The purpose of this discussion paper is to provide the basis for reforming Finnfund's tax policy, and for conducting discussions with its stakeholders.

Finnfund's mission is to promote economic and social development in developing countries. For this development to take place, the target countries need tax revenues and payments of other fees. Thus, tax revenues and other payments made by private companies to the public sector in developing countries constitute one of the development aims of Finnfund's work with the companies it finances. Such revenue allows a country's government to structure and provide services such as education, health care and infrastructure for its people.

Projects financed by Finnfund must be both economically viable and responsibly implemented, and must generate development effects in the target countries. Finnfund requires the projects it finances to comply with local tax legislation.

Finland has signed OECD's Base Erosion and Profit Shifting (BEPS) agreement, which tackles non-taxation caused by asymmetry of tax systems and profit shifting that erodes the tax base. Finland also participates in the international cooperation to curb tax evasion. Through its operations, Finnfund promotes the development of international tax regulation and complies with current legislation and the guidelines issued by its majority shareholder, the government of Finland.

Principles of taxation and international financial centres

1. Finnfund finances responsible businesses in developing countries which pay taxes on the value they create in the countries in which they operate.

- The companies that Finnfund finances, either directly or through funds, pay taxes and other fees to the governments in their target countries. Finnfund monitors these payments annually.

- Finnfund assesses the tax responsibility of the investments it finances and monitors the realisation of tax responsibility. The projects it finances must keep Finnfund up to date regarding their corporate, financial and ownership structures.

- Finnfund promotes transparency of tax revenue information in respect to its target countries, whilst respecting confidentiality of its client information. Finnfund publishes the aggregate amount of taxes and fees paid by the companies it finances, on an annual and a country-by-country basis.

- Developing countries need investments and developing countries have the right to utilise taxation to promote business. This should be transparent and fair. Finnfund requires its project companies to act transparently towards authorities of the target country, but does expect them to pay more tax than what is required by the local tax law and by local authorities.

- Finnfund complies with the government ownership steering guidelines that require taxes to be reported on a country-by-country basis. Finnfund's corporate social responsibility report specifies the taxes it has paid annually in each country. In accordance with the Finnish Income Tax Act, Finnfund does not pay corporate income tax in Finland or distribute dividends to its shareholders. Finnfund uses all monies and profits generated by its projects to finance new projects.

2. Finnfund does not condone aggressive tax planning, which prevents the accumulation of tax revenue from profitable business activities in developing countries.

    - Finnfund observes the Government Resolution on State Ownership Policy, which defines aggressive tax planning as the use of artificial functions or structures that aim to achieve completely tax-free situations, or transfer mispricing, where profits are shifted into countries with low tax rates in breach of the valid transfer price provisions.

    - Finnfund encourages the companies it finances to act responsibly and transparently in matters related to taxation, and to maintain a tax policy that is disclosed to the public.

    - The tax related abilities of many developing countries and international tax regulations are developing constantly. Finnfund monitors the development of the regulation; through its own operations increases the tax revenue; and the transparency of tax revenue information in its target countries; and also contributes to the debate on tax issues. Finnfund is engaged in co-operation with bodies such as European development finance institutions.

3. With respect to fund investments, both in relation to the invested companies and the acquisition and management company structures used, Finnfund requires that the fund's investment policy complies with Finnfund's mission and principles.

4. The project Finnfund finances may utilise holding company structures for the purpose of ensuring that the principle of tax neutrality is achieved.

    - Finnfund does not accept the use of holding company structures, if their only objective is zero taxation or the exploitation of asymmetry of taxation[1].

    - Finnfund can only invest through holding companies and funds registered in countries that comply with the progressively tightening standards of OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes.

    - The ownership and financing structures of holding companies must be transparent to the authorities and known to Finnfund.

Process and tools

The practical tools Finnfund uses to implement its responsible tax policy comprise three sections: investment criteria, contractual terms and conditions, and monitoring.

A) Investment criteria: Finnfund must understand the corporate, ownership and financing structure of the financed project

- Assessment of tax practices and financing structures during the preparatory phase
- Description of the financing and ownership structures and understanding their purpose
- Transparency of the financed project to the local tax authorities (e.g. transfer pricing documentation)

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[1] Asymmetry of taxation means that countries treat the same object differently for tax purposes, and this asymmetry can be exploited to gain tax benefits

B) Contractual terms and conditions

- Terms and conditions (representations, warranties and undertakings) to be included in the agreements with regard to tax structures and reporting, particularly the requirement for the company to supply information if there are changes to its corporate or financing structures or to its ability to respond to such changes
- Encouraging transparency and creation of a tax policy, also at the client level
- Finnfund has a forward-looking role (cf. environmental and social affairs), which emphasises remedying concerning issues

C) Monitoring and reporting

- Finnfund monitors the projects its finances and encourages them to report annually the taxes and tax-like fees they pay on a country-by-country basis. In respect of new investments, this reporting requirement will be included in the agreement.
- Finnfund publishes the tax footprint of the projects it finances on a country-by-country basis
- When Finnfund participates in the corporate governance of the companies it finances, it seeks to promote increasing responsibility in relation to taxation and transparency Finnfund follows the development of international tax regulations and develops its own capacities in in relation to taxation matters. Its tax policy and practices are reformed as necessary.