



## OECD Development Assistance Peer Reviews

# FINLAND





# **OECD Development Assistance Peer Reviews: Finland**

**2012**

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### The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and programmes of each member are critically examined approximately once every four or five years. Five members are examined annually. The OECD's Development Co-operation Directorate provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC members who are designated as "examiners". The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

The Secretariat then prepares a draft report on the member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the member under review respond to questions formulated by the Secretariat in association with the examiners.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from Austria and Switzerland for the Peer Review of Finland on 26 September 2012.

In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the European Union.

## Finland's aid at a glance\*

## FINLAND

Gross Bilateral ODA, 2009-10 average, unless otherwise shown

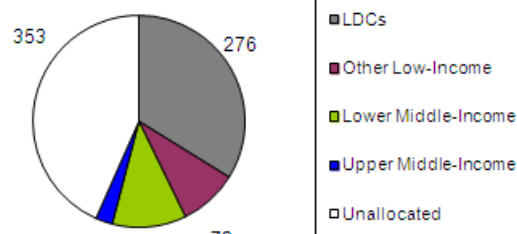
Net ODA	2009	2010	2011 <sup>P</sup>	Change 2010/11
Current (USD m)	1 290	1 333	1 409	5.7%
Constant (2010 USD m)	1 232	1 333	1 275	-4.3%
In Euro (million)	926	1 006	1 013	0.7%
ODA/GNI	0.54%	0.55%	0.52%	
Bilateral share	61%	63%	61%	

P. Preliminary data.

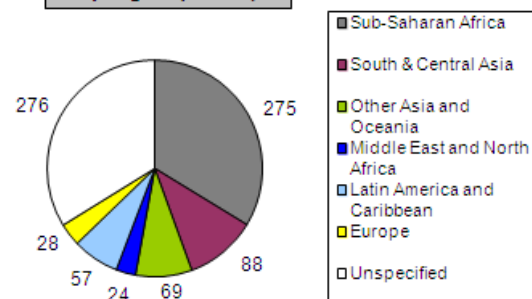
Top Ten Recipients of Gross ODA (USD million)	
1 Tanzania	52
2 Mozambique	45
3 Afghanistan	27
4 Vietnam	26
5 Ethiopia	25
6 Zambia	23
7 Kenya	22
8 Nepal	21
9 Sudan	17
10 Nicaragua	16
Memo: Share of gross bilateral ODA	
Top 5 recipients	21%
Top 10 recipients	34%
Top 20 recipients	44%

## By Income Group (USD m)

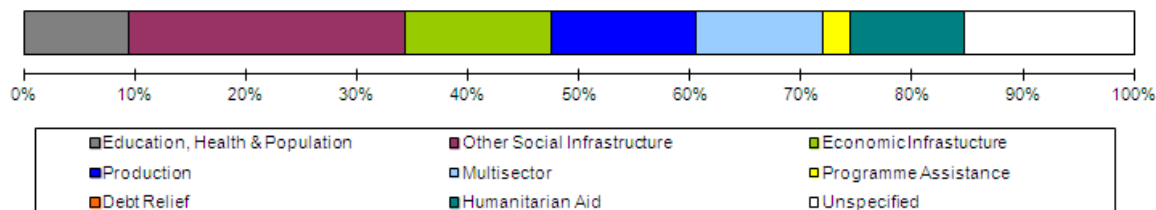
Clockwise from top



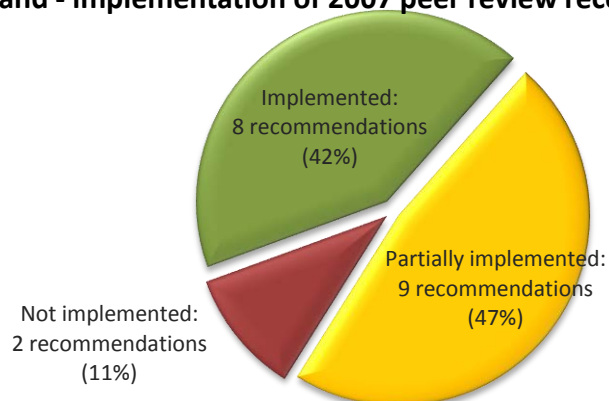
## By Region (USD m)



## By Sector



## Finland - implementation of 2007 peer review recommendations



## *Table of contents*

<b><i>LIST ACRONYMS</i></b> .....	<b>9</b>
<b>The DAC’S main findings and recommendations</b> .....	<b>11</b>
<b>Chapter 1 Strategic orientations</b> .....	<b>25</b>
Consistent priorities and engaged non-government stakeholders .....	26
Development co-operation: an integral part of foreign policy .....	26
A new development policy that builds on Finnish know-how but needs more focus .....	27
Strengthening public awareness, communication and global education, focusing on results .....	32
Future considerations .....	33
<b>Chapter 2 Development beyond aid</b> .....	<b>35</b>
Strong political commitment but mixed performance on co-ordination mechanisms and monitoring and analysis .....	36
Making whole-of-government approaches more strategic .....	42
Future considerations .....	43
<b>Chapter 3 Aid volumes, channels and allocations</b> .....	<b>45</b>
Impressive ODA growth comes to a standstill .....	46
Finland’s centralised budget for development co-operation .....	47
Bilateral aid .....	47
CSOs: a need for strengthening complementarities and streamlining procedures .....	49
Multilateral aid: maintain a focus on core contributions and link allocations more closely to performance .....	50
Strong and renewed support to cross-cutting issues .....	52
Aid to support private sector development and trade .....	52
Non-ODA flows .....	54
Future considerations .....	54
<b>Chapter 4 Organisation and management</b> .....	<b>57</b>
An integrated structure managing most of ODA that needs clear and systematic approaches .....	58
The ongoing challenge of managing development staff .....	60
Matching decentralisation with implementation needs in the field .....	63
Managing effective and results-based programming .....	64
Management for results: a high priority for the future .....	67
An efficient and independent evaluation unit which makes the best of a limited number of staff .....	67
Future considerations .....	69
<b>Chapter 5 Aid effectiveness and results</b> .....	<b>71</b>
Continued strong commitment to making aid more effective .....	72
Progress against targets but more can be achieved .....	73
Strengthening country ownership through capacity building and strategy papers .....	74
Becoming more predictable and transparent .....	74
Aligning with partner country’s priorities .....	75
Dealing with an increasing share of tied aid .....	76
Harmonisation and division of labour .....	77
Future considerations .....	78

<b>Chapter 6 Humanitarian assistance .....</b>	<b>81</b>
Good progress against the 2007 recommendations.....	82
An increasingly strategic focus, and improving support to recovery and risk reduction.....	82
A solid record in partnership, but clearer funding criteria and faster decisions are needed .....	85
Finland’s systems appear fit for purpose, but there will soon be staffing challenges.....	87
Finland should focus its monitoring and learning on its own results.....	87
Future considerations:.....	88
<b>BIBLIOGRAPHY.....</b>	<b>91</b>
<b>Annex A Progress since the 2008 DAC peer review recommendations .....</b>	<b>97</b>
<b>Annex B OECD/DAC Standard Suite of Tables.....</b>	<b>105</b>
<b>Annex C Field visit to NEPAL.....</b>	<b>113</b>

## Tables

Table 1.1. List of goals, principles, objectives and priority areas as described in the 2012 development policy.....	28
Table 2.1. Finland’s progress in building policy coherence for development, 2008-2012 .....	36
Table 3.1. Finland’s gender equality and environment focused aid commitments, 2007-2010 .....	52
Table 4.1. MFA’s staff categories .....	61
Table B.1. Total financial flows.....	105
Table B.2. ODA by main categories .....	106
Table B.3. Bilateral ODA allocable by region and income group .....	107
Table B.4. Main recipients of bilateral ODA .....	108
Table B.5. Bilateral ODA by major purposes .....	109
Table B.6. Comparative aid performance .....	110
Table C.1. Basic facts about Nepal .....	114

## Figures

Figure 3.1. Trends in Finnish aid volume and as a percentage of national income, 2007-2011.....	46
Figure 3.2. ODA administered by the MFA and by other state departments.....	47
Figure 3.3. Recipients of Finnish bilateral aid in 2010 .....	48
Figure 3.4. Finland’s core and non-core contributions to multilateral organisations.....	51
Figure 3.5. Finland’s aid for trade disbursements, 2006-10 .....	53
Figure 4.1. MFA departments with a role in development .....	58
Figure 5.1. Finland’s performance against the targets of the OECD survey monitoring the Paris Declaration, 2005-2010 .....	73
Figure A.1. EU implementation of 2007 peer review recommendations .....	103
Figure B.1. Net ODA from DAC countries in 2010 .....	111
Figure C.1. Official Development Assistance in Nepal .....	115
Figure C.2. Sector allocation of ODA in 2009-10 .....	115
Figure C.3. Finland’s aid modalities in Nepal, 2010 .....	118



**Boxes**

Box 0.1. Finland’s support for international policy coherence for development.....	14
Box 0.2. Use of district systems in Nepal’s water and sanitation sector .....	21
Box 2.1. Finland’s support for international policy coherence for development.....	38
Box 4.1. The case management system .....	60
Box 4.2. Finland's evaluation unit: reaching out and making the most of limited resources .....	68
Box 5.1. Linking principles to practice: lessons from regional workshops on aid effectiveness.....	72
Box 5.2. Use of district systems in Nepal’s water and sanitation sector .....	76
Box 6.1. Finland's humanitarian assistance .....	82
Box 6.2. Key elements of Finland's approach to disaster risk reduction .....	84



## *LIST OF ACRONYMS*

ADB	Asian Development Bank (also AsDB)
AfDB	African Development Bank
AFLRA	Association of Finnish Local and Regional Authorities
CAP	United Nations Consolidated Appeals
CERF	Central Emergency Response Fund
CPA	Comprehensive Peace Agreement, Nepal
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DCI	European Union Development Co-operation Instrument
ECHO	European Community Humanitarian Office
EDF	European Union Development Fund
ETS	European Union Emissions Trading Scheme
EU	European Union
GNI	Gross national income
GHD	Principles and Good Practice of Humanitarian Donorship
IASC	Inter-Agency Standing Committee
IATI	International Aid Transparency Initiative
IDA	International Development Association
IDB	Inter-American Development Bank
IDPG	International Development Partners Group
IFAD	International Fund for Agricultural Development
IFIs	International financial institutions
KEHYS	Finnish NGDO Platform to the EU
LCF	Local co-operation funds
LDCs	Least developed countries
MCDA	Guidelines on the Use of Military and Civil Defence Assets to Support United Nations Humanitarian Activities in Complex Emergencies
MDG	Millennium Development Goal
MFA	Ministry for Foreign Affairs
MIC	European Monitoring and Information Centre
MOPAN	Multilateral Organisation Performance Assessment Network
NGO	Non-governmental organisation
NPTF	Nepal Peace Trust Fund
NSLGCP	North South Local Government Co-operation Programme
ODA	Official development assistance

OECD	Organisation for Economic Co-operation and Development
PCD	Policy coherence for development
PFM	Public financing management systems
RBM	Results-based management
SWAp	System-wide approach
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	UN Refugee Agency
UNICEF	United Nations' Children's Fund
UNISDR	United Nations International Strategy for Disaster Reduction
WASH	Water, sanitation and hygiene programme
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization
WP-EFF	Working Party on Aid Effectiveness (OECD)
WPF	World Population Foundation

**Signs used:**

EUR	Euros
USD	United States dollars

( )	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable

**Notes on data used:**

The data used in this report are based on the OECD's Creditor Reporting System (CRS), unless indicated otherwise. Slight discrepancies in totals are due to rounding. For comparisons over time, the peer review used 2009 constant US dollars. For data concerning only one year, the peer review used current US dollars for the corresponding year.

**Annual average exchange rate (EUR per USD)**

2007	2008	2009	2010	2011
0.7305	0.6933	0.7181	0.7550	0.7192

## **The DAC'S main findings and recommendations**

### **Overview**

Finland adopted a new development policy in 2012 following elections in 2011. This policy builds on Finnish expertise and emphasises a human rights based approach to development. The strengths of Finland's development co-operation include its stable long-term priorities, its openness to dialogue, and its good co-operation and division of labour with other donors. Finland is also a strong international advocate of human rights, the environment, policy coherence for development and aid effectiveness. It is seen as a constructive partner within the development co-operation and humanitarian communities, and in its partner countries.

Finland has increased its ODA substantially since the last peer review in 2008, both in volume and as a percentage of gross national income. In 2010 Finland exceeded its EU intermediate target of allocating 0.51% of its GNI to ODA by reaching 0.55% ODA/GNI. In 2011 Finland's aid budget increased nominally and stood at USD 1.41 billion (0.52% of its gross national income). According to Finland's budget projections, ODA growth will stall in 2013 and 2014 and fall in 2015. The government plans to look for innovative sources of financing to help Finland meet its ODA targets for 2015.

Since the last peer review, Finland has made efforts to improve the implementation of its policies by designing policy guidance for several areas, mainstreaming aid effectiveness principles across its development co-operation and starting to incorporate a results-based approach throughout the whole development programme. The new development policy emphasises the need to focus Finnish development co-operation and to prioritise development actions. The Finnish way of working – which is flexible and pragmatic – has proven useful so far, but it may be reaching its limits for managing effectively Finland's development programme, which has become sizeable. Finland now needs clear and harmonised guidance on priorities, processes and implementation to ensure its assistance is more focused and effective. To ensure a consistent approach to coherence issues across the administration, Finland also needs to set strategic objectives and strengthen its capacity for analysis, to make its policies coherent with development goals. In addition, the Ministry for Foreign Affairs needs to address challenges in managing development staff.

## Overall framework for development co-operation

### *Setting clear priorities and objectives for a focused development programme*

**Key findings:** Finland's new development policy builds mainly on Finnish long-term priorities, making the most of existing expertise, and provides some continuity to Finland's development action. However, both the previous (2007) and new development policy contain a very broad list of goals, principles, objectives, priority areas and potential activities. Having so many possible areas of action without identifying priorities for implementation with clear objectives and expected results risks creating a dispersed development programme, thus undermining the achievement of Finland's strategic goals.

**Recommendation:** To focus Finland's development co-operation where it can have the greatest impact, and ensure its full implementation, Finland should:

Focus, specify and operationalise its development policy through guidance on bilateral, multilateral and civil society co-operation. Make full use of related operational tools to identify clear objectives with expected results and verifiable indicators in its co-operation with partners.

Finland adopted a new development policy in 2012 with priority areas that show continuity with the 2007 development policy. This continuity in the main areas of Finnish development co-operation builds on existing expertise and makes Finland's development programmes more predictable for partners. New areas of focus in the development policy, including the emphasis on human rights, need to be consistently reflected in Finland's development co-operation programme.

The broad nature of the four main priority areas, and their many possible sub-sectors as described in the development policy, can result in a wide set of unfocused projects, leading to confusion and dispersed efforts in Finland's development programme, and eventually to missing its strategic goals. While such a broad approach allows for flexibility, it makes it difficult to ensure that Finland has an impact across so many areas of work.

To ensure that Finland's development policy is fully implemented and has the greatest possible impact for developing countries, Finland needs to define the specific priority areas of focus where it has the most strengths and can achieve the best results, and ensure that its development co-operation remains focused on those priorities. It should also translate the development policy into a set of clear and operational objectives, including the results to be expected and verifiable indicators. Since the last peer review Finland has developed policy guidance for several policy issues, but this has fallen short of providing staff with specific objectives and priority areas of focus to guide implementation. Finland needs to have clear criteria for (re)directing funds to ensure strategic and focused development co-operation in the context of partner country development strategies and in its allocations to multilateral organisations. This will mean ensuring that existing policy guidance is focused, up-to-date and specific.

## Promoting development beyond aid

### *Ensuring that policies across the administration support development*

**Key findings:** Finland is an active international advocate of policy coherence for development (PCD). However, it lacks an overarching strategic vision with clearly identified objectives, as well as consistent information and decision-making flows across the administration, for making relevant policies supportive of development. Without government-wide objectives and clear co-ordination mechanisms, Finland cannot guarantee that relevant ministries systematically and consistently consider and address possible conflicts and synergies between non-aid policies and development goals.

**Recommendation:** To ensure that relevant policies support, or at least do not undermine, development goals in developing countries, Finland should:

- Identify strategic objectives for promoting synergies, and avoiding conflicts, between existing and new relevant policies and development goals, and ensure that these are systematically considered and addressed by all relevant ministries. This requires determining responsibilities across the entire administration and enhancing existing co-ordination mechanisms to identify the most effective working processes for clear information and decision-making flows.

Finland is a committed international supporter of policy coherence for development and promotes coherence in the European Union and in multilateral bodies like the OECD and the United Nations (Box 0.1). It also has a well-organised cross-government mechanism to co-ordinate national positions within the EU. However, Finland has yet to identify objectives for having and advocating policies that support, or at least do not stand in the way of, development goals in developing countries. Setting government-wide objectives for coherent policies would commit relevant ministries to systematically screen existing and new policies for their positive or negative interaction with development goals in developing countries.

Currently coherence issues are considered either in the EU co-ordination mechanism, which is not specifically geared towards ensuring the coherence of national policies with development, and in ad hoc working groups that meet to discuss specific issues. However, these two mechanisms do not enable Finland to routinely address synergies and conflicts between domestic and EU policies and development goals. To do this, Finland needs to determine responsibilities and design a clear information flow and decision making process across the administration.

### **Box 0.1. Finland's support for international policy coherence for development**

Finland is an active advocate for policy coherence for development in international forums, especially the OECD. Between 2007 and 2010 Finland seconded an expert to the OECD's Policy Coherence for Development Unit, reporting directly to the Secretary General.

Finland also participates actively in OECD discussions on coherence issues. For example, since joining the Joint Tax and Development Programme of the Fiscal Affairs Committee and Development Assistance Committee, the subject of taxation and development has received broader attention in Finland. In 2011 the MFA contracted a study on the various international activities on tax matters and surveyed its partner country embassies to identify key issues and means to support partner countries in tax matters, particularly through promoting state-building and civil society at the country level. In 2012 Finland will also host an international debate on policy coherence and the taxation of multinational enterprises.

Another sign of commitment is that Finland will be the first DAC member to conduct a pilot study - in the area of food security - to test the use of the OECD *Policy Framework for Policy Coherence for Development* to assess the impact of DAC member policy on partner countries. This will allow Finland to use an existing tool and a concrete example, to create awareness on how policies in Finland can have an impact on development (OECD, 2012).

Finland has also been a source of expertise and very supportive of DAC work on aid for trade. In 2008 Finland designed an aid for trade action plan (MFA, 2008), which will be updated after a 2011 evaluation (MFA, 2011b). Finland is very active in the area of aid for trade and the action plan has helped raise awareness about this issue amongst Finnish development staff.

*Source:* Based on MFA, 2012a and interviews conducted for the peer review.

### ***Strengthening analysis and monitoring***

**Key findings:** *Finland does not have a system for monitoring, or the capacity for analysing, the impact of policies on development. This poses a challenge for identifying incoherent policies and examples of how domestic and EU policies can interact positively with developing countries' development objective, and is a missed opportunity for gathering information that could be useful for better informed policy-making, improved reporting and raising awareness.*

**Recommendation:** To help design policies that are coherent with developing countries' development objectives, Finland should:

- Strengthen monitoring and analysis of results and impact of Finnish and EU policies on developing countries, by commissioning studies or drawing on available analysis from external sources, and on feedback from its embassies.

Finland lacks the capacity to assess the impact of domestic and EU policies on development, and use the subsequent information for better informed policy-making. It can, however, commission studies or draw on existing analysis by the European Union, NGOs, think tanks and other donors, as well as use feedback from its embassies. It can also conduct joint impact assessments with other partners, and encourage or commission academic studies. Gathering information on specific examples and results would also enhance awareness across the administration, as the concept of policy coherence for development is still unevenly understood.

While Finland communicates and reports regularly on policy coherence for development to Parliament and the public, the focus is mostly on describing how Finland



co-ordinates and participates in international discussions on areas that are relevant for development, and not on how Finland has created synergies or addressed conflicts between relevant non-aid policies and development objectives. This is partly because Finland does not have an overarching vision with measurable objectives that can be monitored, and there is no process for monitoring coherence issues or gathering concrete data. The Finnish government plans to submit a specific report on aid effectiveness and policy coherence for development to Parliament in 2014; it would be good if this report could lay out where there have been conflicts between domestic policies and development objectives in the past, and what needs to be done in the future to avoid them.

## Aid volume and allocation

### *Developing a credible plan for achieving ODA targets*

**Key findings:** *Finnish official development assistance (ODA) has grown significantly since the last peer review and Finland remains committed to meeting its target of allocating 0.7% of its GNI as ODA by 2015. However, unlike Finland's GDP which is expected to grow, budget projections show that ODA will stall in 2013-2014 before falling in 2015. As the currently budgeted aid levels will not allow Finland to meet its 0.7% ODA/GNI target by 2015, Finland plans to tap into alternative sources of revenue to bridge the gap, but this plan remains vague and provides no predictability on future aid increases. Finland risks not being able to fulfil its commitments on ODA levels; this can hurt Finland's reputation as well as undermine the support it has given in recent years to its partner countries.*

**Recommendation:** To meet its international commitment of allocating 0.7% of its GNI as ODA by 2015 and to provide predictability on the evolution of ODA to both its partner countries and its own development co-operation system, Finland should:

- Building on its earlier success in growing ODA, develop a credible and strategic path for increasing ODA levels and meeting its international commitment of allocating 0.7% of its GNI as ODA by 2015, and prioritise development co-operation in its national budgetary decisions.

Between 2006 and 2011 Finland increased its ODA by 35%. The DAC congratulates Finland for continuing to increase its aid and surpassing its intermediate EU target of 0.51% ODA/GNI in the 2010 budget, even though its economy was in recession. Finland remains committed to reaching its international target of 0.7% ODA/GNI by 2015, but current ODA projections show that Finnish aid will be far below the level needed to achieve this target. Although the aid budget will be affected marginally by cutbacks in public spending decided by the Finnish government (USD 1.23 billion between 2013-16), aid will be sustained at the 2012 nominal level in 2013 and 2014, and then decrease by EUR 4 million in 2015. Despite uncertainties on the economic prospects of the eurozone and their impact on Finland's economy, OECD 2012 projections are that Finnish GDP will grow annually by 2% between 2013-15. Therefore, it would be positive if ODA were to follow this trend. This would also help ensure that results achieved by past ODA increases are not jeopardized by future cuts.

To bridge the estimated financing gap to reach the 0.7% ODA/GNI target by 2015, Finland plans to tap into alternative sources of revenue, including revenues from auction of the EU Emission Trading Scheme emission allowances. Expected revenues from emission allowance auctions cannot yet be quantified, nor has Finland decided the

share of such revenues that it will allocate as ODA. As predictability on future ODA increases is essential to use resources effectively - both for Finland and its development partners - Finland should provide details on this plan and develop a credible path for how it will meet its 0.7% ODA/GNI target by 2015.

### *Keeping the development co-operation programme focused*

**Key findings:** *Finland's development assistance focuses on its long-term partner countries, which received significantly larger contributions since the last peer review, and on a few priority areas in each long-term partner country. However, at the same time, Finland's aid portfolio has become more fragmented as Finland allocated part of the increased aid budget through small contributions to a larger number of countries, sub-sectors and projects, including stand-alone projects whose contribution to Finland's overall development co-operation objectives is sometimes unclear.*

**Recommendation:** To maximise the impact of its development programme, Finland should:

- Continue to concentrate ODA on its long-term partner countries and on those least developed countries and priority areas where Finland can have a clear impact, while avoiding engaging in too many sub-sectors and stand-alone projects with an unclear development impact.

Finland's aid allocations closely match commitments to its long-term partner countries, which, along with Afghanistan and Sudan, receive 58% of Finland's total bilateral aid allocable by country and 70% of the funds that the MFA manages directly for country, regional and thematic development co-operation. Bilateral disbursements to LDCs and Africa have increased. At the same time, while the growing aid budget has seen a scaling up of assistance to long-term partner countries, Finland has also allocated ODA to an increased number of non-priority countries, often through small, stand-alone projects. Finland is now committed to concentrating more on its main partner countries, LDCs and Africa. In doing this, Finland should focus its programme where it can best support partner countries' own development objectives.

In long-term partner countries, Finland's disbursements are generally in line with its stated priorities and with its commitment to work in no more than three sectors. However, there is scope for Finland to limit the number of sub-sectors and activities in each country, as they often exceed the embassy's implementation and monitoring capacity. For example, in Nepal, Finland concentrates on a limited number of sectors, but the natural resources sector alone includes four sub-sectors (e.g. water, land, forest and environment) and a large number of activities. It is welcome that Finland plans to limit stand-alone projects in non-priority countries when their contribution to Finland's overall development co-operation objectives is unclear.

## *Working more strategically with civil society organisations*

**Key findings:** Finland considers civil society to be an important partner in development co-operation and plans to increase funding to and through civil society organisations (CSOs). Despite having a variety of funding mechanisms for CSOs, over half of funding goes to a large number of small projects through annual calls for proposals. Administering these numerous projects entails a heavy administrative burden and undermines the Ministry for Foreign Affairs' capacity for monitoring the impact of Finland's funding to and through civil society. This can be a challenge to having targeted and good quality programmes that achieve intended development results.

**Recommendation:** To ensure that its support to and through civil society focuses on quality programmes, Finland should:

- Develop a strategic approach to working with civil society organisations that focuses on programmatic financing, thus minimising the administrative burden on the MFA and enhancing Finland's capacity to focus on the development impact of CSOs interventions. Such an approach should ensure synergies with Finland's overall co-operation objectives in partner countries.

Finnish aid allocations to and through CSOs have increased alongside ODA growth in the past years, and in its new development policy Finland plans to further increase its support to CSOs. In 2010 this represented 12% of Finland's development co-operation budget administered by the MFA. Core contributions make up only a small part of that support, and around half of non-core contributions are allocated through calls for proposals. This means that the MFA must process and monitor a large number of small projects, leaving little time for staff to focus on the impact of Finland's support to and through CSOs. To be more efficient, Finland should take a more strategic approach to working with CSOs to ensure that CSO interventions complement and support developing countries' development objectives. This includes assessing if Finland's funding mechanisms allow it to reach the intended partners and goals. Finland could also consider raising core funding and increase the number of partnership agreements with CSOs, instead of funding many small projects.

## **Organisation and management**

### *Ensuring consistent implementation of Finland's development policy*

**Key findings:** Finland's development co-operation programme has grown in size and ambition since the last peer review. While working methods at the ministry are pragmatic and conducive to in-house dialogue and co-operation, the current set-up often relies on personal initiative and interpretation of policy guidance. This cannot guarantee a consistent and harmonised approach to implementing the development co-operation programme. The introduction of a new case management system can help create a more systematic, unified, and reliable approach to managing development co-operation.

**Recommendation:** To remain fit for purpose and to ensure that the development programme is consistently and effectively implemented, the Ministry for Foreign Affairs should:

- Provide harmonised up-to-date tools, guidelines and training for the entire development staff (at headquarters and in the field). In doing so, Finland should preserve the flexibility in its working methods.

The Ministry for Foreign Affairs (MFA) manages most of Finland’s ODA. Embassies and seven different departments in the MFA have a stake in implementing the development programme, either by providing overall guidance or by implementing programmes. Ensuring a harmonised and consistent implementation of the priorities of the development policy across the MFA is essential. The Development Policy Steering Group provides guidance on policy issues and the Quality Assurance Board screens all development project and programme proposals. However, the guidance given ex-ante by the Development Policy Steering Group is sometimes not specific and operational enough for staff to use when designing new programmes, and the Quality Assurance Board only looks at programmes at a fairly advanced stage of the designing process. Finland should consider how these two formal bodies could provide more effective guidance for implementing the development policy.

Although decision-making processes are clear, policy guidelines on how to implement the development policy are not evenly understood or used by all staff. Staff rely on a well-established flexible working culture in which personal initiative and ideas fill some of the gaps in guidance for implementation. This approach works well, but there is a risk that some priorities may be overlooked or implemented inconsistently. The Department for Development Policy – which is in charge of guidance, methodology, regulations, instructions and planning – is well placed to lead a review of formal and informal working methods and to ensure that all ministry staff have the necessary tools to implement the common policy in all their activities, including appropriate training. The new case management system, set up to unify the whole programming process, is a step towards a more consistent implementation of the development policy. It will, however, only be successful if staff is well trained to use it, if the right policy and political guidance is developed, and if it provides staff with clear objectives and priorities to help them know what and how to programme.

### *Decentralising development co-operation*

**Key findings:** Finland has designed a framework document guiding the division of labour between headquarters and Finnish embassies. This framework allows for delegating authority to an embassy, but this is done on a case-by-case basis following agreement between each embassy and the country desk in the Ministry for Foreign Affairs. This approach does not provide Finland with a strategic vision of its objectives in the field, of the role Finland wishes to play in its partner countries and how embassies can better implement Finnish development co-operation, all of which could strengthen Finland’s presence and impact in partner countries.

**Recommendation:** To ensure that the division of labour between headquarters and the field gives embassies the necessary authority to implement the Finnish development programme, and to enhance its presence in the field, Finland should:

- Decentralise further, based on clear criteria and objectives, and on an analysis of how delegation of authority – including financial authority – can empower embassies to best implement the new development policy and strengthen Finland’s impact in the field.

The current decentralisation framework does not set out the overall objectives for Finland’s delegation of authority to its embassies. It leaves each country team (which includes country desks at headquarters and embassies) to decide on how they will divide labour among headquarters and the embassy. The advantage of this system is that it takes

into account the available resources and capacity in embassies to take on additional tasks. The disadvantages are that the objectives and purpose of decentralisation are not clear and delegation is based on individual decisions rather than on an analysis of what increased authority to embassies can bring to Finland's development programme.

The National Audit Office has recommended the MFA to increase delegation of authority to embassies. Finland should follow this recommendation as additional authority, combined with the required staff and budget, could help it become a stronger and more effective partner for implementation, policy dialogue and aligned approaches such as joint programmes in its long-term partner countries. The MFA should reflect on its rationale for delegating programming, implementation and financial authority to embassies, and define how decentralisation can help implement the development policy effectively, based on specific implementation needs in the field and taking into account the resources embassies need to perform new tasks.

### *Retaining a stable cadre of skilled development staff*

**Key findings:** *The Ministry for Foreign Affairs faces challenges in managing its development staff. Development positions reserved for diplomats are not easily filled, and non-diplomats currently have few prospects to progress professionally. This contributes to high staff turnover in development positions, making it difficult to build development skills, retain skilled staff and build a knowledge management system. It also undermines institutional memory, and the quality and continuity of the Finnish development co-operation.*

**Recommendation:** To retain and strengthen a stable cadre of skilled development staff, the Ministry for Foreign Affairs should:

- Take steps to ensure that maximum use is made of diplomatic staff with development experience when deploying staff both at headquarters and to the field. The MFA should also give attention to professional opportunities for special career and locally employed staff.
- Develop training plans for all staff and ensure plans are implemented.

The MFA has a complex staff structure with different statuses and career opportunities. Non-diplomatic staff from the “special career” category currently have few opportunities for career advancement or rotation and thus either leave at the end of their contract, taking their expertise with them, or request long and repeated leaves of absence to work for other organisations. Diplomatic staff seem to rotate frequently from one department to another or to the field, often with the result that positions reserved for diplomats stay vacant for a period of time. This turnover can affect the quality of the implementation of the development programme. Consequently, the Ministry should consider how it can encourage diplomats to take up development positions. A working group on the “special career” category has recommended that the ministry give better career prospects to these staff, including the possibility of rotating to embassies in developing countries, and back to headquarters. The MFA reports that it has started implementing most of those recommendations.

A specific training programme is available to all staff dealing with development. However, there are few incentives for staff to seek training and training is not given high priority. Training can help create a common knowledge base and provide useful tools for staff to improve the quality of development programmes. To use training possibilities to

their full potential and increase the quality of development programmes, the MFA should create incentives for attending needs-based training. It is also important that training is equally accessible to all staff categories at headquarters and in embassies.

### **Improving the impact of development co-operation**

#### *Building on past progress to make aid more predictable and strengthen local capacity*

**Key findings:** Finland has made progress against all but one of the Paris Declaration indicators (the exception being untied aid), especially in its long-term partner countries. Finland has internal tools in place which can help it make quick progress towards more effective development co-operation in two areas: (i) making its aid more predictable, thus helping development partners plan their use of aid more effectively; and (ii) better promoting country ownership and aligning aid flows with national priorities in developing countries, through Finland’s new country strategy papers. Using existing tools to their full potential can help Finland make its aid more effective in its partner countries.

**Recommendations:** To continue to make its aid more effective, Finland should:

- Make multi-annual commitments whenever possible and share information on these and on medium-term financial planning with partner countries and multilateral partners.
- Use the new country strategy papers to increase support to partner countries’ priorities by funding or implementing directly activities that are part of the partner country development strategy.

Finland’s commitment to make its aid more effective is firm and long-standing. The OECD’s 2011 Survey on Monitoring the Paris Declaration shows that Finland has made progress against all but one of the Paris Declaration indicators (the exception being untied aid, see 5.2.) and that the best results were recorded in its long-term partner countries.

Among Finland’s commitments to make aid more effective, two areas show a potential for quick progress:

- Finland’s aid could be more predictable by making full use of internal budgetary and programming tools. These include four-year development budget frameworks, “budget authorities” which allow Finland to make multi-year commitments, and the ability to carry over budget appropriations. While Finland uses these tools to plan its activities in the medium-term, relevant information on multi-year commitments is not shared systematically with partner countries and other development partners. For example, the current country assistance plans contain indicative multi-year budgets but these Finnish documents are not always shared with partner countries. Also, multilateral partners only receive information on annual financial commitments, despite the fact that Finland makes multi-annual plans for its allocations to multilateral organisations. Thus there is scope for better communication to allow Finland’s development partners to plan better.
- Finland has supported partner country ownership in several ways. It places a strong emphasis on democratic ownership and supports the equal right of all people to influence and participate in national development processes. Finland has also made significant investments to strengthen institutional capacity in its partner countries, especially of local governments, including by channelling funding through district-level

country systems. Since 2008, Finland's country teams have developed medium-term (four-year) country assistance plans for long-term partner countries which were flexible enough to respond to the needs expressed by the partner government while also taking into account opportunities identified by embassies to collaborate with other donors and fill assistance gaps. As Finland has now decided to develop new country strategy papers for its long-term partners it should ensure that these country papers support partner country ownership by (i) funding or implementing activities that are part of the partner country development strategy, and (ii) being fully transparent on projected funding to precise areas of work.

### **Box 0.2. Use of district systems in Nepal's water and sanitation sector**

Finland is an important player in Nepal's water and sanitation sector, to which it has contributed for about 20 years. Finland currently supports three main projects in this sector. One of these is the Rural Water Supply and Sanitation Support Programme in Western Nepal (RWSSP-WN), a bilateral development co-operation programme with the government of Nepal implemented in nine districts. The programme strengthens the capacity of local governments through training and advice in water supply, sanitation and hygiene promotion. In the districts, the District Development Committees execute the RWSSP-WN program in association with Village Development Committees, user groups and other district-level WASH stakeholders.

Finland contributes to 66% of the programme's 2008-2012 budget of EUR 14.6 million, but important contributions are also made by the governments of Nepal (23%), communities (6%), Village Development Committees (3%) and District Development Committees (1%), demonstrating ownership of the programme.

The RWSSP-WN is not the only programme that Finland funds by channeling resources to district government. Presently another WASH programme adopts the same approach, with a total of 19 districts being reached by the two programmes. To date some 1 million Nepalese have got drinking water and sanitation financed this way.

*Source:* Rural Water Supply and Sanitation Support Programme in Western Nepal.

### ***Working more closely with the private sector without increasing tied aid***

**Key findings:** *Working with the private sector is one of the priorities of Finland's new development policy. Finland already has a series of tools and mechanisms to engage with the private sector. Two of these instruments, a concessional credit scheme and Finnfund, are among the main sources of Finland's tied aid, which increased from 7% in 2008 to 15% in 2010. Finland now plans to find new ways to contribute to an enabling environment for the private sector in developing countries. Should new instruments increase tied aid or be mainly supply-driven, they would undermine the development impact of Finland's support to the private sector in developing countries.*

**Recommendation:** To promote the private sector in developing countries while accelerating its efforts to untie aid, Finland should:

- Review existing instruments and look for new demand-driven, locally owned and untied instruments to contribute to an enabling environment for the private sector in developing countries.
- Take the steps necessary to reverse the decline in the share of Finnish aid that is untied (93% in 2008; 85% in 2010).

Finland has long supported private sector development in developing countries. Its new development policy reiterates this support, identifying private sector development as a means to achieve the objective of an inclusive green economy that promotes employment in partner countries. Finland supports the private sector through several instruments, including its concessional credit scheme. This is an export credit which Finland uses primarily to engage with China and other countries that it does not reach with other instruments of its development co-operation. Vietnam is the only long-term partner country drawing on the concessional credit scheme, as Finland sees this as a useful tool to manage the transition from government-to-government co-operation to a more trade-oriented kind of partnership. The concessional credit scheme is one of the main sources of Finland’s share of tied aid, which while being small compared to other DAC members, has increased since the last peer review.

Following recommendations from the previous peer review and a recent evaluation, Finland reports that it has started phasing out its concessional credit scheme and that it is exploring new instruments to engage with the private sector. As it does so, Finland should find ways of contributing to an enabling environment for partner countries’ private sector through demand-driven programmes that keep aid untied. Finland can look to examples of other donors who prioritise working with the private sector for development while keeping aid untied to the maximum extent possible.

## **Towards better humanitarian donorship**

### ***Developing a more focused and realistic humanitarian vision***

**Key findings:** *Finland is a much-appreciated member of the humanitarian community, both as a solid funding partner and as an advocate for improved results from the wider humanitarian system. However, Finland’s current humanitarian guidelines are broad, lacking clearly-defined objectives, funding criteria or expected results. While this makes the humanitarian programme very flexible, this flexibility comes at a price: funding intentions are not predictable for partners, there is no solid basis from which to link to development programmes, there is a risk that the portfolio is not focused on areas where Finland has clear added value and good practices, and the consolidated results of Finland’s contribution to the humanitarian system are not measurable – hindering learning and accountability. Finland is currently updating the guidelines.*

**Recommendation:** To provide a clear strategic vision, demonstrate application of funding principles and provide the basis for stronger engagement with development colleagues and partners, Finland should:

- Finalise, disseminate and implement the new humanitarian assistance guidelines, focusing on a limited number of objectives in areas where Finland can make a solid impact, outlining clear and principled funding criteria, and setting out expected, and measurable, results.

Finland is appreciated as a solid and reliable humanitarian partner – it is moving towards multi-annual core contributions for key agencies and backing up its funding with solid advocacy work, including on UN agency boards.

Finland is currently updating its humanitarian framework; this is a useful opportunity to ground its overall humanitarian objectives in Finland’s good practices, and to identify clear complementarity among different instruments. Measurable indicators will accompany the updated guidelines, and these should form the basis for more



effective monitoring and learning in the future. Finland plans to develop funding guidelines to accompany its updated humanitarian guidelines, and this will be an important step towards improving the transparency and impact of its funding allocations.

Finland is to be commended for its ambitious new commitments in disaster risk reduction programming – but it is too early to see results in the field. A more systematic approach to mainstreaming risk reduction into development programmes will probably be needed as Finland starts to implement its new commitments. Challenges also remain in providing systematic funding to recovery situations; in the meantime, Finland has taken the pragmatic approach of providing flexible funding to partners operating in post-crisis contexts.

***Slow disbursement is hindering effectiveness in emergency response***

**Key findings:** *Finland's slow disbursement, especially for new and escalating emergencies, remains a concern.*

**Recommendation:** To ensure that the humanitarian system is fit for purpose, Finland should:

- Raise the level of delegated authority for rapid response funding decisions, based on clear criteria;
- Resolve constraints related to the slow disbursement of emergency funds.

Finland does not have any rapid response mechanisms of its own, and partners are critical of slow disbursement in emergency situations. All funding decisions over EUR 200.000 must be made by the Minister, which can slow down Finland's response to emergencies. Finland does, however, contribute to the Central Emergency Response Fund (CERF), the UN's global emergency pooled fund.



## *Chapter 1*

### **Strategic orientations**

Finland considers development co-operation to be an integral part of its foreign policy. This chapter looks at Finland's new development policy, adopted in 2012 with strong political and public buy-in. The policy builds on Finland's strengths and experience while placing a specific emphasis on human rights. This first chapter outlines how the strategic and general guidance given by the new policy needs to be translated into clear areas of focus and accompanied by measurable objectives. Finland can build on the fact that parliament and civil society are active and positive forces for Finnish development co-operation to be more proactive in increasing public awareness, global education and sustaining public support for development.

## **Consistent priorities and engaged non-government stakeholders**

Finnish development co-operation celebrated its 50th anniversary in 2011. Development assistance is considered by the Finnish population as a “moral obligation” and as a means to advance their own national and international interests (MFA, 2012a). Finland’s commitment to development co-operation is reflected in the consistent increase of official development assistance (ODA) levels over time.

Finland has remained constant in its main development policy priorities, in the choice of sectors and themes that it supports, in its commitment toward development assistance and in its focus on the poorest countries. Ownership, transparency, global security and a willingness to work with other partners have consistently featured among Finland’s development co-operation priorities, as has addressing environment-related issues. In addition, Finland frames its development efforts in the context of long-term international commitments like the Millennium Development Goals and European Union policies.

Overall Finland has made good progress towards implementing the recommendations made in the last peer review (OECD, 2007 and listed in Annex A). Finland has fully implemented eight of 19 recommendations and partially carried out nine more; only two remain to be taken up. Following the recommendations on strategic orientations, Finland has remained consistent in its development co-operation priorities; is working with partners such as the EU and the Nordic+ group; has developed policy guidance and framework documents on several areas<sup>1</sup>, both geographical and sectoral, and engaged in new areas of work, such as development and security. Finland has also made progress in communicating with the public on development issues.

The government sets the priorities for foreign policy and development in its overall work programme (PROG, 2011) and adopts the development co-operation policy. Besides the government, other stakeholders in Finland are interested and actively engaged in development issues and the country’s development policy. Parliament decides on the budget appropriations, approves the annual budget for development co-operation and regularly holds hearings with the Minister for International Development on subjects of interest. The Development Policy Committee is an advisory body with cross-sectoral representation, including from parliament, non-government organisations (NGOs), trade unions, academia and the private sector. This Committee monitors and comments on the government’s development activities, making recommendations and taking initiatives such as organising debates on development co-operation. Civil society is also widely consulted on development issues. There is a constructive and open dialogue between the government and these stakeholders and their views are generally taken into account by the Ministry for Foreign Affairs in policy design and implementation.

## **Development co-operation: an integral part of foreign policy**

Development co-operation is an integral part of Finland’s foreign policy and is seen as contributing to achieve global foreign policy goals such as peace, security, equality, eradication of poverty, democracy and good governance. The contribution of development is also essential for achieving Finnish foreign policy objectives such as international stability, sustainable development and human rights, and by addressing the link between reducing poverty and issues such as global migration, environmental degradation, unemployment and competition for natural resources – all possible causes of instability and which can affect human rights.

The Finnish Ministry for Foreign Affairs (MFA) has three policy pillars: foreign policy, trade and development. These are mutually reinforcing; housing them in the same ministry therefore allows for close synergies and pragmatic ways of working. The integration of development within Finnish foreign policy is also facilitated by the fact that the MFA manages the entire development co-operation budget, corresponding to 74% of Finnish ODA-eligible funds (see Chapters 3 and 4). The development pillar is at the same level as the other two pillars and all departments within the MFA are considered to be equal. This can help ensure that Finland produces sound development programmes in their own right that are not undermined by other foreign policy or trade issues. Having one ministry dealing with foreign policy, trade and development can also be positive for achieving coherent policies.

### **A new development policy that builds on Finnish know-how but needs more focus**

In its overall programme the Finnish Government states that “poverty reduction and the achievement of the UN millennium development goals (MDGs), placing an emphasis on partner countries’ needs and ownership, are the first priorities of the development policy”. The government programme emphasises the rule of law, democracy, human rights and sustainable development. It mentions several “special priorities”: education, decent work, reducing youth unemployment and improving the status of women and children. In these activities, Finland wants to build “on its strengths in the educational sector, health promotion, communications and environmental technology, and good governance”.

Finland adopted a new development policy in 2012 (MFA, 2012b) based on the priorities set by the government programme. This policy was approved by all six political parties in the government following wide consultations with parliament, civil society and the Development Policy Committee. It therefore reflects a national consensus on development co-operation and has strong political and civil society buy-in, with the main stakeholders feeling that their concerns have been taken into account. Such an inclusive approach to policy making helps build ownership, strengthen accountability and ensures support for the development policy and its implementation.

#### ***Being clear about priority sectors***

The priorities of Finland’s new development policy (Figure 1.2.) are not dramatically different from those defined in the 2007 development policy (MFA, 2007). They are mainly areas where Finland has specific expertise, which allows Finland to build on its past experience and to maintain continuity in its development co-operation. It also facilitates long-term planning and provides predictability for its development partners. There is one addition, however, as the new development policy places strong new emphasis on human rights, stating that a human rights based approach should be mainstreamed throughout the programme.

The 2012 development policy lists numerous goals, principles, objectives and priorities, all of which are quite broad (Table 1.1.), making it difficult to understand which are the priority areas of focus and which specific objectives Finland wants to achieve. The four main priority areas are (i) a democratic and accountable society that promotes human rights; (ii) an inclusive green economy that promotes employment; (iii) sustainable management of natural resources, environmental protection; and (iv) human development. However, the development policy lists numerous possible

activities and sub-sectors under these four “priorities”. While a strategic and broad description of principles and priorities allows for a certain flexibility in country programming, it risks engendering a wide set of unfocused projects across many sub-sectors, failing to reduce fragmentation and posing a challenge for having the necessary expertise. If not clarified, the priorities listed in the development policy could result in confusion and dispersion when implementing the development programme. For example, while in its long-term partner countries Finland complies with its EU commitment to be present in no more than three sectors per country, the peer review team found during its visit to Nepal (Annex C) that one priority area, “natural resources”, has translated into activities in the sub-sectors of water, land, forestry and environmental administration.<sup>2</sup> The Finnish Embassy in Nepal has already started to focus its activities and this was welcomed by the peer review team.

**Table 1.1. List of goals, principles, objectives and priority areas as described in the 2012 development policy**

<b>Foreign and security policy goals that can be supported by development co-operation</b>	International stability, security, peace, justice, rule of law, sustainable development, democracy, human rights
<b>Overarching development goals</b>	Reduction of extreme poverty and achieving the Millennium Development Goals Strengthening the position of the poor, reduction of inequality, reduction of poverty in absolute terms
<b>Working principles and methods</b>	Human rights-based approach (to be mainstreamed into all activities) 1. Democratic ownership and accountability 2. Effectiveness and impact 3. Openness 4. Policy coherence for development 5. Focus on the least developed countries
<b>Cross-cutting objectives</b>	1. Gender equality 2. Reduction of inequality 3. Climate sustainability
<b>Priority areas of Finland's development policy</b>	1. A democratic and accountable society that promotes human rights 2. An inclusive green economy that promotes employment 3. Sustainable management of natural resources, and environmental protection 4. Human development

*Source:* Based on MFA (2012b), *The Finnish Development Policy Program*, MFA, Helsinki

The MFA should also define measurable objectives to help design the right programmes – responding to the needs and priorities of partner countries - and track progress. A possible way to address this would be to build on the existing Action Plan for Implementing Finland's Development Policy (MFA, 2012c), which sets out the general first steps for implementing the main priorities of the new development programme. This Action Plan could be more specific in translating the development policy into operational

priorities and objectives, with expected results and verifiable indicators, providing guidance on priority areas of focus and means to implement the development policy throughout its duration. Also, a review of all current policy guidelines would help ensure that they are adapted and relevant to the new development policy, and that they set out clear objectives and priorities for implementation. Finland could also consider whether new tools might be needed, for example to translate the new overarching priority on human rights into reality (Chapter 4).

### *Commitment to increase the focus of Finnish development co-operation*

Both the overall government programme and the new development policy recognise that Finland's aid has become somewhat fragmented. Finland plans to address this by (i) increasing the average size and duration of projects; and (ii) reducing the overall number of projects, both in multilateral and in bilateral co-operation (Chapter 3). This commitment provides a mandate for Finland to focus its development programme, keeping in mind relevance and effectiveness. However, Finnish policy documents do not list the priorities and criteria to use for redirecting funds to ensure a more strategic, focused and programmatic development co-operation. Finland will need to make political decisions about where and how it can achieve the greatest development impact, especially given its stable or decreasing financial and human resources available in the coming years.

### *Cross-cutting issues*

In previous years Finland focused on mainstreaming cross-cutting issues into its programmes and made efforts to improve staff capacity through issuing Instructions on Integration of Cross-cutting Themes in all Development Cooperation (MFA, 2009), plus setting up a team of sectoral advisors, preparing guidelines on development and environment and on environment and gender, and making training modules available to staff. However, Finland recognises that it has been a challenge in the past to identify clear objectives for cross-cutting issues, that mainstreaming alone is not enough, and that although cross-cutting issues have been well integrated into policy, it has not necessarily been the case in implementation (bilateral, multilateral and NGOs). An evaluation conducted in 2009/10 revealed that the cross-cutting issues have not always been understood and implemented systematically (MFA, 2011c). Staff also confirmed this during the peer review team's visit.

The three cross-cutting issues in the new development policy (gender equality, climate sustainability and reduction of inequality) were selected to respond to human rights related issues and international commitments such as the MDGs. Finland expects attention to cross-cutting issues to enhance the quality of its programmes by focusing on human rights and best practices in good governance. However, the new development policy does not give clear enough guidance on objectives, which can hamper translating these priorities into programmes. Finland should therefore produce clear policy guidance on what it wants to achieve through each cross-cutting issue and help integrate these objectives into its development programmes.

### ***Setting criteria to focus the development programme on a limited number of developing countries***

Until 2011 Finland had eight "long-term partner countries": Ethiopia, Kenya, Mozambique, Nepal, Nicaragua, Tanzania, Vietnam and Zambia. The 2012 development policy states that to increase its impact Finland should concentrate its aid even more by

reducing the number of partner countries. Finland will reduce the number of its long-term partner countries to seven by gradually phasing out of Nicaragua, focus on African and Asian least developed countries (LDCs), progressively end its aid to upper-middle-income countries, and take into account the special needs of fragile states. Regional co-operation is also mentioned as a relevant channel to discourage stand-alone country-specific projects (MFA, 2012b).

The peer review team welcomes Finland's commitment to concentrate its aid in fewer countries. Finland should clarify how this will affect its seven long-term partners, and have clear criteria for choosing, remaining or phasing out of a partner country. For example, the new development policy states that Nicaragua will be supported mainly through non-governmental co-operation and that co-operation with Vietnam (now a lower-middle-income country) will also gradually shift to "new co-operation modalities". While the approaches to Vietnam and Nicaragua are comparable (gradual withdrawal of government-to-government aid and shift to different forms of co-operation), it is unclear why Vietnam is still qualified as a "long-term partner", while Nicaragua is not and how the new forms of co-operation will increase the concentration of Finland's aid. At the same time, countries like Afghanistan and Sudan – where Finland has important long-term co-operation – are not formally categorised as "long-term partner countries".

### *Fragile states*

Finland is planning to increase its funding to fragile states. It plans to prepare a national strategy that will focus on a limited set of sectors and countries, as well as on political dialogue and influence, especially in international forums. In drafting the fragile states strategy, Finland plans to draw on the *New Deal for Engaging in Fragile States* adopted at the Fourth High Level Forum on Aid Effectiveness in Busan (HLF4, 2011a), and will continue to rely on OECD/DAC and EU policy guidance; both steps are welcomed by the review team. Finland will continue its long-term co-operation with partners such as Afghanistan, the Palestinian Territories and Sudan, but it also wants to be able to respond to new needs (e.g. in the "Arab spring" countries). To avoid dispersing Finland's efforts in too many countries, the new strategy could outline the preferred approaches for intervening in fragile countries (for example through multilateral organisations or with other donors) as well as criteria for entry and exit into new fragile countries.

### ***Policies for multilateral aid, NGOs and the private sector need clear objectives and focus***

#### *Multilateral aid*

Finland designed a global multilateral policy in 2008 (MFA, 2008b), complemented by agency-specific policy papers describing Finland's priorities and a strategy to guide the daily work with each agency. Finland stresses that one of the aims of multilateral co-operation is to support the implementation of Finland's development programme, as well as to fulfill Finland's share of global common responsibility. Finland is a recognised and active player in multilateral boards of UN agencies and international development financing institutions, either as a direct member or as the member of a Nordic constituency, which forms an important reference group for Finland in multilateral co-operation.<sup>3</sup> In the United Nations Finland supports the One UN reform process and the achievement of the Millennium Development Goals. Finland also stresses the importance of supporting country priorities through the Poverty Reduction Strategy



Papers framework, and of coherence and complementarity between its bilateral and multilateral co-operation at country level. Finland supports these objectives in its direct contacts with UN agencies and through their governing bodies.

The new development policy confirms Finland’s commitment to work with the United Nations and stresses the UN’s role in advancing human rights and human security, two of Finland’s priority areas (MFA, 2012b). Finland plans to work in a more goal-oriented and strategic manner with multilateral organisations, focusing on a limited number of priorities for policy dialogue. Finland is also conducting a strategic analysis of its multilateral co-operation to decide which organisations are the most effective and relevant for implementing Finland’s development objectives. This will help Finland, especially as the new development policy commits to an increase in co-operation with multilateral organisations. In deciding on its main multilateral partners, Finland should be clear about which national objectives it wishes to pursue through multilateral co-operation, and which objectives it wishes to support among the commonly-adopted priorities of multilateral organisations, in line with DAC good practices<sup>4</sup> (OECD, 2011a). As the MFA plans to review and update existing policy documents according to the new development policy, these should focus on a limited number of clear priorities and objectives to be pursued through multilateral co-operation.

### *Civil society*

NGOs are active development partners in Finland; the MFA has constructive relations with NGOs and consults them regularly. Since the last peer review the MFA guidelines for its work with civil society have been updated and recall that “civil society actors are an essential and integral element of Finnish development co-operation” (MFA, 2010). The review team found it very positive that Finland designed these guidelines in broad consultation with civil society organisations (not only NGOs but also entities such as trade unions and academia). The main stated objective of Finland’s co-operation with and through civil society is to create an enabling environment to strengthen civil society in its partner countries, with the aim to eradicate poverty and create the preconditions for democracy and good governance. This is in line with DAC good practice when partnering with civil society (OECD, 2012). Finland values that civil society works at the grassroots level in partner countries, but also that Finland’s own civil society – while remaining independent – can be a complementary partner for development in developing countries. At the national level, the 2010 guidelines for civil society stress that it is important that as many Finnish actors as possible take part or have contact with development co-operation, as this helps raise public awareness and support for development and contributes to transparency in Finnish aid.

The new development policy stresses the importance of working with civil society organisations (CSOs) in Finland and in partner countries and plans to increase its support to them. It also places a new emphasis on aid effectiveness, human rights and immigration issues when working with civil society. In addition, the development policy encourages CSOs to seek partnerships with the private and public sectors and to support the objectives of the Finnish development programme. Finland should ensure that these new priorities can be implemented in the framework of the existing 2010 guidelines for working with civil society.

### *Private sector*

The 2007 development policy listed economic growth as one of the three pillars of sustainable development. Finland's trade and development agenda focuses on three aspects: trade policy and regulations, trade and investment and aid for trade. In 2008 Finland designed an action plan on aid for trade (MFA, 2008c), which has contributed to raising awareness about this issue among Finnish development staff (see also Chapter 3). This plan will be updated based on the results of an evaluation completed in 2011 (MFA, 2011a).

The new development policy underlines the increasing contribution of the private sector to development in recent years at the global level. Finnish companies are interested, willing and eager to participate in development efforts. Finland's overarching objective is to create an enabling environment for the private sector in partner countries and to encourage a partnership with – and among – the private sector that will support development objectives. Finland also has a series of tools and programmes for working with the private sector. It is planning to review and adapt them, and to increase the capital base of the main tool – *Finnfund* (see Chapter 5).

However, Finland lacks a global strategy defining its objectives for working with and through the private sector. A more structured dialogue and a detailed global strategy and action plan with clear goals for working with the private sector would be useful. This is especially important considering that one of the new policy's priority themes is "Inclusive green economy that promotes employment" (Figure 1.2) – a goal to which the private sector has much to offer. In a positive first step, Finland has recently set up a forum for political dialogue with Finnish companies. When defining a global policy and reviewing existing tools, Finland should put a strong emphasis on assessing the development impact of working with the private sector and ensuring that this contributes to achieving development results in development countries.

### **Strengthening public awareness, communication and global education, focusing on results**

One of the key principles of Finnish development co-operation is "openness" (Figure 1.2). All policy documents and evaluations are publicly available on the Internet or upon request. Both parliament and the Development Policy Committee follow the government's work closely and are consulted and kept informed by government. Finland is to be commended for this open approach. At the same time, some officials believe that Finland could improve its culture of debate; they regret that transparency does not always result in public discussion. Also, as pointed out by the National Audit Office, the information on development co-operation provided by the government is rather descriptive and focuses little on results (Chapter 4). There is room for engaging more with the public, including by working with civil society organisations, parliament and the Development Policy Committee.

Public interest in, and support for, development remains high. In 2012, 80% of Finns surveyed were in favour of increasing the development budget or at least maintaining it at the same level (MFA, 2012a). Such high support should not be taken for granted and should be sustained through active and consistent efforts in communication, global education and public awareness. Since the last peer review Finland has made progress in this regard; it has developed communication guidelines for MFA staff, publishes a regularly-updated strategic action plan for public awareness, and every year

runs an awareness-raising programme called *Development Policy for Finnish Opinion Leaders and Decision-Makers* (MFA, 2007). Finland should keep up these efforts, but should focus more on communicating the results achieved by development co-operation and engaging the Finnish public in a debate. It is also welcome that the current public awareness action plan for the MFA plans to engage the whole ministry in strengthening awareness-raising efforts. Strong support for development co-operation by the public and engaged stakeholders can help advocate for increased ODA budgets.

Finland published a national strategy for global education in 2007 (ME, 2007). This strategy was designed by the Ministry of Education, who has the lead in global education activities in Finland, in close collaboration with the MFA. The strategy stressed that global education should be taught in schools and also be incorporated into other relevant policy areas like research, culture or youth. Global education is now taught extensively in Finnish schools (MFA, 2012a). The new development policy stresses the need to support global education as a means to create global responsibility. MFA plans to strengthen activities in this field by enhancing collaboration with the Ministry of Education, and by supporting Finnish NGOs who play a crucial role and have much experience in development education. One possible way to improve global education would be to use part of the planned increase of funding for NGOs for this purpose. Both the MFA and NGOs can be good providers of development “stories” to feed global education with examples from the field.

### **Future considerations**

- The new development policy lists a large number of broad priorities. Finland should define priority areas of focus and provide a set of operational objectives for its development programme that can be monitored and evaluated, to increase impact and avoid dispersing and spreading its aid too thinly.
- Finland needs to ensure that policy guidance for multilateral aid, NGOs and the private sector is aligned with the new development policy and defines clear objectives and priorities for working with these partners.
- The MFA should continue its efforts in public awareness-raising activities, communication and global education, focusing on results and working in close collaboration with civil society and other concerned stakeholders. This will help sustain public interest and support for development co-operation.

## Notes

1. i.e. Development and security, environment, cross-cutting objectives, agriculture and food security, water, forestry, health, aid for trade, concessional credit schemes, multilateral co-operation, civil society, humanitarian assistance, Africa, Wider Europe, Western Balkans.
2. Information presented to the peer review team by the Finnish Embassy.
3. This was confirmed by interviews with Finland's main multilateral partners.
4. One of the emerging good practice lessons on “Good Multilateral Donorship” asks donors to “articulate, publicise and regularly revisit [your] specific national case for multilateral contributions”. Another asks them to “assess multilateral performance against collective international, as well as national, priorities” (OECD, 2011a).

## *Chapter 2*

### **Development beyond aid**

Finland is a strong advocate of policy coherence for development, especially in international forums like the European Union, the OECD and the United Nations. This chapter looks at how Finland can do more to secure development-friendly policies domestically, for example by having a national strategy and policy guidance with clear and harmonised priorities, objectives and measurable results. This chapter also makes the case for reviewing Finland's policy co-ordination mechanisms, which are flexible and efficient but not systematic and cannot guarantee a routine approach to ensure that national policies are compatible with development in developing countries. Monitoring and capacity for analysing the impact of policies in developing countries should also be improved, which would help make reporting more focused on specific examples and results. Whole-of-government approaches are also scrutinised.

### Strong political commitment but mixed performance on co-ordination mechanisms and monitoring and analysis

Aid alone cannot ensure development. Alongside official development assistance, other financial flows and the domestic and other foreign policies of donor countries have a significant impact on developing countries. In recognition of this fact, OECD members have committed to ensure that their domestic policies support, or at least do not hinder, partner countries' development. In other words, they will pursue *policy coherence for development* (PCD). The *OECD Ministerial Declaration on Policy Coherence for Development*, adopted in June 2008, confirmed this commitment (OECD, 2008a). To achieve policy coherence for development, DAC members need: (i) political commitment and policy statements that translate commitment into plans of action; (ii) policy co-ordination mechanisms that can resolve conflicts or inconsistencies between policies and maximise synergies for development; and (iii) systems for monitoring, analysing and reporting on development impacts of donors' policies (OECD, 2008a; OECD, 2010). These are the *building blocks* of policy coherence for development. Finland has made some progress towards establishing these building blocks since the last peer review (Table 2.1).

**Table 2.1. Finland's progress in building policy coherence for development, 2008-2012**

Building block	Situation in 2008	Progress made by 2012
<b>A:</b> Political commitment with clear policy statements	Finland demonstrated political commitment to policy coherence for development, reflected in the development policy approved by government. Awareness of policy coherence for development was uneven across the administration and the two main challenges were to get all ministries involved, in a systematic way, in making national policies coherent with development objectives.	Political commitment remains strong, especially at the international level. Guidelines have been designed for some priority policy areas with strong links to development. However, they fail their purpose as they are more about how the MFA should take these areas into account in development, rather than on whether national policies in those areas are in synergy or in conflict with development. Finland has yet to design an overall national strategy identifying national priority areas that have an impact on development. Efforts to raise awareness have been ongoing.
<b>B:</b> Policy co-ordination mechanisms that can resolve conflicts or inconsistencies between policies and maximise synergies	Finland relied mainly on two mechanisms: various informal thematic working groups worked on different political areas and their links to development, and the EU-co-ordination system was used as the main – and only formal – body to discuss coherence among national policies, but without a specific emphasis on development. No single mechanism had a mandate to look specifically at how national policies support, or do not undermine, development objectives.	Finland continues to rely on the same mechanisms it had in 2008, with a special focus on the EU co-ordination mechanism. The informal thematic working groups continue to work in a pragmatic way that ensures flexibility and reactivity, but they are not guided by a strategic national vision. An informal inter-ministerial network was created in 2008, but so far it has been more a forum for awareness-raising and exchange of information than for analysis or decision making in coherence issues. Finland still lacks a

Building block	Situation in 2008	Progress made by 2012
		unified approach and a clear and systematic co-ordination set-up and process with clarified mandates.
C: Monitoring, analysis and reporting systems	Annual reporting to parliament had started in 2006. Finland was advised by the Development Policy Committee to conduct impact analyses of its national policies in its main partner countries.	Finland reports on policy coherence for development through various channels but reporting does not focus on concrete examples and results. Finland does not have a monitoring system for policy coherence for development. However, the planned specific report on aid effectiveness and PCD to parliament in 2014 could be an opportunity to start building a monitoring system. Capacity for analysis of the impact of policies on development remains weak.

***Building block A: From strong political commitment to a national strategy with clear priorities***

Finland continues to show political commitment to ensuring that all policies support development efforts. This is reflected in its constant advocacy for coherent policies in international forums like the European Union, the United Nations and the OECD (Box 2.1; MFA, 2012a). Since 2004 Finland has put policy coherence for development up front in its policy documents. In the 2007 development policy (MFA, 2007), ensuring coherent policies was one of the basic guiding principles for Finland's development co-operation. This is reiterated in the new government programme (PROG, 2011) and development policy (MFA, 2012b).

### **Box 2.1. Finland’s support for international policy coherence for development**

Finland is an active advocate for policy coherence for development in international forums, especially the OECD. Between 2007 and 2010 Finland seconded an expert to the OECD’s Policy Coherence for Development Unit, reporting directly to the Secretary General.

Finland also participates actively in OECD discussions on coherence issues. For example, since joining the Joint Tax and Development Programme of the Fiscal Affairs Committee and Development Assistance Committee the subject of taxation and development has received broader attention in Finland. In 2011 the MFA contracted a study on the various international activities on tax matters and surveyed its partner country embassies to identify key issues and means to support partner countries in tax matters, particularly through promoting state-building and civil society at the country level. In 2012 Finland will also host an international debate on policy coherence and the taxation of multinational enterprises.

Another sign of commitment is that Finland will be the first DAC member to conduct a pilot study - in the area of food security - to test the use of the OECD *Policy Framework for Policy Coherence for Development* to assess the impact of DAC member policy on partner countries<sup>1</sup>. This will allow Finland to use an existing tool and a concrete example to create awareness on how policies in Finland can have an impact on development (OECD, 2012).

Finland has also been a source of expertise and very supportive of DAC work on aid for trade. In 2008 Finland designed an aid for trade action plan (MFA, 2008), which will be updated after a 2011 evaluation (MFA, 2011b). Finland is very active in the area of aid for trade and the action plan has helped raise awareness about this issue amongst Finnish development staff.

*Source:* Based on MFA, 2012a and interviews conducted for the peer review.

Both parliament and the Development Policy Committee have a mandate to promote development-friendly policies, follow the government’s activities and make recommendations. They could be useful partners in keeping concerns for coherence high on the political agenda, and raising awareness and understanding of this issue in Finland.

The last peer review recommended that Finland improve its coherence of domestic policies with development objectives (OECD, 2007). In an effort to do this, the MFA has designed, in consultation with relevant line ministries, a series of guidelines for the three focus areas defined in the 2007 development policy: trade and development (MFA, 2008), rural areas and development (MFA, 2010), and environment and development (MFA, 2009b). The MFA has also prepared guidelines on security and development (MFA, 2009a). However, although they have been designed together with the relevant line ministries, these guidelines are MFA documents that focus more on how the MFA should take into account other policies in its development programmes, rather than on how line ministries can avoid their own policies undermining development. In that sense they are not really about policy coherence for development.

The previous peer review also recommended that Finland should continue to rely on its national EU co-ordination mechanism to address policy coherence issues. However, it also underlined – and this was backed up by recommendations from the Development Policy Committee – that the EU co-ordination mechanism as such does not sufficiently focus on coherence for *development*, national coherence issues and how to promote them at the EU level. Finland’s memorandum to the DAC peer review shows that it now recognises this and that Finland plans to strengthen the EU co-ordination mechanism on coherence matters (MFA, 2012a). In its new development policy Finland identifies five



priority areas – some of which are also EU priorities<sup>2</sup> - where policies could become more supportive of development. Finland could design up-to-date guidance for each area that would identify responsibilities, objectives and tools, including for monitoring and analysis. Relevant ministries should be given responsibility for addressing these priority areas. Currently Finland addresses upcoming policy coherence issues in a flexible way, case-by-case or sector-by-sector. Having a national strategy with clear objectives could help ensure a more systematic and unified national approach to screen all relevant policies for their coherence with development, based on clear common objectives for the whole government and administration. This clarity would also reinforce Finland's advocacy role at the international level, and its dialogue on policy coherence with its partner countries.

### *The need for greater understanding of policy coherence for development*

At the political level, policy coherence for development is understood and considered a priority. However, the peer review team found that the concept is still unevenly understood in parts of the administration. Sometimes it is mistaken for cohesiveness, co-ordination or exchange of information on development activities. Some parts of the administration believe that they are expected to align their domestic policies with the Finnish development policy, whereas it is about ensuring that national policies support – or at least do not undermine – development in developing countries. A political impetus is needed for all parts of the administration to feel equally concerned by the need to ensure that national policies are coherent with development.

Since the last peer review, the MFA, who has the mandate to promote policy coherence for development, has made efforts to raise awareness throughout the Finnish public administration and the general public by organising seminars and training for in-house staff and for other ministries (MFA, 2012a). Finland's participation in the OECD pilot exercise in the area of food security should be a good tool to build understanding of the concept of policy coherence for development by way of a concrete example (Box 2.1. and note 1). The MFA also makes the public aware of the need for coherent national policies that support, or do not undermine, development efforts. The MFA is in charge of the chapter on policy coherence for development in the annual reports on development co-operation for the public and for parliament. However, these chapters focus mostly on describing advocacy and co-ordination efforts; they could increase awareness and understanding by analysing policy areas that are incoherent with development, by describing specific examples and results, such as cases where the administration has reformed policies that were undermining development, or specific examples of programmes that have created successful synergies. The Finnish government is planning to prepare a specific report on aid effectiveness and PCD for parliament in 2014 - a sign of political commitment (also see paragraph 44). The report should be an analytical, accountability tool looking at progress and areas that require more work. It can also raise awareness among parliamentarians, civil society and the public.

Civil society is an important partner for the MFA in raising public and political awareness of the need for coherence among all nationally supported policies and development. The MFA works on coherence issues with certain civil society organisations, such as KEHYS, the Finnish NGO platform to the EU. KEHYS has produced publications, co-ordinated working groups and organised training, conferences and seminars together with the MFA and for civil society organisations separately. Despite these good efforts, interest in coherence issues remains uneven – if not still weak – among academia and many NGOs.

***Building block B: Co-ordination mechanisms work well but need clear mandates***

The 2007 peer review and the OECD Council Recommendation on policy coherence for development (OECD, 2010) both underline the importance of co-ordination mechanisms and bodies with clear mandates and responsibilities. Finland's set-up to tackle policy coherence for development relies mainly on three kinds of mechanisms: (i) the official EU co-ordination mechanism; (ii) *ad hoc* sectoral or thematic inter-ministerial working groups; and (iii) an inter-ministerial network created in 2008. However, as we discuss below, while these mechanisms are pragmatic and have produced good results, they cannot guarantee a routine approach to ensure that national policies are compatible with development. Also, the 2007 peer review called for a centralised mechanism with a mandate for a systematic approach to coherence and none of these mechanisms currently plays that role.

Finland should review its existing institutional set-up and see how it can be strengthened while maintaining the involvement of staff in flexible working groups. A possible overarching mechanism could help avoid the risk of overlooking important issues or opportunities, and of not having a systematic and unified national approach. Finland should build on existing mechanisms to design an institutional set-up for policy coherence for development with clear priorities and working methods, covering all relevant ministries and areas. This set-up should be systematic (scanning all relevant policies to uncover possible inconsistencies or opportunities for synergy), clear on responsibilities and mandates, such as who decides, who gives advice, who recommends, how do different levels (political, high officials, working groups) link up with each other and how does information flow between them. This will raise awareness levels in the whole administration, hold all relevant ministries accountable for the coherence of their policies with development objectives and increase the potential for mutually supportive policies or for avoiding conflicting policies.

*The national EU-coordination is a good, but insufficient, starting point for a national approach*

The Finnish EU co-ordination mechanism is the main set-up for government to tackle policy coherence issues. It includes all ministries, covers most areas of Finnish policy, and involves regular inter-ministerial meetings at all levels of the administration (up to the Prime Minister). Its goal is to prepare the Finnish positions at the EU. It works well and is a good starting point for considering the impact on development of national policy decisions. Finland plans to increase the development focus of this mechanism. This also follows a recommendation by the Parliament's Foreign Affairs Committee that Finland use its national EU co-ordination mechanism more effectively to address coherence of national policies with development (FAC, 2011).

*Working groups are pragmatic and flexible but are not a sufficient instrument*

The MFA convenes inter-ministerial working groups on specific subjects that can be relevant to development, like security or environment, to co-ordinate positions and exchange information. Some working groups meet regularly, but can also be convened on an *ad hoc* basis when a new issue arises. This pragmatic and flexible approach has enabled different Finnish ministries to work together and design common guidelines in areas where coherence is needed and to spot and deal with new issues as they appear. However Finland recognises that such informal and *ad hoc* co-operation systems are not sufficient for influencing Finland's national policies or positions on EU policies affecting

development, or for ensuring a systematic scanning and monitoring of such policies across the administration (MFA, 2012a). The role of individual initiatives and working groups that discuss coherence of policies could be strengthened by defining a procedure for taking their suggestions to a higher, more centralised level. Such a systematic approach would ensure that all groups work towards the same objectives, and that efforts are sustainable.

*The inter-ministerial network can be central for addressing policy coherence issues*

The 2007 peer review echoed a recommendation from the Development Policy Committee that a steering body was needed to look into all issues of coherence between national policies and development (OECD, 2007). In 2008, Finland established an inter-ministerial network which brings together different ministries at regular intervals. Its main purpose so far has been to build inter-ministerial awareness of policy coherence, focusing on EU policies. It is not mandated to play a steering role. However, in the wake of the new development policy, Finland plans to strengthen this network and give it a more action-oriented role. In recent meetings the network has discussed how the three building-blocks recommended by the OECD (Table 2.1) can be implemented (MFA, 2011a). The network has started meeting twice a year (instead of only once) at a political level (Secretary of State/Under Secretary of State). Given its membership, this network has the potential to become a central piece in Finland's national policy coherence for development set-up. To realise its potential, it will need a clear mandate.

***Building block C: Strengthening monitoring and analysis***

*Strengthening capacity for analysis*

With the exception of the system for determining the Finnish positions on European issues, Finland does not have a formal monitoring system to assess the impact of its policies on development, noting, of course, that not all policies are relevant. Finland recognises that it does not currently have the capacity to conduct analyses or assess the impact of national and EU policies on development objectives in its partner countries (MFA, 2012a). As Finland often defends national positions through the EU rather than having specific national policies for its partner countries, screening of EU proposals and encouraging the EU to conduct assessments of the impact of its policies in Finland's partner countries is important. Partnering with other donors to do impact assessments - as Finland has done in the past - is also a good option. While the MFA might not have sufficient resources or capacity for extensive analytical work, Ministry resources could be well used by drawing on the expertise of civil society, research institutes, the Development Policy Committee and other donors. In the field, there is only limited use of embassy resources to monitor the impact of relevant Finnish and EU policies on partner countries' development. Including expected results on policy coherence issues in country strategies would be a helpful step. Finland needs to increase its capacity for analytical work on coherence to be able to make a better case for policy coherence for development, to design better policies and bring the concept to a more specific level for the wider public to understand.

*Focusing on results and monitoring*

The 2007 peer review recommended using the government's annual report to parliament as a means to monitor policy coherence for development and to measure

results in achieving coherence. This has been a challenge for Finland. Finland reports regularly and transparently on coherence issues using several tools.<sup>3</sup> However, it does not have the capacity to measure and report on specific policy achievements and their impact. Strategic guidance – including the definition of objectives and measurable results – would create the basis for analysing, measuring and reporting on results and impacts of national policies on development in the future.

By being more analytical, Finland also can enhance its reporting and give concrete examples of how decisions and programmes have contributed to more coherent policies or have averted conflicting situations. Analytical input by Finnish embassies in partner countries should be actively sought and taken into account, which would also avoid focusing reporting solely on what is happening in Finland or in international forums.

The Finnish government is planning to submit a special report on aid effectiveness and PCD to parliament in 2014. The report will be a good step towards more analytical reporting if it can lay out where and why there have been conflicts between domestic policies and development objectives in the past<sup>4</sup>, and reflect on what needs to be done or changed during the current legislative period to ensure that domestic policies are development-friendly. When preparing the report, Finland should also draw on input from the Development Policy Committee, embassies and civil society to get a picture of the impact of Finnish policies in its partner countries.

Monitoring how national policies affect development should not be limited to annual reporting - it should be an ongoing effort. The peer review team could not find evidence of an organised mechanism or process to monitor progress on coherence that would continually collect specific information and data from programmes or other activities. The preparation of the 2014 report, as well as the biennial report to the EU on coherence, could be good incentives and provide a relevant basis for setting up a monitoring mechanism, also drawing on non-government expertise (see next paragraph). The Development Policy Committee's report on the state of Finland's development co-operation (DPC, 2011) could also be a useful tool. This Committee's mandate, in addition to promoting coherence, is to monitor and evaluate the government's development co-operation and key decisions in the various sectors of policy that influence the situation in developing countries.

### **Making whole-of-government approaches more strategic**

Whole-of-government approaches involve several ministries or public entities working together to implement a specific common development objective or programme. It is not the same as policy coherence for development, which consists of ensuring that other national policies support, or at least do not harm, a developing country's development efforts.

In Finland 74% of total ODA is managed by the MFA (see Chapter 3). This means it is fairly uncomplicated to create in-house whole-of-government synergies and to discuss with other line ministries and public organisations. Line ministries inform the MFA of their ODA-eligible activities, which are reflected in the annual report. This straightforward approach is an asset for the MFA and for Finland's development co-operation. An example of successful whole-of-government approaches is the inter-institutional development co-operation through the twinning of public sector institutions from Finland and from partner countries, an interesting capacity building tool. The

agreements are worked out in Helsinki, and then the embassies deal directly with the stakeholders in the partner countries.

The 2009 guidelines on development and security promote the concept of “comprehensive security through development policy” (MFA, 2009a). Finland has successfully brought together development, security and defence staff for its programme in Afghanistan, which is described in a white paper to parliament (AFG, 2011). However this document is a description of the situation in Afghanistan and of activities undertaken by different stakeholders. It is not a whole-of-government strategy for Afghanistan with a clear description of common development objectives and of how to achieve them, in line with the Afghanistan National Development Strategy. A cross-ministerial working-group and lower-level co-ordination mechanisms were put in place to manage the Afghanistan programme. The country teams<sup>5</sup> of other partner countries, for example Nepal, have followed that example and have started working together in an extended format to approach fragile situations from a whole-of-government perspective, going beyond the MFA.

Finland’s planned new strategy on fragile states could draw on the Afghanistan experience and define a streamlined and strategic approach to whole-of-government and inter-ministerial co-operation for fragile states. Finland should define political objectives and working processes for programme design and implementation to achieve them. This new strategy should apply to the whole Finnish government.

### **Future considerations**

- Finland should continue its international advocacy efforts for policy coherence for development, and share its experience from the pilot case on food security with other donors.
- Finland needs, as a matter of priority, government-wide strategic guidance on policy coherence for development, setting out strategic cross-government goals that will allow a unified national effort towards development-friendly policies
- Finland could review its existing co-ordination mechanisms for policy coherence to ensure that mandates are clear so that each department or part of the administration takes responsibility for analysing their own policies for coherence with development, and that information and decision-making flows allow for a systematic and consistent scanning of national policies for coherence.
- Finland should strengthen its capacity for monitoring and analysis of the impact of the Finnish and EU policies on Finland’s partner countries. One way to do this is through establishing more systematic processes for feedback from embassies and other government departments, and encouraging and using analysis by NGOs, universities, think tanks, the EU as well as other donors.

## Notes

1. The Policy Framework for PCD aims at providing policy-makers - ministries, legislatures and offices of government leaders, and development agencies - with guidance for promoting and assessing development-friendly policies. The Framework consists of questions for policy-makers that aim at enabling them to screen policies, laws and regulations that could support, or might undermine, development in developing countries. It offers good practices on how to promote policy coherence for development through institutional mechanisms, and guidance on how to do an assessment in three policy areas, namely agriculture, fisheries, and environment. The Framework's goal is to foster increased political commitment, better understanding of the concept of policy coherence for development and enhance the involvement of different ministries in the assessment process.
2. The 5 policy areas where Finland plans to improve coherence with development are: food security, trade, tax, migration and security. The 12 priority areas of the European Union for policy coherence for development are: trade, environment, climate change, security, agriculture, fisheries, social dimension of globalisation, employment and decent work, migration, research and innovation, information society, transport and energy.
3. The government's annual report to the parliament, the annual report on development co-operation, the bi-annual EU PCD report, and specific parliamentary hearings of the Minister for International Development and MFA officials.
4. In its 2011 report (DPC, 2011), the Development Policy Committee mentions that "it is important to comprehensively evaluate the work that has already been done on policy coherence for development".
5. The country teams consist of the staff in Helsinki in charge of a partner country and their counterpart in the Finnish Embassy in that country.

## *Chapter 3*

### **Aid volumes, channels and allocations**

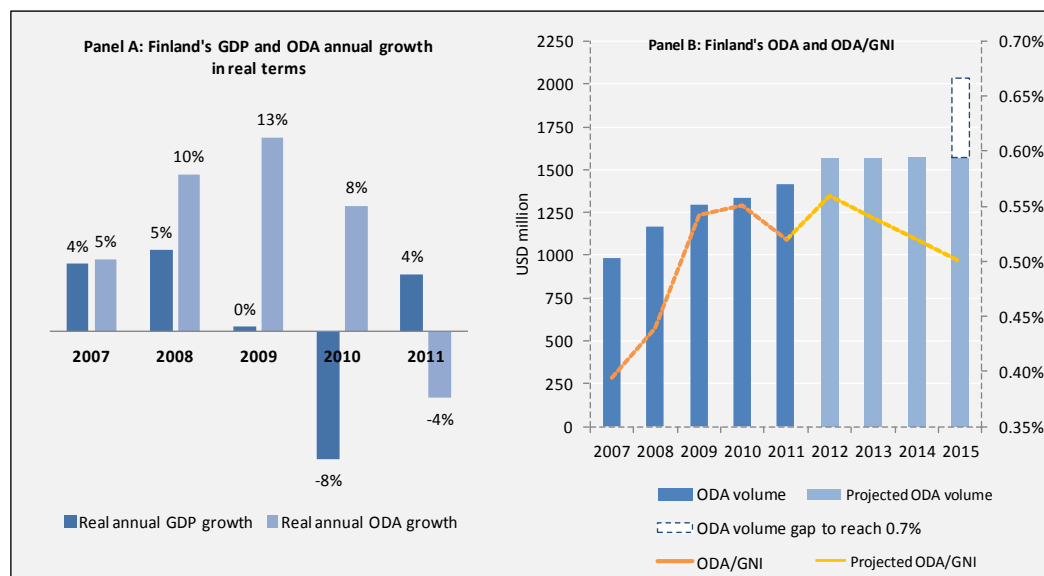
Since the last peer review, Finland has continued to increase ODA levels and surpassed its target of giving 0.51% of its gross national income (GNI) as ODA in 2010. This chapter examines how Finland has allocated this larger aid budget across countries and sectors, and renewed support to cross-cutting issues and private sector development. This chapter also explores how, in the context of an aid budget freeze planned for 2013-2014 and of a decrease planned for 2015, Finland can improve the predictability of future ODA increases to meet its aid targets by 2015 and enhance the impact of its allocations, especially those to and through civil society organisations and the multilateral system, which Finland plans to increase as a share of total aid.

## Impressive ODA growth comes to a standstill

Finland's official development assistance (ODA) has increased considerably since the last peer review, both in volume and as a percentage of gross national income (GNI). The aid budget grew most in 2008 and 2009, at 10% and 13% respectively (Figure 3.1, Panel A), and increased by 35% between 2006 and 2011, to reach USD 1.41 billion in 2011. With a ratio of 0.55% ODA/GNI in 2010, Finland surpassed its intermediate target of 0.51% set for that year and remains committed to reaching the 0.7% ODA/GNI target in 2015. The peer review team commends Finland for having reached its 2010 aid target, which reflects the broad political support given to development co-operation.

While Finland's economy has not yet recovered from the 2009/10 recession and is now also exposed to the risks relating to the euro zone turmoil, OECD projections are that Finland's GDP is expected to grow at around 2% per year between 2013 and 2015 (OECD, 2012). It would be positive if ODA could follow this trend. However, in 2012 the government decided to increase budget savings, including through government spending cuts by EUR 1.23 billion between 2013 and 2016. Unlike other areas of the budget, aid will only be affected marginally by these cuts but they will, nevertheless, make it a challenge for Finland to reach its 0.7% target by 2015. After a slight increase in 2012, Finland's aid budget will be frozen at the 2012 nominal level in 2013 and 2014 and decrease by EUR 4 million in 2015, compared to the level of 2014. Current projections provided by the MFA show that development assistance will total approximately USD 1.57 billion in 2015, much less than the estimated USD 2.03 billion needed to reach the 0.7% ODA/GNI target by that date (Figure 3.1, Panel B). It is important that Finland achieves its international commitments and that the results achieved by past ODA increases are not jeopardized by future cuts.

**Figure 3.1. Trends in Finnish aid volume and as a percentage of national income, 2007-2011**



Source: Based on OECD/DAC and World Bank statistics.

The Finnish authorities recognise that achieving 0.7% ODA/GNI by 2015 will be challenging. In its development policy Finland reaffirms its international commitment and indicates that it will explore ways to increase ODA by bridging the estimated financing



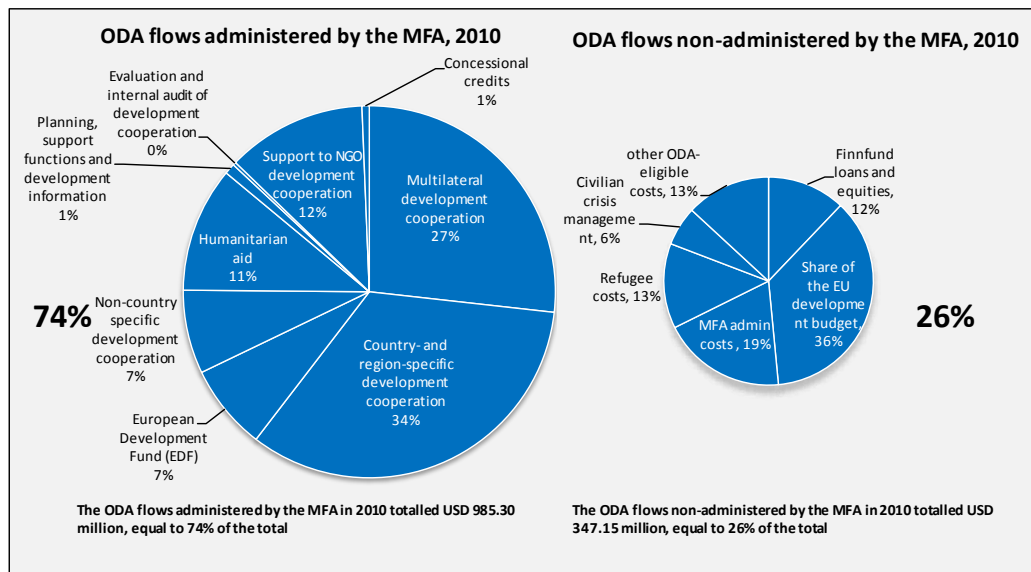
gap through alternative sources of revenue, like the EU Emission Trading Scheme (ETS) emission allowances auction (MFA, 2012a). However, Finland is yet to quantify the expected revenues from this auction and decide what share would be transferred to development co-operation. Finland also makes clear that possible revenues from this source will only be available towards the end of the current legislative period (MFA, 2012b). To provide clarity and predictability as to how it will achieve its aid target, Finland should develop a credible and strategic pathway for increasing ODA until 2015.

### Finland's centralised budget for development co-operation

The Finnish development co-operation budget is more centralised than most DAC members', as Finland's Ministry for Foreign Affairs is responsible for managing 74% of all ODA - eligible funds (see Chapters 1 and 4). These funds include Finland's contribution to the European Development Fund (EDF), contributions to multilateral organisations, NGOs, humanitarian aid and country and region-specific development co-operation. (Figure 3.2).

The remaining 26% of funds that qualify as ODA include Finland's contribution to the EU's Development Co-operation Instrument (DCI), which is managed by the Ministry of Finance, and other flows such as refugee costs and the Finnish development finance company's (Finnfund) loans and equities.

**Figure 3.2. ODA administered by the MFA and by other state departments**



Source: Based on data from the Ministry for Foreign Affairs of Finland.

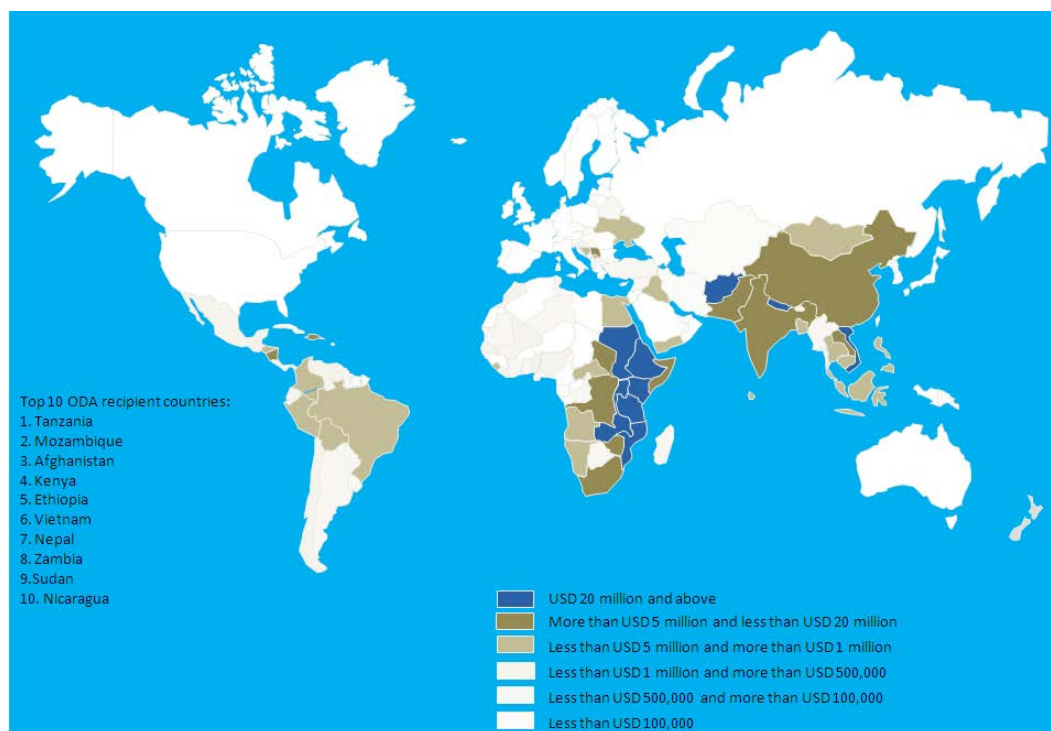
### Bilateral aid

Of Finland's 2010 official development assistance in 2010, 63% was bilateral aid (Annex B, Table B.2). While the ratio between bilateral and multilateral ODA has not changed dramatically, the emphasis on bilateral aid in the 2007 Development Co-operation Policy did translate into larger allocations to the bilateral programme. In real terms, bilateral ODA increased at an average annual rate of 13% between 2008 and 2010, while multilateral ODA increased only by 5%. Finland's main bilateral aid channels are

country and region specific development co-operation, which includes embassy managed funds, and support to NGOs (Figure 3.2).

Finland plans to increase the concentration of its development co-operation by focusing on long-term partner countries and least developed countries in Africa and Asia. Finland also intends to reduce the number of small and short-term bilateral activities, especially those whose contribution to Finland's overall development co-operation objectives are unclear, by not extending them once they come to an end (MFA, 2012b). This is a welcome move towards reducing the fragmentation of Finland's aid portfolio (see figure 3.3) which happened in tandem with the growing development co-operation budget.

**Figure 3.3. Recipients of Finnish bilateral aid in 2010**



*Source: Based on data from the Ministry for Foreign Affairs of Finland.*

### ***Increased resources to long-term partner countries***

Finland's top ten aid recipients are its eight long-term partner countries, plus Afghanistan and Sudan. Finland has supported these two countries for a long time without them being officially classified as long-term partner countries (see Chapter 1). Between 2006 and 2010, Finland scaled up assistance significantly in its long-term partner countries, more than doubling allocations to Ethiopia, Kenya, Nepal and Zambia. The long-term partners plus Afghanistan and Sudan receive 58% of Finland's total bilateral aid allocable by country and 70% of the funds that the MFA manages directly for country, region and thematic development co-operation.<sup>1</sup> This shows that Finland's aid allocations closely follow its stated commitment to these countries. Finland is encouraged to continue this good work with its long-term partners. However, as government-to-government co-operation represents a variable share (30% to 70%) of Finnish bilateral aid to its long-term partners, Finland could reflect on whether all its bilateral channels adequately support the development efforts in those countries. Finland could also

consider if it needs to allocate more resources to its embassies to facilitate the management of the increased ODA in the field (see Chapter 4 and Annex C).

### ***A strong focus on LDCs and Africa***

Finland has a good track record of focusing on least developed and sub-Saharan African countries. In line with its 2004 Government Resolution, Finland has increased aid to least developed countries and sub-Saharan African countries since the last peer review. Aid to LDCs increased by 55% in volume between 2006 and 2010, to reach USD 283 million in 2010. It also increased as a share of gross bilateral ODA, rising to 60% in 2010 from 51% in 2006 (Annex B, Table B.3). Bilateral allocations to sub-Saharan Africa increased from 45% of disbursements in 2006 to 49% in 2010 (ibid). In addition, six of Finland's top ten aid recipients and five of its long-term partner countries are located in sub-Saharan Africa. Finland reaffirmed its pledge to focus on least developed countries in its 2012 development policy (MFA, 2012b). As Finland continues to focus on LDCs, it should monitor its allocations closely so that aid remains concentrated in long-term partner countries and other LDCs where it can have the most impact. For example, while 75% of 2010 disbursements to LDCs went to five long-term partner countries,<sup>2</sup> plus Afghanistan and Sudan, the remaining 25% (USD 71 million) was spread over 33 other LDCs.

### ***Reducing activity-level fragmentation within sector prioritisation***

Within its bilateral aid, Finland has increasingly concentrated on social infrastructure and services, providing large shares of aid to support government and civil society, water and sanitation, and education (Annex B, Table B.5). In partner countries, Finland's disbursements are generally in line with its stated sector priorities and with its commitment to focus aid in no more than three sectors. According to DAC data, more than two-thirds of Finland's sector allocable aid is allocated to priority sectors in most of its partner countries, notably in Ethiopia, Mozambique, Nepal, Nicaragua and Zambia. However, efficiencies could be gained by reducing the number of sub-sectors and ensuring that the number of activities within each of the priority sectors matches the embassy's capacity to monitor their development impact (Chapter 4). For example, in Nepal Finland concentrates on a large number of activities which may exceed the embassy's capacity for effective follow-up.

### **CSOs: a need for strengthening complementarities and streamlining procedures**

Finland believes that civil society organisations have an important role to play in Finnish development co-operation and that their work complements what is accomplished through bilateral programmes with developing country governments. In line with this, aid allocations through the CSO channel have increased alongside Finland's ODA increases. Aid funds to and through CSOs amounted to USD 119.6 million in 2010, equivalent to 12% of the Finnish development co-operation budget administered by the MFA (MFA, 2012a). Finland plans, in its 2012 development policy, to increase development assistance for CSOs further. As it implements this plan, Finland should engage in partnerships with CSOs that enable it to achieve its the development objectives.

The MFA funds CSOs through a range of mechanisms: core funding, calls for proposals, framework partnership agreements, and funding for local CSOs administered at the embassy level (local co-operation funds or LCFs). Core funding represents only a small part of Finland's total support to CSOs: USD 3 million (for Finnish CSOs) and

USD 10 million (for international CSOs) in 2010. The bulk of funding to CSOs is made of non-core contributions: half of which is assistance for projects identified through the annual calls for proposals and the other half supports programmes established with partner NGOs through framework partnership agreements. Framework partnership agreements, which Finland has established with 11 Finnish NGOs, are an important tool for spelling out the goals and principles that the Ministry for Foreign Affairs and CSOs aim to support through their joint development co-operation efforts. These multi-annual agreements also make aid to partner CSOs and to final beneficiaries more predictable and are easier to administer by the Ministry. However, as funding through framework agreements represents less than half of total support to CSOs, the MFA continues to administer a large number of small projects which is burdensome. Finland should consider ways to engage more strategically with CSOs with a view to reducing the administrative burden and focusing on the development value of ODA allocation through CSOs.

According to its Guidelines for Civil Society in Development Policy (MFA, 2010) Finland plans to work with a diverse set of civil society actors, including foundations, research institutes, media, trade union movements, business actors, and think-tanks. However, it seems that this has yet to be achieved, as the main recipients of development assistance are traditional development NGOs and the range of organisations receiving funding has not varied significantly since the guidelines were adopted. Finland needs to ensure that its different funding mechanisms allow it to reach this intended diversity of actors. It should also ensure that NGO financing in partner countries funds interventions that are complementary to and supportive of Finland's co-operation objectives by, for example, filling gaps and tackling issues that cannot be addressed through governmental channels. The peer review team field visit to Nepal (Annex C) suggested that NGO projects funded through the Local Cooperation Fund (LCF) are well tailored to the country's situation and often complementary to Finland's government-to-government projects and programmes. However, this is less the case for NGO projects approved in Helsinki as part of larger multi-country interventions. A stronger involvement of embassies in NGO programme discussions in Helsinki and a clearer role for embassies in relation to these NGOs could help Finland strengthen complementarities and improve effectiveness of the NGO channel (Chapter 4).

Finland should also ensure that its reporting to the DAC on CSO funding correctly reflects its actual support to this channel. There is a significant discrepancy between the contributions that Finland reports through the OECD Creditor Reporting System, which are correct, and what it reports for the DAC tables (shown in Annex B, Table B.1).

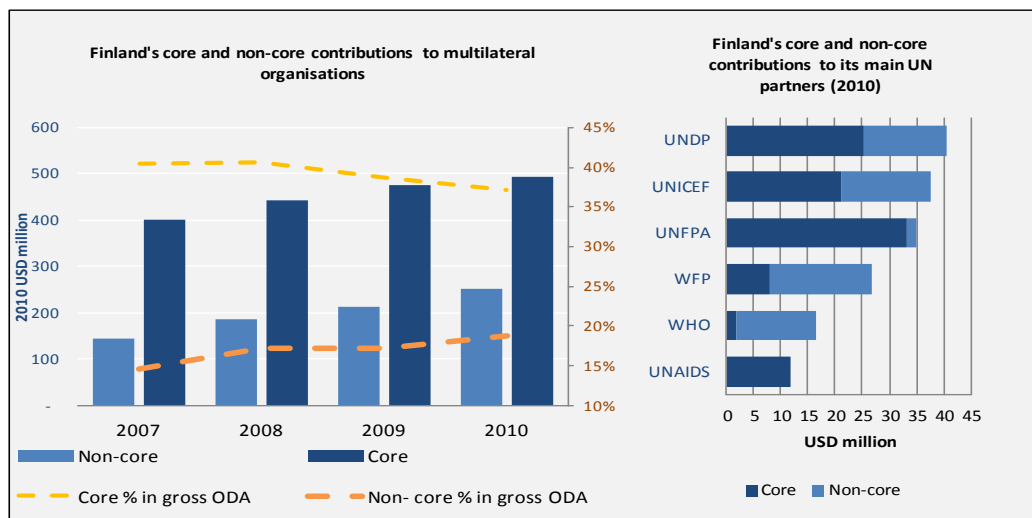
### **Multilateral aid: maintain a focus on core contributions and link allocations more closely to performance**

Finland's multilateral ODA has increased since the last peer review, on average by 3% a year between 2006 and 2010.<sup>3</sup> In 2010, Finland's core contributions to multilateral organisations amounted to USD 494 million. An additional USD 250 million was provided as non-core contributions. A large portion of core contributions is allocated to the European Union (40%), followed by the United Nations (29%), International Development Association (15%), regional development banks (7%), the Global Environment Facility (4%), and the remaining 4% allocated to other multilaterals. Finland focuses its core UN contributions on six UN agencies and funds: United Nations Population Fund (UNFPA), United Nations Development Programme (UNDP), United

Nations' Children's Fund (UNICEF), Joint United Nations Programme on HIV/AIDS (UNAIDS), World Food Programme (WFP) and World Health Organization (WHO). For two of these (UNFPA and UNICEF), Finland is among their top ten largest core contributors. Among the international development financing institutions, Finland's main partners are: World Bank/IDA, African Development Bank (AfDB), Asian Development Bank (ADB), Inter-American Development Bank (IDB), Inter-American Investment Corporation, and Nordic Development Fund.

Finland maintains a multilateral allocation policy of focusing on core budget contributions, with 66% of its multilateral aid given as core contributions in 2010. Despite this, non-core contributions to multilaterals – mainly co-financing and thematic funds – are considerable and on the rise (Figure 3.4). The volume allocated as non-core contributions represents an increasing share of its gross disbursements: from 26% in 2007 to 34% in 2010. Finland tends to be more fragmented in its non-core contributions, which it provided to over 80 organisations in 2010. It is important that Finland ensures that its non-core support to multilaterals is supportive of its overall development objectives in a country.

**Figure 3.4. Finland's core and non-core contributions to multilateral organisations**



Source: Based on data from the Ministry for Foreign Affairs of Finland and OECD/DAC statistics.

Finland developed criteria for allocations to multilateral organisations in its guidelines *Multilateral Co-operation in Finland's Development Policy* (MFA, 2008). In line with the first criterion, Finland allocates the bulk of its core allocations to multilateral partners with which it has strong and long-standing co-operation. In line with the other two criteria in the policy, Finland draws information on the performance of multilateral organisations from various sources to ensure that its funds support organisations that: (i) have an added value in promoting sustainable development and (ii) that are effective. These information sources include the multilaterals' internal evaluations and the assessments by the Multilateral Organisations Performance Assessment Network (MOPAN<sup>4</sup>). Finland has been a MOPAN member since it was formed, and also acted as the MOPAN secretariat during 2010. It is leading MOPAN's assessment of UNAIDS in 2012. Finland should continue to work through the boards of its multilateral partners to ensure that they have reliable internal evaluation systems which donors can rely on and use to decide their allocations. To link its support more closely to agency performance,

Finland should also continue to support the development of joint evaluation instruments - like MOPAN.

### Strong and renewed support to cross-cutting issues

Finland has prioritised gender equality and the environment in its development co-operation for a long time. Finland's 2012 development policy (MFA, 2012b) identifies gender equality, inequality reduction and climate sustainability as cross-cutting issues of Finland's development policy (see Chapter 1). The policy states that these objectives will be supported through mainstreaming, targeted actions and political advocacy work in bilateral, multilateral and EU co-operation and communication. Despite some challenges in implementing cross-cutting issues (see Chapter 1), the strong prioritisation of gender equality in Finland's development programme is reflected in Finland's ODA commitments (Table 3.1). Since the last peer review the gender focus of Finnish development programmes increased from 27% in 2007 to 54% in 2010. The peer team's field visit to Nepal (Annex C) confirmed that many Finnish projects and programmes incorporate a specific gender equality dimension. The share of Finnish aid that has an environment focus increased from 35% in 2007 to 46% in 2010.

**Table 3.1. Finland's gender equality and environment focused aid commitments, 2007-2010**

Gender focus of Finland's aid programme (constant 2010 USD million)					Environment focus of Finland's aid programme (constant 2010 USD million)				
	2007	2008	2009	2010		2007	2008	2009	2010
Principal objective	9	17	18	18	Principal objective	91	124	205	145
Significant objective	95	253	384	398	Significant objective	47	122	177	209
Not targeted	287	365	482	350	Not targeted	252	390	502	411
Not screened	0	0	0	0	Not screened	0	0	0	0
<b>Total sector-allocable aid</b>	<b>391</b>	<b>635</b>	<b>884</b>	<b>765</b>	<b>Total sector-allocable aid</b>	<b>391</b>	<b>635</b>	<b>884</b>	<b>765</b>
<b>Gender focused aid</b>	<b>27%</b>	<b>42%</b>	<b>45%</b>	<b>54%</b>	<b>Environment focused aid</b>	<b>35%</b>	<b>39%</b>	<b>43%</b>	<b>46%</b>
<i>Memo aid</i>					<i>Memo aid</i>				
<i>Aid to Women's equality organisation and institutions</i>	277	226	330	314	<i>Aid to Environment</i>	277	226	330	314
	2	7	5	5		35	46	57	56

*Note:* DAC members use “markers” when reporting their ODA statistics to the CRS. The markers help identify how much ODA has been used for cross-cutting activities such as gender, economic well-being, social development, environment sustainability and regeneration, democratic accountability and the protection of human rights. All DAC members screen their activities against the DAC gender marker, which is used to classify donor-supported activities in terms of their gender equality focus. This involves two levels of classification: (1) “principal”: gender equality was an explicit objective of the activity and fundamental in its design; (2) “significant”: gender equality was an important but secondary objective of the activity.

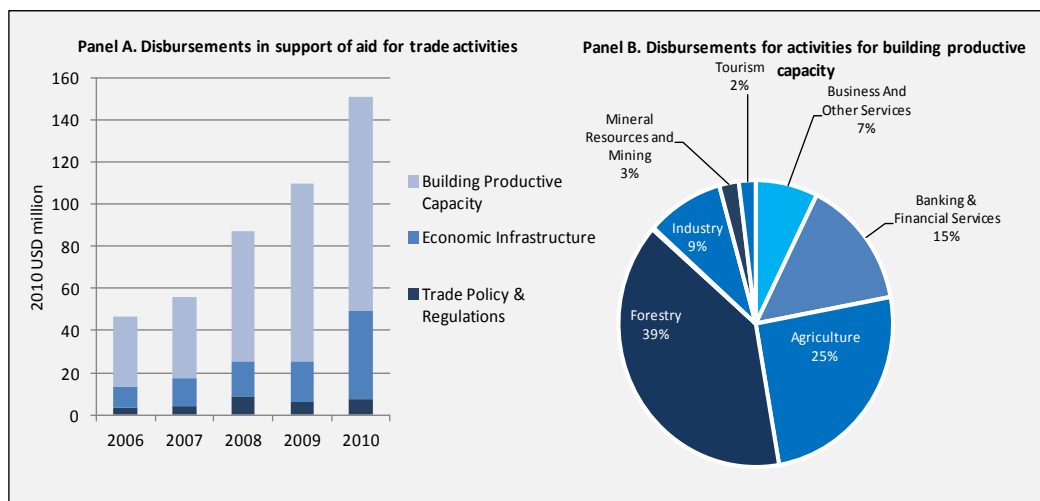
*Source:* OECD/DAC Statistics

### Aid to support private sector development and trade

Finland sees private sector development as indispensable for achieving an inclusive green economy and job creation in partner countries (MFA, 2012a and Chapter 1) and believes that the private sector can play a crucial role in the sustainable management of natural resources. Finland has several tools to support the private sector in developing countries. It has been a strong supporter of the Aid for Trade initiative internationally and has increasingly contributed to activities in partner countries. Finnish aid for trade disbursements more than tripled between 2006 and 2010, reaching USD 151

million in 2010. Over this period, Finland primarily supported activities to build productive capacity, especially in the forestry and agricultural sectors (Figure 3.5), where Finland has a strong know-how and expertise.

**Figure 3.5. Finland's aid for trade disbursements, 2006-2010**



Source: Based on data from DAC Creditor Reporting System.

Finland also provides long-term investment loans and risk capital for private projects in developing countries (and Russia). These take the form of minority equity investments, investment loans and mezzanine financing<sup>5</sup> through the state-owned development finance company Finnfund. In 2010 Finland disbursed through Finnfund USD 98 million (47 million of which qualify as official development assistance). In 2012 Finland increased Finnfund's capital and intends to increase it further over the current cabinet period<sup>6</sup>. Finland should ensure that the increased Finnfund capital will not translate into a larger share of tied aid and carefully assess the development impact of activities funded through Finnfund. In 2006 Finland also created Finnpartnership to promote business partnerships and to transfer technology and expertise to developing countries. Finnpartnership is based on the scheme of matching-grant facilities. These instruments are not formally tied to Finnish products. However, Finnpartnership was strongly criticised in a recent evaluation on the Finnish concessional aid instrument (MFA, 2012c), which highlighted that its "primary beneficiaries are Finnish firms and developing countries benefit indirectly at best". Therefore, while it is positive that mechanisms are in place to allow Finnish firms to share their expertise with the private sector in developing countries, Finland should find ways to ensure that development concerns prevail over national interest in funding decisions.

Finland has a concessional credit scheme which is a commercial export credit for products with a "Finnish interest" (previously, content) of 30% to 50%. This is supported by an interest subsidy paid from the MFA development co-operation budget through a Finnish or European financing institution. In 2010, the concessional credit scheme accounted for only 1% of the MFA's development budget and for 0.5% of total net ODA. However, this low share masks the significance of this scheme in certain countries, like Vietnam and China. This instrument is in fact particularly important for Finland to engage in sectors and countries that it does not reach through government-to-government

forms of co-operation. As discussed in Chapter 5, Finland’s concessional scheme is one of the main tied components of Finnish official development assistance.

### **Non-ODA flows**

According to DAC figures (Annex B, Table B.1), there is only a very small proportion of non-ODA flows in Finland’s total official flows to ODA-eligible countries: around 6% on average between 2007 and 2010. Therefore, the evolution of total official flows closely follows the evolution of ODA, with the exception of a fall in 2010 which stems from extraordinarily high “other official flows” in 2009.

While net private grants are negligible, the volume of net private flows at market terms is considerable and on the rise, but more volatile than official flows. During the financial crisis in 2008, the net outflow of Finnish private funds to developing countries became negative (USD -1.42 billion) as Finnish investors sold financial assets for USD 1.39 billion. However, in 2009 net private flows quickly became positive once again, surpassing the pre-crisis total of USD 1.05 billion in 2007. These flows continued to grow in 2010, reaching USD 2.92 billion, a nominal increase of 68% over 2009, mainly due to a surge in direct investments. There is no information available on the development impact of these flows.

### **Future considerations**

- Finland should develop a credible and strategic pathway until 2015 for achieving its commitment to increase ODA and reach the international 0.7% ODA/GNI target.
- Finland should continue to concentrate bilateral ODA on long-term partner countries and to focus on least developed countries. Finland should also assess in which partner LDCs it can have the greatest impact, and phase-out or scale up co-operation accordingly.
- To promote effectiveness and quality of the CSO channel, Finland should assess if the funding mechanisms it has in place to support developing countries through CSOs allow it to reach intended partners and goals. Finland should engage more strategically with CSOs to reduce the MFA’s administrative burden and systematically examine the development value of ODA allocations through CSOs.
- In line with its policy, Finland should continue to provide core contributions to multilateral organisations. It should also continue its good practice of concentrating ODA on a small number of multilateral organisations. Finland should link allocations to performance more closely by continuing to focus on supporting multilateral organisations’ internal evaluations and evaluations by MOPAN.



## Notes

1. These budget lines are “country and region specific development co-operation” and “non-country specific development co-operation”; see Figure 3.2.
2. Ethiopia, Mozambique, Nepal, Tanzania and Zambia.
3. Between 2009 and 2010 there was a slight decrease, but in 2011 multilateral ODA rose again to reach USD 555 million (2011 data are preliminary).
4. The Multilateral Organisation Performance Assessment Network (MOPAN) is a network of 16 donor countries who agree to carry out joint assessments, share information and draw on each other’s experience in monitoring and evaluating the organisational effectiveness of the major multilateral organisations they fund.
5. A hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. Mezzanine financing is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies.
6. Correspondence with the MFA.



## *Chapter 4*

### **Organisation and management**

This chapter looks at how development is integrated in foreign policy and in the structure of the Ministry for Foreign Affairs (MFA), and how this facilitates synergies and dialogue while requiring clear working processes and lines of accountability followed by all. This chapter also analyses the specific challenges the MFA faces in managing its staff working for development. A complex staffing structure and weak incentives are creating a high turnover that makes it difficult to build and retain a stable cadre of skilled development professionals. How delegation of authority to embassies can be made more strategic and better serve programme implementation is also explored. This chapter looks at how country strategy papers are becoming more results-oriented, and the challenges of creating a true culture of management for results.

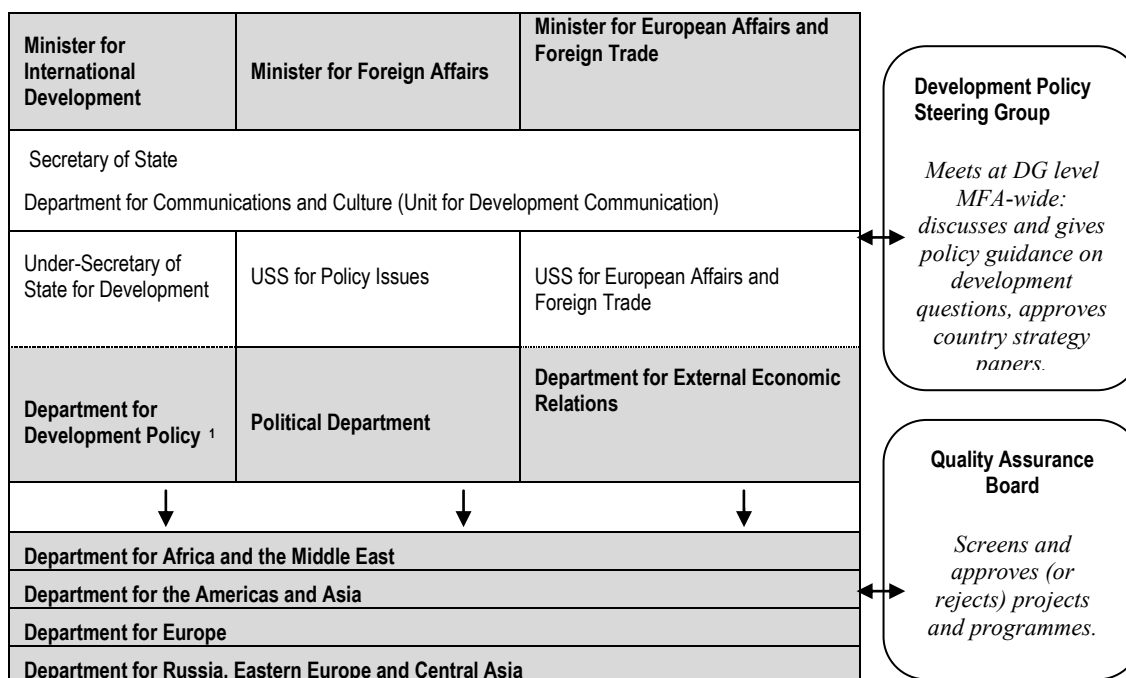
## An integrated structure managing most of ODA that needs clear and systematic approaches

The Ministry for Foreign Affairs (MFA) manages and co-ordinates the majority of Finland’s development co-operation budget (74% of ODA - see Chapter 3). Its organisational structure and management processes are thus central to the effectiveness and quality of Finnish development co-operation. However, the integrated nature of development in the MFA and the fact that the Finnish development budget and programme have increased considerably in recent years are stretching the limits of Finland’s pragmatic approach to management and organisation.

### *An integrated structure for managing ODA*

The MFA’s organisational structure (Figure 4.1.) has been only slightly reformed since the last peer review.<sup>1</sup> However, development remains one of the MFA’s three integrated policy pillars, along with foreign policy and trade. The fact that development is “integrated” means that it has a prominent place with its own department, that synergies are facilitated, but also that the development activities are spread across seven departments. The Department for Development Policy both provides overall guidance on the implementation, planning and monitoring of Finland’s development co-operation policy, and holds direct responsibility for the operational activities for development co-operation. Regional departments are responsible for bilateral and regional development co-operation, including implementing the policy in developing countries through country plans and annual budget frameworks and for managing programming cycles. The country desk officers in regional departments steer operations and form a “country team” with their counterparts in a Finnish embassy. Relevant sectoral or thematic advisors at headquarters and specialists in embassies also participate in country teams.<sup>2</sup>

**Figure 4.1. MFA departments with a role in development**



Source: Based on MFA (2012a), *Memorandum for the Peer Review of Finland*, MFA, Helsinki.

*Note*<sup>1</sup> The Department for Development Policy has 7 units: General Development Policy and Planning, Sectoral Policy, NGOs, UN Development Issues, Development Financing Institutions, International Environment Policy, Humanitarian Assistance.

All departments are interlinked and on an equal footing: the four regional departments can take their own initiatives and they implement policies according to guidance given by the three policy departments, including for development. Two formal mechanisms ensure internal co-ordination and oversight: the Development Policy Steering Group and the Quality Assurance Board. The Development Policy Steering Group is chaired by the Director General (DG) of the Department for Development Policy and brings together all directors of the MFA. Its mandate is to guide relevant stakeholders in the MFA on all development policy issues and to approve country strategy papers. The Quality Assurance Board screens all project and programme proposals for compliance with policy, guidelines and quality. It then makes recommendations to the Minister or the Director General for Development Policy on whether proposals should be approved.

### ***Emerging challenges***

The fact that all Finnish development co-operation is managed within the MFA favours pragmatic, ad hoc exchanges and close collaboration in everyday operations. However, the dynamics of Finnish development co-operation have changed in recent years as Finland's development co-operation budget and activities have expanded substantially. Managing a bigger programme requires a strong organisation with all parts working together towards a common goal. An integrated organisation with seven different departments dealing with development needs clear guidelines and a rigorous and unified approach to ensure cohesion. Co-ordination and clear lines of accountability are also essential to ensure that the development policy is implemented, and to avoid duplication and fragmentation.

Although decision-making processes and accountability lines are defined in theory, policy guidance on development is not always evenly understood, used or integrated by all departments and at all levels of the MFA. The guidance given ex-ante by the Development Policy Steering Group is sometimes not specific and operational enough for staff to use when designing new programmes, and the Quality Assurance Board looks at programmes at a fairly advanced stage of the designing process. The staff would like more clarity on priorities and concrete implementation. Also, at the everyday work level, co-ordination still often relies on individual initiative. Various respondents during the peer review also mentioned that the programming process for development projects is complicated and heavy. The administration of NGO projects is particularly burdensome as the ministry has to process and administer a large number of projects despite limited staff (Chapter 3).

To remain fit for purpose, Finland should now review and, if necessary, adapt its working methods to ensure that all actors implement the common policy in all areas, while also retaining the flexibility and pragmatism which are key strengths of Finnish development co-operation. The electronic case management system launched in January 2012 may be one solution (Box 4.1). It will introduce a unified programming process with references to policy guidelines.

### **Box 4.1. The case management system**

After a long preparation phase the MFA launched a new case management system (AHAKYT) in January 2012. The aim is to address the issue of fragmented information systems. It is an on-line tool designed to improve work flow management by desk officers and to facilitate and guide them in process management throughout the whole programme cycle. Whenever a new “case” (*i.e.* programme) is started, the system will take the desk officer through all its stages and requirements: financial planning, technical planning, quality assurance, agreements, implementation, integration of cross-cutting issues, monitoring, evaluation, tying status and statistics. The list of all requirements for a project or programme is concentrated into a single system that will remind staff of all the steps required and provide a harmonised and clear approach to programme design and management. The system includes instructions and policy guidelines for each task or phase. This should ensure that policy guidance is available to all, at headquarters and in the field.

The case management system is designed to provide detailed information for the use of the administration and also for transparency purposes. It should facilitate hand-over between two desk officers and improve institutional memory: all information will be centralised in one place and it should be possible to know at any moment a project’s stage and the next person should be able to pick up from where the previous person left off.

Since the launch of the case management system all new interventions are now entered into the system. It is already being used for bilateral programmes and projects and the MFA is preparing detailed workflows for the other channels (multilateral, NGOs). The system will also be used by embassies, although Finland is still adapting it to embassy needs. If managed well and used by all, the new system has the potential to make development management easier and less time-consuming, freeing up time for focusing on results and impact, and less on administration. For example, the NGO Unit in the MFA has estimated that the use of the case management system could save 2 months of work per person in that particular unit.

*Source:* Based on MFA, 2012a and interviews conducted during the peer review.

## **The ongoing challenge of managing development staff**

### ***The need for a strategic plan for development staff and knowledge management***

The management of human resources involved in development co-operation is still a central challenge for the MFA. Some of the issues identified by the 2007 peer review are being addressed (Annex A), but progress is slow. The 2007 review recommended that the MFA should create and implement a human resources policy for development co-operation (OECD, 2007). The MFA has not designed a specific human resources policy for development as it is of the view that development related human resource matters fall under the overall MFA’s human resource strategy, in line with the MFA’s integrated approach. Like in many countries, human resources management in the MFA is a centralised service and it can be difficult to influence specific decisions for development staff.

However, development does require specific skills, both at headquarters and in the field. An overall plan addressing all development-related staff issues could be added to the existing human resources strategy (2010-2015; MFA, 2010a). Finland should address development-specific challenges, identify and provide the right skills to implement the new development programme effectively, and adapt to needs in the field (*e.g.* fragile situations), changing priorities in the development policy or (sometimes predictable) staff movements. Given the size of its programme, Finland may not require a

large cadre of specialists, but it is important to ensure that staff working on implementing the development programme has a good command of development co-operation issues.

***A complex staff structure and poor career prospects for specialists***

The Finnish MFA has a complex staff structure involving different categories: general career, special career, locally employed staff and others (Table 4.1). Currently, staff in the “special career” category do not have a career path, some posts at headquarters are not accessible to them (often decision-making posts), and criteria allowing them to apply and be posted to embassies are unclear. Although no data was provided, the peer team review was told during interviews that it seems exceptional when “special career” professionals are chosen for rotation. As a result, some “special career” staff seek professional opportunities in other organisations, taking their knowledge and skills with them. However these development experts are central to ensuring the quality of Finnish development co-operation and the MFA should find ways to retain them. Locally-employed staff face a similar lack of career prospects and professional opportunities.

**Table 4.1. MFA’s staff categories**

<b>General career staff</b>	Diplomatic career: civil servants, rotate internally and to embassies – the extent of work on development co-operation depends on the post.
	Administrative career: civil servants, rotate internally and to embassies – the extent of work on development co-operation depends on the post.
<b>Special career staff</b>	Sectoral Advisors and Senior Advisors: usually permanent contracts at HQ. Cannot rotate as advisors in embassies. Some have been assigned to embassies and listed as Counsellors, but on leave of absence from their actual contract.
	Programme Managers and Senior Officers: may have permanent or fixed-term contracts at the MFA. Generally do not rotate internally or in embassies. Some administrators have rotated as special advisors to the embassies, on leave of absence from their permanent post.
	Special advisors: have so-called civil servant contracts for a fixed term. No system for rotation but they often apply for posts available in embassies (special advisors) or HQ (advisors).
<b>Locally employed staff</b>	Staff working on development co-operation at embassies, employed locally. They can be Finns or locals.
<b>Others</b>	Fixed-term project assistants and trainees, junior advisors financed by the employment authority.

*Source: MFA.*

The MFA’s human resources strategy for 2010-2015 mentions that “career categories will be streamlined” (MFA, 2010a). There should be clear and transparent principles and guidelines on career development and rotation for all categories of staff, as well as a set of measures that could encourage skilled staff to take up, and remain in, development positions. Concerning the “special career“ staff category, a working group was established to examine how to enhance their career possibilities. The working group has produced recommendations such as requesting that all categories of staff be better taken into account in the human resources management; better access to, and more transparency on, rotation and open positions; and the possibility for “special category staff” to become civil servants. The MFA reports that the recommendations of the

working group have been, by and large, approved by the Ministry's top management, and that they are being implemented. As an example, Finland mentions that decisions have been taken to promote some "special career" staff to the position of deputy head of mission in developing countries.

### ***Staff turnover: a challenge for skills management and programme implementation***

Ensuring that the MFA has the right skills for development is a major challenge, not helped by the career structure described above. As mentioned, special career staff often either leave at the end of their contracts, taking their expertise with them, or request long and repeated leaves of absence to be able to work for other organisations. Although no numbers are available, the peer review team was told that often vacant decision-making posts - which are reserved for diplomats - are not easily filled, either at headquarters or in the field. In addition, there seems to be a tradition of high-speed internal rotation in which high-performing staff members are called from one department to another. Several officials and staff members describe how skilled, specialised staff (special career or locally employed) are underused or leave because they have no career prospects, and how diplomatic posts are either left vacant or are occupied by diplomats who have little background in development, or move on as soon as possible. This high turnover – referred to as a "brain drain" by one Finnish staff member – is a direct consequence of the absence of a specific strategy to manage professional skills and give the right incentives to develop a professional and sustainable cadre of development staff. This is a real challenge for the quality and implementation of Finnish development co-operation.

Like many other countries, Finland is reducing public sector staffing levels due to financial constraints following the economic crisis<sup>3</sup>. It is important that the MFA reflects on how the foreseen reduction in staff – especially in experts – will affect programme design and implementation, and how the MFA plans to address this. Even though ODA is not going to increase in the near future, the Finnish development programme has expanded in the past years. The government's commitment to reduce fragmentation (Chapters 1 and 3) should help rationalise programmes, and the MFA's human resources strategy declares that "the amount of work must decrease as the number of staff declines" (MFA, 2010a). However, the MFA needs a plan to ensure that the decrease in development staff is managed in a way that maintains adequate quality (skills for effective design and implementation of programmes) and not only quantity (how many people to lay off).

### ***Improving training for development staff***

Efforts have been made to implement the 2007 peer review recommendation to improve training for development staff (Annex A). There is now a specific training programme accessible for MFA staff and staff from other ministries working on development issues. The training offer is composed of a module on general development issues and of advanced courses (e.g. on results-based management, programme management or thematic issues). Training modules are offered on a regular basis and supervisors are expected to advise their development staff to acquire relevant skills by attending training courses. Training can enhance the common knowledge base and provide useful tools to staff implementing the development programme. The new development policy also emphasises the importance of the MFA becoming a learning organisation where skills and knowledge are maintained and strengthened.

However, training is not mandatory and seems to be considered by many directors and supervisors to be time-consuming for their staff. Incentives for staff to seek training



are weak and so the training programme is not used systematically. To use the training offer to its full potential and increase the quality of development programmes, Finland could sensitise supervisors and staff to the fact that training is also a source of motivation and contributes to a learning organisation. The MFA could also specifically request supervisors to identify annual training needs in their divisions and ensure that their staff attend the training, based on the competence profiles that are being developed by the MFA to provide staff with specific training paths. Also, attending and providing training could be included in staff terms of reference. Rotation between field and headquarters could be seen as an alternative means of training and improving expertise, and field experience should be openly valued and promoted.

It is positive that in its action plan for implementing the new development policy, the MFA plans to give more attention to training needs and accessibility (MFA, 2012c). Training opportunities should be transparent and available, without discrimination, to all categories of staff at headquarters and in embassies. In Nepal, for example, giving the same access to training to locally-employed staff and to Finnish staff could help ensure a unified approach to implementing the development programme. Providing the possibility for language courses is also especially relevant in embassies: it can help Finnish staff better understand local realities, and ensure smooth communication among all staff.

The high staff turnover also means a loss of knowledge when they leave a post or the MFA. Knowledge management is about balancing organisational learning and development with individual capacity and learning. Within the MFA, knowledge is with individuals and is lost when they leave. Although information is exchanged in informal ways, a system of organisational knowledge production and management, such as documenting good practice and capitalising on the experience gained in the different sectors, would be crucial for Finland. It would ensure that institutional memory is built and that learning contributes to continuity and better quality in managing and implementing the development programme. The new electronic case management system could be a good tool for doing this (Box 4.1).

### **Matching decentralisation with implementation needs in the field**

The last peer review recommended that Finland delegate more decision-making power to embassies; since then decentralisation to embassies has increased. The MFA has introduced a flexible system by which embassies in long-term partner countries have the possibility to obtain increased authority in programming and implementation. A framework document (MFA, 2009c) outlines the conditions and eligible countries where decentralisation can be increased, as well as the list of tasks that can be decentralised. There are also provisions for limited additional resources to be transferred to embassies. The framework is used as a basis for discussions between embassies and country desks in the regional departments as they design together a tailor-made agreement listing the division of labour between headquarters and the embassy of that particular country. Thus the degree of delegated authority is decided on a case-by-case basis and based on individual initiative and resources available in the country teams. An advantage of this system is that it takes into account the capacity of embassies to take on additional work and to use delegated authority in an effective manner.

Nevertheless, Finland should now reflect on its rationale for delegating programming, implementation and financial authority to embassies, based on how decentralisation can help implement the development programme and the specific

programmes in each individual country effectively. Finland should also decide what resources will be needed (financial and human, both quantity and skills) for effective implementation and decentralisation, and to enable embassies to respond to policy dialogue or programme management needs in each country, especially long-term partner countries where the Finnish development programme is concentrated. Finland should take a strategic approach to decentralise - based on clear criteria and objectives - that would add value to delegation of authority, while helping to improve programme implementation. It seems that the MFA has support for doing this: the National Audit Office has recommended that the MFA delegate more authority to embassies and the new development policy promotes delegation of authority to embassies for programme management (MFA, 2012b). In doing so, Finland should keep in mind the government's intention to rationalise the Finnish presence abroad by decentralising Finland's international operations in a "House of Finland" (PROG, 2011). Finland can also learn from other donors' experience with decentralisation. In particular, the findings and recommendations of Denmark's 2011 peer review, as well as Denmark's evaluation of its decentralisation system could be helpful to Finland (MFA DK, 2009; OECD, 2011b).

Finland should also consider increasing financial authority to embassies. This is linked to financial thresholds for approving activities at headquarters, which are currently low. Finland could also evaluate its experience in decentralising local co-operation funds (LCFs) (Chapter 3) to embassies to inform future decisions on this matter.

## **Managing effective and results-based programming**

### *Tools for facilitating and simplifying programming*

Finnish development co-operation involves a proliferation of policy guidance which is not always easy to translate into programmes. Since the last peer review Finland has developed guidelines and policy papers for its priority areas, aid channels and partner regions, and is updating some of the existing policy guidance. However, guidelines appear not to be specific and operational enough to be helpful in everyday programming and implementation. Staff confirmed in interviews with the peer review team that existing guidelines did not always provide the necessary tools for designing projects.

The use of the following new tools for programming can be a positive step, provided staff are adequately trained to use them:

- An action plan was designed for launching the implementation of the new development policy, which identifies first steps, objectives, training needs, actors and deadlines, with a focus on results (MFA, 2012c). This is a useful first step. However, to be an effective tool for implementation, this action plan should have a second phase translating the strategic guidance from the new development policy into a comprehensive set of precise areas of focus, concrete objectives, and more operational guidance that is of practical use to staff when designing programmes and which can be monitored (Chapter 1).
- New guidelines for bilateral programming (MFA, 2012d) have been designed. Once they are formally approved, the MFA will need to ensure that they are disseminated and explained to all staff involved in programming. All policy guidelines should be up-to-date, operational and of practical use to staff by being clear on priorities and objectives.
- The case management system (Box 4.1) aims to centralise the whole programming cycle from identification to evaluation, including results to be achieved, links to policy

guidance and screening of projects for cross-cutting issues. This system has the potential to greatly simplify, harmonise and streamline programming, and reduce the administrative burden. However, the MFA must ensure that it is simple to use and adapted to the specific needs of all development actors, including embassies. Staff will need to be trained in its use, as well as in all the programming components (cross-cutting issues, results-based management and identifying indicators).

### ***Devolving financial authority***

Financial levels of authority could be raised for different staff at headquarters and in embassies to streamline programming and decentralise decision-making. Currently, projects up to EUR 200 000 are authorised by the Director General for Development. Projects over EUR 5 million are approved by a government committee composed of several ministers. This means that the Minister for International Development alone makes financial decisions for all projects between EUR 200 000 and EUR 5 million. As a comparison, the minister in charge of development co-operation in Denmark only approves appropriations greater than EUR 1.3 million (OECD, 2011b); in Switzerland only appropriations over the equivalent of EUR 8.3 million are approved at ministerial level.<sup>4</sup> In Finland, out of 205 projects that were screened by the Quality Assurance Board in 2011, 107 went to the minister for his direct approval and 20 went through the minister to the government committee. The minister also approves all NGO projects regardless of their amount, core funding for multilateral organisations, thematic contributions to international organisations or research institutes, humanitarian aid, government grants via the private sector, or “any other socially significant issue”. While Finland points out that the minister should remain involved in the substance of development, an approach with greater delegation could speed up the decision-making process and make the programming cycle less burdensome.

### ***Improved country programming guidelines***

By the end of 2012, Finland plans to have completed country strategy papers (for 2013-2016) with each of its seven long-term partner countries, following useful guidelines prepared by headquarters (MFA, 2012f). The strategy papers will be prepared within the country teams and presented by the relevant regional departments, then vetted by the Development Policy Steering Group and approved by the Minister for International Development. The new guidance should help embassies prepare the draft country strategy papers while allowing them to make use of their field knowledge and expertise. Finland needs, however, to bear in mind that it may take some time for the new development policy to be reflected in country programmes, as most resources at country level are already committed for the next few years through multi-annual commitments.

The new country programming guidelines contain a series of positive and important features which show that Finland takes aid effectiveness principles seriously (Chapter 5). They insist on the importance of partner country ownership and are very clear about how Finnish areas of intervention and objectives are to be selected from the priorities in partner countries’ national development programmes. This is to be commended, as is the pedagogical way in which guidance is given to embassies on identifying objectives and indicators for Finnish development co-operation in a partner country. It would be positive if Finland could also align as far as possible with partner country programming cycles (as well as with EU joint programming strategies, if available).

According to the new guidelines, country strategy papers should identify expected results and impacts that can be measured, as far as possible, using existing national indicators from the partner country. They should demonstrate how the Finnish programme is contributing to the partner country's development objectives. Finland encourages the use of existing partner countries' results frameworks, monitoring and assessment mechanisms as much as possible. The inclusion of a tentative multi-year budget is also positive for predictability.

Finland should reflect on how it will use the country strategy papers as a tool for dialogue and for accountability with its partner countries, bilaterally or with other donors. The peer review team found in Nepal that there is fruitful dialogue between the embassy and national authorities, as well as with other donors (Annex C). This builds confidence and allows adapting to changes in a pragmatic way. This continuous dialogue and flexibility are much appreciated by the national authorities and the donor community. While continuing with this flexible approach, Finland should ensure that the country programmes, as approved after consultation with the partner countries, become the central tool for implementing, monitoring and accounting for the Finnish development programme. This ensures continuity and predictability, which in turn sets the basis for monitoring of the programme.

The new country strategy papers are also an opportunity for Finland to take a holistic approach to development in each of its partner countries. In this spirit, policy coherence for development should be mentioned as an area of special attention. A positive evolution is that the guidelines for the strategy papers instruct embassies to describe all aid modalities that will be used in a country, and not only the government-to-government or multi-bi channels. In particular, the fact that NGO activities are to be included in the country strategy papers should give embassies the opportunity to use their local expertise to monitor the NGO programmes approved by headquarters (see Chapter 3). A similar oversight by embassies of private sector activities could be relevant. It might also be useful to insert a specific reminder that Finland has agreed to limit support to three sectors per country, as per its EU commitment.

Another positive feature of the guidelines for country strategy papers is their section on risk management, providing a good opportunity for a comprehensive assessment of all the risks – not only corruption – that might affect Finland's development efforts and for addressing risk in ways that can bring about positive change. This is an improvement, especially as a recent evaluation underlined that Finnish interventions were vulnerable to external changes and risks (MFA, 2011b). Finland should consider relying on risk management analyses made by other donors or on joint assessments.

### *Integrating cross-cutting issues into country programming*

The MFA plans to make a human rights-based approach and its three cross-cutting issues integral parts of the country strategy papers to ensure that they are all systematically taken into consideration in implementation. Evaluations have shown that despite being clearly articulated in policy guidance and training modules, cross-cutting issues were poorly integrated in planning, depended on the special interest of individuals, and were nearly impossible to monitor (MFA, 2010c; MFA, 2011b). The MFA is aware of this weakness. It is positive that the action plan for implementing the new development policy mentions the need to reform the tools to implement cross-cutting issues and to design development actions to implement the human rights based approach. Finland

should ensure that staff are adequately trained to be able to identify measurable objectives for cross-cutting issues and integrate them into country programming.

### **Management for results: a high priority for the future**

Following an evaluation of Finland's results-based approach to development (MFA, 2011b), managing for results has become prominent in the new development policy: results-based management will be mainstreamed throughout the programming cycle. Finland is to be commended for taking quick action responding to this evaluation: results-based management has already been included in the new guidelines for bilateral co-operation and for country strategy papers, and the MFA is implementing a management response with a clear schedule.

The evaluation identified three key challenges: existing tools were not being used; there was no overarching strategy; and no culture of managing for results in the MFA. The management response focuses on mainstreaming a results-based approach into all aspects and tools of the programming cycle (guidance documents, country strategy papers, human resources and training, case management system). While there is strong internal demand from headquarters and the embassies to set clear and specific goals and objectives for development activities, Finland needs to bear in mind that creating a results-oriented culture takes time and incentives, and that intensive training will be needed for results-based management to permeate Finnish development co-operation.

The National Audit Office regularly highlights the need for all ministries to set objectives and measurable results in their policies and programmes; this would make them more accountable. Currently Finland's annual development co-operation reporting is not based on results. The new guidelines for bilateral programming stipulate that "reporting at the level of interventions should concentrate on results rather than describing the inputs provided by Finland and/or other partners. On a more general level, reporting should aim to demonstrate the long term sustainable results which partner countries have obtained and to which ODA in general has been able to contribute" (MFA, 2012d). Applying this to all of Finnish development co-operation and successfully introducing management for results would enable Finland to report and communicate more effectively about results.

### **An efficient and independent evaluation unit which makes the best of a limited number of staff**

Since the last peer review the evaluation unit has been moved out of the Department for Development Policy and is now under the direct supervision of the Under-Secretary of State for Development (Figure 4.1). This increases the unit's independence, as well as the attention given to evaluation at senior levels in the Ministry. The unit is in charge of centralised evaluations, while other departments managing ODA have responsibility for decentralised evaluations; the MFA could make this clear in its rules of procedure. According to internal evaluations the unit has provided input to the new development policy and contributed to the strong emphasis on managing for results (MFA, 2010c; MFA, 2011a).

Finland has introduced a new management response system that makes it mandatory for management to respond to each evaluation with an action plan. Evaluation is being integrated within all guidance documents and the entire programming cycle through the case management system (Box 4.1). This should facilitate evaluations and help Finland make better use of the results for learning and for stronger, evidence-based and forward-looking programming, management and policy making.

Since the last peer review the unit has invested a lot in training of MFA staff, as well as in developing templates and matrix tools to guide evaluations at headquarters and in partner countries. These activities are helping to develop an evaluation culture, which in turn increases internal demand for evaluations. To continue to develop and maintain an evaluation culture, independent evaluations must be complemented by other evaluative processes such as reviews, self evaluation and assessment, peer reviewing and learning. To deliver on the new political emphasis on results, the evaluation unit is also asked to give input for new guidelines, to build capacity on results and evaluation in development throughout the MFA and to act as a helpdesk for staff. These demands are stretching the limits of what the unit can do given its limited manpower. It has responded by taking a strategic approach to planning and ensuring that evaluations are carried out timely in the programming cycle. The evaluation unit has also been able to identify creative methods of work such as joint approaches and partnerships and using existing external material, building on OECD/DAC evaluation standards and EU Quality Assessment tools (Box 4.2). The evaluation unit has been operating with one unfilled post. Given all its tasks, the evaluation unit should be fully staffed while continuing to seek collaborative approaches. Keeping an adequately staffed evaluation unit should be part of the Ministry's risk management approach.

**Box 4.2. Finland's evaluation unit: reaching out and making the most of limited resources**

An analysis conducted in 2007/08 assessed the quality of Finland's evaluation process against OECD/DAC evaluation standards and rated them as good on average. A synthesis of 22 evaluations done between 2008 and 2010 (MFA, 2010c) commended the MFA for the way in which it commissions and publishes independent evaluations of its activities.

The DAC quality standards and principles are the main resource for staff training in evaluation. They have been developed into a matrix tool combined with EU reporting standards. These criteria are used by the quality assurance experts of each evaluation team. Most evaluations are subject to anonymous peer reviews by two external experts. At the end of each evaluation, a public presentation of the results is organised for debate, and evaluation reports are published on the Internet, printed and disseminated widely.

Each evaluation has to be followed up by a matrix with draft decisions for a formal management response. Those draft decisions are discussed in the Development Policy Steering Group and the Under-Secretary of State for Development takes decisions upon recommendation from the chair of the Steering Group. The implementation of those decisions is followed up through formal back-reporting after one to two years. This procedure contributes to disseminate evaluation results widely and to encourage their use for learning and planning.

Through engagement in international evaluation capacity-building processes, the Finnish evaluation unit establishes useful contacts with the evaluation functions of partner countries. This in turn paves the way for partner-led evaluations and joint evaluations and partnerships. For example, the evaluation unit's work plan for 2012 includes partner-led evaluations in two of Finland's major development partner countries. Finland has also participated in joint evaluations, such as the Paris Declaration evaluation and the joint donor evaluation of the education sector of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). Finland is also an active participant and contributor to MOPAN and chaired the network's secretariat in 2010. MOPAN is the Multilateral Organisations Performance Assessment Network through which the 16 member states – all DAC members – agree to carry out joint assessments, share information and draw on each other's experience in monitoring and evaluation. Finland also leads the work of the task force on Evaluation Capacity Development of the DAC Evaluation Network.

*Source:* Based on MFA, 2012a.

**Future considerations**

- Finland should review the working processes of all the MFA departments that deal with development and decide whether more systematic approaches would improve co-ordination and co-operation.
- To improve skills management, Finland should consider adding a plan for development staff to the existing current human resources strategy, including clear career guidelines. Special attention should be given to special career and locally-employed staff.
- Finland should develop its rationale for delegation of authority to the field and design a decentralisation strategy containing clear criteria and objectives for how embassies can help improve implementation in the field.
- The future country strategy papers, including objectives and indicators, should be used as predictable monitoring tools.
- Finland should ensure that the evaluation unit is fully staffed, while continuing to seek collaborative approaches.

## Notes

1. In 2008 the MFA had 12 departments, 9 of which managed development aid. The Department for Development Policy only had 4 sub-units. The Department of Global Affairs was mostly merged with the Department for Development Policy, some units being merged with the political and trade departments (MFA, 2008).
2. It has not been possible to obtain official numbers on how many staff work on development issues for the whole MFA. Estimates are that around 250 staff work at headquarters, either full time or part time. There are plans to establish an IT system to monitor the use of staff time on different areas of work, including development co-operation.
3. In the past years the MFA was allowed to use a maximum of 5% of the annual ODA increase for administrative purposes, and has hired over a hundred temporary staff, mainly specialists (at headquarters, in embassies, and locally employed staff). 134 contracts will end between 2012 and 2014. The possibility of hiring new staff through this mechanism is now excluded and vacancies will be filled as temporary contracts.
4. Information from interviews held as part of the peer review.



## *Chapter 5*

### **Aid effectiveness and results**

Finland remains a strong promoter of the effectiveness agenda internationally and has taken steps to make its development co-operation more effective. This chapter discusses Finland's progress and remaining challenges to promote partner country ownership, predictable and transparent aid, alignment to partner country priorities, untied aid, and donor harmonisation.

## Continued strong commitment to making aid more effective

### *Supporting the global agenda on aid effectiveness*

Finland's commitment to make its aid more effective is firm and longstanding. Together with the Nordic+ countries and within the EU, Finland works to promote more effective aid and was an active member of the OECD/DAC Working Party on Aid Effectiveness (WP-EFF). Finland has endorsed the Paris Declaration, the Accra Agenda for Action and the 2011 Busan Partnership for Effective Development Co-operation. Finland will help implement these latest commitments through its participation in supportive initiatives (“building blocks”) on transparency, results and accountability, managing diversity and fragile states.

According to counterparts in multilateral organisations<sup>1</sup> Finland encourages multilateral organisations to apply the principles for making aid more effective notably finding complementarities while respecting their mandates. Finland is a strong promoter of the “One UN” agenda and encourages agencies to implement it.

### *Embedding commitments in management systems*

The 2007 peer review recommended that Finland update its aid effectiveness action plan to reflect new thinking (Annex A). Instead, and going a step further, the Ministry for Foreign Affairs decided to mainstream the principles for more effective aid within its development policy, programming guidelines, the case management system (Box 4.1), and in the MFA's development co-operation training. This is positive and should institutionalise effective ways of working at headquarters and in the field. However, the MFA will need to make a special effort to ensure good communication, information sharing and knowledge management among headquarters and embassies so that policies and programming decisions taken at headquarters are informed by experience from the field. In particular, the MFA should create more opportunities for embassies and headquarters to share experiences. It can do this by building on the positive experience of the regional workshops it has been organising since 2010 (Box 5.1.).

#### **Box 5.1. Linking principles to practice: lessons from regional workshops on aid effectiveness**

Since 2010, the Ministry for Foreign Affairs of Finland has organised a number of regional workshops as a space for country teams and policy advisers to discuss and share practical approaches to implementing the aid effectiveness principles. According to participants, the workshops have been helpful in identifying challenges and in suggesting solutions to the difficulties of making aid work at the country level. The workshops have also been an opportunity for different country teams to send policy feedback to headquarters. For example, in April 2011 the MFA held a workshop to share experiences on using country systems, with a special focus on project modality. Reflections on the discussion were included in the programme management guidelines and instructions in the case management system, and have also been integrated into the regular staff training sessions on effectiveness.

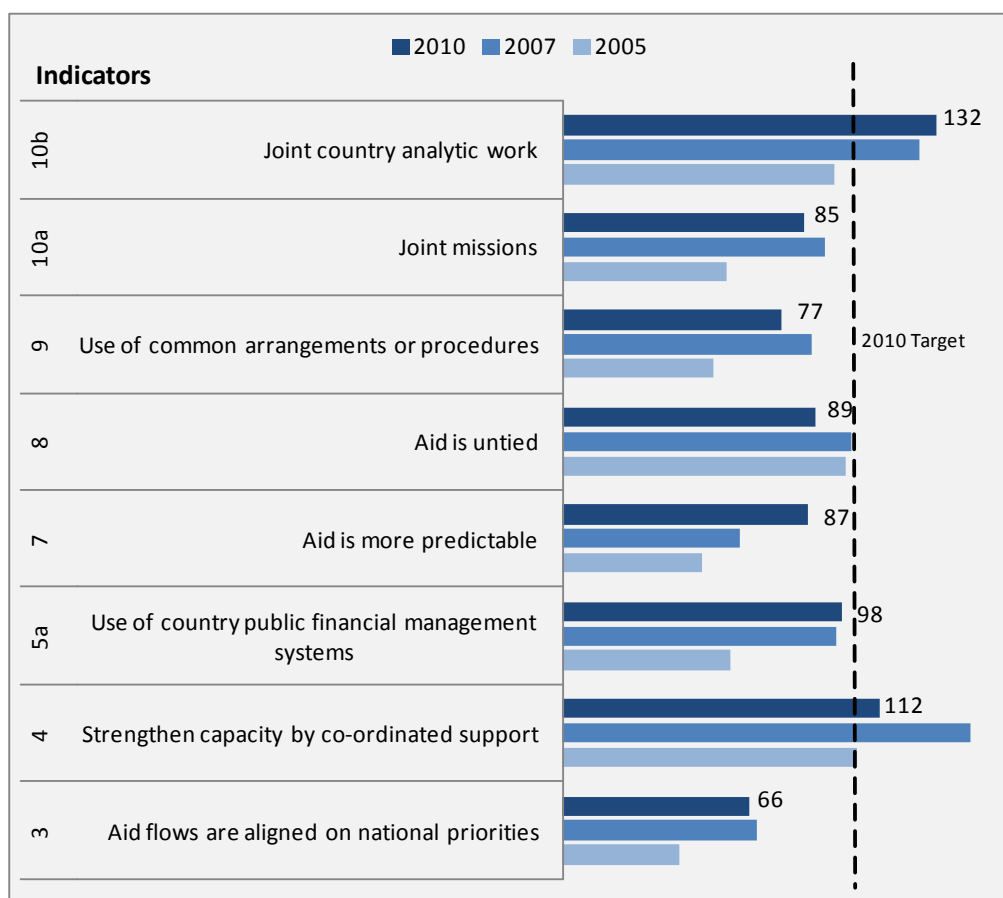
*Source:* Information presented to the peer review team by the Ministry for Foreign Affairs of Finland.

## Progress against targets but more can be achieved

Finland has met two of the nine targets of the OECD’s 2011 survey on monitoring the Paris Declaration<sup>2</sup> (Figure 5.1). Between 2005 and 2007, Finland made progress against all but one of the Paris Declaration indicators (the exception being untied aid). However, the 2010 results show slight slippage on most of the indicators compared to 2007. Nevertheless, available data show that Finland’s results (with the exception of aid untying) are above the global average calculated for donors participating in the survey (OECD, 2011c), and put Finland among the better performing half of EU countries.

It is positive that Finland recorded good progress in the areas it had prioritised in the 2007 development policy: use of country systems, aid predictability and division of labour (see Sections 5.4, 5.5. and 5.7 respectively). It should also be noted that, in general, Finland recorded better results against the Paris Declaration targets in its long-term partner countries. This suggests that Finland could learn from the successes in long-term partners to improve the effectiveness of its aid in other partner countries, and that scaling-up support to long-term partner countries could enhance the overall effectiveness of its bilateral aid.

**Figure 5.1. Finland’s performance against the targets of the OECD survey monitoring the Paris Declaration, 2005-2010**



Note: All targets are normalised to 100%.

Source: based on (OECD, 2011), *Aid Effectiveness 2005-10: Progress in implementing the Paris Declaration, Volume 1*, OECD, Paris.

## **Strengthening country ownership through capacity building and strategy papers**

Finland states that its development co-operation is based on development needs defined by partner countries' citizens and on the countries' own development and poverty reduction plans (MFA, 2012b). In line with its focus on human rights, the new development policy places a strong emphasis on democratic ownership to support the equal right of all people to influence and participate in national development processes.

To promote partner countries' ownership of development processes, Finland makes significant investments to strengthen institutional capacities (Section 3.4), especially local government capacity.<sup>3</sup> In Tanzania, to help improve good governance and government's accountability to its people, Finland supports the Local Government Reform Programme (LGRP II) and the Government Development Grant (LGDG) system, which provide transparent development funding to local government authorities for their own development efforts and support the decentralisation of powers to the local level. Finland has also funded the North-South Local Government Co-operation Programme (NSLGCP) of the Association of Finnish Local and Regional Authorities (AFLRA) in African countries for more than 10 years.

Finland can strengthen its support to country ownership further through the new country strategy papers it is preparing (Chapter 4). Since 2008, country teams have developed medium-term (four-year) country assistance plans for long-term partner countries. These took into account opportunities identified by embassies to collaborate with other donors, fill assistance gaps, and respond to needs expressed by the partner government and other factors (MFA, 2012i). To mainstream results-based management, the MFA has decided to formulate country strategy papers for 2013-2016 for its long-term partner countries and has now finalised guidelines to help with their formulation (see Section 4.4.3). Two provisions of the guidelines can be particularly effective in supporting partner countries' ownership: (i) clearly indicating how Finland's programme in the country will contribute to the partner country's priorities, as derived from its national development strategy; and (ii) adopting partner countries' results frameworks when measuring results. Finland should, as much as possible, support partner country's priorities through funding directly or implementing activities that are part of the partner country's development strategy implementation plan. Finland should also find ways to respect ownership in countries that are not long-term partners, and for which it will not have country strategies.

## **Becoming more predictable and transparent**

Finland prioritised aid predictability in its 2007 development policy (MFA, 2007) and has made steady progress in this area. Finland has the necessary internal tools to be a predictable donor: for example, the aid budget is approved annually in parliament based on a budget framework (referred to as "spending limits") which the government agrees annually for the following four-year period. In addition, every year parliament approves so-called "budget authorities", which allow Finland to make commitments for future years. Furthermore, Finland's aid budget allows it to carry over budget appropriations. These instruments give Finland the most tools of all bilateral donors to provide partner countries with realistic estimates of future aid flows, which are essential for allowing partner countries to manage public finances effectively.<sup>4</sup>

However, while Finland uses these instruments for medium-term internal plans and to make several financial commitments for future appropriations, it could make multi-annual commitments more systematically. It could also be more proactive in communicating existing budgetary information to partner countries, other development co-operation providers and multilateral organisations. For example, country assistance plans for long-term partners all contain indicative forward-looking figures but these Finnish documents are not always shared with partner countries and other development partners. Similarly, Finland makes multi-annual plans for the allocations to multilateral organisations, but usually these are not shared with the multilaterals, which only receive annual financial commitments.<sup>5</sup> Therefore, there is scope to use existing budgeting tools more fully to make Finland's aid more predictable and transparent. Finland's participation in the International Aid Transparency Initiative (IATI) is positive and should contribute to greater predictability and transparency internationally and in partner countries.

### **Aligning with partner country's priorities**

Since 2005 Finland has made some progress against most of the indicators on alignment in the Survey on Monitoring the Paris Declaration.<sup>6</sup> Finland prioritised the use of country systems in its 2007 development policy (MFA, 2007) and adopted a general policy of using country systems as a first option for aid delivery. It is positive that, in line with this prioritisation, among the alignment indicators Finland advanced the most against the indicator on use of country systems. Finland fell short of meeting the country systems target by just one percentage point in the 2010 monitoring survey (see Figure 5.1). Finland has made good efforts to combine its use of projects with the use of country systems. Taking the use of country systems one step further, in Nepal, Finland provided development funds at district level in the water and sanitation (WASH) sector projects, in keeping with its longstanding support to local governments (Box 5.1. and Annex C).

Finland remains committed to aligning to partner countries' priorities and to using their systems by providing budget support. Currently, Finland provides budget support to three of its long-term partner countries: Mozambique (since 2003), Tanzania (since 2001), and Zambia (since 2007). In aggregate terms, general budget support increased by 30% between 2007 and 2008 and has hovered around USD 39 million since then (in 2009 constant prices). As a share of gross bilateral ODA it has fallen slightly, from 6% in 2008 to 4% in 2010. In 2010, Finland's budget support to Mozambique, Tanzania and Zambia did not exceed 3% of the total budget support each country received from all donors (MFA, 2012i). However, the volumes provided as budget support to those three countries represented between 31% and 43% of total Finnish disbursements<sup>7</sup> to each of those countries in 2010. This situation is, however, bound to change as Finland has capped budget support at 25% of all ODA it gives to a country. This will be applied once current commitments expire (MFA, 2010). Like other DAC members, Finland intends to shift its focus from general budget support to sector budget support (*ibid*). Already, the volume of sector budget support (USD 50.8 million) surpassed general budget support (USD 36.8 million) in 2010. Sector budget support is one of the ways Finland supports sector programmes, along with other modalities such as basket funding and pooled funding. Finland provides sector budget support to a broader group of recipients, including long-term partner countries that do not receive general budget support, such as Nepal, Nicaragua and Vietnam. Sector budget support represented a considerable proportion of Finnish ODA to those long-term partner countries in 2010. As sector budget support is an effective way of using and strengthening country systems and to reduce fragmentation,

Finland is encouraged to continue engaging with development partners through this modality.

### **Box 5.2. Use of district systems in Nepal’s water and sanitation sector**

Finland is an important player in Nepal’s water and sanitation sector, to which it has contributed for about 20 years. Finland currently supports three main projects in this sector. One of these is the Rural Water Supply and Sanitation Support Programme in Western Nepal (RWSSP-WN), a bilateral development co-operation programme with the government of Nepal implemented in nine districts. The programme strengthens the capacity of local governments through training and advice in water supply, sanitation and hygiene promotion. In the districts, the District Development Committees execute the RWSSP-WN program in association with Village Development Committees, user groups and other district-level WASH stakeholders.

Finland contributes to 66% of the programme’s 2008-2012 budget of EUR 14.6 million, but important contributions are also made by the governments of Nepal (23%), communities (6%), Village Development Committees (3%) and District Development Committees (1%), demonstrating ownership of the programme.

The RWSSP-WN is not the only programme that Finland funds by channeling resources to district government. Presently another WASH programme adopts the same approach, with a total of 19 districts being reached by the two programmes. To date some 1 million Nepalese have got drinking water and sanitation financed this way.

*Source:* Rural Water Supply and Sanitation Support Programme in Western Nepal.

## **Dealing with an increasing share of tied aid**

Tied aid describes official grants or loans that require recipient countries to procure goods and services from companies in the donor country or in a small group of countries. As the cost of both goods and services is usually raised when tied to a given provider<sup>8</sup>, tied aid often prevents recipient countries from receiving value for money for services, goods, or works, benefitting the commercial interests of the development co-operation provider more than local people.

Finland is among the DAC members that have only a small share of their ODA still tied. However, since the last peer review the share of Finland’s tied aid has increased. Finland’s share of tied aid was 7% in 2008 and progressively rose to 15% in 2010. The share of tied aid in Finnish development co-operation derives primarily from the concessional credits to non-priority countries, among which China figures prominently (MFA, 2012g). Vietnam is the only long-term partner country that receives significant concessional credits, where Finland sees a continued role for concessional credits to support a shift from a government-to-government co-operation to a more trade and twinning type of partnership (MFA, 2009).

The 2003 and 2007 peer reviews both recommended that Finland should dismiss its concessional credit scheme. The 2012 evaluation of the Finnish concessional aid instrument commissioned by the MFA highlighted several inefficiencies in the instrument and recommended that the scheme should be phased out (MFA, 2012g). Finland reports that it has started to gradually phase out the concessional credit scheme but, according to the Finnish authorities, a particular challenge will be to identify alternative instruments to engage effectively with the private sector, which is a priority in its new development policy (Chapter 1). This is why Finland is now holding consultations with relevant stakeholders, for example with the Finnish private sector through the newly established

joint forum. For a long time and most recently in the Busan outcome document (HLF4, 2011), the international development community has stressed the importance of involving developing country private sector in national development processes. It is crucial that instruments that are untied, respond to the needs and requests of partner countries and are efficient be experimented and mainstreamed for the benefit of the private sector - and ultimately development – in developing countries. Finland is encouraged to continue having a dialogue with the private sector and other relevant stakeholders to develop new ways to support partner countries' private sector. Finland could also share experiences with other donors, who also prioritise private sector development while aiming to keep aid untied to the maximum extent possible. For example, Finland could consider participating in the post-Busan building block on public-private co-operation for development.

### **Harmonisation and division of labour**

Finland uses a flexible mix of tools to deliver its aid in order to maximise synergies with other bilateral donors and multilateral organisations and respond to partner countries' specific situations. This was apparent in Nepal, where Finland is recognised as a valuable and active member of donor groups, has well-targeted partnerships with specialised multilateral agencies, and works through system-wide approaches (SWAs), pooled funds (through the Nepal's National Peace Trust Fund), and other tools (Annex C).

At the international level, Finland has worked closely with other EU members since the early stages of the Code of Conduct on Complementarity and Division of Labour and continues to support actively the development of tools for better donor co-ordination with the EU and Nordic+ countries. In its 2012 Development Policy, Finland has committed itself to support and participate in the EU joint programming initiative (MFA, 2012b). The MFA has also recently approved operational guidelines for delegated co-operation (MFA, 2011b) and has agreements for such co-operation with a number of other DAC members. Evidence from the field suggests that Finland also works closely with other bilateral and multilateral donors in various other forms. For example, in 2010 Finland participated in basket funding and pool funding in five of its seven long-term partner countries. Basket funding and pool funding represented 38% of disbursements to Mozambique in 2010, 21% in Tanzania, 18% in Ethiopia, 13% in Vietnam, 4% in Kenya. Finland also takes part in SWAs in its long-term partner countries. In Nicaragua, a recent evaluation highlighted as best practice a successful SWAp to which Finland contributed (MFA, 2012d). The joint programme for local governance supported by Finland in Tanzania – which involves joint financing of capacity building, investments and implementation costs – was evaluated as “a model of a co-ordinated and harmonised approach to supporting local governance and decentralisation” in the evaluation of Finnish support to local governments (MFA, 2012h).

These successful examples show that Finland's prioritisation of division of labour has allowed it to achieve meaningful results, and that the stronger focus and greater resources Finland places in its long-term partner countries allow it to work in a more effective manner. Finland can build on these positive experiences to scale-up its support in long-term partner countries and enhance the overall effectiveness of its bilateral aid. To do that effectively, Finland should consider if staff and delegation of authority to embassies are appropriate to contribute substantially to share the burden of donor co-ordination. In Nepal, for example, interviews with other donors in the country suggested

that the embassy did not have sufficient staff to participate in donor co-ordination of joint initiatives like pooling of funds.

### **Future considerations**

- Finland should reinforce the link between international and headquarter processes to make aid more effective and implementation in partner countries. This could be done by creating more opportunities for discussion and sharing of experiences between country teams and between policy advisers and country teams.
- Finland should ensure that the new country strategy papers further strengthen partner country ownership by supporting their priorities through funding directly or implementing activities that are part of the partner country's development strategy implementation plan.
- To make its aid more predictable and transparent, Finland should make multi-annual commitments more systematically to bilateral partners and to those multilateral partners which still receive annual financial commitments. Finland should also provide its development partners with timely information.
- Finland should look for new untied, demand-driven and cost-effective instruments to promote private sector development in partner countries and which can have greater development impact than the concessional credit scheme.
- Finland should continue to strengthen division of labour and donor co-ordination, and consider whether embassies have enough staff and authority to implement programmes and to share the burden of co-ordination in the field.



## Notes

1. These interviews took place in February and March 2012 with the multilateral organisations that receive the bulk of Finland’s multilateral aid.
2. The two targets are to: strengthen capacity through co-ordinated support (indicator 4) and conduct joint country analytical work (indicator 10b).
3. See the evaluation *Finnish Support to the Development of Local Governance* (MFA, 2012h).
4. See WP-EFF Aid Predictability Synthesis of Findings and Good Practices (2011).
5. Finland only makes multi-annual commitments to international development financing institutions, as it contributes to their multi-year replenishments.
6. These indicators are: indicator 3 (aid flows are aligned on national priorities), indicator 4 (strengthen capacity by co-ordinated support), indicator 5a (use of countries’ public finance management systems), indicator 5b (use of country procurement systems), indicator 6 (avoid parallel implementation structures), indicator 7 (aid is more predictable), indicator 8 (untied aid).
7. Mozambique: 43% (including both general and sector budget support), Tanzania: 41%, Zambia: 31%.
8. See *Untying Aid: The right to choose* ([www.oecd.org/dac/untiedaid](http://www.oecd.org/dac/untiedaid)).



## *Chapter 6*

### **Humanitarian assistance**

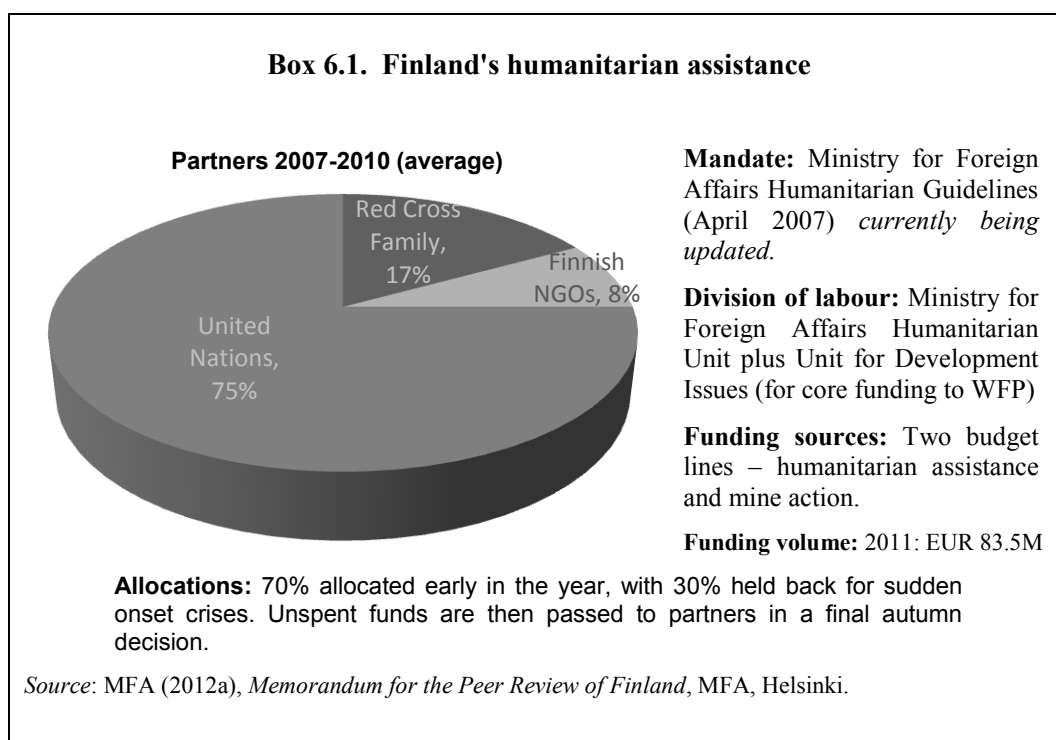
Finland is appreciated as a solid and reliable humanitarian partner – moving towards multi-annual core contributions for key agencies and backing up its funding with solid advocacy work, including on UN agency boards. This chapter discusses the planned update of the Finnish humanitarian framework as well as the opportunity this presents to focus the overall humanitarian objectives on areas where Finland can clearly add value, and identify clear complementarities between humanitarian, military and civil protection instruments. Finland’s pragmatic approach to post-crisis recovery is also reviewed, as well as the new comprehensive approach to disaster risk reduction.

## Good progress against the 2007 recommendations

Finland has made good progress on the recommendations of the last peer review (Annex A), but there are some outstanding challenges. A comprehensive approach to disaster risk reduction has now been developed, although it is too early to determine its impact on programming. Helsinki-based staff have significantly increased their field missions. However, establishing more systematic links between relief and bilateral development programming remains a challenge; Finland is currently getting around this problem by putting recovery funding through multilateral agencies. Rapid response disbursements are also still too slow, due to a cumbersome approval process.

## An increasingly strategic focus, and improving support to recovery and risk reduction

Like many other donors, Finland consistently allocates around 10% of its ODA to humanitarian assistance (Box 6.1).



## Updating the humanitarian strategy will be a useful opportunity to increase focus

Finland is currently updating its humanitarian framework; this will provide a useful opportunity to focus its overall humanitarian objectives on Finland's good practices, and identify clear complementarity between humanitarian, military and civil protection instruments. The 2007 humanitarian assistance guidelines (MFA, 2007), which have governed Finland's humanitarian assistance since the last peer review, do comply with the principles of good humanitarian donorship (GHD), but remain broad, without clearly defined objectives or expected results.

Finland recognises that the updating process will be an opportunity to set out a limited number of core humanitarian objectives to guide future funding allocations and advocacy actions, and to accompany these objectives with a set of measurable indicators.

This approach will help focus the humanitarian programme on areas where Finland can make a solid impact, and is therefore encouraged. As an EU member, Finland must also demonstrate alignment with the EU Consensus on Humanitarian Aid and its Action Plan (EU, 2008), and the updated Finnish humanitarian guidelines must also comply with Finland's new development policy (see Chapter 1). Finland should consult widely with key stakeholders on the new guidelines. It should also ensure that the guidelines are applicable across government, and therefore also apply to any delivery of humanitarian assistance by military personnel or civil protection units.

#### ***A pragmatic approach to post-crisis recovery***

After much reflection, Finland has opted to support post-crisis recovery by providing flexible funding to multilateral agencies, pooled funding mechanisms and NGOs operating in post-crisis countries. This is probably the only realistic option given the way that the wider Finnish development co-operation system operates. A major study on linking relief, rehabilitation and development was published in 2009, highlighting a number of challenges that are common to many DAC donors (MFA, 2009a). These challenges are linked to the source of funds - Finnish support for post crisis recovery comes from development funds administered by the Regional Departments or other Units in the Department for Development Policy. These development funds must be directed towards Finland's partner countries - if a crisis occurs in a country that is not on this list, providing development funding for post-crisis recovery is difficult, if not impossible.

Addressing these issues will require high-level political guidance. In the meantime, there has been internal discussion on setting up a dedicated mechanism for funding situations in need of stabilisation, but no decision has yet been taken. A dedicated stabilisation or recovery instrument could be a useful way to channel funds to post-crisis pooled funding mechanisms; if Finland can guarantee that it has the resources to actively engage in the governance structures of these multi-donor instruments, and will not just download its funding responsibilities to other actors. The humanitarian unit has also taken other steps:

- Training – approaches to recovery programming are now included in development programme guidelines and in staff training programmes, although it is too early to tell whether this is having an impact on programme design in the field.
- Advocacy – Finland is an active advocate of better recovery programming in the multilateral agencies, regularly taking its concerns to board meetings.

#### ***The new comprehensive approach to disaster risk reduction is an encouraging start***

Finland has made great progress in the area of risk reduction and resilience, and now has one of the most comprehensive approaches to disaster risk reduction in the OECD/DAC. This new approach to risk reduction (Box 6.2) was developed in response to an evaluation of the links between disasters, climate change and poverty in development co-operation (MFA, 2009b). The evaluation concluded that the lack of a coherent disaster risk reduction strategy had constrained the overall effectiveness of Finland's risk reduction interventions. The approach to risk reduction is now documented in Finland's new national Hyogo Action Plan (MoI, 2012), managed by the Ministry of Interior.

Some risk reduction activities are already underway, including:

- Promoting better information – a 2011 seminar to explore issues in tracking funding for risk reduction in conjunction with the World Bank and the United Nations International Strategy for Disaster Reduction (UNISDR).
- Capacity building – projects by the Finnish Meteorological Institute to strengthen weather forecasting systems in partner countries.<sup>1</sup>
- Funding to multilaterals – financial support for UNISDR and observer partner status in the World Bank’s GFDRR Consultative Group.
- Awareness raising – advocating stronger prioritisation of risk reduction by multilateral partners.
- Preparedness – some humanitarian funding for preparedness programming by NGO partners.

### **Box 6.2. Key elements of Finland's approach to disaster risk reduction**

Finland’s *National Platform strategy document* outlines both the domestic approach to risk reduction as well as guidance for incorporating risk reduction into Finland’s development co-operation programmes (called “international activities”). The guidance for international activities includes:

- Mainstreaming risk reduction across all development co-operation programmes;
- Identifying areas for specific projects, particularly in the field of meteorology;
- Requiring that multilateral agencies funded by Finland take risk reduction into account in their work;
- Ensuring that an analysis of disaster risk reduction will be included in embassy work plans;
- Continuing financial support to the UN-International Strategy for Disaster Reduction;
- Systematically including the gender perspective of risk reduction;
- Promoting a proactive role in the EU and UN on risk reduction issues, and promoting common donor positions;
- Reinforcing Finland’s capacity to contribute to international crisis management (under the authority of the Ministry for Foreign Affairs), by building up four European standard response modules;
- Including training on risks from natural hazards and climate change in training for development staff and project implementers; and
- Promoting co-operation with the Finnish Red Cross in its support for preparedness and risk reduction.

*Source:* MoI (2012), *National Platform for Disaster Risk Reduction*, Ministry of the Interior, Helsinki.

However, it is clear that a more systematic approach to implementing disaster risk reduction will be needed if Finland is to make good on its commitments. The peer review team had expected disaster risk reduction to feature prominently in Finland’s Nepal country programming, for example, given the high risk of earthquakes and of glacial lake outbursts, and the recurrent flood events in that country. However, it found that this was not really the case, except in some joint mechanisms where other donors had pushed for its inclusion (Annex C).

Finland could mainstream risk reduction into programming in its long-term partner countries using the new development country strategies – if some minor changes to this tool are made. As mentioned in Chapter 4, Finland will now develop comprehensive country strategy papers for each of its development partner countries. A number of these countries are at high risk of disaster or other crises.<sup>2</sup> The peer review team has been advised that these country strategy paper documents will in future include an assessment of the risk to the partner country from natural or man-made crises, and from the knock-on effects of global or regional shocks. This is a useful step, and should be continued by guidance on how to reduce these risks through development programming. The country strategies should also clarify the role of the embassy and of Helsinki’s humanitarian unit in the response to any eventual crisis, in order to make best use of the embassy’s knowledge of the local context. This might include outlining how development funds and programmes could be diverted to meet urgent humanitarian needs in time of crisis, and determining how Helsinki would provide additional support – in terms of human and financial resources – for any eventual crisis response and recovery.

### **A solid record in partnership, but clearer funding criteria and faster decisions are needed**

Finland is a much-appreciated member of the humanitarian community, both as a solid funding partner and as an advocate for improved results from the wider humanitarian system. However, its slow disbursement rate, especially for new and escalating emergencies, remains a concern.

#### ***Unclear criteria for where, how, who, and how much to fund***

Finland plans to develop funding guidelines to accompany its updated humanitarian guidelines, and this will be an important step to improve the transparency and impact of its funding allocations. Finland says its current humanitarian funding decisions are based on an analysis of annual appeals – both consolidated UN appeals (CAP) and individual agency appeals – plus a review of underfunded crises, and an understanding of the capacity of agencies to deliver results and add value. However, partners report that they are not aware of the criteria that Finland uses to prioritise its allocations, and that it appears – to outsiders at least – that decisions are based largely on historical spending patterns. If Finland is to demonstrate that funding decisions are based on humanitarian principles and independent of political or other objectives, it would be good to set and communicate clear criteria for determining who, what and where to fund each year, and demonstrate how those criteria have been applied to actual grant decisions.

Assessing how multilateral agencies contribute to achieving the goals of Finland’s new humanitarian guidelines will also help improve allocation decisions and prepare it to better influence the boards of those agencies. The upcoming review of multilateral performance will be useful for this.

#### ***A solid partnership track record, despite slow disbursement rates***

Finland is widely recognised as a supportive and reliable humanitarian partner for both NGOs and UN agencies. Four UN agencies<sup>3</sup> receive multi-annual core funding commitments from Finland, and ICRC will soon join this list, providing some predictability for these key organisations into the medium term. Some of these agencies also receive additional funds, lightly earmarked (earmarked to regions or countries, but not projects) early in the year, and may also receive a further allocation in autumn, as Finland distributes its left-over budget. These funds are, by nature, less predictable, and Finland could work to provide more clarity on its earmarked funding intentions. Finland

will also support country pooled funds, but only where the local Finnish embassy is able to actively support the governance of the pooled mechanism. This is good practice.

Finland adds value to its partnerships with UN agencies through its advocacy work, including on executive boards. Partners see Finland as a constructive player, promoting humanitarian issues at board level. For example, humanitarian issues were included at Finland's initiative on the WHO Executive Board and World Health Assembly agendas in January and May 2012 and Finland also facilitated a resolution on humanitarian assistance, including on the IASC Transformative Agenda, in these bodies. The humanitarian unit also actively seeks joint donor positions on key advocacy issues, and it is encouraged to continue this work.

Finnish NGOs are only eligible for humanitarian funding if they hold a framework partnership agreement<sup>4</sup> with the European Community Humanitarian Office (ECHO), the humanitarian arm of the European Commission. This helps avoid fragmentation. At the time of this peer review, only two Finnish NGOs<sup>5</sup> plus the Finnish Red Cross qualified under this condition. There is no formal mechanism to consult with these Finnish partners, but the peer review team was told that informal relationships and the quality of dialogue are good, though *ad hoc*. Finland could perhaps set up a more formal and regular consultation mechanism as it rolls out its new humanitarian guidelines and looks to achieve a tighter set of results.

The speed of disbursement and approval of humanitarian grants remains an issue; this could be solved by delegating more programming authority to the humanitarian unit. Slow disbursement is not such a major problem for UN agencies, as they do not usually suffer from liquidity shortfalls, and thus need only a firm pledge from Finland before starting work. It is sometimes critical for NGOs, however, who must either start programming before Finland has given the thumbs up to their funding request, and thus risk that costs incurred will not be reimbursed; or must delay the start date of their programme, and thus risk not meeting urgent humanitarian needs. Requiring the Minister to physically sign off on each and every funding allocation is the major blockage in the system, and Finland should consider altering this procedure, especially in relation to funding for emergencies.

#### ***Concerns about slow disbursement for new and escalating crises***

Finland does not have any rapid response mechanisms of its own, and partners are critical of slow disbursement in emergency situations. While pledges for new crises can be made very quickly (in one or two days) based on verbal approval from the Minister, disbursement takes much longer, up to two months or more. This is because the Minister's physical sign off is required for every new grant. If Finland wants to provide a rapid response for urgent humanitarian needs it will have to significantly speed up disbursements. Raising the level of delegated authority for rapid response funding decisions – based on clear criteria – would be one way to significantly improve timeliness. Finland could also review the rapid response mechanisms used by other donors, to see if any would be applicable in the Finnish context.<sup>6</sup>

Finland does however contribute to the Central Emergency Response Fund (the UN's global emergency pooled fund), and is completing its three year term as an active member of the CERF advisory group.<sup>7</sup> This has allowed Finland to rely on the CERF to respond to smaller-scale disasters, relieving it of the burden of administering a number of additional small grants.

Civil protection responses to international disasters are co-ordinated at European level through the European monitoring and information centre (MIC)<sup>8</sup> thereby ensuring



that the Finnish response modules are only deployed where they are clearly needed. Finland does not provide in-kind aid.

### **Finland’s systems appear fit for purpose, but there will soon be staffing challenges**

Finland’s unique system, with all humanitarian responses are centralised in the MFA, means that there is no pressing need to create formal structures to guide whole-of-government responses to humanitarian crises. On the rare occasion where more than one ministry is involved in providing humanitarian assistance – for example in Afghanistan – a working group will be set up, and this group will include members of the humanitarian unit and the Ministry of Defence.

#### *An unclear role for the military, but no detrimental effects in practice*

The role of Finland’s military in supporting humanitarian response is not entirely clear, but this has not had a negative impact in practice. Finland’s comprehensive crisis management strategy recognises the need to protect humanitarian space and to apply the MCDA guidelines for complex emergencies (MFA, 2009c).<sup>9</sup> However, it does not outline what criteria Finland will use to determine when a situation of “last resort” has been reached; nor does it outline which minister will make that decision. Finland’s humanitarian assistance guidelines (MFA, 2007) recognise the corresponding Oslo guidelines for natural disasters,<sup>10</sup> but it is not clear how these apply to the Ministry of Defence. However, these risks seem to have been offset in part by training: international humanitarian law is a required component of Finnish officer education and the Finnish Red Cross provide training to the Finnish military on humanitarian principles and related issues; this is good practice and should continue.

#### *Staffing challenges ahead*

Allocating sufficient and appropriately skilled staff will be a challenge for the humanitarian unit, given planned staff movements. In 2012, the director of the humanitarian unit will retire, and three other staff (out of a total of seven) will move on to other posts. Succession planning is therefore critical; however it will be complicated, given the current human resources environment in the MFA (Chapter 4). History has shown that staff on a diplomatic career path are not especially interested by posts in the humanitarian unit, slowing down recruitment and increasing turnover rates. To make up for this, the humanitarian unit relies on “specialists”, allowing it to recruit people with a strong understanding of the issues. However, they are constrained in the scope of their work and in their careers:

- They are only allowed to make recommendations, they cannot sign off on decisions.
- They have a separate salary scale, career ceilings, and their possibilities for promotion differ from those on the general career path, limiting their motivation and prohibiting succession planning.

The MFA is moving to resolve some of these issues (see Chapter 4). It is encouraged to do so quickly for the sake of ensuring adequate skilled resources in the humanitarian unit.

### **Finland should focus its monitoring and learning on its own results**

Monitoring partner performance is difficult for all donors who have no dedicated humanitarian staff in the field, and Finland is no exception. The 2007 peer review

recommended that Finland step up its monitoring efforts at field level; the humanitarian team has responded by significantly increasing field missions. However, the Finnish team recognises that short field visits are not the most ideal way of monitoring the impact of individual partners. Missions do however provide insights into important overarching issues, such as progress on humanitarian reform – and this is important if Finland is to gather the right information to better influence the executive boards of humanitarian agencies.

Field visits have also significantly improved Finland's understanding of the overall humanitarian situation in each crisis area. The team is encouraged to continue these visits, focusing perhaps on situation analysis (rather than monitoring). The field visits could also be more clearly linked to either the humanitarian community's mid-term review processes or to the workshops that prepare the annual consolidated appeals (CAP), so that they can be used to guide future funding allocation decisions.

Instead of monitoring partner performance, Finland could perhaps focus on measuring, reporting, and learning from its own results. The future humanitarian guidelines will contain clear objectives and measurable indicators for Finland's humanitarian programme. If Finland focuses on measuring performance against these objectives – including requiring partners to report on how they are contributing to meeting Finland's overall humanitarian goals – then the overall impact of Finland's humanitarian funding will be clearer. This process will also allow Finland to pick up important lessons to improve the quality and targeting of its future funding and advocacy work. The soon-to-be-released state auditor's report on Finland's humanitarian assistance will be a useful first step.

#### **Future considerations:**

- Finalise the new humanitarian assistance guidelines, ensuring that they focus on a limited number of objectives in areas where Finland can make a solid impact, and that they are accompanied by measurable indicators. The guidelines should be applicable across government, and Finland should consult widely with development colleagues and staff from other concerned ministries, as well as with major partners. The guidelines should be used as a basis for future monitoring efforts.
- Implement the new, ambitious, approach to risk reduction. To do so, the MFA should adapt development partner country strategy papers to include the identification of risks, and provide guidance on how to address these risks through its programming.
- Set and communicate clear criteria for determining who, what and where to fund, and demonstrate how those criteria have been applied to actual grant decisions. This will be crucial if Finland is to demonstrate that funding decisions are based on humanitarian principles and are independent of political or other objectives.
- Delegate authority for rapid response funding decisions – based on clear criteria – to the humanitarian unit, to significantly improve the timeliness of funding in emergency situations.
- Resolve the human resources issues that are preventing effective succession planning in the humanitarian unit.

## Notes

1. For further information, see <http://en.ilmatieteenlaitos.fi/international-co-operation>.
2. Finland's long-term partner countries are: Ethiopia, Kenya, Mozambique, Nepal, Tanzania, Vietnam and Zambia. Partner countries recovering from violent crises are Afghanistan, Sudan, Somalia and the Palestinian Territories.
3. UNRWA, the UN Office for the Coordination of Humanitarian Affairs (OCHA), UNHCR and UNISDR receive multi-annual core funding from the humanitarian budget, and WFP receives its multi-annual core funding from the Unit for UN Development Issues.
4. ECHO's Framework Partnership Agreement (FPA) presents the objectives of the humanitarian aid assistance financed by the European Commission, lays down the principles, procedures and rules governing such assistance and defines the nature of the partnership relation between the Parties. See [www.dgecho-partners-helpdesk.eu/partnership/instruments/fpa\\_for\\_ngos](http://www.dgecho-partners-helpdesk.eu/partnership/instruments/fpa_for_ngos).
5. Finn Church Aid (a member of the ACT Alliance) and FIDA (the Missions and Development Co-Operation Organisation of the Pentecostal Churches of Finland).
6. Good practice examples are shown in Towards Better Humanitarian Donorship (OECD, 2012a).
7. Satu **Helinä Lassila**, Senior Advisor in the Unit for Humanitarian Assistance, serves on the CERF advisory group in a personal capacity, and thus does not officially represent Finland. Advocacy work on this group has included raising issues such as the slow rate of disbursement of CERF funds from UN agencies to their NGO implementing partners.
8. For more information on the workings of the European Monitoring and Information Centre, refer: [http://ec.europa.eu/echo/policies/disaster\\_response/mic\\_en.htm](http://ec.europa.eu/echo/policies/disaster_response/mic_en.htm).
9. The MCDA guidelines (Guidelines on the Use of Military and Civil Defence Assets to Support United Nations Humanitarian Activities in Complex Emergencies) apply to complex emergency situations. The decision to use military and civil defence assets in an emergency can affect the perceived neutrality and impartiality of humanitarian actors. Any such decision must be carefully assessed and should be a "last resort" option, where there is no other comparable civilian alternative.
10. The Oslo guidelines (Guidelines on the Use of Foreign Military and Civil Defence Assets in Disaster Relief, Updated November 2006 and revised November 2007) apply to natural disasters.



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## Annex A

### Progress since the 2007 DAC peer review recommendations

Key Issues	Recommendations 2007	Progress in implementation
<b>Strategic orientations</b>	<p>The Committee noted that the new development policy (2007) maintains the over-arching goal of poverty reduction and commitment to the MDGs. In implementing it, Finland should maintain a focus on aid effectiveness, environment and climate change, and conflict prevention and fragile states, while promoting selected new policy initiatives.</p>	<p style="text-align: center;"><b>IMPLEMENTED</b></p> <p>Finland has been consistent in its poverty focus and in supporting the MDGs. A first-ever comprehensive policy framework for Africa was published in 2009 and Finland maintains a strong focus on poverty and on LDCs in its new development policy (2012).</p> <p>Aid effectiveness has been central in Finland’s development co-operation efforts and is reaffirmed as a major commitment for Finland in the new policy.</p> <p>Environment and climate change are programmatic priorities. In 2009 the MFA designed guidelines on environment and development and published a booklet on “Women and Climate Change”. Sustainable development remains a strong priority for Finland, and climate sustainability is one of the cross-cutting issues in the new development policy. Green growth, the sustainable management of natural resources, and environmental protection are clearly stated as priorities for action.</p> <p>Work with fragile states, especially Afghanistan, has continued. Finland has published guidelines on <i>Development and Security in Finland’s Development Policy</i>. The new development policy also plans to focus more on fragile states. Finland’s new attention to human rights can also be counted as contributing to conflict prevention and addressing fragile situations.</p> <p>During the period since the last peer review Finland has been active in the international field, helping to launch new initiatives such as the EU-US transatlantic dialogue on development.</p>
	<p>The DAC commends Finland for using the EU to take forward certain policy priorities such as the work on the division of labour. As a modest sized donor, Finland should continue to lean</p>	<p style="text-align: center;"><b>IMPLEMENTED</b></p> <p>Finland actively discusses and co-ordinates with the Nordic+ group on global issues of common interest, especially in international forums. It is also an active member of the EU and uses it to defend national and</p>

Key Issues	Recommendations 2007	Progress in implementation
	towards the EU and Nordic+ groups and support joint initiatives (such as shared analysis and joint ventures) in order to reduce duplication of activities and transaction costs across donors.	international priorities and launch initiatives. In its partner countries Finland is a strong advocate for division of labour and regularly participates in joint initiatives.
	Based on the mandate in the new 2007 development policy, the MFA should produce, and implement, a multi-annual public awareness strategy.	<p><b>IMPLEMENTED</b></p> <p>In 2009 Finland included a separate <i>Strategic Action Plan for Public Awareness</i> on development issues in the overall communications strategy of the MFA, containing the main messages, target groups and channels for communication. The Action Plan was updated in 2010 and 2011, with more detailed timetables and specific initiatives. A targeted programme to introduce development policy to Finnish opinion leaders and decision-makers has been carried out four times since 2007.</p>
<b>Development beyond aid</b>	The general declaration in the government's programme, and the more concrete commitment to policy coherence for development made in the new development policy should be translated into clear mandates for bodies dealing with policy co-ordination between ministries.	<p><b>NOT IMPLEMENTED</b></p> <p>At the political level there is strong and vocal support for policy coherence for development (PCD) and Finland is an active player in PCD at the EU level. The EU co-ordination mechanism is the main forum used to address PCD issues but it does not have a specific mandate for this, and it does not focus enough on coherence for development. <i>Ad hoc</i> or informal working groups between officials to look into specific PCD matters do not have clear or formal mandates for PCD. The inter-ministerial network on PCD created in 2008 does not have a mandate and has so far served mainly to raise awareness among ministries. Decision-making processes are unclear. None of the existing co-ordination mechanisms has a formal mandate to screen policies for potential impact on development.</p>
	Finland's focus on the EU to further policy coherence is well-judged. Nevertheless, this should not divert attention from improving domestic policy coherence and finding practical solutions. The second, recently formed, Development Policy Committee should continue to have a mandate to initiate proposals and promote thinking on policy coherence for development.	<p><b>PARTIALLY IMPLEMENTED</b></p> <p>The new development policy defines five priorities areas for PCD. Finland has produced guidelines on the links between development and several national policies (environment, security, trade, etc). However these guidelines are more about how the MFA and other ministers can pursue development objectives and not about the impact of national policies on development and the role of line ministries. Also, the <i>ad hoc</i> working methods in the administration are very practical but do not ensure a systematic screening or analysis of the impact of national policies on development.</p> <p>Parliament and the Development Policy Committee are two bodies that have a mandate to look into PCD, and they actively do so. They make recommendations that are taken into account by the administration. The 3<sup>rd</sup> Development Policy Committee, which has been established for the period 2011-2015, continues to have a strong mandate to look into PCD issues.</p>

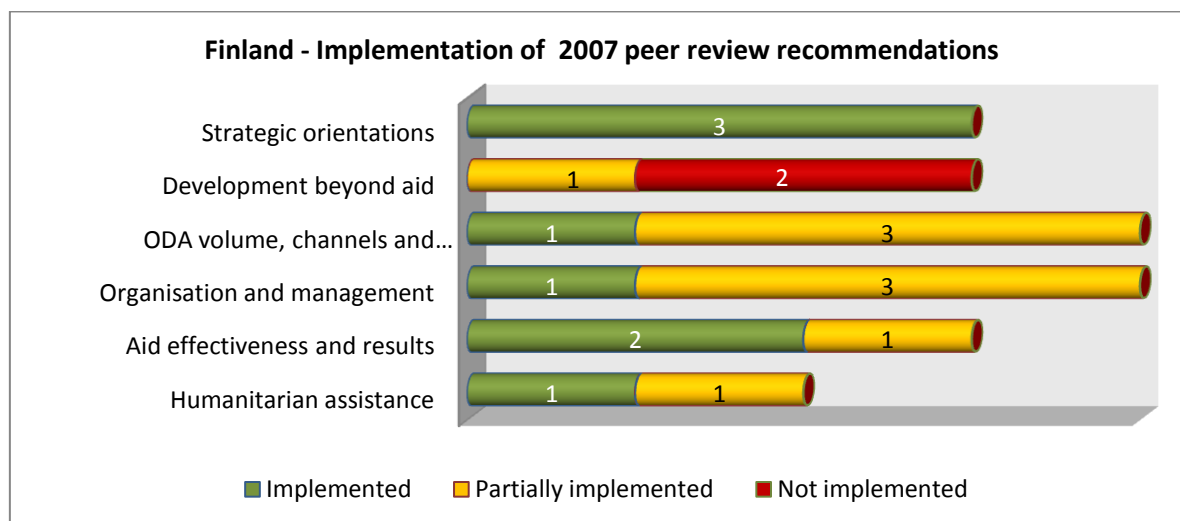
Key Issues	Recommendations 2007	Progress in implementation
	<p>The government should make full use of the annual reporting procedure on policy coherence for development to parliament to enable it to monitor how policy coherence for development is promoted, and measure results in achieving coherence.</p>	<p><b>NOT IMPLEMENTED</b></p> <p>Annual reporting on PCD to the parliament is mainly descriptive and does not focus on results or concrete examples. There is no monitoring system for PCD as no measurable objectives have been set against which results on achieving coherence could be measured. Also, there is no capacity for analysis or impact assessments of national policies on development objectives or results.</p>
<p><b>Aid volume, channels and allocations</b></p>	<p>The Committee welcomes Finland's renewed commitment to reaching the EU agreed targets of 0.51% by 2010 and 0.7% ODA/GNI by 2015 at the latest as stated in the new development policy. Current plans for reaching the targets are based on relatively conservative estimates of growth. Therefore the commitment should remain firm even if economic growth is greater than predicted. Finland would benefit from a plan for reaching the target in 2015, to be updated along with economic forecasts.</p>	<p><b>PARTIALLY IMPLEMENTED</b></p> <p>Since the last peer review, Finland continued to increase ODA levels and successfully met the European Union's ODA/GNI target of 0.51% in 2010. However, Finland has not developed a realistic plan for reaching the ODA/GNI target of 0.7% by 2015. In addition, projected ODA and GNI figures which take account of the recently approved spending limits point to a regression in the ODA to GNI ratio to 0.50% in 2015.</p>
	<p>Finland is encouraged to retain its earlier 60% target of bilateral funding to long-term partners. It should monitor the share of bilateral country and regional co-operation in order to avoid a decrease and hence <i>de facto</i> fragmentation.</p>	<p><b>PARTIALLY IMPLEMENTED</b></p> <p>Finland has not officially retained the earlier target (contained in the 2004 Resolution) of allocating 60% of its budget line for "country and regional development co-operation" to long-term partners. However, in 2010 it allocated 70% of the above-mentioned budget line to its long-term partners.</p>
	<p>Finland is encouraged to continue its policy of providing core contributions to multilateral organisations. Contributions to multilaterals should be a key consideration in the strategy for scaling up. The policy on multilaterals should be based on performance and used in policy dialogue and to inform decisions on funding allocations.</p>	<p><b>IMPLEMENTED</b></p> <p>Finland maintains a multilateral allocation policy of focusing on core budget contributions, with 66% of its multilateral aid – or USD 494 million – provided to multilateral organisations in the form of core contributions in 2010.</p> <p>In 2008 the MFA prepared a strategy for Multilateral Cooperation in Finland's Development Policy. The main aim is to promote coherence and effectiveness in international development co-operation and to strengthen co-operation between MFA, other state administration actors and the civil society.</p> <p>Finland acted as a secretariat for the Multilateral Organisation Performance Assessment Network (MOPAN) in 2010.</p>

Key Issues	Recommendations 2007	Progress in implementation
	<p>Although Finland has policies on cross-cutting issues and guidelines on their implementation, there is still a need to ensure these guidelines are systematically applied in the dialogue with partners on projects and programmes.</p>	<p><b>PARTIALLY IMPLEMENTED</b></p> <p>In 2009 Finland issued “Instructions on Integration of <i>Cross-cutting Themes in all Development Co-operation</i>, and guidelines were prepared for environment (cross-cutting issues) and development. Training modules have been made available online or organised in person. However evaluations show that cross-cutting issues have not been well integrated in programming and in implementation, due to insufficient and inadequate training of staff.</p>
<p><b>Organisation and management</b></p>	<p>The reorganisation of the development co-operation structure in the MFA should ensure clear lines of accountability, reduce the high transaction costs and clarify the policy and implementation functions among and within departments. Finland should delegate more decision-making to embassies, for project approval and results reporting. The MFA should build upon and simplify earlier efforts to develop results-based management systems.</p>	<p><b>PARTIALLY IMPLEMENTED</b></p> <p>The structure of the MFA has been slightly reorganised but maintains development as an integrated pillar of foreign policy. The lines of accountability and the implementation and policy guidance functions are clear in theory, but working methods often rely on <i>ad hoc</i> individual initiative as policy is not translated efficiently into operational guidance. In an integrated structure with seven different departments dealing with development, co-ordination and cohesiveness sometimes remains a challenge.</p> <p>Progress has been made on decentralisation. <i>Ad hoc</i> agreements are made between headquarters and embassies defining the division of labour and responsibilities, based on guidance by headquarters. However, this does not systematically result in more delegation of authority. Embassies now also manage autonomous local co-operation funds with which they can finance local NGO projects. Levels of decentralisation differ from one embassy to another and headquarters still take a major role in decisions, especially financial decisions. Devolution of authority to embassies needs to be increased and organised in a more systematic manner, based on Finland’s programmatic needs in the field and not on individual preferences or available resources.</p> <p>Since the last peer review Finland has undertaken an evaluation that has shown weaknesses in its results-based management (RBM). The recommendations of that evaluation have been accepted by management and the management response is being implemented. RBM was already included in several policy guidance documents.</p> <p>An electronic “case management system” for programme management was launched in January 2012.</p>
	<p>It will be important to ensure that human resources are adequate to manage the programme effectively as Finland increases its aid: any staff reductions need to be considered in this context.</p>	<p><b>PARTIALLY IMPLEMENTED</b></p> <p>Since the last peer review Finland has been able to hire a significant number of development experts. This has helped in managing the programme effectively. Any future staff reductions may undermine the quality and effectiveness of the development programme if not managed well.</p>

Key Issues	Recommendations 2007	Progress in implementation
	<p>The MFA should create and implement a human resources policy for the development co-operation function which should focus on increasing development co-operation skills through recruiting experts and strengthening the training for the diplomatic, non-development specialist, cadre, and to ensure that technical experts receive systematic training on MFA regulations and practices and are fully integrated into MFA structures.</p>	<p><b>PARTIALLY IMPLEMENTED</b></p> <p>The MFA has not designed a specific human resources policy for development, and does not plan do so as it wishes to maintain an integrated approach to all MFA policies. Important elements for the effectiveness and quality of the development programme – like knowledge management and limitation of turnover – have not been addressed.</p> <p>Finland designed and implemented a specific training programme for all development staff. However, training is neither compulsory nor systematic.</p> <p>A special working group met to address the lack of career perspectives for non-diplomatic staff and has produced recommendations in 2012. Finland reports that these recommendations have mostly been accepted, and are being implemented, by management.</p>
	<p>The Unit for Evaluation and Internal audit should be moved out of the Department for Development Policy in order to ensure strict independence.</p>	<p><b>IMPLEMENTED</b></p> <p>Since the last peer review the evaluation unit was moved out of the Department for Development Policy and is now under the authority of the Under-Secretary of State for Development, thus increasing the high-level attention to evaluations and the unit's independence.</p>
<p><b>Aid effectiveness and results</b></p>	<p>The MFA is commended for initiating the work on the EU Code of Conduct on the Division of Labour and is encouraged to remain at the forefront of practical implementation of the code. The MFA should strengthen its participation in joint working arrangements, and delegated co-operation, seeking practical progress when possible. Finland should update its aid effectiveness action plan.</p>	<p><b>IMPLEMENTED</b></p> <p>Since the last peer review the MFA has been increasingly involved in joint working arrangements and is a lead donor in several countries. The MFA has increasingly entered into delegated co-operation arrangements and guidance for delegated co-operation was prepared in 2011. After Accra, Finland decided to integrate its effectiveness action plan into existing processes instead of updating a separate plan.</p>
	<p>The MFA's programme guidelines provide some useful advice on capacity development, but there is room for further direction on how to implement the advice, including how to conduct analysis, align support with partner country objectives and strategies, and implement activities to develop capacity. The MFA should consider how to make more systematic use of lessons from capacity development successes and failures,</p>	<p><b>IMPLEMENTED</b></p> <p>The European Commission Backbone strategy for capacity development is used as a supporting document for designing and implementing Finland's technical co-operation and capacity development.</p>

Key Issues	Recommendations 2007	Progress in implementation
	and how to enhance and prioritise capacity development in the guidelines by making use of the OECD's reference documents.	
	Finland could develop an explicit policy for engagement in fragile situations, including a more comprehensive inter-ministerial approach. Finland should work with other donors to identify opportunities for strategic partnerships and under-aided sectors or regions where Finland has specific expertise while also continue channelling assistance through multilateral institutions and multi-donor trust funds.	<p><b>PARTIALLY IMPLEMENTED</b></p> <p>Finland has not developed a specific policy for fragile situations but has relied on OECD and EU guidance to continue and increase its involvement in fragile states like Afghanistan or Sudan. While there has been intense dialogue between ministries on actions in fragile states – always including partner countries and other donors – there is no comprehensive or strategic inter-ministerial approach with clearly identified common development objectives. Finland produced guidelines on development and security in 2010 for action in fragile situations and conflict prevention. These are closely linked with its <i>Humanitarian Assistance Guidelines</i>. It endorsed the <i>New Deal for Engagement in Fragile States</i> in 2011 in Busan. Many of Finland's contributions to fragile situations go through multilateral channels.</p>
<b>Humanitarian Assistance</b>	<p>The Committee commends Finland for channelling its humanitarian aid through a limited number of multilateral and international organisations, and encourages it to continue this pragmatic approach.</p> <p>The MFA should streamline current decision-making procedures for humanitarian aid to reduce delays in acute emergencies.</p> <p>It should establish how crisis prevention, disaster preparedness and recovery activities will be funded and how the linkage will be co-ordinated between the humanitarian and geographical departments.</p>	<p><b>PARTIALLY IMPLEMENTED</b></p> <p>Rapid response disbursements are still too slow due to a cumbersome approval process and lack of a dedicated rapid response mechanism. While pledges for new crises can be made very quickly (one or two days) based on verbal approval from the minister, disbursement takes much longer, up to two months or more. This is because the minister's physical sign off is required for every new grant.</p> <p>Establishing more systematic links between relief and bilateral development programming remains a challenge; Finland is currently getting around this problem by putting recovery funding through multilateral agencies, pooled funding mechanisms and NGOs operating in post-crisis countries – probably the only realistic option given the way that the wider Finnish development co-operation system operates.</p> <p>A comprehensive approach to disaster risk reduction – one of the most progressive in the OECD/DAC – has now been developed, although it is too early to determine its impact on programming.</p>
	In order to obtain more direct feedback from Finland's humanitarian operations, it may be helpful for the Government to participate more in joint evaluations and field visits with other donors.	<p><b>IMPLEMENTED</b></p> <p>Helsinki-based staff have significantly increased their field missions. However, the Finnish team recognises that short field visits are not the most ideal way of monitoring the impact of individual partners. Missions do however provide insights into important overarching issues, such as progress on humanitarian reform.</p>



**Figure A.1 Finland - Implementation of 2008 peer review recommendations**



## Annex B

### OECD/DAC Standard Suite of Tables

**Table B.1. Total financial flows**

USD million at current prices and exchange rates

Finland	<i>Net disbursements</i>						
	1996-2000	2001-2005	2006	2007	2008	2009	2010
<b>Total official flows</b>	494	601	834	1 078	1 188	1 427	1 376
Official development assistance	394	598	834	981	1 166	1 290	1 333
Bilateral	216	357	455	584	693	791	839
Multilateral	178	242	380	397	473	499	494
Other official flows	100	3	-	96	22	137	43
Bilateral	100	3	-	96	22	137	43
Multilateral	-	-	-	-	-	-	-
<b>Net Private Grants</b>	5	12	25	20	13	17	14
<b>Private flows at market terms</b>	535	205	553	1 051	-1 422	1 741	2 922
Bilateral: <i>of which</i>	535	205	553	1 051	-1 422	1 741	2 922
Direct investment	190	297	402	11	-32	791	2 379
Export credits	231	9	14	-	-	-	-
Multilateral	-	-	-	-	-	-	-
<b>Total flows</b>	1 035	818	1 413	2 149	-221	3 185	4 312
<i>for reference:</i>							
ODA (at constant 2009 USD million)	583	806	979	1 026	1 137	1 290	1 377
ODA (as a % of GNI)	0.32	0.38	0.40	0.39	0.44	0.54	0.55
Total flows (as a % of GNI) (a)	0.84	0.52	0.67	0.86	-0.08	1.34	1.78
ODA to and channelled through NGOs							
- In USD million	25	43	26	8	39	24	22
- In percentage of total net ODA	6	7	3	1	3	2	2
- DAC countries' average % of total net ODA	6	9	7	7	7	8	10

a. To countries eligible for ODA.

**ODA net disbursements**  
At constant 2009 prices and exchange rates and as a share of GNI

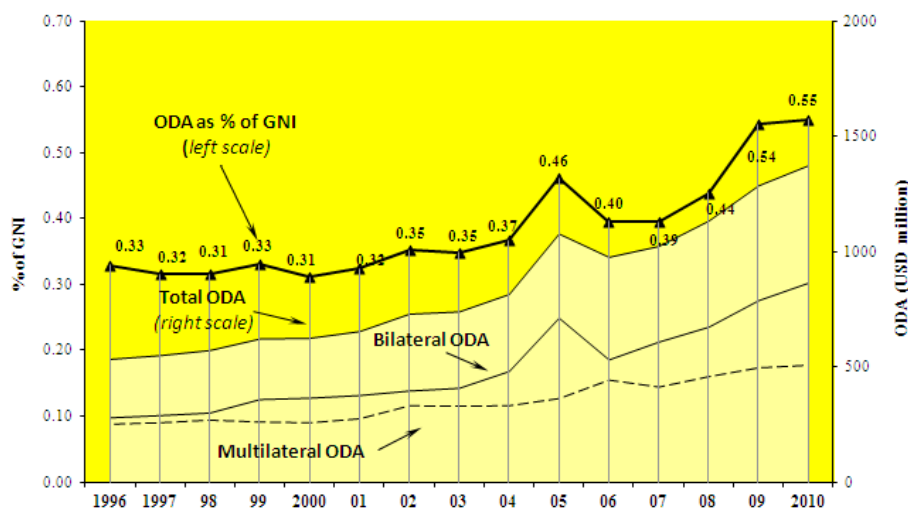
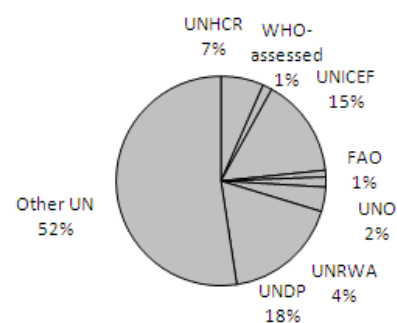


Table B.2. ODA by main categories

Finland	Constant 2009 USD million					Per cent share of gross disbursements					Total DAC 2010%
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
	<i>Disbursements</i>										
<b>Gross Bilateral ODA</b>	<b>537</b>	<b>611</b>	<b>678</b>	<b>791</b>	<b>867</b>	<b>55</b>	<b>60</b>	<b>60</b>	<b>61</b>	<b>63</b>	<b>73</b>
General budget support	25	29	39	39	38	3	3	3	3	3	2
Core support to national NGOs	11	8	10	1	3	1	1	1	0	0	1
Investment projects	91	43	47	52	35	9	4	4	4	3	13
Debt relief grants	-	-	4	-	-	-	-	0	-	-	3
Administrative costs	39	48	73	80	88	4	5	6	6	6	4
Other in-donor expenditures	25	25	31	56	58	3	2	3	4	4	3
<b>Gross Multilateral ODA</b>	<b>446</b>	<b>416</b>	<b>461</b>	<b>499</b>	<b>510</b>	<b>45</b>	<b>40</b>	<b>40</b>	<b>39</b>	<b>37</b>	<b>27</b>
UN agencies	153	119	129	145	149	16	12	11	11	11	5
EU institutions	180	184	206	216	207	18	18	18	17	15	9
World Bank group	55	50	35	61	76	6	5	3	5	6	6
Regional development banks	23	34	46	48	36	2	3	4	4	3	2
Other multilateral	35	28	45	29	42	4	3	4	2	3	4
<b>Total gross ODA</b>	<b>983</b>	<b>1 026</b>	<b>1 139</b>	<b>1 290</b>	<b>1 377</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Repayments and debt cancellation	- 4	-	- 2	-	-						
<b>Total net ODA</b>	<b>979</b>	<b>1 026</b>	<b>1 137</b>	<b>1 290</b>	<b>1 377</b>						
<i>For reference:</i>											
Free standing technical co-operation	95	253	255	305	325						
Net debt relief	-	-	2	-	-						
Imputed student cost	13	18	25	41	47						
Refugees in donor countries	-	-	-	-	-						

Contributions to UN Agencies (2009-10 Average)



Contributions to Regional Development Banks (2009-10 Average)

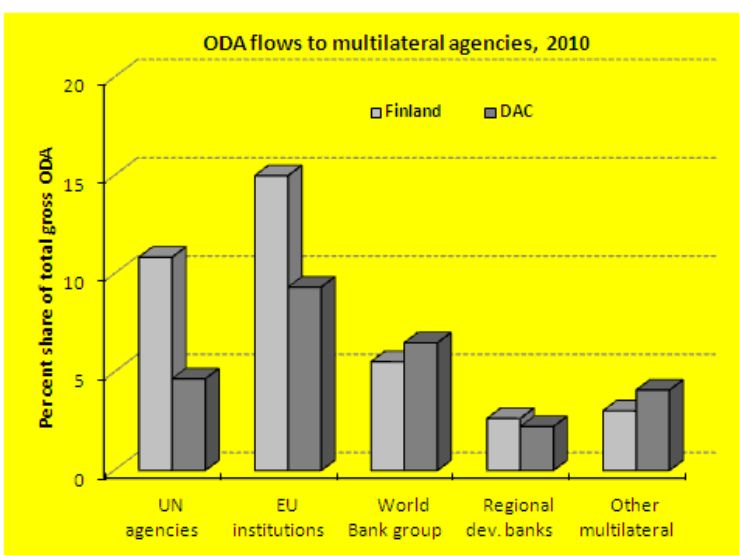
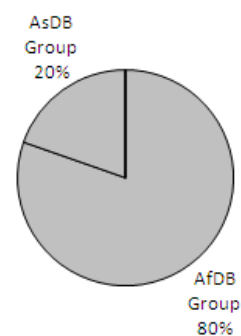
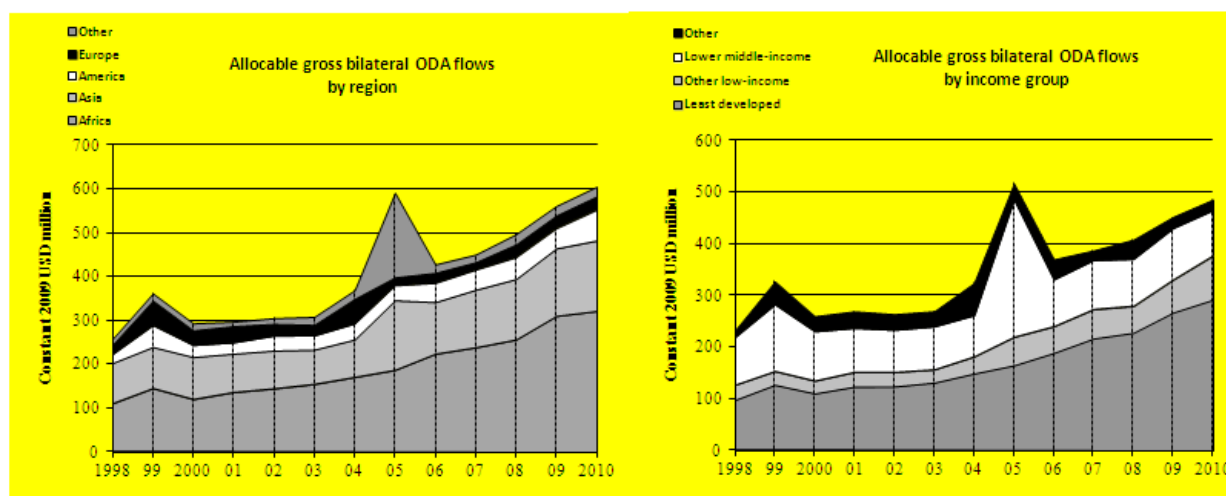


Table B.3. Bilateral ODA allocable by region and income group

Finland	Gross disbursements										
	Constant 2009 USD million					Per cent share					Total DAC 2010%
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
<b>Africa</b>	225	239	257	311	323	52	53	52	55	53	40
Sub-Saharan Africa	195	213	221	265	294	45	47	45	47	49	35
North Africa	6	6	2	2	3	1	1	0	0	1	4
<b>Asia</b>	119	132	139	155	162	28	29	28	28	27	34
South and Central Asia	58	65	74	83	95	13	14	15	15	16	20
Far East	51	58	51	55	51	12	13	10	10	8	14
<b>America</b>	44	46	50	46	70	10	10	10	8	12	13
North and Central America	29	33	28	28	41	7	7	6	5	7	7
South America	15	13	18	17	28	3	3	4	3	5	5
<b>Middle East</b>	19	17	23	21	21	4	4	5	4	4	7
<b>Oceania</b>	0	-	0	0	0	0	-	0	0	0	2
<b>Europe</b>	22	16	28	28	29	5	4	6	5	5	4
<b>Total bilateral allocable by region</b>	<b>429</b>	<b>451</b>	<b>497</b>	<b>562</b>	<b>605</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Least developed</b>	190	217	229	268	293	51	56	56	59	60	40
<b>Other low-income</b>	51	57	52	64	85	14	15	13	14	18	13
<b>Lower middle-income</b>	90	95	91	99	88	24	24	22	22	18	37
<b>Upper middle-income</b>	39	19	37	22	21	11	5	9	5	4	9
<b>More advanced developing countries</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Total bilateral allocable by income</b>	<b>370</b>	<b>388</b>	<b>408</b>	<b>453</b>	<b>486</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>											
<i>Total bilateral</i>	538	611	678	791	867	100	100	100	100	100	100
<i>of which: Unallocated by region</i>	109	160	180	230	262	20	26	27	29	30	23
<i>of which: Unallocated by income</i>	167	223	269	338	381	31	37	40	43	44	30



1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

Table B.4. Main recipients of bilateral ODA

Finland	1999-2003 average			Memo: DAC countries' average %		2004-08 average			Memo: DAC countries' average %		2009-10 average			Memo: DAC countries' average %
	Current	Constant	Per cent			Current	Constant	Per cent			Current	Constant	Per cent	
	USD million	2009 USD mln	share			USD million	2009 USD mln	share			USD million	2009 USD mln	share	
Mozambique	16	24	6		Iraq	35	42	6		Tanzania	52	53	6	
Serbia	13	20	5		Mozambique	30	33	6		Mozambique	45	46	6	
Tanzania	12	19	5		Tanzania	28	31	5		Afghanistan	27	27	3	
Nicaragua	11	16	4		Vietnam	21	23	4		Vietnam	26	26	3	
Afghanistan	9	14	4		Afghanistan	18	20	3		Ethiopia	25	25	3	
<b>Top 5 recipients</b>	<b>61</b>	<b>93</b>	<b>23</b>	<b>26</b>	<b>Top 5 recipients</b>	<b>133</b>	<b>149</b>	<b>24</b>	<b>32</b>	<b>Top 5 recipients</b>	<b>174</b>	<b>177</b>	<b>21</b>	<b>27</b>
China	9	14	3		Serbia	15	17	3		Zambia	23	23	3	
Namibia	7	11	3		Nicaragua	15	16	3		Kenya	22	22	3	
Vietnam	7	11	3		Zambia	12	13	2		Nepal	21	22	3	
Ethiopia	6	9	2		South Africa	12	13	2		Sudan	17	18	2	
Zambia	6	9	2		Sudan	12	13	2		Nicaragua	16	16	2	
<b>Top 10 recipients</b>	<b>96</b>	<b>147</b>	<b>36</b>	<b>40</b>	<b>Top 10 recipients</b>	<b>200</b>	<b>223</b>	<b>36</b>	<b>44</b>	<b>Top 10 recipients</b>	<b>274</b>	<b>278</b>	<b>34</b>	<b>39</b>
Bosnia-Herzegovina	6	9	2		Ethiopia	12	13	2		Pakistan	13	13	2	
Nepal	5	8	2		Kenya	11	12	2		West Bank & Gaza Strip	12	13	2	
Kenya	5	8	2		Nepal	11	11	2		South Africa	9	10	1	
South Africa	5	8	2		Somalia	8	9	2		Somalia	9	9	1	
Egypt	4	6	1		China	8	9	1		Kosovo	8	8	1	
<b>Top 15 recipients</b>	<b>121</b>	<b>186</b>	<b>46</b>	<b>50</b>	<b>Top 15 recipients</b>	<b>249</b>	<b>277</b>	<b>45</b>	<b>52</b>	<b>Top 15 recipients</b>	<b>325</b>	<b>330</b>	<b>40</b>	<b>46</b>
West Bank & Gaza Strip	4	6	1		West Bank & Gaza Strip	7	8	1		Zimbabwe	7	7	1	
Thailand	3	5	1		Pakistan	7	8	1		India	7	7	1	
Cambodia	3	5	1		Namibia	5	6	1		Congo, Dem. Rep.	7	7	1	
Iraq	3	4	1		Congo, Dem. Rep.	5	6	1		Haiti	7	7	1	
Angola	3	4	1		Uganda	5	6	1		Laos	7	7	1	
<b>Top 20 recipients</b>	<b>136</b>	<b>210</b>	<b>52</b>	<b>57</b>	<b>Top 20 recipients</b>	<b>279</b>	<b>311</b>	<b>51</b>	<b>59</b>	<b>Top 20 recipients</b>	<b>359</b>	<b>365</b>	<b>44</b>	<b>52</b>
<b>Total (104 recipients)</b>	<b>182</b>	<b>280</b>	<b>69</b>		<b>Total (120 recipients)</b>	<b>362</b>	<b>402</b>	<b>66</b>		<b>Total (122 recipients)</b>	<b>462</b>	<b>470</b>	<b>57</b>	
Unallocated	81	125	31	22	Unallocated	188	206	34	24	Unallocated	353	359	43	32
<b>Total bilateral gross</b>	<b>263</b>	<b>405</b>	<b>100</b>	<b>100</b>	<b>Total bilateral gross</b>	<b>550</b>	<b>608</b>	<b>100</b>	<b>100</b>	<b>Total bilateral gross</b>	<b>815</b>	<b>829</b>	<b>100</b>	<b>100</b>

Table B.5. Bilateral ODA by major purposes

at current prices and exchange rates

Finland	Commitments - Two-year averages						
	1999-2003 average		2004-08 average		2009-10 average		2009-10 Total DAC per cent
	2009 USD million	Per cent	2009 USD million	Per cent	2009 USD million	Per cent	
<b>Social infrastructure &amp; services</b>	<b>197</b>	<b>46</b>	<b>275</b>	<b>38</b>	<b>411</b>	<b>36</b>	<b>41</b>
Education	42	10	57	8	65	6	9
of which: basic education	5	1	16	2	8	1	2
Health	33	8	33	5	42	4	5
of which: basic health	14	3	13	2	17	1	3
Population & reproductive health	5	1	10	1	5	0	7
Water supply & sanitation	23	5	39	5	78	7	5
Government & civil society	66	15	111	15	182	16	12
of which: Conflict, peace & security	-	-	29	4	68	6	3
Other social infrastructure & services	27	6	24	3	38	3	3
<b>Economic infrastructure &amp; services</b>	<b>17</b>	<b>4</b>	<b>55</b>	<b>8</b>	<b>155</b>	<b>14</b>	<b>16</b>
Transport & storage	2	0	0	0	12	1	7
Communications	2	1	9	1	42	4	0
Energy	9	2	21	3	60	5	5
Banking & financial services	2	1	18	3	22	2	2
Business & other services	1	0	7	1	20	2	1
<b>Production sectors</b>	<b>29</b>	<b>7</b>	<b>65</b>	<b>9</b>	<b>156</b>	<b>14</b>	<b>7</b>
Agriculture, forestry & fishing	23	5	49	7	124	11	5
Industry, mining & construction	5	1	12	2	19	2	1
Trade & tourism	2	1	5	1	13	1	1
<b>Multisector</b>	<b>63</b>	<b>15</b>	<b>97</b>	<b>14</b>	<b>136</b>	<b>12</b>	<b>11</b>
Commodity and programme aid	8	2	44	6	30	3	4
Action relating to debt	13	3	8	1	-	-	3
<b>Humanitarian aid</b>	<b>43</b>	<b>10</b>	<b>93</b>	<b>13</b>	<b>122</b>	<b>11</b>	<b>9</b>
Administrative costs of donors	30	7	51	7	87	8	5
Aid to NGOs (core support) <sup>1</sup>	10	2	7	1	7	1	1
Refugees in donor countries	20	5	22	3	44	4	3
<b>Total bilateral allocable</b>	<b>430</b>	<b>100</b>	<b>717</b>	<b>100</b>	<b>1 149</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>							
Total bilateral	444	59	745	63	1 193	63	74
of which: Unallocated	14	2	27	2	44	2	1
Total multilateral	303	41	431	37	707	37	26
<b>Total ODA</b>	<b>746</b>	<b>100</b>	<b>1 176</b>	<b>100</b>	<b>1 900</b>	<b>100</b>	<b>100</b>

1. Included up to 2009. In 2010 aid to NGOs is reportable by sector.

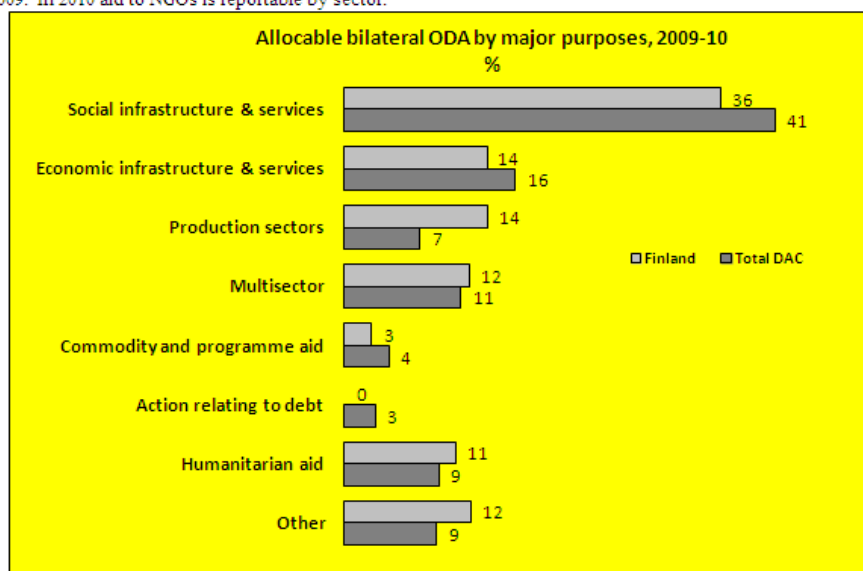


Table B.6. Comparative aid performance

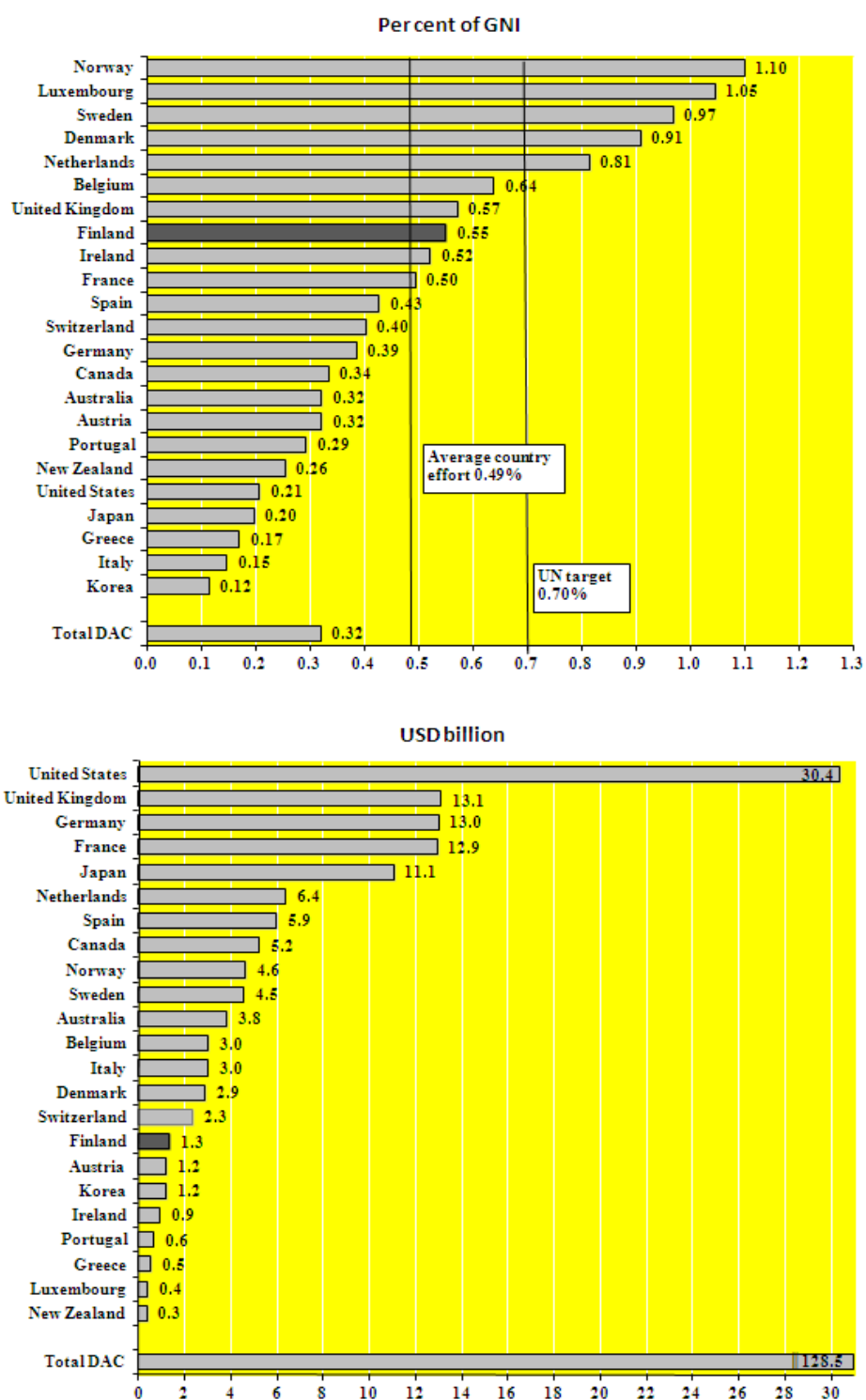
	Official development assistance		2004-05 to 09-10 Average annual % change in real terms	Grant element of ODA (commitments) 2010 % (a)	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies 2010			
	2010				2010				% of ODA (b)	% of GNI (c)	% of ODA	% of GNI
	USD million	% of GNI			% of ODA		% of GNI					
					(b)	(c)	(b)	(c)				
Australia	3 826	0.32	8.4	99.6	15.3	0.05			30.3	0.10		
Austria	1 208	0.32	-2.5	100.0	49.3	22.5	0.16	0.07	38.0	0.12		
Belgium	3 004	0.64	6.5	99.3	31.7	13.5	0.20	0.09	48.2	0.31		
Canada	5 202	0.34	2.4	100.0	24.6	0.08			44.1	0.15		
Denmark	2 871	0.91	2.4	100.0	26.5	17.8	0.24	0.16	39.2	0.36		
Finland	1 333	0.55	7.0	100.0	37.1	22.0	0.20	0.12	35.9	0.20		
France	12 915	0.50	2.9	83.7	39.7	19.1	0.20	0.09	28.5	0.14		
Germany	12 985	0.39	4.3	88.6	38.1	15.6	0.15	0.06	28.1	0.11		
Greece	508	0.17	4.8	100.0	58.3	3.6	0.10	0.01	21.0	0.04		
Ireland	895	0.52	5.6	97.8	34.6	16.3	0.18	0.09	55.6	0.29		
Italy	2 996	0.15	-7.2	81.5	74.7	22.7	0.11	0.03	39.6	0.06		
Japan	11 054	0.20	-4.2	99.0	33.7	0.07			40.8	0.08		
Korea	1 174	0.12	11.5	100.0	23.3	0.03			38.3	0.04		
Luxembourg	403	1.05	5.1	100.0	34.9	26.1	0.37	0.27	38.4	0.40		
Netherlands	6 357	0.81	3.1	100.0	26.9	17.3	0.22	0.14	29.2	0.24		
New Zealand	342	0.26	3.5	100.0	20.7	0.05			29.5	0.08		
Norway	4 580	1.10	5.5	98.9	22.2	0.24			30.7	0.34		
Portugal	649	0.29	-7.3	74.4	39.0	10.5	0.11	0.03	44.1	0.13		
Spain	5 949	0.43	13.2	100.0	32.8	15.8	0.14	0.07	27.2	0.12		
Sweden	4 533	0.97	6.1	100.0	35.7	27.0	0.35	0.26	31.1	0.30		
Switzerland	2 300	0.40	2.0	100.0	25.6	0.10			26.9	0.11		
United Kingdom	13 053	0.57	6.1	100.0	38.6	23.2	0.22	0.13	35.9	0.21		
United States	30 353	0.21	2.1	87.9	12.4	0.03			35.5	0.07		
<b>Total DAC</b>	<b>128 492</b>	<b>0.32</b>	<b>2.8</b>	<b>100.0</b>	<b>29.4</b>	<b>0.09</b>			<b>34.2</b>	<b>0.11</b>		
Memo: Average country effort		0.49										

## Notes:

- a. Excluding debt reorganisation.
- b. Including EU institutions.
- c. Excluding EU institutions.
- .. Data not available.



Figure B.1. Net ODA from DAC countries in 2010





## *Annex C*

### **Field visit to NEPAL**

The peer review team – made up of four examiners (two from Austria and two from Switzerland), one observer (from Romania), and three members of the DAC Secretariat – visited Nepal from 12 to 16 March 2012. The team held meetings with:

- Finnish embassy staff;
- Officials from the Nepalese Government (including the Ministry of Finance and the Ministry of Local Development), the National Planning Commission, the National Human Rights Commission, the National Peace Trust Fund;
- Nepalese and Finnish civil society organisations;
- Bilateral and multilateral development partners, including the International Development Partners Group;
- Finnish and Nepalese parliamentarians.

Information gathered during this field visit is used throughout the report to illustrate specific issues. This annex gives further detail, basic information on the country context and an overview of international development co-operation in Nepal, including the aid co-ordination structure. It goes on to discuss the specific role of Finland co-operation in Nepal, focusing on: (i) Finland's priority areas of intervention in Nepal; (ii) the instruments and modalities that Finland uses to deliver its development co-operation; (iii) the decentralisation process and human resources in the field.

#### **Country context**

With a per capita gross domestic product of USD 490, Nepal is the poorest country in South Asia and the 17th poorest in the world (WB, 2011). Nepal also has a very low Human Development Index, ranking 138 out of 169 countries (Table C.1). Five years ago, a coalition of the Maoist Communist Party of Nepal and seven other parties signed the Comprehensive Peace Agreement (CPA) that put an end to a decade-long armed conflict. While the monarchy was abolished and the parliament restored, major milestones of the peace process still need to be met, such as agreeing a new constitution. The rapid transition from an absolute monarchy to democracy, an unfinished peace process, and longstanding challenges of widespread poverty, high inequality and discrimination, and weak governance, leave Nepal in a complex and fragile post-conflict situation.

**Table C.1. Basic facts about Nepal**

BASIC FACTS ABOUT NEPAL		SOURCE
Population	26.6 million	2011 census
GDP per capita	USD 490	WB, estimated FY11
GDP growth	4.6%	WB, 2010
Life expectancy	68.8	HDI, 2011
Human Development Index rank	138 (out of 169)	HDI, 2011
Government	Federal republic	
President	Ram Baran Yadav	
Prime Minister	Baburam Bhattarai (Unified Communist Party - Maoist)	

*Source: based on various data sources specified on the right-hand column.*

Real GDP growth was 3.5% in the 2011 fiscal year, below the 5% average achieved between 2007 and 2010. Investments and net exports contribute little to growth, in part because of the lack of infrastructure; the main driver of growth remains consumption. Consumption is largely fuelled by remittances, which, excluding informal flows and flows from India, account for around 20% of GDP (WB, 2011). Inflation remains high – near double digits – and sustained high food prices exacerbate the pervasive food insecurity in the country, which affects around 41% of the population (FAO, 2011).

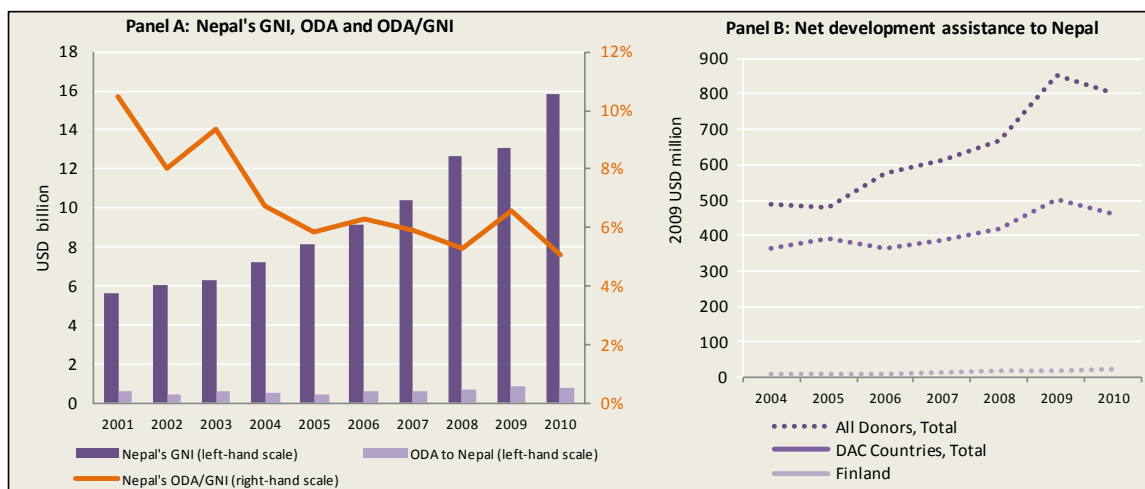
## **Development co-operation in Nepal**

### ***Role of development assistance in the economy***

Official development assistance represented 5% of Nepal's gross national income in 2010. With the exception of two peaks (in 2003 and in 2009), Nepal's dependence on foreign assistance has declined since 2001, mainly as a result of its growing national income (Figure C.1, Panel A). Nevertheless, development assistance remains a fundamental source of funding for public expenditure: 17% in 2008/09 (Scott Wilson Nepal Pty Ltd, 2012).

Support from development partners has steadily increased since 2005, although it fell by 6% in 2010 (Figure C.1, Panel B.). Of the 40 donors that provide official development assistance to Nepal, IDA is the largest, providing 15% of all aid. The five largest donors to Nepal also include: the United Kingdom, the Asian Development Bank, Japan and the United States, and together made up 54% of total ODA to Nepal in 2009/10. Finland is the 12th largest donor, providing USD 21.2 million in 2009/10. Although official numbers and modalities are not available, funding from China and India seems to be increasingly important in Nepal.

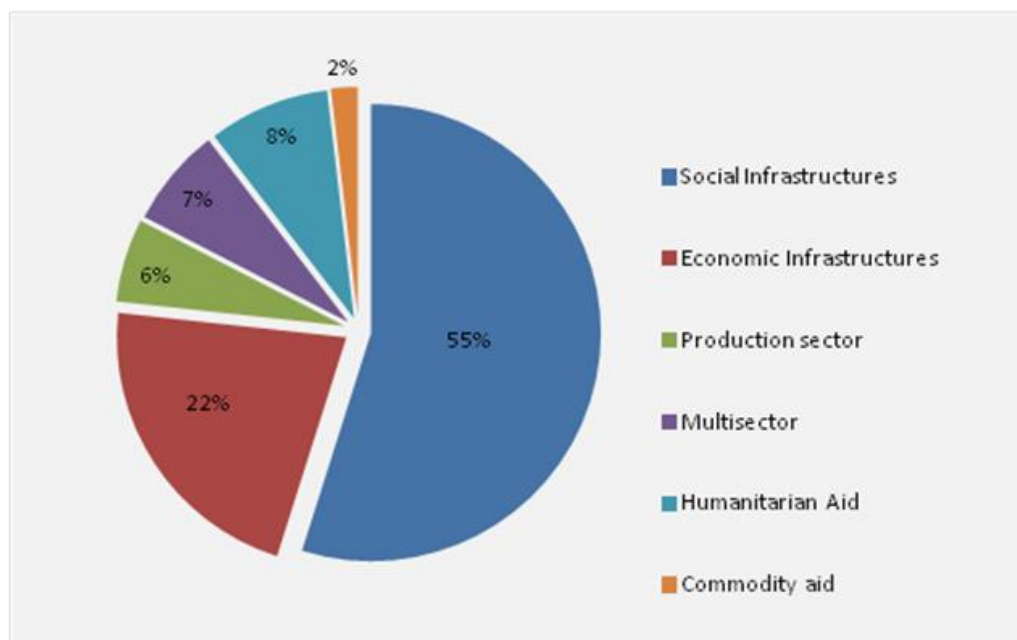
Figure C.1. Official development assistance in Nepal



Source: based on DAC statistics and World Bank data.

In 2008/09, over half of ODA from all donors was allocated to social infrastructure and services (55%), followed by economic infrastructure (22%). Eight per cent of ODA was allocated to humanitarian aid (Figure C.2).

Figure C.2. Sector allocation of ODA to Nepal in 2009/10



Source: based on data from the OECD Creditor Reporting System.

### *Aid co-ordination*

The donor community meets regularly with the Government of Nepal, no less than three times in a year. All bilateral donors, as well as ADB, WB and UNDP, come together every two weeks under the International Development Partners Group (IDPG). Korea, China and India have recently joined this group. The aim of the IDPG is to foster and catalyse policy dialogue and to co-ordinate and harmonise donor support. Even though donors do not necessarily come up with common positions *vis-à-vis* the government, the group is internally perceived as a valuable instrument to share information and maximise synergies among donor development interventions.

Another co-ordination group is the EU++, which groups representatives of the European Commission, members of the European Union, plus Norway and Switzerland. The group aims at bringing together European countries for more co-ordinated development action. Finland is recognised as an active partner in both the IDPG and the EU++ groups.

### *Aid effectiveness*

The National Planning Commission of Nepal prepares three-year development plans, the current one covers 2010/11-2012/13. It is around this plan that Nepal calls upon donors for their contributions to the country's development processes. In addition, since 2011 the Ministry of Finance has started to prepare annual reports on development co-operation, a meaningful sign of transparency and potentially an important instrument for mutual accountability.

According to the Nepal Ministry of Finance, about half of the aid to Nepal goes through country systems (MF, 2011). Donors and government collaborate in sector-wide approaches in the education and health sectors, in the Local Governance Capacity Development Programme, and in the Nepal Peace Trust Fund, a government programme funded roughly one-third by donors and implemented by government agencies. Two additional SWAPs are in the process of being developed in the forestry and water and sanitation sectors.

Despite these positive steps, the donor community – including Finland – continues to be reluctant to commit wholly to programme-based approaches, mainly because of perceived widespread corruption in national institutions. A decline in aid channelled through Nepal's public financing management systems (PFM) and procurement systems is also signalled by the results of the 2011 *Survey on Monitoring the Paris Declaration* (OECD, 2011c), along with a deterioration in the reliability of country PFM systems.

Fragmentation remains an issue in Nepal and more efforts are needed to address it. In Nepal's context of high institutional fragility, donors engage in a project or a sector with one or more other donors as a strategy to share fiduciary risks and sometimes as a condition to obtain clearance from their headquarters. While this is a positive sign of donors' willingness and proactive behaviour to adapt to a complex country situation, donors could do more to reduce the "crowdedness" of specific areas of intervention. The average number of donors involved in each sector is 17; some sectors have more than 20 donors involved, such as health (22 donors), government and civil society (22), education (21), and multi-sector (21). The water and sanitation sector was less crowded, with only 8 donors (OECD, 2011).

### **Finnish development co-operation in Nepal**

Finland has been active in Nepal since 1983. It maintained its support to the country even during the armed conflict, when it proved to be an adaptable and effective partner despite the complex environment. Finland has significantly scaled up its bilateral ODA to

Nepal, bringing it to USD 22 million in 2010 from USD 8 million in 2006. It has also upgraded its country office in Kathmandu to embassy status. These positive steps reflect Finland's longstanding commitment with Nepal and increase its capacity for policy dialogue and impact. Finland has a good track record in areas such as education, natural resources and the peace process, and is recognised by the government and other development co-operation providers as a valuable development partner. In Nepal's complex, post-conflict environment, Finland uses a flexible mix of tools to deliver its development co-operation, including well-targeted partnerships with specialised multilateral agencies. To achieve greater impact Finland needs to increase devolution of programme management authority and allocate sufficient resources to the embassy. Finland could also improve the effectiveness of the NGO channel by giving the embassy a greater role in discussions in Helsinki over project approval and in the follow-up of the development impact of NGO interventions in the field.

### ***Priority areas of intervention for Finland***

During the 2010 bilateral consultations between Finland and Nepal the two countries agreed that Finland would scale up its support to the forestry sector, continue to support the water and sanitation (WASH) and environment sectors, as well as the peace and democratisation processes and human rights. It was also agreed that Finland's support to the education sector will eventually be phased out. In keeping with the decisions made during these bilateral consultations, Finland allocated a high proportion of its considerable ODA increases to Nepal to the natural resources sectors (*e.g.* WASH, environment and forestry), which doubled between 2008 and 2010 (MFA, 2012).

It is commendable that many of Finland's programmes and projects in Nepal incorporate a specific gender-equality dimension. For example, the Rural Village Water Resources Management Project (RVWRMP), which aims at promoting equitable and sustainable practices in water resources planning and use, adopts specific measures to ensure active and meaningful participation by women and other socially-excluded groups. The joint Finland-UNICEF WASH project, which aims to improve water and sanitation conditions, pays special attention to the needs of girls and disabled people, for example by promoting "child, gender and disabled friendly" WASH facilities in schools. It is also positive that the indicators for assessing results of many of Finland's programmes and projects incorporate gender.

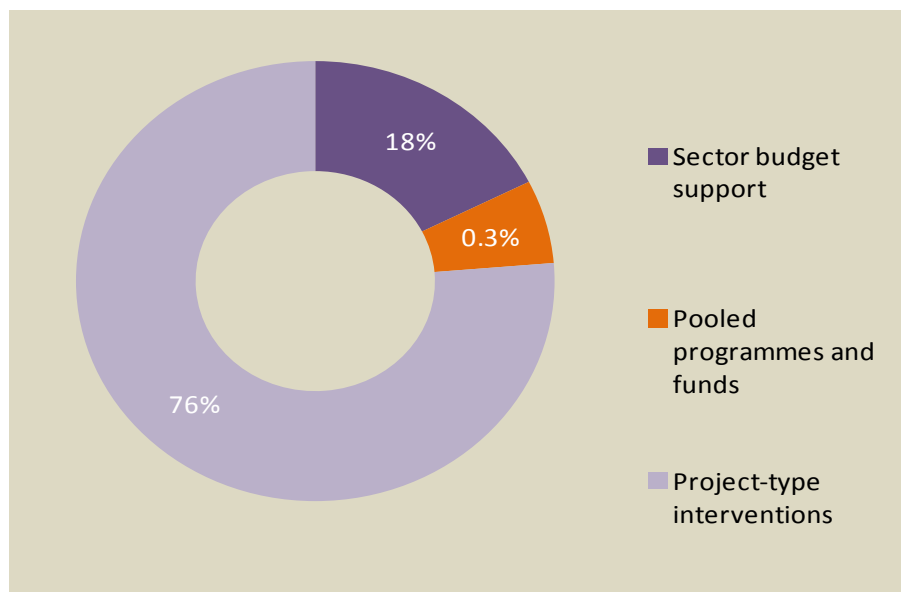
Finland is currently planning its development activities in Nepal for 2013-2016. These will be organised around the priorities of the Government of Nepal, as well as the 2012 Finnish Development Policy. The planning for the 2013-2016 period will also need to take into account both the recommendations from the 2012 country programme evaluation and the instructions relating to the new country strategies format that Finland is developing. Over the coming years Finland is planning to phase out of peace building, water and sanitation, environment and land registry activities. The impact of the new planning will become visible in three years, as most of the funds allocated for the next two years have already been committed, with only around 10% not yet allocated to specific activities.

### ***Instruments and modalities to deliver development co-operation***

Finland uses a wide array of instruments to deliver its development co-operation in Nepal. Of the USD 22 million Finland allocated to the country in 2010, 18% were delivered through the sector-wide approach in the education sector (Figure C.3). Like other donors in the country, Finland also contributes to the basket funding for the Nepal Peace Trust Fund (NPTF), a governmental programme implemented by state agencies. In the WASH projects in the water and sanitation sector, Finland has taken the use of country systems one step

further by providing funds through district-level systems (see Box 5.2, Chapter 5). In the forestry sector, Finland, together with UK, has delegated funds to Switzerland to implement the Multi-stakeholder Forestry Programme. These positive examples show that Finland is able to work through different modalities, choose a mix of tools tailored to the country situation and that it actively looks for opportunities to collaborate with other donors so as to maximise the impact of its interventions.

**Figure C.3. Finland's aid modalities in Nepal, 2010**



Source: based on data from the OECD Creditor Reporting System.

### ***The decentralisation process as an opportunity to increase impact and visibility***

As discussed in Chapter 4, in most long-term partner countries Finland has adopted delegation agreements which define the division of labour between headquarters and the embassies. These are based on a pragmatic assessment of the skills and resources available. The current delegation agreement with the embassy in Kathmandu was approved in 2009. It states that Helsinki has the main responsibilities for programming and financial authority, while the embassy clearly has the lead in monitoring operations and in some aspects of procurement. While Finland has significantly scaled up its bilateral aid in Nepal, reaching a considerable aid level which gives prominence to its programme and enhances Finland's potential for greater impact and visibility, it does not seem to have considered delegating authority more to facilitate the management of a broader portfolio in the field.

As a small donor, it is welcome that Finland engages in partnerships with other bilateral and multilateral partners as well as with NGOs. However, to add value to its development investments and share the co-ordination burden, Finland needs to ensure that it has sufficient staff and delegated authority at country level. This may involve reviewing the distribution of resources and responsibilities between HQ and the embassy, re-considering the cap on locally-hired staff and addressing frequent staff turnover, including in Helsinki. Career development, equal training opportunities, and appropriate incentives, for both Finnish specialists and all locally-hired staff, would ensure continued quality support to programmes.





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