Private Sector and Sustainable Development

Fingo policy on private sector

Starting points

Enterprises are part of society, and private sector activities have a significant impact as societies are seeking sustainable development. Adopted in 2015, the UN 2030 Agenda for Sustainable Development defines enterprises as key partners in the implementation of sustainable development. Although states have the responsibility for the implementation of sustainable development, the international community places expectations on enterprises regarding roles such as producers of innovations supporting sustainable development and providers of finance for sustainability.

A mindset whereby the private sector plays a key role in solving development challenges had already been growing stronger in development policy and development cooperation before the adoption of the 2030 Agenda. For example, the 2011 Busan High-Level Forum on Aid Effectiveness officially included the private sector as a development actor alongside the public sector and civil society.

At the same time as the international community is emphasising the role and potential of the private sector as a sustainable development actor, there is also more talk than ever before on corporate responsibility. Many of the biggest sustainable development challenges are to do with irresponsible business activities. For example, at the global level just 100 major corporations are responsible for more than 70% of the carbon emissions that accelerate climate change[1], billions of dollars in tax revenue are lost annually in the world due to tax avoidance by enterprises[2], and human rights and environmental responsibility are difficult to monitor in the global supply chains of enterprises. Enterprises and organisations representing enterprise interests are also key exercisers of power of influence in society and may, through means including lobbying, slow or water down regulation that supports sustainable development[3].

Fingo considers that **the promotion of sustainable development requires cooperation between a variety of actors and that the participation of the private sector, too, is vital for the implementation of sustainable development.** The role of the private sector as a sustainable development actor involves positive and sustainable enterprise activity (that must be supported and promoted) as well as negative and unsustainable enterprise activity (that must be addressed).

Fingo emphasises that **the responsibility for promoting sustainable development lies with the states, which must use legislation and incentives to create an operating environment for enterprises that steers for sustainable business.** Voluntary measures by enterprises to promote sustainable development are welcome and worthy of support, but private sector actors also differ significantly from each other in terms of their size and operating sector alike, and the willingness and capacity of enterprises to assess and improve their activities from the sustainable development perspective also vary. For example, local enterprises operating in developing countries have very different starting points for promoting sustainable development than international players. In line with the Fingo strategy for 2021–2024, Fingo conducts advocacy so that actions of Finland and the EU "promote the private sector's responsible business and its role in development". This policy supports the implementation of the Fingo strategy by defining objectives, positions and principles that guide Fingo's advocacy,

[1] Climate Accountability Institute: CDB Carbon Majors Report 2017.
[2] E.g. Financial Integrity for Sustainable Development. Report of the High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda. February 2021; The State of Tax Justice 2020: Tax Justice in the time of COVID-19. Tax Justice Network et al. 2020.
[3] Examples of this include systematic lobbying by oil companies to cloud the scientific consensus and to delay climate policy actions. See e.g. https://www.climaterealityproject.org/blog/climate-denial-machine-how-fossil-fuel-industry-blocks-climate-action.

communication and other activities. As the umbrella organisation of Finnish development CSOs, Fingo pays particular attention in its policy to the role of the private sector in and the impacts of its activities on development policy and development cooperation as well as to how CSOs and enterprises can work together to promote sustainable development.

Principles and recommendations

1. Sustainable development must be promoted comprehensively

Sustainable development consists of three dimensions – social, environmental and economic – as well as the pledge to Leave No One Behind (LNOB) in development. Although the 2030 Agenda consists of 17 Sustainable Development Goals (SDGs), promoting individual goals and targets is not the same as promoting sustainable development as a whole.

Fingo underlines that sustainable development in all of its aspects must be the starting point for policy decisions and instruments guiding enterprises towards supporting sustainable development. Enterprise role in sustainable development must be examined in a manner that takes account of the various dimensions of sustainable development and recognises that the entity of sustainable development is broader than the individual SDGs.

- **Addressing poverty and inequality and responding to the climate crisis and biodiversity loss call for fundamental reforms of the global economic system and prevailing business models and practices.** Finland and the EU must examine the role of enterprises in sustainable development as regards this transformational objective and reform legislation concerning enterprises so that it enables and guides enterprises towards sustainability and responsibility[4]. Sustainable development requires enterprises that lead the way, but the goal must be a national and international operating environment where all business is compliant with the SDGs.

- **The Leave No One Behind (LNOB) principle is a key component of the 2030 Agenda for Sustainable Development. States must ensure that the activities of the private sector, too, are aligned with this principle.** LNOB guides us to examine and take account of the rights and needs of the most vulnerable people. In terms of economic structures, LNOB requires tackling inequalities by means of measures such as the efficient regulation of enterprise activity and the correction of the tax system by making it progressive and addressing tax avoidance.[5] The impacts of the investments and activities of private sector actors must also be assessed with regard to different groups of people, ensuring that they support equality and inclusion in accordance with the LNOB principle.

[4] For example, when launched for public consultation, the European Commission's sustainable corporate governance initiative contained a proposal to redefine the purpose of enterprise activity and the duties of enterprise management to align them better with sustainability goals.
[5] Leaving No One Behind: Equality and Non-Discrimination at the Heart of Sustainable Development. The United Nations System Shared Framework for Action (2017).

2. A business environment supporting sustainable development must be created for enterprises

Fingo's position is that the role of the private sector in sustainable development cannot be based merely on the interest and voluntary measures of enterprises themselves. States and their decision-makers are ultimately responsible for promoting sustainable development, and they must employ policy measures to build an environment for the private sector that guides enterprises towards sustainable and responsible operations.

Key elements of an operating environment like this include clear and binding corporate responsibility legislation, fair business taxation and policy coherence for sustainable development. It is also important to recognise the growing societal power of influence of enterprises and to safeguard the policy space of local decision-makers so that they can promote sustainable development and protect the space of civil society and the activities of human rights defenders.

Fingo's objectives and recommendations concerning corporate responsibility regulation, fair business taxation, policy coherence and the societal power of influence of enterprises are summarised below.

Corporate responsibility regulation is a precondition for sustainable development

Fingo's position is that clear and binding corporate responsibility regulation is a precondition for sustainable development and that human rights take priority over the business interests of enterprises. States are responsible for ensuring the realisation of corporate human rights responsibility and monitoring the activities of national enterprises, too, outside their own borders.

- **Finland and the EU must enact appropriate corporate responsibility legislation and implement it efficiently.** Legislation must be based on international corporate responsibility standards, which include the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct. Corporate responsibility legislation must strengthen respect for human rights in international business, prevent human rights violations caused by business, and promote the legal protection of victims and access of stakeholders to influence concerning the realisation of human rights in international business.

- **Finnish and EU corporate responsibility legislation must cover all internationally recognised human rights, and all enterprises operating in Finland and the EU must fall within its scope.** Enterprises must comply with the due diligence obligation throughout the value chain, including their subsidiaries, and remedy any adverse human rights impacts caused by them. Legislation must ensure efficient implementation, monitoring and advice for enterprises, and victims must have access to judicial redress for compensation for damage suffered by them. If possible in terms of legislative technicalities, a corresponding due diligence obligation must also be imposed on enterprises concerning adverse environmental impacts, i.e. "victimless" environmental impacts. The due diligence obligation must in any case cover human rights violations relating to adverse environmental impacts.

- **Fingo supports the initiative for a UN Binding Treaty for Transnational Corporations on Human Rights** and encourages Finland to play an active role in achieving binding corporate responsibility regulation at the international level.

Business taxation must be socially fair

Taxes are a significant matter with regard to financing for sustainable development. It is impossible for countries to finance the SDGs without tax revenue. The 2030 Agenda underlines in particular the role of strengthening domestic resource mobilisation in developing countries (SDG 17.1). Developing countries currently lose as much as hundreds of billions of dollars in tax revenue due to tax avoidance and aggressive tax planning by enterprises and private individuals. Experience has shown that aggressive tax planning carried out by enterprises cannot be eliminated on a voluntary basis. Policy actions are necessary to ensure the appropriate taxation of businesses.

- **The Finnish Government must play an active role nationally, at the EU level and globally for enterprises to pay taxes in their actual operating countries and so that there are no gaps in legislation that enterprises and their owners can use to avoid paying taxes.** The Finnish Government must actively continue to promote transparency so that an increasing number of enterprises will be obliged to report on their operations and on taxes paid by them publicly and country-specifically. It is important to expand this obligation to cover every country in the world and to ensure in every country public access to information about beneficial owners.

- **Finland must promote the initiative to establish an intergovernmental body on tax matters under the UN[6] and to advocate for the UN Tax Committee to have sufficient operational capacity**. Finland must advance the initiatives required to address tax avoidance carried out by enterprises extensively on international forums including, in addition to the EU, the UN and the OECD in particular. Finland must promote the equal representation of countries in global tax policy.

- **Finland must promote business taxation reform projects in the EU and the OECD and actively influence their contents** so that the aim is to adopt calculation rules that are internationally uniform and as simple as possible and to make tax bases as strong and neutral as possible, and so that the opportunities of small and developing countries to collect tax revenue are taken into account in the apportionment formula employed for tax income. Agreeing on a global minimum corporate tax rate is an important initiative and the floor must be set at a high enough level.

Different policy sectors must provide coherent support to sustainable development

A business environment that supports sustainable development requires coherence in administration and policy. Policy coherence for sustainable development (PCSD)[7] is a crucial principle for the implementation of the 2030 Agenda. Under the PCSD principle, it must be ensured that legislation concerning enterprises as well as the

---

[6] E.g. Financial Integrity for Sustainable Development. Report of the High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda. (2021).
[7] See. e.g. OECD: Policy Coherence on Sustainable Development. https://www.oecd.org/gov/pcsd/

various enterprise support forms are aligned with the SDGs and take account of environmental, social and economic sustainability alike. PCSD is also closely linked with policy coherence for development (PCD[8]), that is, taking the needs and development objectives of developing countries into account in all policy areas.

- **Finland and the EU must ensure that all areas of policy and administration of key significance to the private sector coherently support the 2030 Agenda and the SDGs.** Key areas for the private sector include trade, development and innovation policy, and their coherence must be ensured with regard to ecological, social as well as economic sustainability. Under the LNOB principle, particular attention must be paid to policy impacts in developing countries and to ensuring the realisation of PCD. To improve policy coherence, methods and mechanisms must be developed and taken into use to also assess, monitor and guide the impacts of policy measures on sustainable development outside Finland and the EU, particularly in developing countries.

The power of influence of enterprises must not restrict the activities of decision-makers and civil society

States and their governments have the primary responsibility for the promotion of sustainable development, and their policy space must be safeguarded so that they are able to implement policies and legislation that support sustainable development. Enterprises and their interest groups are, however, significant exercisers of societal power, and there are more corporations than governments among the top 100 economic entities in the world[9]. Large enterprises and their interest groups also have considerable resources for political advocacy. Unfortunately, enterprises and their interest groups are able to exercise their power in society in a manner that is not aligned with the SDGs, for example lobbying to water or slow down legislation promoting environmental protection or social protection.

Fingo emphasises that, to promote sustainable development, the policy space of democratically elected decision-makers must be protected and the space of civil society must be defended. Moreover, it is important that lobbying of decision-makers is as transparent as possible.

- **Trade and investment agreements concluded by Finland and the EU must not include any investor protection or dispute settlement mechanisms that strengthen the power of influence of enterprises and investors in relation to the political space of democratically elected decision-makers of states to implement legislation for sustainable development.**

- **The Finnish Parliament must adopt a mandatory and open lobby register where decision-makers must report meetings with stakeholder representatives.**

[8] See e.g. European Centre for Development Policy Management (ECDPM): Policy Coherence on Development: https://ecdpm.org/topics/policy-coherence-development/
[9] https://www.globaljustice.org.uk/news/69-richest-100-entities-planet-are-corporations-not-governments-figures-show/ (2018).

- **Fingo underlines with reference to the resolution adopted by the UN Human Rights Council in 2016[10] that states are under the obligation to protect human rights defenders and their activities from harassment and threat by business enterprises.** Enterprises in turn are obliged to respect the work of human rights defenders and consult them concerning human rights issues related to their business activities.

3. Clear criteria are needed for financing for sustainable development

High hopes are placed in the private sector as filler of the gap in financing for sustainable development (FSD).[11] Recent years have seen the creation of a variety of financing mechanisms and funds designed to mobilise investments for sustainable development and for developing countries in particular. Some of these financing mechanisms also make use of Official Development Assistance (ODA) for leverage.

Fingo considers that the challenge in the financial architecture for sustainable development is that no clear criteria have been defined for investments and activities promoting sustainable development. The mere targeting of a loan or investment at a developing country or an enterprise operating in a developing country does not yet mean that the investment promotes sustainable development.

- **Finland and the EU must provide a clear and coherent definition of private-sector financing for sustainable development (FSD).** This definition must take account of the effectiveness of investments from the perspective of social, ecological and economic sustainability as well as the realisation of the Leave No One Behind (LNOB) principle. The definition must be employed as a criterion for granting finance. Alongside promoting individual SDGs, a further requirement that must be set for investments is that they take account of all of the main dimensions of sustainable development as well as responsibility aspects. FSD must also be monitored in a credible manner.

4. Development policy and development cooperation

The significance of private sector engagement for development has grown in recent decades both internationally and in Finland.[12] A concrete example of the larger role of the private sector in development cooperation is the fact that public FSD providers have introduced various forms of action and instruments targeted at the private sector.

On the other hand, the local private sector in developing countries is also a target of development cooperation, and support for local enterprise activity in developing countries can facilitate the creation of decent jobs and sustainable economic development.

---

[10] Protecting human rights defenders, whether individuals, groups or organs of society, addressing economic, social and cultural rights. Resolution adopted by the Human Rights Council on 24 March 2016 - 31/32, A/HRC/RES/31/32. (2016)

[11] E.g. Fingo 2021: Report on the Current Status and Future Trends of the Financial Architecture for Sustainable Development. Study report produced by Manketti Oy for Fingo (currently not available online); Kepa 2016 (only in Finnish): Kuin laittaisi rahaa pankkiin. Vaihtoehtoja kestävän kehityksen rahoitukseen [Like Putting Money in the Bank. Alternatives for Financing for Sustainable Development].

[12] Fingo 2021 (only in Finnish): Taustaselvitys yksityisen sektorin kumppanuuksista kehitysyhteistyössä [Background Report on Private Sector Engagement for Development]. Report produced for Fingo by 4FRONT.

Fingo's objectives and recommendations concerning private sector engagement for development, corporate responsibility in development cooperation, development innovations, and strengthening of private sector in developing countries are presented below.

Private sector engagement for development must be high in effectiveness and impact

Fingo considers that Finnish and EU development policy must further specify the target-setting and guidance of private sector engagement for development. The mere existence of financing instruments is not enough. Instead, development policy must more broadly support the responsible role of enterprises and their capacity to create and assess positive development impacts. Financing instruments and forms of financing must be examined to ensure their alignment with the LNOB principle.

Fingo emphasises that all activity carried out with development cooperation funds must aim at the achievement of development policy objectives and be effective, high in impact and evidence based. There must be capacity to assess the development impacts of development cooperation carried out by enterprises as well as by all other actors. All actors carrying out development cooperation with public funds must also be bound by the same rules concerning transparency and accountability.

- **Grant-based financing must not be replaced by loans and bonds in EU and Finnish development policy.** Grant-based development finance still plays an important role in contexts such as improving the health care, education and social security of the poorest people. When selecting forms of finance, developing countries' own wishes concerning finance must be taken into account and the appropriateness of finance forms must be ensured. It is important for developing countries to receive finance that does not increase their debt problem or have negative impacts on their fiscal space over the long term. Finance must also be channelled to least developed countries (LDCs).

- **Finnish and EU development policy must ensure that private finance supported by development cooperation funds will not steer local decision-making of partner countries with regard to how services are created in cooperation with public and private actors.** In particular energy and water supply as well as education and healthcare are risk sectors where the replacement of public services with private ones often increases inequality and further weakens the status of the poorest people.

- **To ensure the effectiveness and coherence of development cooperation, Finland must formulate a policy approach defining clear objectives as well as roles and responsibilities for the various actors for private sector engagement for development.** The starting point of the policy approach must be strengthening the economies of partner countries, creating decent jobs and improving the livelihoods of the poorest people in developing countries. The policy approach must pay particular attention to the interaction and coherence of development and trade policy. Civil society representatives must be consulted and included in the formulation of the policy approach.

Corporate responsibility is crucial in development cooperation

- **Responsibility must be one of the basic conditions for private sector ODA finance. Providers of development cooperation finance must use clear criteria and guidelines to ensure that public finance is not granted for enterprises or projects that are, for example, against climate targets or that involve significant human rights risks.** Development cooperation funds must not be channelled to enterprises producing military and defence equipment or supplies, either. Providers of development finance must, in addition, promote responsibility in private sector activities through means including dialogue and private sector capacity development.

- **The Finnish Government must require that enterprises using Official Development Assistance (ODA) funds – just like all enterprises using public funds – act responsibly and comply with both due diligence obligations concerning human rights and the environment as well as tax responsibility.** The Government must provide private sector instruments granting enterprise subsidies from ODA funds with guidance on the inclusion of due diligence obligations and tax responsibility in their finance criteria. Monitoring must also take place for each financing instrument to ensure that enterprises receiving finance comply with these conditions, and results of this monitoring must be published.

- **The Finnish Government must ensure that financing instruments granting development cooperation funds for enterprises and enterprises using these funds comply with the policy of the Ministry for Foreign Affairs of Finland on tax responsibility.** Finland must not tolerate aggressive tax planning by any enterprise receiving development cooperation funds. Under the tax responsibility policy, Finland does not allow the use of tax havens for investments made with Finnish ODA funds and prohibits enterprises receiving Finnish ODA from negotiating for themselves tax holidays or other similar tax incentives that are not available to all other actors. Enterprises are also required to operate transparently and to report on their economic activity, income, profit and taxes paid in each tax jurisdiction in which they operate. The Ministry’s tax responsibility policy should, however, be made more specific as regards what is meant by transparency and which data must be reported.

- **Finland must ensure that, when jobs are created in developing countries with ODA funds, these jobs must meet the criteria set for decent work**. These criteria include a safe work environment, living wages, freedom of association for employees and collective bargaining rights. Fingo underlines that the organised trade union movement is part of civil society in developing countries, too, and that it provides citizens with access to societal debate and its development. Finland must in contexts such as Finnfund financing and partnership under the Finnpartnership programme take the decent work criteria into consideration and incorporate them into enterprise cooperation agreements.

Sustainable innovations produce development results

There is great demand for sustainable development innovations,[13] and enterprises play an important role in developing new solutions[14]. Based on the OECD/DAC definition, Fingo emphasises that innovations for development are not an end in themselves but, instead, development innovations are means for creating development results.
The development innovation principles of the International Development Innovation Alliance (IDIA) provide a good starting point for innovation processes in the field of development cooperation[15]. These principles include development impacts promoting inclusive innovation focusing on the poorest and most vulnerable, investing in locally-driven solutions, facilitating collaboration and co-creation, and identifying scalable solutions**.** The Principles for Digital Development launched in 2017[16] also offer good starting points for innovation processes in development cooperation.

- **Fingo recommends that the IDIA Development Innovation Principles in Practice and the Principles for Digital Development be incorporated into Finnish and EU development policy and that these principles be used as a basis for formulating clear guidelines for private sector engagement for development.**

The private sector of developing countries must be strengthened

Local small and medium-sized enterprises in particular are key actors in strengthening the economy and creating jobs in developing countries, and they also have enormous potential as promoters of sustainable economic development.

Societal stability, democracy, good governance, an active civil society and a well-functioning education system are all essential components of an enabling environment for business activity, and so are also trade agreements that support sustainable development, trade capacity building for developing countries, and actions against capital flight and tax avoidance.

Strengthening of the private sector of developing countries is interlinked with strengthening of the public sector of developing countries and with policy coherence. Development CSOs and other civil society actors work effectively on many themes that support private sector development in developing countries. For example, CSO action to eliminate corruption, develop good governance, prevent armed conflicts and promote education and equality contributes towards an enabling environment for enterprises and, consequently, towards a sustainable private sector in developing countries.

- **Finland must formulate a policy approach that ensures the effectiveness of its development policy priority of ”Strengthening the economic base of developing countries and creating jobs”. This policy approach must also include a clear action plan or guidance on how Finland will strengthen private**

[13] Innovation as a concept does not necessarily refer to a digital or even a technological solution. Instead, it can mean a variety of new ideas, initiatives, ways of doing things or products
[14] Enterprises do not, however, create their innovations in a vacuum: basic research and public investments also play a key role in enabling innovations.
[15] IDIA: Development Innovation Principles in Practice (2019)
[16] See https://digitalprinciples.org/

sector in developing countries. The policy approach and guidance must be based on creating decent jobs and improving the livelihoods of the poorest people in developing countries. It must also take account of the valuable contribution provided by CSOs and civil society in creating enabling environments for sustainable business activity.

- **Finnish and EU development policy must pay particular attention to local small and medium-sized enterprises in developing countries and to creating an enabling environment for them**. Local small and medium-sized enterprises are key providers of decent jobs and livelihoods as well as actors strengthening the economy in developing countries.[17]

- **Finnish and EU development policy should identify and take account of sustainable and inclusive business models – such as cooperatives, social enterprises and fair trade enterprises – and provide them with support for operational development and expansion**. Although sustainable and inclusive enterprises are low in number and often rather small in size, they often have highly positive impacts on local communities.[18]

5. Fingo promotes and supports CSO cooperation with enterprises

Cooperation between CSOs and the private sector may, if implemented correctly, complement the effectiveness of advocacy and development cooperation work and boost desired impacts in Finland and the target country alike. However, cooperation is not an end in itself. Instead, assessments are required of whether or not it can help to achieve better development impacts or other objectives.

Fingo supports and strengthens CSO capacity for successful partnerships with the private sector through training and network creation. In addition, Fingo conducts advocacy for improved recognition in Finland's development policy of CSO role and potential in multi-actor partnerships and for the development of types of activity that support the creation of successful and effective multi-actor partnerships.

- **CSO role in relation to the private sector as a sustainable development and development cooperation actor can be both a partner and a critical watchdog.** Fingo itself carries out and supports CSO cooperation with enterprises when there is a sufficient match in objectives but also calls attention to concerns relating to private sector actions. The watchdog role entails both identifying best practices of enterprises and voicing concerns about their activities. Enterprise cooperation must not weaken Fingo's capacity to take a critical stand on any concerns relating to private sector activity.

- **Fingo promotes and supports the creation of partnerships between CSOs and enterprises to promote common objectives**. Fingo helps CSOs and enterprises interested in cooperation and to find each other

[17] ILO: Small and Medium-sized enterprises and decent and productive employment creation (2015).
[18] CONCORD, WFTO and Cooperatives Europe: Mind Our Business. Amplify the transformative power of sustainable and inclusive business models through EU external action (2020).

and to cooperate in order to reduce poverty and inequality. Fingo strengthens CSO capacity to assess the development impacts of enterprise cooperation and the sustainability of partnerships.

- **Fingo does not cooperate with enterprises whose operating sector is in conflict with the SDGs, such as producers of military or defence equipment or supplies seeking export opportunities. Fingo also recommends that its Member Organisations refrain from any cooperation projects with such enterprises.**

- **Fingo conducts advocacy for improved recognition in Finnish and EU development policy of the role and potential of CSOs in private sector partnerships.** Finland and the EU must develop their development policy with a view to better including civil society in private sector partnerships in a role promoting development impacts. For example, development policy-related financial instruments and operating forms must be developed so that they support multi-actor partnerships bringing CSOs and enterprises together. In addition, the significance of the watchdog role of CSOs must be recognised in development policy and CSOs must be provided with support for activities highlighting best practices as well as concerns relating to the private sector.