also contributes to an increased lack of transparency and public accountability. Rather than perceiving a conflict of interests, the interests of the corporate sector are seen to correspond with their development priorities. However, it is argued that the UN’s incorporation of private interests threatens its very primary function of human development and democratic governance, as it comes increasingly under the control of these financial institutions and the industrialised countries. When such a scenario was put to a UNDP official in Nepal, she commented, “Well, where do we get our funding from?” This attitude clearly shows that one “should not expect anything other than a gap between rhetoric and practice. Aspirations for equality are sometimes expressed in Utopian plans for reversing power relationships. Since these plans are written by those in a position of power, their relationship with reality is bound to be remote” and that “[p]ower relations within the aid industry are plainly intimately bound up with the global capitalist system.”<sup>116</sup>

Finland aims to assist countries in complying with the international laws that they have committed to. However, although this includes various treaties, agreements, declarations and plans of action relating to human rights, environment, and develop-

<sup>114</sup> Bullard et al, 1998: 133

<sup>115</sup> Chossudovsky 1997: 33

<sup>116</sup> Crewe & Harrison, 1998: 191–193

ment of the United Nations, it also includes Finnish support and commitment to the SAP and WTO agreements. The latter are argued to be unjust and discriminatory. The *Status of Poverty Reduction in Finland's Development Assistance* (1998) report states that at "the national level in poor countries, Finland promises its full support to the economic structural adjustment programmes managed by the IMF and the World Bank, as well as to the SAP-related activities of the EU-development policies." According to Finland's *Comprehensive Policy on Relations with Developing Countries*, it takes an active role in "advocating pro-poor changes to international trade policies (on WTO and EU levels) in assisting poor countries as they seek membership in the WTO." However, Finland's influence in this arena is not evident in the countries covered by this Study. There is clearly an urgent need for the search of a better alternative to either of these institutions or their decision-making process.

It can be argued that the increasing trend towards laws adhering to financial interests threatens the very concept of the rule of law which is meant to be the law of the people and for the people, as well as the states' duty and responsibility to effectively enforce them. Finland's unconditional endorsement of the neo-liberal agenda and SAP could be taken as one example which is causing severe deterioration of the existing national legal systems that are in the interests of the partner countries and the people. This Study challenges the neo-liberal social policy perspective to rebuild the SAP-destroyed capacity of developing countries and further increase their representation and decision-making power in the global arena. The democratisation of global institutions is essential so that policies are developed to meet the needs and interests of developing countries as well. This includes: respect for the rule of law which protects Southern countries' rights as well; respect for human rights; the need to be more transparent and accountable to the poorer nations and their peoples; the need for more decentralization; and popular participation in decision-making processes. The need to respect Southern countries' ownership of national policy making and development is of particular importance.

It is not apparent how Finland's development cooperation is contributing to the democratisation of global institutions. Finland's multilateral funding to the IFIs is set to increase, and the country tries to influence their policies so that they incorporate poverty reduction elements. But this may prove difficult to realize to the extent that Finland almost always follows the World Bank procurement processes on-lending requirements in its development cooperation. Finland also fully supports the IFIs and EU-led SAP that are bringing political aspects into the economic sphere. Furthermore, Finland states that it is active in encouraging Finnish business to accept the importance of international social regulations. However, it is not apparent how Finland, through its development cooperation, is encouraging the social accountability of Finnish businesses. In addition, Finland continues to promote its own contractors and consultants in its development co-operation rather than alternative regional or local companies that might be more cost-effective and beneficial for its partners.

According to the *Report on Globalisation to Parliament 2001*, 'Finland supports the development of the UN as the principle actor in the democratic management of globalisation'. Finland declares that it is working with the UN and EU to influence their voice and their collaboration with the South. Its additional objectives include aiming for a more powerful role for the UN; increasing Southern empowerment and their voices in international system, strengthening the role of the actors in the UN system who are trying to apply the Nordic traditions of equity and universalism on an international scale, and engaging on the global political stage with other key players such as the UK. From the Southern perspective, it appears that the Nordic welfare traditions are not receiving enough attention and are not being promoted enough amongst the other key international players, as the neo-liberal paradigm continues to reign supreme.

Regarding efforts to strengthen the UN and increase the Southern voice, Finland is having a more positive effect. Finland is contributing to the strengthening of the UN, and it has committed itself to the UN's Millennium Development Goals and incorporated these priorities into its development cooperation policies. It has gone a step further than many donors in developing an operational policy in 2001.

Finland is trying to empower the Southern voice in the international system through working in 'partnership' and encouraging the 'ownership' of their development. However, it needs to consider how this partnership can become more effective for countries in the South, particularly in the context of the calls for untying aid ((Box 25). The challenge is about reforming the aid for which the following arguments have been advanced:

First, it will be important for there to be more of an arm's length relationship between donors and recipients; the current system's dysfunctionality arises in part from the fact that donors are involved too intrusively in a country, in the name of aid effectiveness. Second, and relatedly, donors (and recipients) will have to develop a new toughness in standing firm on conditionalities; the incentive systems in donor agencies and recipient countries will have to be modified. Third, deep debt relief will be an important step on the road to achieving greater toughness and more of an arm's length relationship on aid flows. Fourth and finally, if the above reforms lead to a fall off in the volume of foreign aid, or even require such a fall off, then so be it; donors and recipients should obsess less about the volume of aid and more about the consequences of aid dependence for aid effectiveness.<sup>117</sup>

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<sup>117</sup> Trap et al, 2000: 124

### Box 25: Security Alert Over Tied Aid

Wealthy nations are fuelling global insecurity after the war in Iraq by putting their companies' profits before poor people's needs over aid to the developing world. This charge today comes with the publication of a report on assistance to build a fairer and safer world, issued by the ActionAid Alliance of European aid agencies. It shows that some EU member states and America are largely ignoring an agreement to untie aid and make the money go further for the world's poorest countries. The alliance signals this warning amid fears that contracts to reconstruct Iraq will go only to the US and other rich nations, rather than through competition based on value for money.

The report criticises tied aid which requires poor countries to buy goods and services from donor nations at up to 20 per cent higher prices than on the open market. *Towards effective partnership* is published as government ministers from donor nations review steps taken in the two years since they decided to untie aid for the least developed countries. A paper on the progress achieved so far goes before the development assistance committee of the Organisation for Economic Cooperation and Development which meets in Paris today (22 April) and tomorrow. Britain has already untied aid and is urging other countries to follow its lead.

After 30 years' negotiations, the committee adopted recommendations in April 2001 for OECD members to untie aid for the poorest countries. But, despite the benefits cited, the agreement was not binding and lacked a time span for implementation. The alliance research examined advances in France, Spain, Italy and United States. It found only France has taken initial steps to reform its aid system in line with the proposals. Officials in Spain and Italy know the guidance, but have been slow to act. In the US, the agreement seems to have produced little impact on the law and practice.

Alliance coordinator Louise Hilditch said: "The war on terror cannot be won without fighting the poverty that fuels global instability. The developed world must free developing countries from the ties that bind them to assistance which puts companies' profits before their poor people's needs."

The alliance recommends that donors:

- untie all bilateral aid to all developing countries now, including two kinds omitted from the agreement - technical cooperation and food aid, which poses a threat to poor farmers' prices.
- improve the use of untied aid – for example in budgetary support.
- simplify bidding procedures and ensure better coordination with the donor community and partner countries.
- launch moves to help source goods and services from poor countries.
- back methods which promote local initiatives.
- support awareness raising measures and capacity building in the developing world.

Source: *Towards Effective Partnership: Untie Aid*, ActionAid Alliance, 2003, Brussels.

It is important to note that strengthening the UN's role and the South's voice requires sufficient political will and resources, and not just knowledge or ideas. Finland could act differently by illustrating its responsibility and commitment by increasing international resource transfers. The South has welcomed Finland's launch of the Helsinki Process that aims to improve the effectiveness of development cooperation (Box 26).

### **Box 26: Finland Launches a New Helsinki Process**

The Finnish government made a firm commitment to promote a Helsinki Process on Globalisation when concluding the international Helsinki Conference sponsored by the Ministry for Foreign Affairs of Finland with a gathering of about 150 invited globalisation experts representing governments, international institutions and non-governmental organisations.

Finland, as the chairing country of the Helsinki Conference, undertook the task of establishing a tri-dimensional follow-up system. The core of the process will be an Eminent Persons group of approximately ten members to act as a think tank based on equal representation of the northern and southern states, international organisations and businesses as well as the NGO field. The group will conduct multi-valued dialogue between all stakeholders and pinpoint key issues on which concrete initiatives will be made.

The Eminent Persons group will be assisted by separate thematic networks or task forces focusing each on a specific issue of globalisation. Five themes have been mooted: global economy with particular attention on measures to reduce social instability, equitable development and adoption of new information technologies in developing countries, transnational business and global development, promotion of human security particularly in crisis situations and the ethics of globalisation and global governance. The objective of the task forces is to exchange ideas and conduct regular discussions by meetings as well as via Internet networks.

The third dimension involves promotion of research projects on global governance supported by the Ministry for Foreign Affairs of Finland.

While making a commitment to the promotion of the Helsinki Process, the Finnish government emphasised the fact that this is not a Finnish exercise but the objective is to include as many nations as possible. The basis of the process already exists in the UN Millennium Declaration which was signed by all heads of state in September 2000. The declaration sets clearly defined targets for the promotion of development and eradication of poverty. Representatives of developing nations and NGOs, in particular, at the Helsinki Conference were keen on emphasising the importance of development based on good governance and democracy.

The Helsinki Conference provided the Finnish government with a candid and multi-dimensional agenda to begin the endeavour of building global governance. During the preparatory process as well as during the Conference sessions it was repeatedly emphasised that delegates should not be bound by often rigid policy outlines of their governments or organisations. On the contrary, they were encouraged to ask “politically incorrect” questions. The idea was to provide a platform for innovative dialogue for which there is often no room in the political context.

The Helsinki Process will be followed up in another conference in two years' time.

Source: Helsinki Conference 2002 – Searching for Global Partnerships, Conference Report, January 2003, Helsinki or [www.helsinkiconference.fi](http://www.helsinkiconference.fi)

#### 4.14 The Debt Trap

It is argued that the volume of the debt and debt servicing of the developing countries has increased after the global imposition of neo-liberal policies. There is no doubt that this debt burden seriously hinders the country's development. It is also argued that Post-Cold-War unregulated neo-liberal globalisation is actually being fueled by a process of debt collection. The SAP has often been a condition for reducing debt. SAP introduces reforms which are assumed to bring economic growth, and developing countries have borrowed on this assumption. However, far from contributing to a reduction of debt and an improvement in the balance of payments, SAP has probably increased the debt burden of countries in the South, thus, contributing to a deterioration of their terms of trade. Economic growth has not been achieved, or has been achieved by some at the cost of others. Developing countries borrow more to finance their debt servicing and become locked into “an unequal structure of trade, production and credit which defines the role and position of developing countries in the global economy.”<sup>118</sup> The implications of the growing debt include the delegitimisation of governments; disempowerment of states and empowerment of non-state actors which heed particular interests; dependence of developing countries on aid and foreign investment; reduction of the government expenditure on social services; increased unemployment; and worsening poverty and inequalities.

It can be said that the lack of genuine and effective democratic governance reinforces the structure of trade, production, and credit. Thus, it can be argued that effective democratic governance will challenge this unequal structure and alter power relations,

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<sup>118</sup> Chossudovsky 1997: 37

thereby contributing to debt reduction. Transparency, accountability, decentralisation, and participation will empower the people and therefore the state, which will be better able to make informed decisions in the national interest and to better negotiate in the global arena. However, in many cases, the debt already accumulated and the obligations and conditions already accepted prevent genuine democracy and prevent countries in the South from making decisions in accordance with their national interests. It appears that an adjustment of power relations and democratic governance on an international scale is required to socially regulate neo-liberalist globalisation to serve the interests of the poor people in the South.

Finland acknowledges that indebtedness is one of the worst conditions with major contributory factors to the acceleration of poverty. The 1998 *Status of Poverty Reduction in Finland's Development Assistance* states that "Finland supports the World Bank's and the International Monetary Fund's 1996 HIPC (Heavily Indebted Poor Countries) initiative, which grants debt relief for countries implementing a sustainable long term economic and social policy." It goes further states that Finland has granted remissions on most of its bilateral development loans or made conversion agreements involving the exchange of debts for various social/environmental commitments. In Finland's *Operationalisation of Development Policy Objectives* (2001), it is stated that, "special attention will be paid in the negotiations that future lending will not lead to an intolerable debt burden to the country later on." Finland further stated in the *Status of Poverty Reduction in Finland's Development Assistance* (1998), that "Finland follows the principle that the ultimate responsibility for the debts lies with the indebted countries themselves and that decisions on debt relief should depend on the extent to which these countries commit themselves to a market-based economic policy and a social policy giving high priority to the reduction of poverty, social justice and promotion of democracy." From the Southern perspective, if Finland really wants to contribute to poverty alleviation and debt relief, it must accept some responsibility for maintaining the unequal global economic structure, and be committed to change the global power relations through effectively promoting an alternative to the neo-liberal agenda in solidarity with its partners and other like-minded countries, particularly those in the South.



## Chapter 5

# Main Findings and Recommendations

## 5.1 Background to Finnish Experience

### 5.1.1 Lessons Learnt

1. The combination of welfare society, popular participation, neutrality and private sector development are systems and mechanisms that have enabled Finland to maintain social cohesiveness and devise an extremely successful national and international project that is based on its history, culture and ethos. Such a model has been a crucial capital and treasure for Finland.
2. Finland is a young and successful society that was affected by poverty, hunger and wars in its recent past. The country has been able to experience a profound transformation from a survival society to a post-survival “informational society”. This suggests that Finland has a lot to share with the rest of the world, particularly with countries in the South.
3. There is an aggressive consolidation of a unipolar world order with ambitions to eliminate any challenges in the economic, social, political, cultural or military spheres. The UN system and other multilateral institutions that have been positive to Finnish survival and post survival strategies are currently under threat. These institutions have generally been insensitive against the interests of the poor countries in the South, a phenomenon that suggests the need for their transformation and democratisation.

### 5.1.2 Recommendations

12. Finland should increase support for historical, cultural and scientific exchange with partner countries. It also, should provide the necessary resources and qualified personnel in its diplomatic missions to better address issues of intercultural and scientific exchange and implement programmes related to such issues.
13. An important aspect of Finnish Development cooperation should be the sharing information on Finnish history, social and cultural values, and social organisations that have enabled the country to survive for centuries and build a successful welfare and informational society. Finland has already abundant publications and audiovisual materials that ably describe and analyse Finnish history, culture and

welfare and informational society. Those materials could be part of the popularisation tools of Finnish policies at multilateral institutions and could be made available through diplomatic channels and national media in the South. Finland could also encourage the production of new publications and audiovisual information that would allow Southern societies to learn and understand from Finnish history, culture, values and experience.

14. Finland should play a more assertive role at international Fora in defending and strengthening the role of more democratised multilateral institutions. It should also try to forge wider alliances beyond the EU system to maintain the existence of multinational, multiethnic and multicultural world.
15. Maintaining a multipolar, multiethnic and multicultural world through new forms of development cooperation ought to be pursued by Finland as this is of strategic importance both to Finland itself and for countries in the South.

## 5.2 Multidimensionality of Poverty and the Finnish Experience

### 5.2.1 Lessons Learnt

1. The most profound lesson that can be drawn from the Finnish experience in poverty reduction is that it requires addressing each of its multidimensional aspects. The development community has learnt that this multifaceted and daunting challenge cannot be addressed by poor countries alone or through stand-alone projects that emanate from development cooperation. This has necessitated the current move towards new and more comprehensive poverty reduction policies and modalities of aid delivery such as the PRSPs and MDGs.
2. The PRSPs, which Finland has decided to support, include many commendable features at least at the level of rhetoric such as country ownership and broad-based participation of civil society organisations and the poor. Another welcome feature of PRSPs is the commitment towards increased public expenditure to the social sector. However, country ownership of PRSPs is highly limited by conditionalities attached to multilateral lending and debt relief as well as to new governance-related conditionalities. Participation of civil society groups is also limited to discussing the social policy planning component and does not include the democratisation of priority setting and debate around alternative macro-economic frameworks. The poor continue to be voiceless and marginalised from the limited participatory process.
3. Most PRSP documents continue to emphasize ‘right sizing’ of the public sector, introducing cost-recovery measures such as user charges for services like for non

basic health care despite growing evidence revealing the inability of the poor to afford health treatment due to the exorbitant cost of drugs.

4. PRSPs emphasize 'getting institutions right' through a number of governance related reforms ranging from anti-corruption to improved, more participatory and accountable public administration as well as legal reforms aimed at securing property rights. While there is a wide held consensus for an institutional reform, PRSPs exhibit a one size fits all approach as evidenced by the imposition of common institutional standards on all countries and ignoring the diverse conditions in these countries.
5. While PRSPs emphasize anti-corruption measures, these are often limited to the public domain while corruption in society at large such as domestic and private business is scantily addressed.
6. Cuts in public employment and salaries, privatisation of public enterprises and financial liberalisation have resulted in the emergence of unaccountable institutions and, hence, in more corruption.
7. The success of PRSPs is constrained by the absence of resources needed to trigger pro-poor growth. Various estimates have indicated that the promotion of such growth would require the formulation of policies designed to raise savings and investments as well as increased development assistance. Despite new pledges made at the United Nations Conference of Financing for Development held in Monterrey, current ODA levels have declined. Finland's contribution has shown a similar downward trend in the 1990s.
8. The 8 MDGs targets are important in their own right and considered as proxies for broader development objectives and serve as benchmarks against which progress may be assessed. Advocates of rights-based approach to development are concerned that distilling world poverty into a handful of targets might eclipse the full component of rights to which poor people are entitled. Lessons from previous effort at setting targets have shed light on the risk jeopardizing the sustainability of progress made towards targets. There is a potential trade-off of quantity versus quality as well as the danger of institutionalizing a top-down, mechanistic way of planning and implementation a process that runs the risk of undermining country ownership and sustainability.
9. A related concern is lack of clarity on the relationship between MDGs and PRSPs. In the context of reforms taking place within the UN system and the emerging commitment towards aid coordination and coherence, there are attempts to align PRSPs and UN Development Assistance Frameworks (UNDAF) behind the MDGs. However the UN has accepted the PRSP as the dominant macroeconomic instrument for PRSP countries to organise priorities internally and their relationship with donors externally.

10. MDGs are supposed to be built on principles of ‘mutual accountability for development between Southern and Northern countries.’ However, this new rhetoric has not been matched with increasing support in the form of investment, trade, and increased resource transfers needed to reach the MDGs goals.

### 5.2.2 Recommendations

1. In the light of the experience both in Finland and in a number of countries of the South, poverty reduction requires country specific development policy that gives equal weight to both economic and social policy.
2. Bilateral and multilateral partners in development should recognise that the trickle down and one size fits all approach regardless of its changing labels and packaging is unlikely to reduce poverty in the South. The contribution of Finland to these countries should emphasise the sharing of experiences, especially those related to an efficient formulation and implementation of social policy as a necessary complement to economic growth policies.
3. There is need for accurate, timely and comparable data that captures the multi-dimensionality of poverty.
4. To the extent that both MDGs and PRSPs provide the opportunity for coordinated poverty monitoring and evaluation system, Finland should support the establishment of a truly consultative and participatory process that includes all concerned stakeholders and that enhance country ownership of the overall process of poverty reduction.

## 5.3 Bilateral and Multilateral Cooperation

### 5.3.1 Main Findings

1. The goals of Finnish development cooperation are the alleviation of widespread poverty; the prevention of global environmental threats; and the promotion of equality, democracy and human rights. The challenges of globalisation also form the basis of Finland’s policy on relations with developing countries.
2. With the aim of reconciling the objectives of the country’s foreign and security policy, trade policy and international development cooperation, Finnish development cooperation also focuses on aspects pertaining to political and economic dialogue/governance; principles of market economy; commercial and economic tools; cultural cooperation; and capacity building. The promotion of global security and the enhancement of economic interaction are also singled out

as being among the important requisites for Finland's relations with its cooperating partners.

3. With a view of maintaining proper order and balance in foreign and security policy, on the one hand, and trade policy and development cooperation, on the other, Finland's development cooperation is being treated as "a coherent whole" in which the objectives of the various policy sectors are expected to be in harmony with each other. The new policy document on *Comprehensive Policy on Relations with Developing Countries*, thus, focuses on 'coherence' between different areas and tools of foreign policy and aims to better equip its cooperating partners in the light of globalisation.
4. In the context of the OECD-DAC strategy on development co-operation (*Shaping the 21<sup>st</sup> Century*), Finland looks at development cooperation through 'real partnership' with the recipients of its assistance. This position is also maintained in the context of Finland's membership to the European Union where it is, together with the other members, committed to the promotion of sustainable economic and social development in developing countries, especially in the least developed ones; harmonious and gradual integration of developing countries into the global economy; and efforts to combat poverty in the developing countries.
5. Finland's development cooperation is routed mainly through bilateral and multilateral channels, primarily involving individual countries, international organizations and NGOs. Currently, the countries classified as Finland's long-term partners are Egypt, Ethiopia, Kenya, Mozambique, Zambia, Namibia, Nepal, Nicaragua, Peru, Tanzania and Vietnam. In its bilateral development cooperation, Finland believes in capital deepening rather than capital spreading. Thus, the country's aid has been concentrated on fewer partner countries and larger country programmes, primarily targeting poverty reduction.
6. Multilateral co-operation is seen to offer the Finnish government with opportunity to influence the development policies of those international organisations and agencies whose objectives and strategies coincide with those of Finland. Within the WTO, Finland stresses the importance of paying sufficient attention to those trade policy issues that are important to developing countries. The UN system is perceived by Finland to be the 'international development leader' and takes up about 40 percent of its assistance. Approximately 30 percent of Finnish aid is routed through the EU structures.
7. In an effort to use resources targeting civil society more efficiently, Finnish global development assistance is also being channelled through NGOs. Currently, NGOs take about 11 percent of total Finnish aid. Traditionally, Finnish NGOs focus more attention on health care and the social sector, particularly education and training, with Africa taking nearly half of the total global activities of Finnish NGOs.

8. For Finland, poverty reduction entails sustained economic growth and equitable income distribution. It also entails the facilitation of special arrangements for supporting the poor to be engaged in productive activity. Finland, thus, clearly states that it sees “*sustained economic growth*” as being as important to poverty reduction as the need to assure *social welfare provisioning*.
9. Finland’s new ‘*Comprehensive Policy*’ perceives a strong correlation between human rights and poverty reduction, and sees minorities, indigenous peoples, women, girls and the disabled as the obvious beneficiaries of its human rights interventions. Although there is evidently a growing scepticism among the Finnish aid bureaucracies around the inadequacy of the standard World Bank-funded household surveys as the basis of establishing the nature and gravity of rural poverty, the actual interventions still remain largely guilty of conceptualising the poor as a homogeneous group that are often given standard remedies.
10. Although Finland’s *policies* are generally in line with the average Southern government’s policies, it is at the level of poverty reduction/eradication *strategy* where some differences emerge. In most of the countries supported, the focus of Finnish aid has been in the social sectors.
11. The notion of ‘the poor’ does not seem to recognise the strengths (e.g. the creative capacities and human dignity) of those that are captured in this ‘categorisation net.’ Consequently, the chosen policies for poverty reduction often assume/imply that the poor are passive and that they lack human dignity. Similarly, although the African countries’ PRSPs disaggregate the poor to some extent, the information tends to be incomplete. There is very little effort towards disaggregation that would show how the interventions proposed at the sectoral levels are underpinned by information on poverty and by analysis of opportunities for specific kinds of improvement among specific categories of people, including those of particular interest to Finland (the poorest of the poor, women, children, the elderly, and the disabled). The broad-brush classifications used in many PRSPs and in donor’s own definition of who the poor are, has, thus, limited the opportunities for better targeting since the poor are typically identified in very broad categories covering the majority of the population.
12. One of the greatest weaknesses of many donor-supported interventions, including those by Finland, is the failure to analyse and conceptualise vulnerability within the context of poverty dynamics. If this is done properly, it would ensure that anti-poverty strategies include the prevention of poverty as well as lifting people out of poverty (i.e. that they would include attention to people who are vulnerable but not ‘poor’). This would also ensure that social security, rather than just productivity, is understood by donors and Southern country policy-makers as a key livelihood objective for poor and non-poor people alike (i.e. that strategies

address the need for risk management at national as well as micro-levels, which will involve balancing trade-offs between income/productivity gains and social security).

13. The Finnish development cooperation policies rarely mentions vulnerable people, and where they are mentioned and/or implied, the policy choices tend to use this term as a synonym for poverty. Consequently, the tendency has been to focus primarily, if not exclusively, on those people that are currently being perceived to be poor and leaving out those that may easily fall into poverty but who are not yet there.
14. Finland, like the average donor, hardly engages into meaningful analysis on social security-related aspects pertaining to, *inter alia*, state-funded safety nets; communal resource-pooling and sharing; urban livelihood strategies; and the safety, security and quality of employment in its Southern partner countries.
15. Notwithstanding the virtues of joining the WTO, it is clear that there are genuine concerns from the Southern perspective. Developing countries' growing apprehension with the structure and rules of the current multilateral trade regime became more evident during the disgraced WTO Seattle Ministerial Conference of November 1999 that closed without reaching the desired outcome. Developing countries are also increasingly becoming concerned by the fact that, despite their majority position in the world body, WTO still continues to remain as the rich nations' club that is effectively being controlled, if not governed, by industrialised nations. So far, Finland has not demonstrated its willingness, as stated in its development policy, to champion the concerns of the Southern states in the WTO.
16. Although Finland supported the IMF- and World Bank-funded SAPs in most of the countries to which Finnish aid is given, it has become increasingly clear from the Southern standpoint that the Breton Woods Institutions over the past two decades have generally failed to bring about the anticipated level of improvement in economic performance and social welfare through their prescribed macroeconomic measures. In fact, many of these countries are left with huge and unsustainable debt. Southern countries argue that the cancellation of the debt that was contracted through structural adjustment is an *unconditional right* of the borrower developing countries and should not be considered as a good-will gesture of the creditors. So far, Finland, again, has not demonstrated the will or commitment to push firmly this position among other developed countries and multilateral institutions.
17. Another important consideration is that if one listens carefully to what the World Bank and IMF are saying in the PRSP approach, an echo of their old approach of focusing mainly on macro-economic issues and economic growth can be heard clearly, a phenomenon that does not seem to be fully acknowledged by Finland in

its development cooperation initiatives although the country recognises that growth is a necessary but not sufficient factor for poverty reduction. From the Southern perspective, poverty issues are essentially microeconomic. Hence, the pressure on PRSP to fulfil macroeconomic conditions, on the one hand, and accommodate microeconomic poverty issues, on the other, may finally break down the process and the PRSP may fall apart. The tension is likely to be reflected between a government trying to satisfy the World Bank and IMF subtle conditions and civil society demanding direct poverty reducing interventions.

18. Developing countries generally agree that they should go forward towards new multilateral trade negotiations. Most of them understand that only in some kind of multilateral process that brings them together with the developed nations will their concerns about implementation, market access, and special and differential treatment ripen into real solutions. Outside the WTO and similar global arrangements, the treaty for the establishment of the African Economic Community, ratified by African governments and later operationalised through the formation of the African Union in 2001, envisaged the use of existing regional economic integration schemes as the 'building blocks' towards a full integration of the continent. At the African level, this initiative, complemented by NEPAD, SADC and COMESA, offers opportunities for South-South cooperation that donors such as Finland could subscribe to through technical and financial support.
19. Presently, there is very limited coordination and harmonisation of effort between Finland and other donors in the countries where it extends assistance. The reason for developing countries' preference for donor harmonisation is multi-fold. Firstly, the efficacy of external assistance is better realised when donors operating in the same field/sector collaborate and harmonise their effort and build local institutional capacities in the areas of planning, implementing, monitoring and evaluation. Secondly, the proliferation of uncoordinated donor projects has placed overwhelming functional strain on the average recipient country's ill-equipped government bureaucracy. The sheer number of donors, the multiplicity of their uncoordinated projects; and their different planning, reporting, accounting, administrative and legal requirements have brought about fragmentation in aid management. Sector-wide approaches (SWAs) and decentralisation offer some hope at this level. Notwithstanding this, experience in the South reveals that few decentralisation initiatives have managed to engage local communities in more effective, 'bottom-up' planning mechanisms. For the most part, 'planning' and 'decentralisation' seem to be mutually incompatible and a lot is yet to be done to design more participatory and inclusive mechanisms in the planning sphere. SWAs, despite their merits, still emphasise centrally planned sectoral blueprints for given sectors with little, if any, allowance being extended to the more decentralised, community-determined project choices.



### 5.3.2 Recommendations

1. Support to the social sector should be supplemented with attention to growth-oriented interventions to ensure a balanced and multi-pronged assault on poverty. It ought to be recognised that sustainable *social welfare* is almost always founded on a strong national economic base and that it cannot – and should not – be founded on external assistance through development cooperation. The test of aid effectiveness should, thus, be judged on the ability of development cooperation to facilitate Southern partner countries with the requisite capacities (human, financial, technical, and social) to be able to improve the social welfare of their people. Consumption-based approaches are important particularly in countries with high levels of poverty and where social protection, particularly in the earlier phases of socio-economic development, is mandatory if access to such necessities as basic health, education and general social welfare for all is to be guaranteed. But to *reduce* poverty in a sustained manner, (as opposed to merely *alleviating* it), *livelihood-based approaches* that enrich consumption-oriented interventions with conscious efforts that target the improvement of the poor people's income and assets are essential. Livelihood systems should entail activities that households undertake (through a combination of empowerment mechanisms from the state and elsewhere) to earn a decent living and to ensure the availability of their basic needs and requirements. Investment in human capital through basic and vocational training; provision of credit and extension services to agricultural communities; facilitation of economic diversification through, say, well targeted technical and financial support structures; capacity strengthening of institutions that support the poor's socio-economic activities; etc. combine to provide the needed stimulus for livelihood-based support.
2. The limited attention paid to social processes, empowerment, and rights is evident in the many countries that receive Finnish aid and it is one area where direct support from Finland is urgent. Deficiencies in social relations and social status are real dimensions of poverty that are of major concern to poor people. Yet these dimensions are scarcely mentioned whereas income – which is only a proxy indirectly related to the quality of life – is given prominence in many global and national efforts towards poverty reduction.
3. It is important that Finland appreciates the fact that *economic structure* (particularly the initial level of inequality in the countries that it supports) does affect the patterns of future growth but, perhaps more importantly, the *sectoral composition of growth* does possess major implications for poverty reduction and alleviation. Thus, in countries like Zambia, Tanzania, Mozambique, Ethiopia, Namibia, Nepal, and Nicaragua where the poor are predominantly in the agricultural sector, poverty reduction strategies that neglect this sector would rarely improve, at least in the

short-term, the socio-economic welfare of the disadvantaged population that depends on it. This suggests that in those countries where the majority of the poor depend on agriculture for their human survival-cum-livelihood, the recorded poor growth of the agricultural sector remains one of the major factors that explain the worsening poverty conditions. By implication, development cooperation that targets the agriculture-based rural poor, particularly small-scale peasant farmers (especially the female-headed households in this category) would better address the plight of the core poor.

4. From the Southern perspective, Finland ought to assume a more proactive role in championing the cause that would more positively integrate the poor countries of the South in multilateral institutions. Presently, the poorest countries of the South are not benefiting from global economic integration, a state of affairs that is actually deteriorating. Finland's current development cooperation policy acknowledges that it intends to help "...developing countries gain a position as equal trading partners in the international economy." The South, therefore, expects to see more pro-South actions by Finland in its relations with other developed country members in multilateral bodies.
5. At the bilateral aid relationship level, the monitoring and evaluation of externally-supported programmes have tended to be led by donors. Expensive external 'experts' are normally brought into partner countries by donors, including Finland, for brief periods to evaluate the performance of externally-supported projects. This state of affairs ought to be reversed in favour of country-led monitoring and reporting systems. These systems should be country owned and led. This calls for the strengthening of developing countries' capacity to manage and monitor their own programmes rather than allowing donors to set up monitoring and reporting systems for their own requirements only.
6. The weaknesses associated with aid co-ordination have resulted in the marginalisation of external resources when it comes to planning and budgeting. Consequently, it has been difficult to integrate external aid and national development planning and budgeting. This calls for more transparency on the part of donors in the predictability of their resource flows and the management of external resources.
7. The existence of a multiplicity of donor procedures, demands and conditionalities has tended to generate an overload on the already ill-equipped and over-stretched government bureaucracies whose absorptive capacity of external resources is evidently weak. This calls for harmonisation of donor procedures through SWAp and SWAp-related systems and structures that facilitate donors to operate within the framework that is developed, managed and owned by the partner Southern country. It is important to design systems that make SWAps more inclusive and participatory to reduce the current trend whereby they have tended to marginalise stakeholders other than governments.

## 5.4 Democratic Governance

### 5.4.1 Lessons Learnt

1. Finland has paid less attention to the nature of the states in its development co-operation. The experience shows that mere political openness does not necessarily reflect the whole dynamics of a particular society. It is important to look into the power structure and find out how the people are governed. In some societies, the centralised states do not represent the voice of the people.
2. The rule of law in Southern countries is narrowly defined and enforced to meet the growing interests of the neo-liberal actors. Finland's involvement in legal and judicial reform is quite limited and, consequently, it has been unable to address pro-people legal and institutional reforms. Presently, for example, Finland's existing focus on human rights is limited to a few individual rights of civil and political nature.
3. The issue of gender in development is a new phenomenon in most developing countries and Finland, despite its explicit reference to this in its development cooperation, is yet to show leadership and commitment to the integration of these issues in broader economic, social and cultural terms.
4. Finland does not have standard policies and procedures relating to access to information pertaining to its development cooperation. Consequently, it is difficult for governments and the civil societies in the South to access information regarding the projects and programmes being supported by the country.
5. Finland supports the decentralisation process through the strengthening of the local government bodies and rural development programmes. However, popular participation in many Finnish projects is still limited to meetings and public hearings, a phenomenon that calls for more serious processes and interventions that would enhance ownership by local stakeholders in development projects.
6. Finland's development co-operation lacks sufficient performance indicators to evaluate and monitor supported projects and programmes in the NGO and CBO sectors.
7. Finland-supported projects rarely respect ownership considerations to the extent that partner countries' involvement in project identification, management, and monitoring is curtailed by over-centralisation of decision-making in the donor camp.
8. Although Finland's policy towards the promotion of dialogue on global governance is commendable, there is still considerable room for improvement in the area of strengthening the democratic reforms agenda in such multilateral institutions as IFCs, the EU, and WTO.

### 5.4.2 Recommendations

1. Finland needs to look at the substantial elements of the structure and operations of the states in relation to national or local power relationship. It should support the democratisation process of national governments and the whole society rather than opting for one specific type of political and economic systems.
2. Finland's support to the rule of law needs to be based on the development of law that incorporates all the fundamental principles and standards of human rights and social justice. It should also support the national parliaments and the judiciary towards defending the rights and interests of the people and also bring all actors of society, including the private companies, within the democratic framework of national law.
3. Finland should ensure that Finnish private companies that operate in the context of its development cooperation are accountable to the beneficiary societies. Furthermore, Finland should avoid supporting policies and programmes that are unjust to the people and inimical to the ecological environment.
4. Finland should apply its own historic model of involving women in decision-making that affects their lives. Finland's most appropriate form of support to achieve this goal would be the promotion of free and compulsory basic education.
5. Based on its own experience, Finland ought to promote the rights-based approach to development and co-operation. It would, therefore, be inappropriate for Finland to ask countries in the South to comply with any macroeconomic reform programmes that compromise internationally recognised human rights and environmental obligations.
6. Finland must ensure the release of complete project documents and information in a timely manner and in local languages and dialects if necessary. This should also apply to private companies that it works with.
7. Finland should support the periodic evaluations, including post-project impact assessments, of its development undertakings and draw lessons for the future. Finland should also make mandatory the conduct of social, economic, cultural and environmental impacts of development projects supported by it, and ensure the effective implementation of any mitigation plans with the active involvement of local stakeholders and beneficiaries.
8. Finland should provide more assistance for administrative and fiscal decentralisation and autonomy not only through isolated development projects but also through support towards devolution of political and economic power from the centre to local institutions.
9. Finland should pay particular attention to the transition from project approach to Sector-Wide Approach (SWAp) or other programme support in line with local and national needs and priorities.

10. Finland, through the Helsinki Process and similar initiatives, should continue to play an active role with all the like-minded countries both from the North and the South. It should also promote the agenda of reforms of the UN system, particularly the Security Council, for a more democratic and balanced approach to multilateralism as against the increasing trend towards unipolarity. Furthermore, Finland should advocate for the UN principle of equal representation and democratic decision-making in all other multilateral institutions. The promotion of good governance and corporate accountability is another area that Finland needs to pay due attention.

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## Appendices

Table A-1 : Finland's Official Development Assistance 1961–2000, Net disbursements, MEUR

Year	At current prices	At 1995 prices	Nominal growth, %	Real growth, %	Per cent of GNI	Gross National Income
1961	1,0	11,1	.	.	0,03	3.044
1962	1,2	12,4	16,7	12,2	0,04	3.263
1963	1,5	15,3	28,9	23,2	0,04	3.532
1964	1,4	13,2	-7,2	-14,2	0,04	3.986
1965	1,1	9,7	-23,0	-26,6	0,02	4.407
1966	1,8	15,6	70,1	61,7	0,04	4.709
1967	2,4	18,8	28,6	20,5	0,05	5.163
1968	3,3	23,1	37,4	22,8	0,06	5.920
1969	9,5	64,4	190,5	178,7	0,14	6.761
1970	4,8	31,8	-49,0	-50,7	0,06	7.539
1971	9,4	57,3	94,8	80,5	0,11	8.279
1972	14,1	79,3	50,1	38,3	0,15	9.645
1973	18,0	88,7	27,5	11,8	0,15	11.737
1974	24,1	96,6	33,6	9,0	0,16	14.809
1975	29,7	104,8	23,3	8,5	0,17	17.096
1976	32,8	102,4	10,6	-2,2	0,17	19.306
1977	33,0	93,7	0,7	-8,5	0,16	21.203
1978	37,9	98,7	14,9	5,3	0,16	23.479
1979	56,5	135,1	49,0	36,9	0,21	27.377
1980	69,4	148,2	22,8	9,7	0,22	31.642
1981	97,7	187,2	40,8	26,3	0,27	35.628
1982	117,1	206,6	19,9	10,3	0,29	39.935
1983	143,6	233,5	22,6	13,0	0,32	44.524
1984	179,7	271,8	25,1	16,4	0,36	50.020
1985	219,8	315,0	22,3	15,9	0,40	54.600
1986	266,7	369,9	21,3	17,4	0,46	58.464
1987	319,6	427,2	19,8	15,5	0,50	63.775
1988	427,6	534,5	33,8	25,1	0,60	71.690
1989	509,8	601,2	19,2	12,5	0,64	79.836
1990	544,0	607,8	6,7	1,1	0,65	84.160
1991	632,5	687,5	16,3	13,1	0,80	79.267
1992	485,7	521,7	-23,2	-24,1	0,64	76.015
1993	341,7	356,3	-29,7	-31,7	0,45	76.128
1994	254,8	261,4	-25,4	-26,6	0,31	82.003
1995	285,2	285,2	11,9	9,1	0,31	91.483
1996	315,6	315,3	10,7	10,6	0,33	95.693
1997	330,5	321,5	4,7	2,0	0,32	104.753
1998	356,3	338,7	7,8	5,3	0,31	113.139
1999	390,9	367,8	9,7	8,6	0,33	118.528
2000	402,4	362,9	2,9	-1,3	0,31	129.265

Table A-2: Finland's Official Development Assistance, net disbursements (Budget Classification) 1991–2000, MEUR

Budget Sub-item/equivalent	Allocation Scheme/equivalent	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Actual Development Assistance	Multilateral Co-operation Country-to-Country and Regional Co-operation	205,31	145,30	90,62	46,02	69,66	91,81	88,64	104,21	98,76	105,54
	Reconstruction of Bosnia Unallocated Funds	199,34	152,55	91,43	91,73	64,43	66,41	67,50	79,87	85,41	85,33
	Development Credits Humanitarian Aid	25,56	22,87	13,71	6,93	6,93	5,00	7,02	6,74	8,00	19,46
	Planning, Supportive Services and Information	9,29	15,09	10,39	-1,35	0,30	1,40	0,69	-2,96	-3,01	-2,19
	Evaluation and Internal Auditing Non-governmental Organizations Interest Subsidies	71,66	33,00	20,35	27,20	21,31	30,01	26,47	27,89	47,55	36,91
		6,86	6,93	6,29	5,16	4,10	2,50	3,43	4,61	4,14	3,07
		23,87	26,51	23,60	20,26	20,22	20,95	23,85	27,25	29,82	31,81
		10,58	16,49	21,34	20,97	25,51	24,38	23,96	22,96	18,99	19,84
		552,47	418,74	277,73	216,92	212,46	242,81	241,99	275,62	295,44	301,75
Actual Development Assistance, total Economic, Industrial and Technological Co-operation		1,08	2,67	2,02	1,24	1,38	1,18	1,35	1,65	1,23	1,27
FINNFUND		11,18	5,84	25,06	2,57	1,83	-2,94	-1,82	-2,57	-3,79	1,41
Total International Development Assistance		564,73	427,25	304,81	220,73	215,67	241,05	241,52	274,70	292,88	304,43
Other ODA	Administrative Expenses (MFA) Expenses arising from the reception of refugees Finland's share of EU's development co-operation budget	16,81	15,22	14,43	12,98	13,91	14,53	15,10	14,40	15,33	14,89
	Other International Organizations Other Expenses	35,79	32,21	11,02	5,18	5,39	8,66	8,81	7,05	15,28	17,67
		.	.	.	.	31,08	37,37	42,08	42,05	47,94	49,53
		7,70	9,59	10,63	14,83	16,54	13,22	16,20	12,78	12,71	11,13
		7,43	1,43	0,79	1,08	2,57	0,77	6,85	5,37	6,77	4,72
		67,73	58,45	36,87	34,07	69,49	74,55	89,04	81,65	98,03	97,94
Other ODA, total		632,46	485,70	341,68	254,80	285,16	315,60	330,56	356,35	390,91	402,37
Total Official Development Assistance Per cent of GNI		0,80	0,64	0,45	0,31	0,31	0,33	0,32	0,31	0,33	0,31

Source: Ministry for Foreign Affairs – Department for International Development Cooperation

Table A-3: Bilateral development assistance by continent and recipient country 1991–2000, MEUR

Country or region	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Albania	0,43	0,19	0,17	0,17	0,17	0,08	0,81	0,37	0,35	0,36
Bosnia-Herzegovina	.	.	.	.	1,44	11,59	7,71	8,04	7,62	4,64
Ex-Yugoslavia (unspecified)	5,33	21,65	6,01	7,03	.	.	.	2,24	1,19	1,80
Europe (unspecified)	.	0,03	.	.	.	.	.	.	2,57	0,43
Greece	0,01	.	.	.	.	.	.	.	.	.
Croatia	.	.	.	.	.	.	0,81	0,35	0,81	1,63
Former Yugoslav Republic of Macedonia	.	.	.	.	.	.	0,35	0,02	0,03	.
Moldova	.	.	.	.	.	.	0,01	0,02	0,08	0,08
Serbia and Montenegro	.	.	.	.	3,37	1,15	1,50	2,05	21,01	12,22
Turkey	6,31	1,80	-0,36	0,23	-0,10	-0,93	0,26	-0,77	-2,87	0,28
EUROPE, TOTAL	12,08	23,67	5,82	7,43	4,88	11,89	11,45	12,32	30,79	21,44
Africa (unspecified)	31,88	17,97	6,70	3,49	3,53	5,68	9,10	6,35	6,67	4,17
Algeria	0,27	0,17	0,11	.	.	0,02	0,01	.	0,05	0,09
Angola	0,98	0,32	0,73	1,27	1,23	2,89	0,57	1,06	3,40	1,40
Benin	0,03	0,03	.	.	.	.	.	0,01	.	0,10
Botswana	1,41	0,30	-0,11	0,01	0,17	0,12	0,08	0,10	0,11	0,05
Burkina Faso	0,03	0,02	0,01	0,01	0,02	.	0,37	0,29	0,45	0,51
Burundi	.	.	.	0,57	0,56	0,27	0,05	0,35	0,77	1,05
Djibouti	0,08	0,06	.	.	.	.	.	.	.	.
Egypt	14,58	12,53	4,72	6,04	3,77	3,21	2,45	2,13	2,54	3,76
Eritrea	.	.	1,03	0,15	0,50	0,62	0,51	0,37	0,34	0,34
South Africa	.	.	.	0,60	0,17	1,09	2,93	3,40	2,63	2,83
Ethiopia	12,43	6,00	1,26	3,35	5,62	5,60	5,78	6,29	5,57	6,14
Gambia	0,52	0,36	.	.	.	.	0,02	0,01	0,01	0,03
Ghana	1,53	0,46	0,18	0,22	0,54	0,62	0,63	0,62	0,51	0,68
Guinea	0,41	0,15	0,07	0,03	0,03	0,03	.	0,44	0,07	0,46
Guinea-Bissau	.	0,01	.	.	.	.	.	.	0,34	.
Cameroon	0,28	0,69	0,45	0,11	0,12	0,15	0,02	0,05	0,01	0,01
Kenya	23,20	15,55	7,31	5,28	4,51	2,52	3,72	4,68	3,85	4,38
Comoros	.	.	0,04	0,06	0,07	0,03	0,05	0,02	.	.
Congo Democratic Republic	0,87	0,77	0,20	0,42	.	2,00	0,22	0,29	.	0,96
Congo Republic	.	.	.	.	.	.	0,11	.	1,27	.
Lesotho	0,31	0,01	.	.	.	.	0,01	0,01	.	.
Liberia	0,91	0,39	0,42	0,59	0,17	0,57	0,24	0,51	0,76	0,60
Libya	0,37	.	.	0,00	.	.	.	.	.	.
Madagascar	.	.	0,02	0,01	0,02	0,02	.	0,04	0,04	0,04
Malawi	3,85	0,21	0,29	0,33	0,17	0,25	0,18	1,20	0,68	1,09
Mali	0,02	0,03	.	.	.	.	.	.	.	0,01
Morocco	0,50	0,41	0,28	0,18	0,22	0,08	0,04	0,10	0,06	0,04
Mauritius	0,20	0,22	0,20	0,18	0,22	0,19	0,18	0,15	0,11	0,10
Mozambique	16,42	17,20	9,17	11,03	8,70	8,39	8,77	10,96	13,88	12,59
Namibia	11,93	7,34	7,65	8,13	5,82	5,95	6,59	5,41	6,43	7,15
Niger	0,31	0,27	.	.	.	.	.	.	.	.
Nigeria	0,52	0,22	0,06	0,02	.	.	.	0,06	0,07	0,13
Cote d'Ivoire	0,35	0,02	.	.	.	.	.	0,02	0,04	.
Equatorial Guinea	.	0,00	0,00	0,00	0,00	.	0,03	.	.	.
Rwanda	0,12	0,34	0,28	2,03	2,04	0,79	0,74	0,50	0,50	0,61
Sub-Saharan Africa (unspecified)	.	.	.	.	.	.	.	.	.	3,53
Zambia	17,26	23,47	14,59	11,49	8,73	9,07	7,40	6,40	3,55	3,63

Country or region	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Senegal	1,39	4,97	0,61	0,63	0,86	0,64	0,35	0,28	0,32	0,32
Sierra Leone	0,37	0,02	0,05	0,02	0,00	0,30	.	0,50	0,64	0,69
Somalia	9,92	4,83	0,69	2,17	0,66	1,16	0,12	0,34	2,08	2,50
Sudan	10,34	2,10	1,56	1,03	1,11	0,72	0,78	1,18	1,64	1,26
Swaziland	0,04	0,04	.	.	.	.	.	.	.	.
Tanzania	27,59	26,34	15,15	19,78	6,88	6,98	8,72	10,71	9,97	13,49
Togo	.	.	.	.	.	.	0,09	0,04	.	.
Chad	0,02	0,02	.	.	.	.	.	.	.	0,04
Tunisia	-0,24	-0,08	0,01	-0,02	-0,07	-0,07	-0,17	0,01	0,01	.
Uganda	1,01	1,12	0,46	0,27	0,94	0,82	0,94	1,01	1,09	0,76
Zimbabwe	7,98	7,49	9,51	0,91	5,74	4,27	0,77	-0,79	-1,85	0,20
AFRICA, TOTAL	199,99	152,37	83,70	80,39	63,05	64,98	62,40	65,10	68,61	75,74
America (unspecified)	0,01	0,15	.	.	.	.	.	.	0,05	0,04
Argentina	0,05	0,10	.	0,08	0,05	0,03	0,07	0,12	0,01	0,09
Barbados	-0,12	-0,11	-0,17	-0,06	-0,05	-0,13	-0,10	-0,03	.	.
Belize	.	.	.	.	.	.	.	.	0,04	.
Bolivia	0,02	0,13	0,06	0,02	0,24	0,25	0,49	0,31	0,28	0,24
Brazil	0,20	0,12	0,07	0,03	0,19	0,19	0,31	0,41	0,31	0,24
Chile	0,95	0,42	0,18	-0,37	-0,29	-0,37	-0,43	-0,52	-0,63	-0,67
Costa Rica	0,27	0,02	0,04	.	0,17	.	.	.	0,10	.
Dominican Republic	0,00	0,14	0,28	0,33	0,30	0,35	0,09	0,12	0,07	0,23
Ecuador	-0,17	0,20	0,10	0,02	0,08	0,08	0,04	0,15	0,09	0,26
El Salvador	0,53	0,23	0,00	0,02	.	.	0,12	0,07	0,22	0,12
South America (unspecified)	0,26	0,03	0,15	0,04	0,26	0,19	0,92	0,16	0,57	0,86
Guatemala	0,05	0,03	0,22	0,20	0,08	0,08	0,09	0,22	0,88	0,18
Guyana	.	.	.	.	.	.	.	0,01	.	.
Haiti	0,02	.	.	0,05	0,00	0,03	.	0,03	0,06	0,05
Honduras	0,03	0,03	.	.	0,03	0,02	.	0,01	0,68	.
Jamaica	.	0,00	0,01	.	.	.	.	.	.	.
Colombia	0,10	0,10	0,03	0,01	0,07	0,07	0,07	0,04	0,23	0,06
Cuba	0,49	0,41	0,01	.	.	0,00	0,00	0,08	0,21	0,03
Mexico	1,14	1,56	1,31	1,02	0,89	0,49	0,12	0,14	0,16	0,24
Nicaragua	16,71	10,56	7,74	4,45	4,71	3,97	6,54	6,75	9,07	8,51
Panama	0,01	.	.	.	.	.	.	0,00	0,02	0,02
Peru	5,08	3,01	1,91	0,14	2,15	0,45	0,19	0,20	0,63	1,30
North and Central America (unspecified)	3,19	3,89	4,44	5,13	4,37	2,41	3,00	3,47	3,12	4,62
Uruguay	0,05	0,03	5,96	0,00	0,02	0,03	0,02	0,02	.	0,00
Venezuela	.	.	.	.	.	0,02	0,02	0,03	0,03	0,50
AMERICA, TOTAL	28,87	21,05	22,34	11,11	13,27	8,16	11,56	11,79	16,20	16,92
Asia (unspecified)	15,40	5,64	4,91	3,07	2,66	3,97	3,69	4,46	8,02	5,21
Afghanistan	1,55	1,08	1,42	1,14	1,03	2,72	2,27	2,61	3,38	5,38
Armenia	.	.	.	.	.	0,22	.	0,25	0,19	0,10
Azerbaijan	.	.	.	.	.	0,49	.	0,17	0,17	0,30
Bangladesh	10,74	7,99	4,10	4,42	3,45	0,81	0,71	0,63	0,58	0,69
Bhutan	0,15	0,05	0,03	.	.	.	0,04	.	.	.
Myanmar (Burma)	2,19	0,36	.	.	.	.	0,04	0,02	0,07	1,38
South and Central Asia (unspecified)	.	.	.	.	.	.	.	.	.	0,67
Philippines	0,73	0,95	0,61	0,81	0,98	1,03	1,02	0,94	1,36	2,97
Georgia	.	.	0,08	0,25	0,07	0,66	1,25	1,01	0,88	1,04
Hong Kong, China	0,05	1,09	.	-0,13	.	-0,12	.	.	.	.

Country or region	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Indonesia	2,09	1,36	0,83	1,37	0,57	0,45	0,32	0,29	1,59	0,70
India	2,52	4,25	2,16	1,79	1,26	0,89	0,91	1,23	-0,30	1,17
Iraq	2,71	2,10	4,53	1,46	2,25	1,92	4,22	4,12	3,71	3,34
Iran	3,91	1,43	1,81	0,88	1,61	1,13	3,15	1,53	3,11	1,91
Israel	.	0,33	0,00	0,00	0,00	0,02	.	.	.	.
Timor	.	.	.	.	.	.	.	.	.	3,00
Yemen	0,02	0,04	.	0,00	.	.	.	.	.	.
Jordan	0,58	0,56	0,19	0,10	0,12	0,07	0,04	0,05	0,03	.
Cambodia	2,15	0,71	0,44	0,02	0,29	0,44	1,18	2,06	2,00	3,96
Far East Asia (unspecified)	.	.	.	.	.	.	.	.	.	0,94
Kazakstan	.	.	.	.	0,07	0,02	.	.	0,04	0,07
China	8,61	9,67	9,21	8,38	11,92	11,17	15,01	13,17	12,41	11,87
Kyrgyz Republic	.	.	.	.	0,02	0,10	0,34	0,83	1,11	0,46
Korea Democratic Republic	.	.	.	.	.	0,05	0,99	0,17	.	.
Korea Republic	0,11	0,12	0,06	0,04	.	.	.	.	.	.
Kuwait	0,04	0,01	0,08	.	.	.	.	.	.	.
Laos	.	0,09	0,00	0,03	1,14	1,11	1,17	1,17	2,00	2,07
Lebanon	0,27	0,18	0,18	0,05	0,02	0,02	0,08	0,34	0,11	0,16
Middle East (unspecified)	.	.	.	.	.	.	.	.	.	0,17
Malaysia	6,34	0,89	19,68	2,37	-0,29	-0,89	-4,06	-2,43	-2,24	-3,52
Mongolia	0,17	0,42	0,82	0,38	0,40	0,94	0,33	0,24	0,19	0,51
Nepal	12,23	12,14	5,69	5,62	4,47	4,24	5,80	11,72	5,36	6,02
Oman	.	.	.	.	0,02	.	.	.	.	.
Pakistan	1,43	1,19	0,55	0,51	1,19	1,18	1,08	0,88	0,97	1,11
Palestinian administered areas	.	.	.	.	0,64	2,24	0,92	2,13	3,15	4,65
Saudi Arabia	0,03	0,05	.	.	.	.	.	.	.	.
Singapore	0,33	0,04	.	0,02	.	.	.	.	.	.
Sri Lanka	9,21	7,22	6,03	4,48	1,19	0,54	0,63	0,53	2,50	0,91
Syria	0,26	0,24	0,02	0,00	0,05	.	0,02	.	0,05	.
Tajikistan	.	.	.	0,43	.	1,63	0,50	0,34	1,01	0,76
Thailand	2,62	2,38	3,66	5,68	6,07	5,85	4,89	5,63	4,35	3,60
Turkmenistan	.	.	.	.	.	0,02	0,07	0,02	.	0,03
Uzbekistan	.	.	.	.	.	.	.	0,06	0,01	0,00
Viet Nam	12,49	9,72	7,04	7,06	8,22	7,47	7,17	7,82	7,21	6,27
ASIA, TOTAL	98,93	72,30	74,13	50,23	49,42	50,39	53,78	61,99	63,02	67,90
Fiji	0,22	0,13	.	.	.	.	.	.	0,04	.
Oceania (unspecified)	.	.	0,03	.	.	.	0,09	0,02	.	.
Papua New Guinea	0,05	0,07	0,06	0,04	0,03	0,03	0,03	0,05	0,07	0,08
OCEANIA, TOTAL	0,27	0,20	0,09	0,04	0,03	0,03	0,12	0,07	0,11	0,08
Unspecified	58,04	48,28	46,81	38,43	31,01	30,26	35,20	36,53	47,19	53,48
BILATERAL, TOTAL	398,17	317,82	232,87	187,65	161,67	165,77	174,55	187,79	225,91	235,55

Source: Ministry for Foreign Affairs – Department for International Development Co-operation

## Appendix 1

### Millennium Development Goals: Targets and Indicators

Goals and targets	Indicators
<p><b>Economic well-being</b></p> <p><b>Goal 1. Eradicate extreme poverty and hunger</b></p> <p><b>Target 1.</b> Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day</p> <p><b>Target 2.</b> Halve, between 1990 and 2015, the proportion of people who suffer from hunger</p>	<ol style="list-style-type: none"> <li>1. Proportion of population below \$1 parity purchasing power (PPP) per day</li> <li>2. Poverty gap ratio<sup>c</sup></li> <li>3. Share of poorest quintile in national consumption<sup>d</sup></li> <li>4. Prevalence of underweight children under five years of age</li> <li>5. Proportion of population below minimum level of dietary energy consumption</li> </ol>
<p><b>Social development</b></p> <p><b>Goal 2. Achieve universal primary education</b></p> <p><b>Target 3.</b> Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling</p>	<ol style="list-style-type: none"> <li>6. Net enrolment ratio in primary education</li> <li>7. Proportion of pupils starting grade 1 who reach grade 5</li> <li>8. Literacy rate of those aged 15 to 24 years</li> </ol>
<p><b>Goal 3. Promote gender equality and empower women</b></p> <p><b>Target 4.</b> Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels of education no later than 2015</p>	<ol style="list-style-type: none"> <li>9. Ratio of girls to boys in primary, secondary and tertiary education</li> <li>10. Ratio of literate females to males, 15 to 24 years old</li> <li>11. Share of women in wage employment in the non-agricultural sector</li> <li>12. Proportion of seats held by women in national parliament</li> </ol>
<p><b>Goal 4. Reduce child mortality</b></p> <p><b>Target 5.</b> Reduce by two thirds, between 1990 and 2015, the under-five mortality rate</p>	<ol style="list-style-type: none"> <li>13. Under-five mortality rate</li> <li>14. Infant mortality rate</li> <li>15. Proportion of 1-year-old children immunized against measles</li> </ol>
<p><b>Goal 5. Improve maternal health</b></p> <p><b>Target 6.</b> Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio</p>	<ol style="list-style-type: none"> <li>16. Maternal mortality ratio</li> <li>17. Proportion of births attended by skilled health personnel</li> </ol>
<p><b>Goal 6. Combat HIV/AIDS, malaria and other diseases</b></p> <p><b>Target 7.</b> Have halted by 2015 and begun to reverse the spread of HIV/AIDS</p> <p><b>Target 8.</b> Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases</p>	<ol style="list-style-type: none"> <li>18. HIV prevalence among pregnant women aged 15 to 24 years</li> <li>19. Condom use rate of the contraceptive prevalence rate<sup>h</sup></li> <li>20. Number of children</li> <li>21. Prevalence and death rates associated with malaria</li> <li>22. Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures<sup>i</sup></li> <li>23. Prevalence and death rates associated with tuberculosis</li> </ol>

	<p>24. Proportion of tuberculosis cases detected and cured under directly observed treatment short course</p>
<p><b>Environmental sustainability &amp; regeneration</b>  <b>Goal 7. Ensure environmental sustainability</b></p> <p><b>Target 9.</b> Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources</p> <p><b>Target 10.</b> Halve by 2015 the proportion of people without sustainable access to safe drinking water</p> <p><b>Target 11.</b> By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers</p>	<p>25. Proportion of land area covered by forest</p> <p>26. Ratio of area protected to maintain biological diversity to surface area</p> <p>27. Energy use (kilogram oil equivalent) per \$1 gross domestic product (PPP)</p> <p>28. Carbon dioxide emissions and consumption of ozone-depleting chlorofluorocarbons (CFC)</p> <p>29. Proportion of population using solid fuels<sup>1</sup></p> <p>30. Proportion of population with sustainable access to an improved water source, urban and rural</p> <p>31. Proportion of urban population with access to improved sanitation</p> <p>32. Proportion of households with access to secure tenure (owned or rented)</p>
<p><b>General indicators</b>  <b>Goal 8. Develop a global partnership for development</b></p> <p><b>Target 12.</b> Develop further an open, rule-based, predictable, non-discriminatory trading and financial system</p> <p><b>Target 13.</b> Address the special needs of the least developed countries</p> <p>Include: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction</p> <p><b>Target 14.</b> Address the special needs of landlocked countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)</p> <p><b>Target 15.</b> Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term</p>	<p>33. Net AODA, total and to the least developed countries, as a percentage of OECD/DAC<sup>m</sup> donors' gross national income</p> <p>34. Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services</p> <p>35. Proportion of bilateral ODA of OECD/DAC donors that is untied</p> <p>36. ODA received in landlocked countries as a proportion of gross national income</p> <p>37. ODA received in small island developing States as a proportion of gross national income</p> <p>38. Proportion of total developed country imports (by value and excluding arms) from developing countries and from the least developed countries, admitted free of duty<sup>n</sup></p> <p>39. Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries<sup>o</sup></p> <p>40. Agricultural support estimate for OECD countries as a percentage of their gross domestic product</p> <p>41. Proportion of ODA provided to help build trade capacity</p>



<p><b>Target 16.</b> In cooperation with developing countries, develop and implements strategies for decent and productive work for youth</p> <p><b>Target 17.</b> In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries</p>	<p>42. Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)</p> <p>43. Debt relief committed under HIPC initiative</p> <p>44. Debt service as a percentage of exports of goods and services. Low-income and middle-income countries</p> <p>45. Unemployment rate of young people aged 15 to 24 years, each sex and total</p> <p>46. Proportion of population with access to affordable essential drugs on a sustainable basis</p> <p>47. Telephone lines and cellular subscribers per 100 population</p> <p>48. Personal computers in use per 100 population and Internet users per 100 population</p>
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## Appendix 2

### Interviewed persons in Finland

Anh Thu Tran Minh  
Soil and Water Ltd.  
UNRISD – Private Sector

Anthony Shorrocks  
Director  
The United Nations University WIDER  
(World Institute for Development Economics Research)

Anita Kelles-Viitanen  
Secretary General  
Advisory Board for Relations with Developing Countries  
Ministry for Foreign Affairs

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The United Nations University  
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Armi Heinonen  
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Department for Development Policy  
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Barbara Ann Fagerman  
Senior Programme Assistant  
The United Nations University  
WIDER

Eeva Ollila  
D.Med.Sc.  
Senior Researcher  
Globalism and Social Policy Programme  
STAKES

Erja Hänninen  
Programme Officer  
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Ministry for Foreign Affairs

Hannu Kyroläinen  
Director General  
Department for Global Affairs  
Ministry for Foreign Affairs

Krista Napola  
Programme Officer  
Coordination of Development Policy  
Department for Development Policy  
Ministry for Foreign Affairs

Laura Kansikas – Debraise  
Director of Unit for Coordination of Development Policy  
Department for Development Policy  
Ministry for Foreign Affairs

Lauri Siitonen  
Researcher  
Vice Member, KESU  
Institute of Development Studies  
University of Helsinki

Leo Siliämaa  
Finnchurchaid

Maria Susi  
Attache (Administrative Affairs)  
Unit for Asia and Oceania  
Department for Asia and the Americas  
Ministry for Foreign Affairs

Marja Anttila  
MD, DMedSc, DTM & H  
Senior Expert  
International Development Collaboration  
STAKES

Marja Luoto  
Counsellor  
Unit for Latin America  
Department for Asia and the Americas  
Ministry for Foreign Affairs

Marko Ulvila  
Coalition for Environment and Development

Masud Hossain  
Researcher, PhD  
Institute of Development Studies  
University of Helsinki

Heli Sirve  
 Director of Unit for Eastern and Western Africa  
 Department for the Middle East and Africa  
 Ministry for Foreign Affairs

Hilkka Pietilä  
 Retired Secretary General of the Finnish UN-Association

Inger Hirvelä Lopez  
 Roving Ambassador  
 Ministry for Foreign Affairs

Janne Oksanen  
 Programme Officer  
 Unit for East and West Africa  
 Department for the Middle East and Africa  
 Ministry for Foreign Affairs

Janne Ronkainen  
 Member  
 Advisory Board for Relations with Developing Countries  
 (KESU)

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 Counsellor  
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Laura Nisula  
 Assistant  
 KESU

Jeremy Gould  
 Researcher, PhD  
 University of Helsinki  
 Institute of Development Studies

Juhani Koponen  
 PhD, Docent  
 University of Helsinki  
 Institute of Development Studies

Johanna Karinen  
 Finnish Association of the Deaf

Johanna Karlsson  
 Finnish Red Cross

Jorma Suvanto  
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