

Contents:

1. INTRODUCTION

Background

Process in Finland

Setting Priorities

2. FINLAND'S HARMONISATION PRIORITIES

Global Level

Influencing harmonisation agenda:

- *International Dialogue*
- *Multilateral Fora*
- *EU Dialogue*

Headquarter Level

Country Level

3. IMPLEMENTING HARMONISATION: RESPONSIBILITIES AND TIMETABLES

1. INTRODUCTION

Background

The building blocks for harmonisation lie in the Millennium Declaration and the internationally agreed Millennium Development Goals (MDGs), in the Monterrey Consensus (March 2002) committing the signature parties to increase aid effectiveness, in the WSSD Plan of Implementation, and finally the Rome Declaration on Harmonisation (February 2003). The Government's new White Paper on Development Policy (February 2004) highlights harmonisation as one of the main issues and challenges of development.

Based on these political commitments the OECD/DAC produced a comprehensive set of good practices to implement harmonisation in practice. The DAC members agreed to draft national action plans to move the harmonisation a step further, and to set them into practise.

Harmonisation happens simultaneously on a variety of levels and contexts; it is a complex task to be fulfilled by donors in order to follow through the commitments made on the political level. This document highlights the Finnish priorities and implementation actions for executing these commitments.

Harmonisation is not an aim in itself – it is a means to achieve the overarching goal of poverty reduction. Other guiding principles behind harmonisation are *ownership* and *partnership*; the basis for effective harmonisation can only be found in PRS (or other national strategies), targeted to reduce poverty, owned by the partner country itself. These same principles are applied in Finland's multi- and bilateral cooperation with her neighbouring area partners to the extent and where relevant.

Process in Finland

The drafting process of the action plan for Finland began in early Summer 2003, after the DAC had published the comprehensive Good Practices "Harmonising Donor Practices for Effective Aid Delivery" (OECD 2003).

An informal working group was established comprising of representatives of all relevant departments at the Ministry (Department for Development Policy, Department for Global Affairs and the Regional Departments). The group's work was based on the Good Practices and Finnish priorities were developed from these guidelines.

In the first phase priorities were selected from the vast and comprehensive set of good practices, in which Finland could (and should) realistically enhance its performance on harmonisation. The objective of the second phase was to through dialogue secure the commitment of the the Directors General of all of the departments to the harmonisation process. In the third phase the draft action plan was circulated to the Embassies and the Departments to have their say about the priorities and actions required. The country section was developed in close cooperation between the Regional Departments and the

country offices, the global dimensions were worked out by the Department for Global Affairs, and the EU was considered separately, as a unique forum for harmonisation. These reflections were finally put together to form the Finnish action plan for harmonisation. The internal discussion on harmonisation is a continuous dialogue within the aid administration; the country level does not act only as the actor for implementation, but is an active partner and initiator in this dialogue.

As a parallel process for this internal priority and plan setting, the Nordic+ -donor group (the Nordic countries plus UK, Ireland and the Netherlands) cooperated intensively in order to produce a Joint Action Plan (JAP) for harmonisation. The JAP builds on the experience the Nordic+ -donors gained through the Harmonisation in Practice (HIP)-Initiative in Zambia. The aim of the joint action plan is to initiate steps that will be taken by a smaller group of donors in order to speed up the harmonisation processes at various levels. The JAP and the Finnish national plan complement each other and together form the basis for Finnish harmonisation efforts.

Setting Priorities

In the Good Practice Papers many important harmonisation areas or actions are highlighted in which Finland already has done a lot – harmonisation in these areas can therefore be considered as progressing (such as operating on the basis of partner country PRSP or an equivalent national strategy, cooperation in long-term partner countries aligned with national PRSs, flexibility etc.), and this is why these areas may not be targeted specifically as Finnish priorities in the action plan. This does not mean that they are unimportant or that Finland does not intend to participate actively in realising these goals. Finland is committed to harmonisation in all areas considered important in the DAC GPPs. The rationale behind the action plan is to point out the greatest and most pressing challenges for harmonisation, that are realistic to meet.

In setting the Finnish priorities for harmonisation in practice, several factors defined the approach that was chosen. Using the Good Practice Papers as a starting point, Chapter 6 dealing with “Delegated Cooperation” was intentionally not included in the priorities’ list at this point. Finland acknowledges that delegated cooperation is an important part of harmonisation efforts, in its various forms. Finland will continue to work with these questions as the implementation of harmonisation proceeds further. “Delegated cooperation” covers a wide array of actions on various levels, and the notion needs further clarification. Finland intends to take these needs into account in the implementation of the White Paper on Development Policy (2004).

2. FINLAND’S HARMONISATION PRIORITIES

Finnish harmonisation priorities have been developed on the basis of the OECD/DAC Good Practice Paper (GPP). Priorities have been identified according to the greatest and most pressing challenges for Finland to implement harmonisation in a realistic, pragmatic and achievable manner.

The priorities are listed below, according to the structure applied in the Nordic+ Joint Action Plan, at three levels. The levels are: a) *global level*, b) *headquarter level* and c)

country level (which is considered as the first priority from the point of view of implementing harmonisation in practice). Besides these, priorities for the dialogue in the international fora, as well as on other global level issues, such as the EU cooperation, have been included in the action plan as more general, policy level aims for implementing harmonisation. These issues are treated in the plan as part of the global level harmonisation dialogue, without making direct reference to any specific GPPs.

Global Level

Influencing harmonisation agenda

Further actions are needed on the policy level considering Finnish influence on the international harmonisation agenda at large. These priorities, and actions required to implement them, are part of the global level harmonisation efforts. For the sake of clarity, implementing harmonisation in global, policy level dialogue is divided into three components; international dialogue, multilateral fora (incl. the World Bank and the UN System), and the EU.

➤ ***International Dialogue***

4. *In international organisations and platforms* Finland will actively participate in harmonisation and dialogue in the OECD/DAC. For harmonisation it is important to have a “focal point” for dialogue and action and Finland considers DAC as the primary forum for this donor-donor cooperation, coordination and exchange of views. The OECD has analytical capacity and a unique role among donor organisations, which makes it the natural focus of harmonisation discussion.

Finland also actively participates in the cooperation and the drafting and execution of Joint Action Plan among the Nordic+ donor group. Finland aims as a part of the group to promote effective implementation of harmonisation at global, headquarters' and country level. Nordic + joint action is justified in cases where Nordic+ can provide added value e.g. by enhancing general harmonisation work by advancing more rapidly and showing example in a certain area of work or a certain country. Finland will actively support the Strategic Partnership with Africa (SPA) as a priority.

➤ ***Multilateral Fora***

5a-d. *In the World Bank* Finland will actively participate in the dialogue of harmonisation within the Multilateral Development Banks, especially concerning PRSP, SPA and the MDB Action Plan. Finland will also seek to increase aid effectiveness through further development of instruments such as SWAP, through budget support, and through enhanced sector programme lending strategies. The World Bank will be encouraged to develop and apply tools to enhance harmonisation (PER, CFAA, CPAR and PSIA). Internally, communication and exchange of information will be strengthened between the Ministry for Foreign Affairs, the Ministry of Finance and the Bank of Finland, as well as

between the Ministry for Foreign Affairs and the Embassies in order to further harmonisation of approaches towards multilateral cooperation.

6a-b. Within the UN System Finland will actively participate in the Triennial Comprehensive Policy Review which is upcoming in ECOSOC and the GA in 2004. In this context Finland will pay special attention to how the harmonisation and simplification process already under way in the field can be further enhanced through the development of the position of the Resident Coordinator and various other instruments, foremost UNDAF. The aim is to have a unified UN country team in partnership with all the relevant stakeholders at country level, respecting country ownership. The importance of vertical (bilateral/sectoral) coordination and coherence has to be emphasised. At the HQ level Finland will work for centering the UN's development work around the MDGs and for furthering the dialogue between the Bretton Woods institutions and the United Nations, including through partnership arrangements.

➤ **EU Dialogue**

7a-f. Within EU dialogue Finland will emphasise the importance of harmonisation agenda (the three Cs; Coherence, Coordination and Complementarity). This aim is realised e.g. through active participation in the development and ACP working groups and EDF Committee, and by the Embassies in the planning and follow-up activities of the EC development cooperation and harmonisation at country level. This calls for enhanced inter-agency coordination and intelligent division of labour, as well as coordination of harmonisation efforts by the Member States and the Commission at country level and through sector programmes within the framework of PRS and the overall coordination efforts. Within the EU framework a dialogue about the harmonisation of procedures has been started; Finland is actively participating in this dialogue. Most importantly, Finland will participate in the follow-up of the MDGs and carrying out the commitments expressed in the Monterrey Consensus through EU coordination mechanisms. Finland, together with the Netherlands, has agreed and committed to be the coordinator for the Nordic+ harmonisation efforts within the EU dialogue.

On the basis of the GPPs, **three specific harmonisation areas** for implementation were targeted as Finnish priorities.

Country Analytic Work and Preparation for Projects and Programmes

1. Establish what new diagnostic tools are needed, how to develop them, how to rationalise the existing stock; Assist partner country participation. Most diagnostic tools have been developed individually by aid agencies. Joint use of the tools is however increasing (e.g. Poverty and Social Impact Assessment, PSIA; economic and financial management related tools, PER; CFAA). Action: Finland will work to encourage DAC to initiate stock-taking of existing diagnostic tools as well as identification of areas where new tools are needed. Multilateral organisations will be encouraged to develop new and use existing tools jointly with others. As appropriate, Finland will promote the use and development of EU wide (EC and member states) diagnostic tools. Representatives of partner countries will be intimately involved in this work.

Reporting and Monitoring

2. *Promote local R&M systems of international standard, and adapt your own needs as far as possible to fit with partner country systems. Include R&M arrangements in the design of all activities.* Action: In budget support the Memorandum of Understanding (MoU) will be developed further to take this good practice into account. Work done under Nordic+ or other joint initiatives will be used to the extent possible.

3. *Harmonise R&M formats and timetables in multi-donor activities, as well as in projects within the same sector. Accept the work done by other donors, and undertake common monitoring missions.* Action: As well as above, Finland will support the development of MoU and the code of conduct further to take this good practice into account.

Headquarter Level

On headquarter level **ten harmonisation areas** have been identified as Finnish priorities;

Framework for Donor Cooperation

8. *Set out the objectives and operations of individual country programmes and make these widely available.* Finland's cooperation objectives and operations in each partner country are set out in the documentation prepared for bilateral negotiations (mandate, background memorandum and the report on the conclusions of the consultations). These materials are currently in Finnish only, which makes it harder for the wider public to gain information of Finnish objectives and operations in a given partner country. Action: An English (and when appropriate, Spanish) summary will be produced based on this documentation, and put on the web for wider distribution.

9. *Multi-year programming of aid; Provide full information of aid flows.* Finland's aid programming is already based on multi-year appropriations, including programming of budget support. Information on appropriations is not systematically provided to partner governments. In many cases, Finland's planned contributions are not reflected in partner governments' budgets. Action: Include information on appropriations by programme in the mandate for bilateral consultations. Furthermore, in the event of budget cuts, long-term commitments to priority partner countries and budget support should be prioritised. These commitments will be communicated to partner governments in bilateral consultations. Guidelines will be modified accordingly.

10. *Common framework for budget support (including a common conditionality framework, multiyear funding commitments, compatibility of commitments and disbursements with partner government cycles, an open process for managing any concerns and clear rules for suspension of aid).* Finland provides budget support to Tanzania, Mozambique and Nicaragua. Budget support is still a new cooperation instrument for Finland. Guidelines on budget support are currently being drafted by the Programme Cooperation Team. Action: In this work the above mentioned harmonisation issues (common conditionality framework etc.) will be used as a checklist. Clear criteria for suspension of aid will be established. Transparency concerning these criteria.

11. *Create top level advocates for harmonisation.* The Under Secretary of State and the Director General for the Department for Development Policy have been active advocates for harmonisation. Action: Engage the Director Generals of all the newly established departments actively promote harmonisation in their respective areas of responsibility.

12. *Decentralise decision-making.* Decision-making system for development cooperation in Finland is to a large extent centralised. Establishment of the Local Cooperation Fund and strengthening of resources through the recruitment of advisers to embassies have been first steps towards decentralisation. Action: New government's white paper on development policy of 2004 endorses the idea of decentralisation by stating that Finland will start piloting decentralisation in three long-term partner countries where Finland is involved in programme-based cooperation (budget support to PRSs, SWAPs).

13. *Donors manage staff to create the right environment for collaborative and flexible behaviour; Staff turnover and briefing.* Resulting from a quick turnover of staff, there is often inadequate briefing for new staff, and overlapping of old and new staff is rare. Action: This situation requires more systematic training and briefing of staff. Finland is presently developing its staff development programme into a more systematic knowledge development programme for development cooperation administration.

Reporting and Monitoring

14. *Promote local R&M systems of international standard, and adapt your own needs as far as possible to fit with partner country systems. Include R&M arrangements in the design of all activities.* Action: Finland's aim is to gradually align projects to the partner organisations' own reporting systems. The Ministry's project management guidelines will be modified accordingly. Work done under Nordic+ or other joint initiatives will be used to the extent possible.

15. *Create greater flexibility in your own reporting and monitoring procedures and seek to simplify the procedures required by your legislatures.* Flexibility is already there to some extent. Action: The Ministry's guidelines will be modified to create more flexibility, and the State Audit Office will be integrated more closely to the harmonisation work.

Financial Reporting and Auditing

16. *Include financial reporting and monitoring arrangements in the design of all activities.* Reporting and monitoring arrangements are currently designed in accordance with the Finnish Guidelines for Programme Design, Monitoring and Evaluation and as specified in project documents. In practice, R&M are largely related to the follow-up of project execution. Action: The guidelines for financial R&M will be updated to take into account partner country requirements (for both project- and programme-based aid). Work done under Nordic+ or other joint initiatives will be used to the extent possible.

17. *Reduce the number of audit opinions required from the partner country.* Financial reporting and management is carried out in accordance with Finland's Guidelines for Programme Design, Monitoring and Evaluation (quarterly reporting). Project audits are carried out on a needs basis. The State Audit Office carries out project/programme audits

as considered necessary. Action: The State Audit Office will be encouraged to align its audit functions with partner or other donor requirements to the extent possible.

Country Level

Country level constitutes the most important level when implementing harmonisation in practice. Country level experiences and needs differ, and there is no common framework for harmonisation on the field. For Finnish priorities on the country level, a total of **16 harmonisation challenges** were identified.

Several important harmonisation pilots are ongoing in the field as Nordic+ (Zambia, Tanzania), EU (Vietnam, Nicaragua, Mozambique, Morocco) and multilateral organizations. Finland will participate in these initiatives as actively as possible, given the resources of the embassies. Participation in the harmonisation initiatives is not only important in the long term partner countries, but in all countries where Finnish development cooperation is channelled.

Framework for Donor Cooperation

18. Multi-year programming of aid; Provide full information of aid flows. As mentioned already in the corporate level harmonisation priority for multi-year programming, Finland's aid programming is based on multi-year appropriations, including programming of budget support. However, information about these appropriations is not systematically provided to partner governments and very often Finland's planned contributions are not reflected in the partner governments' budgets. Action: Confirm annual commitments by programme and project to partner institutions on time for their budget preparations (multi-year appropriations in time for MTEF preparation, annual contributions on time for budget preparation) for full reflection of Finland's contributions in the national budget (on-budget programmes and projects).

19. Decentralise decision-making. Action: Based on the guiding principles created at the government level (decision-in-principle), the personnel and other resources of embassies should be strengthened to create a basis for decentralisation and local harmonisation on country level.

County Analytic Work and Preparation of Projects and Programmes

20. Under partner country government leadership plan collectively future analytic work. The PRS processes of partner governments provide an obvious opportunity for doing joint analytic work (even in sectors where bilateral projects will be used as a modality). Action: Implementing harmonisation will require linking analytic work (also the background analysis for project preparation when possible) to PRS process (or equivalent) and building capacity and provide support for the responsible partner institutions in this work.

21. *Undertake joint analytic work; Rely on analytic work of the partner country or other donors.* Finland relies extensively on analytic work conducted by others because of limited capacity to produce such analysis individually. Some analysis is produced through participatory methods during project preparation processes, often at the level of a selected partner institution. Action: Participate more actively in joint analytic work in sectors and themes that are relevant for Finnish future support. Joint background analysis can also be the basis for bilateral projects. The analytic work developed in EU will be used more effectively also in bilateral planning. In project preparation participatory methods will be emphasised in order to build capacity in the partner institutions. Local experts will be used to the extent possible.

22. *Promote analytic work on sector policy and programming.* Partner governments do not always have sector policies in the sectors in which Finnish support is focused. Action: Aim to support and facilitate the development of national sector policies and programmes and to further develop common codes of practise for donors (based on field experience from countries and sectors) to create a basis for harmonised support (also for project support). The sector policy work done within EU will be used more effectively also in bilateral planning.

23. *In multi-donor analytic work determine the optimal team size by function and task rather than donor representation.* Currently there is always a Finnish representative in joint teams. Action: In the future Finland may rely on others' expertise in cases where Finland does not have relevant high quality expertise to offer.

24. *Ensure wide electronic dissemination of analytic documents.* At the moment not all background analysis is posted on web-sites. Action: Posting of relevant materials on web-sites managed by partner institutions (or local donor groups) will be promoted.

Measuring Performance in Public Financial Management

25. *Ensure diagnostic coverage without duplication; Ensure higher impact of diagnostic work.* In project-based aid Finland relies on available public financial management reviews, and in SWAPs and budget support participates in joint partner country-donor processes. In project-based cooperation few reviews have been made due to lack of resources; with new aid modalities (SWAP, budget support) efforts should be made to participate more actively in joint processes. Assessments of PFM are often limited to project-based issues without systematic reference to country strategy or long-term development plans. Action: Participate more actively in diagnostic reviews together with the partner country and other donors (PER, CFAA, CPAR, EU etc.). In project-based cooperation available public financial management reviews will be used more systematically. Cooperation with other donors will be enhanced.

26. *Enhance partner country capacity in public financial management.* Projects supported by Finland in most cases focus on improving partner country capacity within those organisations and institutions most relevant for project implementation. Wider approach and joint partner country-donor efforts are needed in the future. Action: Partner country PFM capacity will be defined as one of the main objectives in all interventions supported by Finland (project- and programme-based support) in close cooperation with others

(donors, IFIs). Partner country strategies and performance criteria will be used as the point of departure for this work.

Reporting and Monitoring

27. *Promote local R&M systems of international standard, and adapt your own needs as far as possible to fit with partner country systems. Include R&M arrangements in the design of all activities.* Finland's aim is to integrate institutionally all projects within the partner country's organisations and to follow their reporting systems. Action: Assist the partner organisation to develop their reporting systems and to continue integration work. Work done under Nordic+ or other joint initiatives will be used to the extent possible.

28. *Harmonise R&M formats and timetables in multi-donor activities, as well as in projects within the same sector. Accept the work done by other donors, and undertake common monitoring missions.* To some extent this has already been taken into account. In multi-donor activities the idea of a lead donor is accepted, but not very widely used. Common monitoring missions are currently being done in many cases. Action: Support the development of Memorandum of Understanding (MoU) and the code of conduct. The TORs and the mandate for the lead donor in a multi-donor activity to take the responsibility should be agreed. In multi-donor monitoring missions the TORs, time schedules and participants should be agreed in advance for a certain period (e.g. one year) with the donors and partners.

29. *Help to develop partner country systems and work with partners to raise the quality of data. Ensure the link between indicators and policy targets and decision-making; Agree on limited number of key indicators.* Lack of partner country capacities is a limiting factor and Finland will continue to build these capacities. The help that is needed in capacity-building will be agreed together with partners and other donors. Action: Provide assistance in the development of a proper management information system (MIS) and training in institutional development. A limited number of measurable and reliable indicators (both qualitative and quantitative) will be agreed upon together with others. R&M activities are included in all projects. Finland will look upon the possibilities to contribute to PARIS21-cooperation for enhancing statistical capacity-building efforts.

30. *Produce clear and accessible information, and disseminate it openly and widely.* Finland has open policy towards sharing and disseminating information. This policy could be strengthened even further. Action: Transparency will be created and information shared actively, within the limits of legislation. Partner representatives will be involved in monitoring processes. In reporting Finland will seek to use partner's own format. Partner capacity will be enhanced to build own websites for information dissemination.

Financial Reporting and Auditing

31. *Include R&M arrangements in the design of all activities.* Reporting and monitoring arrangements are currently designed in accordance with the Finnish Guidelines for Programme Design, Monitoring and Evaluation and as specified in project documents. In practice, R&M are to great extent adapted to local requirements and circumstances. Arrangements are largely related to the follow-up of project execution. Action: R&M will be designed and carried out in accordance with partner country requirements and standards

in order to have R&M serve the needs of the partner country. It is important that local R&M systems fulfill the internationally agreed standards.

32. Enhance partner country capacity in accounting and auditing. Finland's support is largely project-based; this results in building accounting and auditing capacity in project-specific institutions, without reference to partner country needs or the wider environment. Action: In the future Finland will support joint capacity-building efforts aimed at strengthening partner country capacity in financial management (e.g. INTOSAI).

33. Reduce the number of audit opinions required from the partner country. Financial reporting and management is carried out in accordance with the above mentioned Guidelines. Project audits are carried out when needed. The State Audit Office carries out project/programme audits as considered necessary. Action: Harmonisation priority for Finland in this respect will be to harmonise project-related accounting and auditing with partner country regulations and procedures. In programme support Finland will aim to shift to joint audits under partner country responsibility.

3. IMPLEMENTING HARMONISATION: RESPONSIBILITIES AND TIMETABLE

The Government of Finland has adopted a White Paper on Development Policy in February 2004. Implementing harmonisation agenda in Finland will be included in the implementation plan for the Development Policy.