

The Head of Division

DEVELOPMENT CO-OPERATION DIRECTORATE

Review, Evaluation & Engagement

DAC Delegates and observers

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13th October 2014

Dear DAC Delegates and observers,

Mid-term Review of Finland, 1st September 2014, Helsinki

On 1st September 2014, I visited Finland to conduct its Mid-Term Review accompanied by Hetty Kovach of DCD. I would like to thank Mr Pekka Puustinen, Director-General of the Department for Development Policy, and his colleagues, for an excellent programme of meetings and discussions. We met with senior representatives in the Ministry for Foreign Affairs, as well as representatives from civil society and the research sector.

While the main purpose of the Mid-Term Review is to focus on the implementation of the DAC's recommendations from the 2012 Peer Review, it is also important to take into account other major developments. Since 2012, the Government of Finland has published a new communication on development, *Towards A More Just World Free of Poverty (May 2014)*. The communication highlights the progress Finland has made on making its development policy and co-operation more effective and on ensuring public policy is more coherent with development aims. It also highlights emerging new priority areas like fragile states and domestic resource mobilisation, in light of the post-2015 development agenda. The communication was discussed in a full session of Parliament, the first time development policy has been given such attention, and has kick-started a conversation on the future direction of Finland's Development Co-operation.

Strategic Orientations and Allocations

Finland's development co-operation is guided by the strategic priorities of promoting democratic and accountable societies, inclusive green economies, supporting sustainable management of natural resources and human development, as outlined in its *Development Policy Programme (2012)*. In addition, over the last couple of years, Finland has addressed issues of fragility and conflict, increasing its allocations to countries like Somalia, the Central African Republic and Myanmar and taking on international leadership as co-chair of the International Dialogue on Peacebuilding and Statebuilding. Finland is committed to achieving all of its priorities through a human rights approach and has seven long-term partner countries.

The Ministry for Foreign Affairs has taken steps to clarify the objectives and intended results of its development programme, in response to the peer review recommendation to focus, specify and operationalise its development policy programme. All country strategies prepared from 2013 onwards contain a clear set of objectives, accompanied by a results framework and targets. The Ministry has also undertaken an assessment of the effectiveness of its multilateral partners, including their relevance in contributing towards Finland's development policy objectives. A series of institutional policy influencing strategies have been produced as a result, which clarify Finland's strategic policy objectives for each of its main multilateral partners and are intended to guide Finland's allocations and policy engagement.



The last peer review also recommended that Finland concentrate its resources on its long term partner countries, least developed countries and priority areas. Within its long-term partner countries, Finland is committed to implementing the EU's policy of supporting three sectors only and is working to reduce the number of its aid interventions. It is too early to assess whether these measures have enabled Finland to further concentrate its resources within its partner countries. However, Finland's expanding list of geographical priorities appears to be posing a challenge. While Finland's long-term partners continue to be within its top ten aid recipient countries, the share of Finland's gross bilateral aid going to its top ten recipients countries has declined from 39% in 2009-10 to 31% in 2011-12. This is below the DAC average. This declining share is likely to be a result of Finland's increasing focus on fragile states, beyond those identified as long-term partner countries. While Finland is exiting countries (Vietnam) and regions (Latin America) it still needs to consider whether it can have an impact across a wider range of countries or whether it needs to concentrate its resources further. This is particularly important in light of its projected declining aid budget in the coming years.

Aid Volume

Finland provided USD 1.435 billion in ODA in 2013 (preliminary figures), representing 0.55% of gross national income (GNI). Despite challenging economic circumstances and a government austerity programme, the ODA budget, up until now, has largely been protected from significant budget cuts. Finland even managed to increase its ODA volume marginally between 2012 and 2013. This increase was thanks to the government's innovative agreement to give all the income received from the EU's Emissions Trading System (ETS) to the ODA budget. In 2013, an additional EUR 54.8 million was provided to the ODA budget. While this innovative mechanism has managed to augment the ODA budget, it is not clear whether income from the trading system will continue to be allocated to ODA in the future.

According to Finland's own budget projections there is likely to be a decline in ODA volume in 2015, even if additional income from the EU's ETS is provided. While Finland remains committed to achieving its UN and EU target of providing 0.7% of GNI as ODA, it remains a challenge. In light of the expected cuts in the next couple years, the Ministry is thinking carefully about how to effect the cuts with the least impact on their partners.

Policy Coherence for Development

Finland remains a leader in pursuing coherent policies for development and has spent considerable effort to strengthen its strategic focus, improve co-ordination mechanisms across government and enhance country-level monitoring and analysis, as recommended in the peer review. Finland has adopted an issues-based approach to addressing coherence, which has served it well, focusing on areas like food security and tax. For example, Finland was one of the first countries to pilot the OECD PCD-tool looking at food security. The pilot has produced a concrete set of policy recommendations for improving the coherence of Finland's policies on this issue which the Government is in the process of implementing. On tax, the Department for Development Policy contributed to a government-wide plan to prevent international tax evasion that takes account of developing countries' needs. It has also established a tax and development inter-departmental task force to monitor relevant policies.

The Ministry for Foreign Affairs has issued new guidance on how to better integrate the development perspective into Finland's EU positions. The guidance has been shared with all Finnish representatives working in the EU sub-committees. The Ministry is also working with the European Centre for Development Policy Management and the OECD to test a new methodology for assessing the impact of OECD policies on food security in Tanzania. This pilot should strengthen Finland's, and other OECD DAC countries', ability to monitor and analyse the impact of key policies at the country level. Finally, the Government communication, *Towards A More Just World Free of Poverty (May 2014)*, aims to raise awareness, in plain language, of the importance of policy coherence for development.



Partnerships and Alliances

Allocations to civil society organisations (CSOs) constitute a significant part of Finland's ODA: 22% of its bilateral ODA went to or through CSOs in 2012, above the DAC average (17%). In order to streamline its CSO funding instruments, Finland has taken steps to increase the amount of multi-annual programme funding it provides to CSOs, as recommended by the last peer review. Finland currently provides approximately 70% of its CSO support to 21 Finnish NGOs via multi-annual programmatic funding, an increase since the last peer review, when Finland channelled only 50% of its resources this way. However, it still provides project-based funding to over 250 civil society organisations.

Finland intends to move to a more results-orientated approach in its work with CSOs and is in the process of revising its guidelines for CSO co-operation. As part of these revisions, Finland has the opportunity to clarify further what it wants to achieve through its funding for CSOs in relation to its other funding instruments, as recommended in the last peer review. The need for greater clarity is supported by Finland's recently commissioned evaluation, *Complementarity in Finland's Development Policy and Co-operation*, which calls for Finland to more clearly define what it means by *complementarity* and to explore synergies between its CSO funding and its other funding instruments at the country level.

Finland continues to work closely with the private sector to deliver its development co-operation and has managed to do this while accelerating its efforts to untie its aid, as recommended. The percentage of Finland's aid that is tied has fallen since the last peer review from 15% in 2010 to 5% in 2012. Part of the reason for this success is that Finland is in the process of phasing out its concessional credit scheme, one of two instruments identified in the last peer review as contributing to a rising level of tied aid in Finland.

The last peer review also recommended that Finland explore new instruments for working with the private sector that were demand driven, locally owned and untied. The Ministry for Foreign Affairs is in the process of working with Finland's Funding Agency for Innovation to jointly develop a new programme called 'BEAM – Business With Impact' to support innovation and business initiatives of Finnish companies in developing countries. The instrument shows promise, but there is a need for greater clarity over the principles that will guide these private-sector partnerships and the development results that these partnerships are intended to achieve.

Organisation

The Ministry for Foreign Affairs has improved its system and tools for operationalising its development programmes in order to ensure more consistent implementation, as recommended. New guidance for key modalities like budget support and aid for trade have been developed and the Ministry is up-dating its electronic project database system so that it can cover all of Finland's co-operation modalities, rather than just focus on its bilateral country allocations. Country programming guidelines are also being reviewed and the Ministry is working to improve its quality assurance processes. In addition, the Department for Development Policy is working to strengthen its results based management approach. In recognition of the complexity of the task, it has adopted a pragmatic approach and is currently focusing on establishing institutional systems and processes for results based management. The Ministry's independent evaluation department is also working to ensure lessons from evaluations, and results monitoring feed into management decision-making in a more systematic way.

In relation to staffing, the Ministry for Foreign Affairs continues to face a difficult time, with ongoing government-wide public sector staff cuts. The Ministry has taken steps to enhance the career prospects of its special career staff, enabling it to maintain critical development expertise for its programme, as recommended. In the past special career staff with development expertise often had no career advancement opportunities and would leave the Ministry, taking with them their expertise. Never-the-less, the Ministry continues to find it hard to attract staff with development expertise to go to the field and, in turn, to ensure staff with developing country expertise from the field come back to headquarters to fill development co-operation posts.

In line with recommendations, the Ministry for Foreign Affairs has updated its training plans for staff working on development. Special focus has been given to the needs of embassy staff with training provided at the regional level



and at headquarters via video links and web-based seminars. The Ministry is also currently assessing the result based management training needs of its development staff.

While the Ministry has yet to delegate greater decision-making authority to its field offices, as recommended in the peer review, it is adopting a country-by-country approach, assessing the required capacities and, where appropriate, delegating more authority. It is also improving its quality assurance system, which is required before there can be a more systematic approach to delegating decision-making authority. There are no plans, however, for Finland to delegate greater financial authority to the field.

Humanitarian

The Ministry for Foreign Affairs has disseminated new guidelines for humanitarian assistance, which outline the key sectors that it will support and contain criteria for organisations applying for funding, as recommended. It has also established a new rapid response mechanism, in line with recommendations, which should enable emergency funding decisions to be fast-tracked. In order to ensure these new guidelines and mechanisms are operating effectively, the Ministry has established a new NGO forum for Finnish humanitarian NGOs to hear feedback from its stakeholders. The forum will meet twice a year to discuss policy and operational issues.

Conclusion

Finland has made good progress towards meeting all of the peer review recommendations. It retains its leadership role in pursuing coherent policies for development and has made improvements to its partnerships with CSOs and the private sector. It is working hard to improve its tools and instruments for implementing its programme, and is taking pragmatic steps to strengthen its results based management approach, clarifying the objectives and intended results of its development programme in key areas, particularly with regards to its multilateral aid. However, Finland still has further to go on improving the focus and concentration of its development programme. This is particularly important, given that it is likely that the ODA budget will decline in coming years.

Finally, I wish to particularly thank Hanna Rinkineva-Heikkilä and Satu Pehu-Voima for facilitating a most enjoyable day of discussions in Helsinki.

Yours sincerely,

Karen Jorgensen

cc: Mr. Erik Solheim (DAC Chairman)
DCD Managers