

DAC Peer Review

FINLAND

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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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.

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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 efforts of each member are critically examined approximately once every four years. Five or six programmes are examined annually. The OECD's Development Co-operation Directorate (DCD) 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. A recent innovation is to organise "joint assessments," in which the activities of several members are reviewed in a single field mission.

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 posed by DAC members led by the examiners. These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Main Findings and Recommendations section of the publication.

ACRONYMS

CAP	Common Agricultural Policy (European Union)
DAC	Development Assistance Committee
EC	European Community
EDF	European Development Fund
EU	European Union
FINNVERA	Finland's Official Export Credit Agency
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries
ICT	Information and Communication Technology
IFIs	International Finance Institutions
KEPA	Finland's Service Centre for Development Co-operation
KESU	Finland's Advisory board for Relations with Developing Countries
LDCs	Least-Developed Countries
LFA	Least Favoured Areas
MDGs	Millennium Development Goals
MFA	Ministry of Foreign Affairs
MOF	Ministry of Finance
NGO	Non-Governmental Organisation
OA	Official Assistance
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PRSP	Poverty Reduction Strategy Paper
RIPS	Rural Integrated Project Support Programme
SWAP	Sector Wide Approach
TA	Technical Assistance
WTO	World Trade Organisation

Signs used:

EUR	Euro
USD	United States dollar
()	Secretariat estimates in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable

Slight discrepancies in totals are due to rounding

Exchange rate of the Euro against the dollar (EUR per USD)

	2000	2001	2002
	1.0851	1.1166	1.0611

Finland's aid at a glance

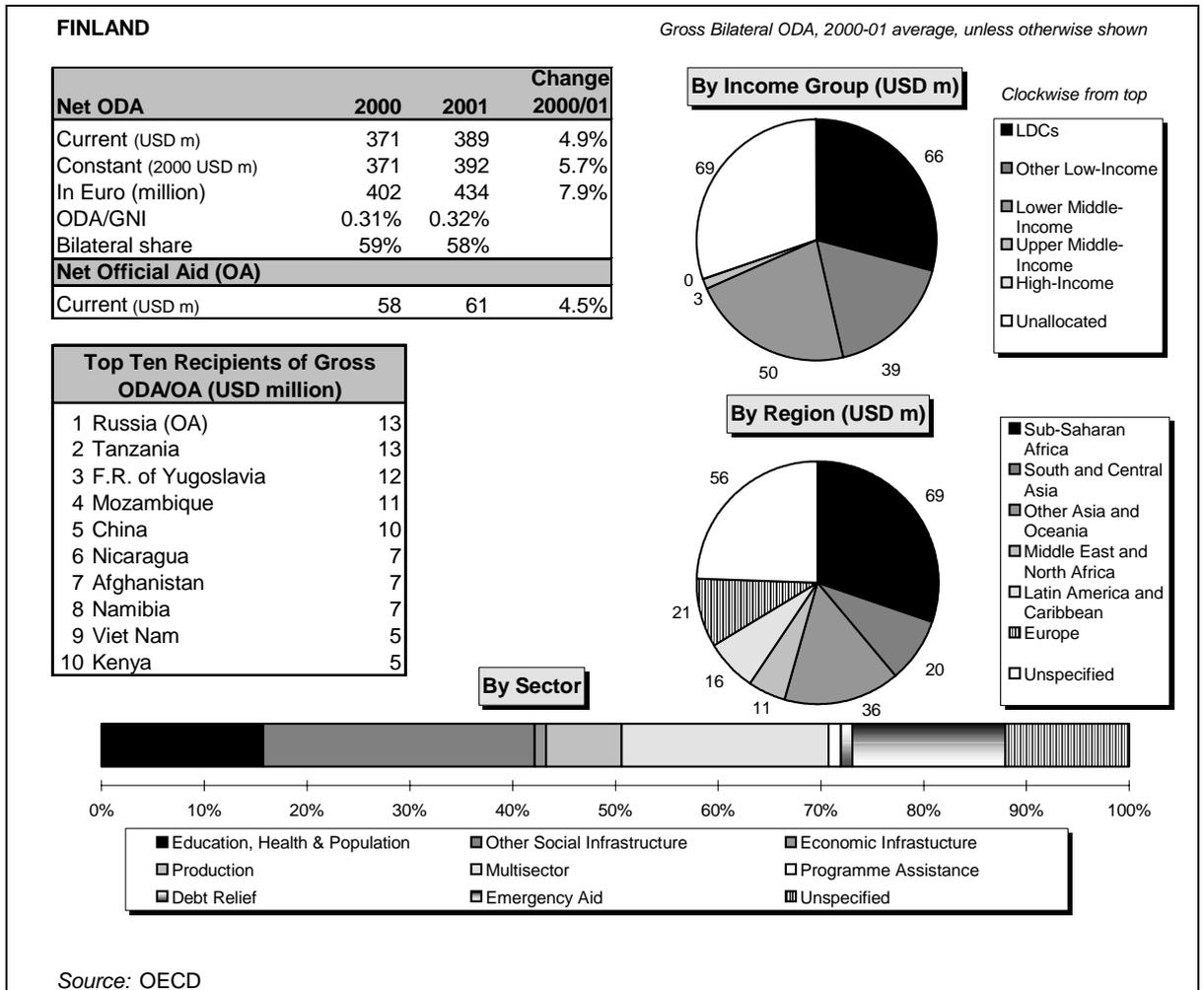


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DAC'S MAIN FINDINGS AND RECOMMENDATIONS

New developments, overall strategy, and the public

Significant changes can be seen in Finland's development co-operation since the previous Peer Review of 1998. New white papers [Policy on Relations with Developing Countries (1998), Operationalisation of Development Policy Objectives (2001)] and an Implementation Plan have been issued, clarifying the objectives, priorities, instruments, and country selection in Finnish aid. The Ministry of Foreign Affairs (MFA) has been reorganised several times, including the consolidation of trade, aid, political affairs, and culture into geographical departments to enhance internal synergies. The new government appointed in April 2003, has eliminated the formerly separate ministerial posts for aid and trade and created a combined post of Minister for External Trade and Development Co-operation.

Recent evolution of Finnish co-operation includes policies to shift from "flexibility" in the programme to more concentration in long-term partner countries, sectors, programmes, and international organisations to enhance effectiveness. As for the goals of Finnish co-operation, poverty reduction is now widely understood to be the overarching objective, although it is still listed together with: prevention of global environmental threats; equality, democracy, and human rights; global security; and increased economic interaction. Finland is committed to supporting national poverty reduction strategies of partner countries. At the same time, the Millennium Development Goals (MDGs) are included in the Implementation Plan for the 2001 white paper, but are not mentioned in any white papers themselves. As a way of enhancing poverty reduction, Finland is fully committed to and making gradual progress on the new aid modalities, such as basket funding and budget support, as well as harmonisation of procedures.

The public is generally supportive of and knowledgeable about Finnish co-operation. MFA is carrying out creative activities through collaboration with the National Board of Education, organising campaigns, financing innovative publications, and exploring opportunities to use the European Union (EU) information offices within Finland. At the same time, officials see that there are challenges to inform the public about the new aid modalities as well as policy coherence for development. Furthermore, a recent survey showed that, compared to some domestic issues, development co-operation rated a relatively low priority, as in some other Development Assistance Committee (DAC) countries.

Recommendations

- Poverty reduction as the overarching objective in Finnish co-operation and targeting the MDGs could be clearly articulated in the next white paper.
- Finland could consider the preparation of a strategy for public education, which might be useful in further enhancing understanding and support for Finnish co-operation.

Finland

Aid volume and allocations

In 2001, Finland's total net official development assistance (ODA) recorded USD 389 million and ranked 17th among the 22 DAC member countries. The ODA/GNI ratio was 0.32%, placing it ninth on this measure. This is a significant reduction from the peak of 0.80% in 1991, owing to the economic crisis partly due to the collapse of trade with the former Soviet Union. In 2002, a Special Committee was appointed to examine the level and quality of Finland's development aid. It recommended to the new government a specific disbursement schedule and restoring the UN target of 0.7% ODA/GNI ratio by 2010. Finland attaches great importance in keeping up with other Nordic countries on this measure. The new government has committed to reach an ODA: GNI ratio of 0.45% by 2007, on the way to the 0.7% target by 2010, taking into account domestic economic developments. Given the generally favourable economic situation in Finland, an ODA increase over the next several years would appear both feasible and appropriate.

Finland's proportion of multilateral aid in total ODA has been consistently higher than the Total DAC average. The preference for the choice of UN organisations is clear, but in view of the likely increases in multilateral funding – as part of overall ODA growth – Finland needs a better strategy on multilateral assistance. Like other DAC members, Finland provides various multi-bi funding transfers towards the UN and international financial institutions (IFIs), amounting to about 6% of the core funding.

Concerning instruments in bilateral aid, Finland now provides essentially all grants in its programme. Within these grants, a relatively large variance from the Total DAC average in 2001 was “emergency and distress relief,” mostly due to the increasing costs of refugees for the first year of stay in Finland. In terms of technical assistance (TA), which was less than Total DAC average, Finland has untied it to all ODA countries. Finland has started to use modalities such as budget support and basket funding, but the amounts are still small. Approximately 14% of Finland's bilateral aid in 2001 was ODA to and channelled through non-governmental organisations (NGOs). In terms of sectors, there is a clear trend towards a less economic infrastructure type support and an increase in Social Infrastructures and Services. Finland explains that since becoming more focused on poverty reduction, it started to consider the social sectors to be the most effective channel to target poverty.

Although there is no policy regarding focusing on a specific region or an income group, in reality, of the allocable bilateral ODA, Finland places a relatively strong focus on Africa (46%) and least developed countries (43%). At the same time, there have been criticisms regarding the increasing dispersion of aid across too many countries. Finland now plans to concentrate on about ten long-term partner countries, namely Egypt, Ethiopia, Kenya, Mozambique, Namibia, Nepal, Nicaragua, Peru, Tanzania, Vietnam, and Zambia. The plan includes reassessing Kenya, Nicaragua, and Zambia, and phasing out middle income countries such as Egypt, Namibia and Peru. Finland is not usually a major donor to its top recipient countries, and therefore greater selectivity may enable more cumulative impact, enhanced effectiveness, and increased ability to influence other donors and partners in policy dialogue and co-ordination.

Recommendations

- Finland is encouraged to increase ODA to reach 0.7% ODA/GNI ratio by 2010, along an agreed commitment path.
- If ODA is to increase rapidly, allocation plans within multilateral and bilateral aid would be necessary. In particular, a clearer strategy on multilateral aid would be useful, complemented by specific strategies for target organisations.

- Finland could focus on about ten long-term partner countries, in order to have cumulative impact and enhanced ability to influence other donors and the partner country.

Policy coherence

The OECD and its members recognise that sustainably reducing poverty in developing countries will require mutually supportive and coherent policies across a wide range of economic, social and environmental issues beyond development co-operation. The DAC has agreed to elevate policy coherence for development as a general concern in overall government policies and to develop the necessary means for promoting it across administrations and within international forums. To achieve policy coherence, there should be a vision, policy, political will, organizational structure and analytical capacities related to policy coherence. In the case of Finland, there seems to be a vision and some organisational structures, but clear policy, political will, and analytical capacity could be further enhanced.

Regarding the European Union, policy coherence includes the position a member country holds in the framework of the European Community (EC) and, if possible, the influence it could exercise, such as on the Common Agriculture Policy (CAP). The CAP creates unfair competition in markets of developing countries where agriculture provides livelihoods for the majority of the rural poor. In signing the Doha Declaration, Finland confirmed its support for pro-development reform on agriculture and has also declared that it would like to see a different CAP. Finland believes that the CAP needs to be reformed in order to reduce its negative effects on developing countries. The Committee encourages Finland to actively support this objective. In 2001, subsidies to agriculture in Finland amounted to EUR 1.7 billion, of which 58% was financed by the government and 42% through the CAP. Among all EU members, Finland's share of national assistance to agriculture is the highest. Although Finland's market itself may not be so large for developing countries, the potential impact of free agricultural trade by EU and other OECD members can be enormous, and Finland could contribute to expediting the process.

Finland has a concessional credit scheme whose objective is both commercial and developmental. The scheme has been the subject of criticism by civil society and development experts. The 1998 white paper stated that interest subsidies paid in the guise of development co-operation distort international competition and that Finland's policy will be to seek an end to these concessional credits. Yet the scheme still exists and there seems to be an intention to increase. In 2001, the ODA component was EUR 14 million, representing 4% of total ODA. These subsidies have kept China among the top ten recipients of Finnish aid over the last decade though it is not identified as a long-term partner country. Finland has recently carried out a comprehensive evaluation of the concessional credit scheme, but the effectiveness of the scheme in terms of poverty reduction is unclear. Finland could reassess the development value, untying aspects, administrative cost and trade-off of maintaining such a scheme as the future of the programme is considered.

Finland is one of the few countries that has issued a comprehensive guideline on anti-corruption in development co-operation. It has also taken important steps to prevent and fight corruption in developing countries in the context of policy coherence. Like most DAC members, Finland has enacted laws to ensure the implementation of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. It has modified its penal code so that the offence of bribing a public official be extended to cover the bribery of foreign public officials. Transparency International ranks Finland as one of the least corrupt countries in the world. It could be interesting to learn how Finland prevents Finnish companies from getting involved in corruption with developing country officials.

Finland

Recommendations

- Finland could enhance its efforts to achieve policy coherence for development, particularly by establishing a clear policy and improving analytical capacity to deal with pertinent issues.
- As an EU member, Finland could play an important role in achieving better policy coherence in the EC, particularly concerning the CAP.
- As the 1998 white paper states, Finland could consider phasing out its concessional credit scheme whose effectiveness in supporting poverty reduction is unclear.

Aid Management and implementation

There are three parts in MFA that deal with aid. The Department for Development Policy is the only MFA department which deals primarily with aid issues. In 2003, a new Department for Global Affairs was established to handle the emerging issues of globalisation. The geographical departments, which were created through the reforms in the 1990s, consolidate trade, aid, political affairs and culture to ensure internal synergies. The new structure is considered positive in enhancing the interrelation between development co-operation and other areas. At the same time, it presents challenges, as the system of the ministry is driven by a logic that does not clearly prioritise poverty reduction. For example, when there is a conflict between trade and aid, it is not certain that aid considerations are given appropriate weight. Therefore, a stronger commitment and leadership within MFA might be necessary to mainstream poverty reduction. Furthermore, while the MFA has been assigned additional tasks with the EU accession and increasing global co-operation, budget cuts have resulted in a shortage of human resources for development co-operation. If ODA volume is to be substantially increased, additional staff would be essential to preserve the quality and effectiveness of the aid programme.

Regarding the evaluation system in development co-operation, there is some difficulty in taking action on evaluation results and recommendations or using them as a basis for decision-making. The follow-up of evaluations by the Executive Board of the Department for Development Policy implies that action is in the hands of those who were responsible for the outcomes, instead of an independent body or a higher office with more authority. The Executive Board also does not have jurisdiction over the geographical departments that have a major role to play in the strategic orientation of Finnish development co-operation. Therefore, there could be further rethinking by MFA regarding the institutional appropriateness of the reporting, follow-up and learning system of evaluations.

In the field, there is considerable effort by Finland to support national poverty reduction strategies and ownership by the partner countries. Other donors consider Finland to be a reliable partner. Finland's technical assistance is not free-standing, but is an integrated part of Finnish projects or programmes. The role of Finnish technical assistance is to facilitate and increase ownership by counterpart institutions, including decision-making processes by communities and districts, instead of substituting their functions and activities. At the same time, Finland does not develop comprehensive country strategy documents. Having a clear country strategy is important for accountability, transparency and monitoring purposes.

Finland will gradually participate in the new aid modalities, especially budget support and basket funding, although it has yet to develop guidelines. With these modalities, unless special attention is given to corruption and the capacity needs of the partner country, there is a risk of eroding public support for aid. Finland also sees that, with better co-ordination, the transaction costs could be reduced for partner countries, whilst conversely its own administrative costs might increase. In fact, in most of

Finland's field missions, the shortage of aid personnel is affecting the quality of aid delivery and the capacity for donor co-ordination and co-operation. The system of recruiting mostly generalist diplomatic staff may also be making the workload heavier for those who are involved in the more technical aspects. Understaffing is exacerbated by the dispersion of co-operation sectors in a partner country as well as the large number of co-operation countries for Finland's ODA volume. There is also a perception among embassy aid staff of having insufficient delegation of authority. Therefore, reconsidering the optimal number of partner countries and co-operating sectors, as well as augmenting field capacity with more local expertise, may partially help in resolving the challenge of understaffing and insufficient delegation of authority.

Recommendations

- Attention should be given to augmenting staff capacity both in terms of numbers and development expertise, in view of prospective substantial ODA growth and the increased attention to aid quality and effectiveness.
- In particular, staff capacity in embassies could be enhanced by limiting co-operating countries and sectors, augmenting with local expertise, and increasing delegation of authority.
- There is further scope to improve the independence and jurisdiction of the evaluation system as well as the follow-up and systematic learning mechanisms.
- Finland could develop country strategies so as to provide a framework for its ODA programme and its dialogue with the partner countries.

CHAPTER 1

NEW DEVELOPMENTS AND OVERALL FRAMEWORK

New developments

Several significant changes can be seen in Finland's development co-operation since the previous Peer Review of 1998. New white papers such as the Decision-in-Principle of 1998 (Finland's Policy on Relations with Developing Countries) and of 2001 (Operationalisation of Development Policy Objectives in Finland's International Development Co-operation) have been issued, which clarify objectives, priorities, and instruments of Finnish aid. In addition, an Implementation Plan of the 2001 white paper was developed, elaborating on the plan for bilateral and multilateral aid, which includes an extensive description on country selection.

The Ministry of Foreign Affairs has been reorganised several times since the early 1990s. In particular, immediately prior to the last Peer Review, there was a consolidation of divisions dealing with trade, aid, political affairs, and culture in geographical departments to ensure internal synergies. Although the structure is still evolving, it is seen as an improvement in pursuing policy coherence. Recently, a Department for Global Affairs was created to further enhance linkages within MFA as well as with other ministries. The number of ministers within the MFA grouping has also fluctuated between two and four in the last few years. Most recently, the new government appointed in April 2003 combined the formerly separate ministerial posts for trade and aid. It would be particularly interesting to learn about the new mandates of the different MFA ministers and how they affect development co-operation (see Chapter 5). Other changes since the 1998 Review are summarised in Annex I.

In Summer 2002, the then Minister for Development Cooperation appointed a Special Committee headed by a former Prime Minister to examine the level and quality of Finland's development aid. The general aim was to recommend how the financial commitments made by Finland at international forums - notably the International Conference on Financing for Development in Monterrey - could be transformed into concrete actions. Since 1992, Finland's official development assistance (ODA) volume and ODA/GNI ratio have dropped dramatically due to the economic crisis following the collapse of the Soviet Union, its major trading partner. At the last Peer Review, Finland's ODA/GNI ratio was at one of its lowest levels of 0.31%, and although it rose to 0.32% in 2001, this is less than half its level of 0.8% in 1991. The Special Committee therefore recommended to the new government a specific disbursement target for each year starting 2004 and finally reaching the United Nations target of 0.7% by 2010 (see Chapter 2). MFA officials and civil society representatives wish to return to previous ODA levels in line with leading European nations, including other Nordic countries. Keeping up with other Nordic countries and enhancing Nordic co-operation is an important underlying theme for Finland.

Assuming an increase in ODA, the Special Committee recommended additional increases in multilateral contributions in the short-term, even tripling funding by 2007. This proposal was seen as a practical solution to cope with the constraints in human resources for bilateral aid management. In fact, these constraints, at both headquarters and in the field, remain a major recurring challenge, although some expansion has taken place with the placement of sector advisors in MFA (see Chapter 5). The Committee also believes that Finland needs to maintain the Nordic levels of multilateral contributions for certain organisations, although in total, Finland already has a higher proportion of multilateral aid compared to the other Nordic countries (see Chapter 2). Regarding bilateral aid, the Committee recommended at least a 50% increase in the budget by 2007, especially in activities for the least developed countries (LDCs) of Africa. The new government has committed to the 0.7% target by 2010 — taking into account domestic economic developments — but how it will adopt the other recommendations is still undetermined (see Box 1).

Box 1. Level and quality of Finland's development co-operation

The Special Committee members consisted of: a former Prime Minister and representatives from the media, academia, clergy, private sector, culture, and trade union. The Secretaries of State of the Ministry of Finance (MOF) and MFA also worked with the Committee as permanent members. They made the following recommendations.

- Current levels of multilateral co-operation should be tripled by 2007.
- Bilateral co-operation should be increased by at least 50% by 2007, particularly for the LDCs in Africa.
- Humanitarian assistance should be increased considerably.
- NGO funding should be increased to 15% of operational appropriations.
- Subsidies on mixed credits to develop the private sector should be directed towards poverty reduction.
- To improve quality of aid, appropriations should be more clearly linked to the MDGs.
- MFA should continue reinforcing support to the coherence of foreign policy.
- Human resources should be increased in proportion to the appropriations.
- Gender equality should be enhanced based on Finland's new strategy and action programme.
- Attention should be paid to the rights of women, children, minorities, and the disabled.
- The possibility of supporting the World Bank's Fast Track initiative on basic education should be examined.
- The health sector should focus on improving equality and health education, particularly on prevention.
- More resources should be allocated to the prevention of HIV/AIDS.
- Support for food security, agriculture and rural development should be increased.
- Support for safe water could include development of administrative and legislative frameworks.
- Cooperation in environment to enhance private sector partnerships and funding should be increased.
- Market access and strengthen the private sector in developing countries should be increased.

Priorities in development co-operation and policy implementation plan

The above mentioned two white papers and the preceding Decision-in-Principle of 1996 (on Finland's Development Co-operation) show the recent evolution of Finnish co-operation. Compared to the policy of 1996 which introduced "flexibility" in the aid programme, the 2001 policy emphasises concentration in long-term partner countries, sectors, programmes, and international organisations to enhance effectiveness. As for the goals of Finnish co-operation, the 1996 policy lists: a) poverty alleviation; b) prevention of global environmental threats; and c) equality, democracy, and human rights, to which are added d) global security; and e) increased economic interaction in the 1998 policy. In the 1996 policy, poverty reduction is mentioned as "one of the key goals," but in the 2001 policy –

although embedded in the text¹— it is referred to as “the main objective.” MFA officials reiterate that poverty reduction is widely understood to be the overarching goal of Finland’s co-operation. A clear statement to this effect in the next white paper, as well as an elucidation on the hierarchy of the different objectives, could therefore establish poverty reduction as the unequivocal overarching goal.

The three policy documents do not refer to the International Development Goals or the MDGs, but the Implementation Plan for the 2001 policy states at the outset that the MDGs are the basis of co-operation. The MFA’s 2001 annual development co-operation report also explains the MDGs and mentions them as the guiding principles for Finnish aid. Like most other DAC members, however, Finland is struggling to develop appropriate mechanisms to ensure that the entire aid programme is engaged in the promotion of MDGs. As for Finland’s choice of programmes and sectors, the 2001 policy states that they will be based on the priorities set in the poverty reduction strategies of partner countries on the one hand and on Finnish policies on the other. At the same time, Finland’s country strategy mechanism for partner countries could be improved (see Chapter 6). The policy also encourages Finland’s engagement in basket funding and budget support as well as harmonisation with the partner countries’ administrative structures and procedures.

The 2001 policy defines the difference between long-term partner countries and other partnerships, clarifies the criteria for the former, and lists these countries, including those to be phased out or added in the future. The Implementation Plan gives brief up-to-date information regarding current activities in the long-term partner countries and specific timetables on future actions to be taken. In the next few years, Finland plans to focus on about eight to ten long-term partner countries. In comparison to the Special Committee’s recommendations and public opinion the documents do not specifically mention Africa or LDCs as Finland’s focus. (See Chapter 2.)

Parliament and advisory functions

During the Special Committee’s consultations, all the Finnish Parliamentary parties expressed their support for ODA growth after the election in March 2003. In general, MFA officials consider the Parliament’s Foreign Affairs Committee to be active in development co-operation issues. Relevant topics raised recently by this Committee included financing of NGOs and nationally harmonised positions vis-à-vis the agendas of the international financial institutions (IFIs).

Other counsel bodies include the Advisory Board for Relations with Developing Countries (KESU), which consists of 14 members, including representatives of Parliament from all main parties, NGOs, and the business community.² KESU monitors and evaluates relations with developing countries in general and occasionally follows Finland’s formulation and implementation of EU policy on developing countries. Board members frequently take part in Finnish delegations in various international negotiations and collaborate with corresponding bodies in other European countries. KESU is not a permanent body in that members are nominated by each government’s Council of State. A unique feature based on Finnish practice is that KESU is consulted by MFA at early stages of developing policies or guidelines and serves as a consensus building mechanism. This supports transparency and a participatory process as well as helping avoid polarised decision-making. At the same time, advisors from MFA attend monthly committee meetings - though they are not members of KESU and are not included in the preparation of Board statements - which may call in to question the full independence of KESU.

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1. The reference to poverty reduction being the main objective appears only on page 12 under “Operational implications.”
 2. According to the brochure on KESU.

Finland

There is also an NGO umbrella organisation called the Service Centre for Development Co-operation (KEPA) which consists of 200 NGO members. KEPA is regularly consulted by the MFA on new policy issues and is also outsourced to implement projects or select NGOs for funding. KEPA members appear to be fairly satisfied with official Finnish co-operation and see substantial progress made since the 1998 policy. However, since MFA financially supports and approves its budget, KEPA may not be entirely an independent organisation. Nevertheless, members have expressed the need for: enhanced implementation of the theories stated in the policies by MFA; increases in aid volume; and a clearer strategy on multilateral aid. Furthermore, they have expressed scepticism towards subsidies on mixed credits and approaches such as sector-wide programmes and direct budget support.

Public opinion and information

MFA has been carrying out annual opinion polls on development co-operation since 1999. The latest 2002 poll shows that three out of four Finns surveyed considered Finnish co-operation to be either very or quite effective and successful. About an equal proportion also stated that they would like to see Finnish aid increased.³ Furthermore, approximately 90% approved of the government's responses to various humanitarian crises in the world. In terms of priorities, the public assigned importance to: Africa; programmes for health, population, education and human rights/democracy; and business ethics.⁴ Regarding bilateral and multilateral aid, 31% responded that bilateral co-operation was more efficient than multilateral co-operation, while 26% responded the contrary. However, 40% were of the opinion that the two forms of co-operation were complementary and both necessary. MFA officials, on the other hand, are concerned that if multilateral aid increases rapidly as suggested by the Special Committee, public opinion may change and even lead to a decline of support for development co-operation. Furthermore, in a survey commissioned in February 2003 by a leading Finnish newspaper, development co-operation rated a relatively low priority compared to some domestic issues such as health care, fight against drugs, and care for the elderly, similar to many other DAC countries.

The MFA's public education budget in 2003 is about 0.9% of total ODA⁵, which is below the 2% recommended level by the United Nations Development Programme (UNDP). MFA officials consider themselves understaffed here as well and believe that four information officers is inadequate to generate sufficient quantity or quality output. Furthermore, development education is largely handled by NGOs, but the capacity to monitor the information is also insufficient. At the same time, MFA collaborates actively with the National Board of Education to support schools in carrying out development education programmes. Activities include teacher training, text book and manual development (including interactive web-based materials), quizzes, and seminars/workshops for schools. National campaigns have been launched annually, such as on Africa in 2002, which included festivals and exhibitions, reaching up to 70 000 visitors.⁶ In 2003, the MDGs are the overarching theme in information activities. MFA has also financed an innovative publication that shows development issues through comic strips produced by developing country artists entitled "Comics with an Attitude: A Guide to the Use of Comics in Development Information" (See Annex II). Considerable

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3. Although figures show a gradual rise in support for increased funding from 1999, the questions concerning aid volume were not formulated the same way in the respective opinion polls and therefore are not entirely comparable.
 4. "Re: Questionnaire presented by the DAC Peer Review Mission to Helsinki 4-6 February 2003; Answers regarding information and development education issues," Katri Kaarniala, Information Unit, Department for International Development Co-operation, MFA, 5 February 2003.
 5. This includes funds for information activities carried out through NGOs.
 6. Which is a large figure considering that greater Helsinki's population is about a million people.

effort was also made by the previous government whereby four MFA Ministers visited several provinces to inform people about Finnish development co-operation. Creative ideas such as using the EU information offices scattered throughout Finland to disseminate materials on development co-operation are being explored. If successful, this could serve as a model for other EU member countries.

According to the 2002 public opinion survey, 38% of respondents were able to select the correct level of Finnish ODA as a percentage of GNI. This is relatively high compared to some other DAC member countries.⁷ In terms of content, MFA officials see that there are challenges in informing the public about the new modalities of aid pursued by Finland, such as budget support and harmonisation of procedures, as well as policy coherence of non-aid policies for development. Nevertheless, it is important for the public to obtain an accurate and comprehensive picture of the whole range of development issues. Finland could therefore consider, following examples of other DAC members,⁸ the preparation of a comprehensive or medium-term strategy for public education and communication centred around the MDGs, which might be useful in further enhancing understanding and support for Finnish co-operation.

Future considerations

- Finland could clarify the decisions of the new government regarding the Special Committee's various recommendations and the new mandates of the recently appointed group of ministers for the Foreign Affairs and development portfolios.
- Poverty reduction as the overarching objective in Finnish co-operation and targeting the MDGs could be clearly articulated in the next white paper.
- Preparation of a strategy for public education and communication could be useful in further enhancing domestic understanding and support for Finnish co-operation.

7. According to the OECD Development Centre's Policy Dialogue and External Co-operation Unit.

8. Such as Denmark, Netherlands, and Sweden.

CHAPTER 2

AID VOLUME, CHANNELS AND DISTRIBUTION

Official development assistance volume and the economic situation

In 2001, Finland's ODA/GNI ratio was 0.32%, placing it ninth amongst the 22 DAC member countries on this measure (see Figure III-1 in Annex III). Although this is a significant reduction from the peak of 0.80% in 1991, the ratio has been relatively stable since 1994 (see Figure under Table III-1). The drop was due to Finland's severe economic recession in part following the collapse of trade with the former Soviet Union, which led to drastic budget cuts. As for volume, total net ODA increased gradually in real terms from 1994, including a 5.7% increase between 2000 and 2001. In 2001, Finland's total net ODA recorded USD 389 million and ranked 17th among the DAC member countries (see Table III-6).

At the Monterrey Conference, Finland announced its commitment to reach 0.4% ODA/GNI ratio by 2007, beyond the 0.33% ratio targeted by 2006 as an EU Member. Finland is keen on living up to the standards of other Nordic countries and is concerned that its ratio is far less than theirs (Denmark was 1.03%, Norway was 0.83%, and Sweden was 0.81% in 2001). As mentioned in Chapter 1, the Special Committee has recommended the new government to increase the ODA/GNI ratio to 0.41% in 2004, 0.46% in 2005, 0.51% in 2006, and 0.55% in 2007, and to reach the 0.7% target by 2010. To this, the new government has announced its commitment to the 0.7% target by 2010, taking into account domestic economic developments.

Since the mid-1990s, strong economic expansion in Finland has been largely driven by developments in the information and communication technology (ICT) sector—Gross National Product growth during the last seven years recorded an average of 4% per annum. The rapid growth of the ICT industry has also strengthened the fiscal situation. As a result, Finland is the one of the few Euro economies complying with the Stability and Growth Pact target for public finances, with a general government budget surplus. While the unemployment rate in Finland was 9.1%⁹ in 2002, well above the OECD average, it has nevertheless declined markedly from the peak of 16.6% in 1994. Given the generally favourable economic situation, an ODA increase in the next several years would appear feasible and appropriate. Even if economic growth is not as high as expected, an increase in ODA levels is nevertheless possible.

Multilateral aid: policies, channels, and distributions

Finnish officials consider multilateral organisations to be generally a cost effective mechanism to channel aid and allow support for countries that Finland does not have representation or expertise in, such as those in West Africa. Finland's proportion of multilateral aid in total gross ODA has been

9. Adjustments could lower this to 7.5%, but this is debatable. OECD Economic Survey of Finland, 2003.

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consistently higher than total DAC averages and recorded 41% in 2001 (DAC 30%) (See Table III-2). Although Finland prefers to use Nordic performance as a reference instead of the DAC average, its proportion of multilateral aid is much higher than the average country effort of 31% by the three other Nordic countries. In fact, among the DAC members, only Greece, Italy, and United Kingdom had higher proportions of multilateral aid compared to Finland in 2001. Finland's proportion of multilateral aid in the 1980s before the ODA decline was roughly the same as the current level, although between 1996-98, it peaked at 46%.

In 2001, the general distribution of multilateral aid was: 40% to UN agencies, a third to the European Commission, and a quarter to the IFIs. However, like other DAC members, Finland provides various multi-bi funding transfers aside from core financial support. DAC data do not distinguish these arrangements,¹⁰ but according to MFA's sources, approximately EUR 4-6 million annually was provided as multi-bi funding to UN and the IFIs in 2000 and 2001. Although this amount is equivalent to less than 6% of the core funding towards these organisations, the general DAC trend of "bilateralisation of multilateral aid" or "blurring the line between multilateral and bilateral aid" is becoming a concern for some members and multilateral organisations. Finland states that it does not tie its multi-bi contributions to Finnish interests but specifies objectives such as targeting LDCs or gender issues. The DAC may wish to discuss the appropriateness and conditions of multi-bi contributions in general.

The Special Committee called for a rapid increase in multilateral co-operation mostly due to human resource constraints on bilateral aid, as mentioned in Chapter 1. In terms of allocation, Finland's preference in the choice of UN organisations is noticeably clear (see below). Finland is also actively engaged in the reform of the UN Economic and Social Council, together with the other Nordic countries. At the same time, in view of the potential increases in multilateral funding, civil society and other Finnish stakeholders see the need for a better strategy on multilateral aid. Consideration could also be given to a better feedback system on multilateral performance (see Box 2).

Box 2. Systematic feedback on multilateral organisations

Although Finland considers hands-on experience from the field to be valuable in contributing to ideas in the multilateral context, it has yet to develop a mechanism for field staff to systematically report to Helsinki on the performance of multilateral organisations in partner countries. While human resources are limited, the development of such a system would enable Finland to have firm grounds in consolidating its positions vis-à-vis discussions at the multilateral forums. This is particularly relevant given the likelihood of major increases in Finland's multilateral financing in the near to medium term. Further engagement and contribution by Finland in evaluating the international architecture, including specific UN agencies and the IFIs, could also be useful for the development community in making the multilateral system more efficient and effective.

United Nations agencies

Finland's contribution of USD 62-68 million (in constant prices) to the UN has been more or less stable since 1997.¹¹ However, the proportion in total ODA has gradually declined from 21% to 17% - although still higher than the total DAC average of 9%¹² (see Table III-2). Finland clearly states

10. They are counted as bilateral ODA.
11. This includes all core and voluntary contributions, but not multi-bi funding.
12. It is not meaningful to compare the breakdown of multilateral ODA with the Total DAC average since non-EU member countries do not contribute to the EC.

its preference among UN agencies - as is reflected in the distribution pie chart (ODA by main categories - Table III-2) - based on their policies and performance. They are UNDP, UN Population Fund, UN Children's Fund, and the World Food Programme. In order to enable these agencies to plan ahead better, Finland has started providing multi-year pledges over two to three years. At the executive boards of the UN agencies, Finland has been active in the following areas: a) policies such as the MDGs, poverty, gender, and environment; b) good governance of agencies (e.g. clarification of the role of the UN Office for Project Services), and c) harmonisation of work by UN agencies (e.g. studies of the UN Development Assistance Framework in eight countries).¹³

European Community

Finland joined the EU in 1995 and held the presidency in the second half of 1999. Its contribution to EC co-operation has generally been increasing and was USD 56 million in 2001 (see Table III-2). This level is to be increased and stabilised to EUR 120-130 million (about USD 135-146 million) per year within the next few years. Finland's contribution as a proportion of multilateral aid was 34% - fourth lowest compared to other EU members mostly because its European Development Fund (EDF) contributions started only in 2002. Finland is yet to elaborate on its strategy for EC co-operation, which could be of interest to the EU Members. At the same time, Parliament approved the Cotonou Agreement¹⁴ - which includes market access issues- at the end of 2001, making Finland the second EU member to ratify.

International financial institutions

Since 1997, contribution to the IFIs such as the World Bank group and regional development banks has fluctuated between 2-8% of total ODA, respectively, depending on the replenishment cycle of funds. For the latter, Finland's preference is the African Development Bank, with more than half the funds for the regional development banks disbursed to this organisation in 2000/01. This is followed by the Asian Development Bank and the Inter-American Development Bank. According to Finland, it also contributed approximately USD 4 million to the Nordic Development Fund in 2000/01.

Finland sees the role of the IFIs to promote pro-poor growth - growth with the objective of poverty reduction that takes social dimensions into account. There is a distribution of labour between MOF and MFA on IFIs: the Minister of Finance is the governor for the Bretton Woods institutions and the minister for Development Co-operation is the governor for the regional development banks. At the working level, MOF and MFA co-ordinate regularly with each other and with the Bank of Finland in order to enhance synergies of Finnish positions in the IFIs.

At the World Bank board, Finland is a member of the Nordic and Baltic constituency, which collectively holds a 3.55% voting power. Finland believes that the size of the vote is not the only factor in influencing decision making in IFIs, but that with active and constructive approaches, smaller constituencies can also be influential. Therefore, Finland has been promoting, particularly with the other Nordic countries, issues such as: a) mobilisation of private resources post-Monterrey; b) enhanced support for ownership and responsibility of recipient countries; and c) review of lending policies in light of the Heavily Indebted Poor Countries (HIPC) initiative and unsustainable debt burdens. MFA is concerned that Finland previously contributed up to 1% of International

13. According to the document GLO-52/ka, iw, PUHE-ELEMENTTEJÄ, 5.2.2003.

14. The Agreement includes components such as a continuous political dialogue between the EU Members and the ACP countries and a pledge to progressively remove all trade barriers between them by 1 January 2008. The Agreement is valid for a period of 20 years.

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Development Agency replenishments but that this figure has now dropped to 0.6% due to the decline in its ODA resources.

Bilateral aid: policies, instruments, channels, and distributions

As the multilateral share in total ODA is higher than Total DAC Average, this translates into lower average in bilateral aid. In 2001, Finland's gross bilateral ODA was 59% while total DAC was 70%.

Instruments and channels

Finland is now providing essentially all grants in its bilateral programme, having ceased the provision of ODA loans in the early 1990s. Among the grants, Table III-2 shows that in 2001, relatively large variance in proportion from the Total DAC average was "emergency and distress relief." Of the total cost of USD 41 million, about USD 15 million was disbursed as costs of refugees for the first year of stay in Finland. In the two previous Peer Reviews, the DAC expressed concern that expenditures on refugees accepted by Finland were eroding resources for developmental and humanitarian programmes in developing countries. Although the share of these costs did not increase to 6% of total ODA as predicted, the proportion has reached 4% in 2000/01, which is higher than the 2% average of 1994-97.

Finland has quotas on refugees based on recommendations made by the United Nations High Commission for Refugees—which are approved annually in conjunction with the national budget. The annual refugee quota was 500 from 1990 to 1998, but the government subsequently raised it to 1 000. In fact, Finland received 1 169 refugees in 2001, including those from Afghanistan, Iran, Iraq, Serbia and Montenegro, Somalia and Turkey. The USD 15 million disbursement also included costs for asylum seekers who received refugee status. The number of asylum seekers has steadily increased from 700 persons in 1996 to 3 129 persons in 2002. In recent years, most of the applicants have originated from countries such as Bangladesh, Bosnia-Herzegovina, Bulgaria, Iraq, Romania, Russia, Slovakia, Turkey, Ukraine and Yugoslavia Republic.

Another variance from the Total DAC average was the small "action relating to debt". This is due to the fact that since 1996 when the HIPC Initiative started, Finland had already forgiven 100% of bilateral ODA loans for the HIPC countries that reached the decision point. According to MFA, Finland has cumulatively forgiven or transformed into grants bilateral ODA loans worth EUR 193 million. It has also contributed EUR 37 million to the HIPC Trust Fund.

In 2001, Finland's proportion of technical assistance (TA) was 18% of total ODA (Total DAC average 23%) or about a third of bilateral ODA. In principle, Finland has untied its technical assistance to all ODA countries (see Box 3) and is making efforts to fulfil this commitment. Table III-2 also indicates that USD 32 million or 14% of Finland's bilateral aid in 2001 was ODA to and channelled through NGOs. The amounts and proportions have gradually increased in the last decade. According to the policy of 1996, 10-15% of the budget for operational development assistance should be channelled through NGOs. Finland currently supports about 200 NGOs that implement over 400 projects in 60 countries.

Finland plans to increase its use of modalities such as basket funding and budget support and sector support. Although DAC statistics do not capture these data, according to MFA, total disbursements ranged from USD 4 to 9 million annually between 1999 and 2001. Some examples of programmes include education sector programmes in Nepal and Zambia as well as poverty reduction

budget support for Tanzania. It would be of much interest for the DAC to learn about Finland's experience and lessons-learned from these modalities (see Chapter 6).

Finland has a small research co-operation component, ranging between USD 3 to 5 million per year. Roughly a third is allocated to the Academy of Finland - which administers funding of research projects – and one third to other institutions, but the remaining third is used for MFA to commission specific research towards operations and policy formation. The practical approach to research is commendable and could contribute to Finland's effort towards focusing and becoming more efficient. Future enhancement of these components could also lead to further research opportunities and analyses of policy coherence related issues (see Chapter 4).

Box 3. Untying technical assistance

The DAC agreed to untie all procurement of goods and services to the LDCs, with some exceptions, starting 2002. Although the Recommendation does not require untying of free-standing TA or aid to non-LDCs, Finland has made efforts to untie all TA to all developing countries, which very few DAC Members have achieved. MFA officials believe that it is best for partner countries to manage the tendering processes and that the most internationally competitive consultants should obtain the contracts. Although international tenders are normally carried out in Helsinki, partner country representatives are invited for the bid opening process.

As a result, there has been increased participation in the provision of TA in the Finnish programme by other Nordic, European, and regional consulting companies. English (or Spanish for Latin America) is the common written language even for Finnish consultants. As expected, Finnish consulting companies are not altogether content about the untying situation, particularly since they see a disadvantage in their economies of scale compared to larger international firms. Some MFA officials also see the risk that foreign consultants may advocate policy approaches such as new forms of public management that Finland and other Nordics are not comfortable with.¹⁵ Nevertheless, by untying TA, Finland is committed to cost effectiveness and increased ownership by the recipient country.

1. Based on "Re: DAC Peer Review. Achievements and shortcomings of the Finnish Aid Administration since the previous DAC Peer Review" by Timo Voipio, Poverty Issues Adviser, Social Development, MFA, 040203.

MFA gives subsidies on concessional credits, which is counted as ODA. ODA amounts have generally been declining since the Helsinki Package was established in 1991, and in 2001 recorded USD 14 million (4%) of total ODA. According to Finland, in 2002, five new projects were approved, with EUR 22 million of interest subsidies committed and EUR 7 million disbursed. For 2003, the commitment has increased to EUR 28 million and with the intention of increasing this scheme. China and Vietnam are the largest beneficiaries, with Costa Rica becoming a new recipient.¹⁵ MFA is considering using concessional credits to countries that would be phased out of "long-term partnerships," such as Egypt, Namibia and Peru (see below). Over the years, there have been various criticisms of these credits by civil society. In view of the constrained human resources in Finnish development co-operation, the administrative cost in ensuring the poverty reduction focus to justify it as ODA may be too high, and therefore Finland could consider phasing out of such a scheme (see Chapter 4).

Regional, income-level, and country distribution

In 2001, Finland's reporting to the DAC on its allocable disbursement, according to regional income-levels and country distribution (70%), was somewhat less than the total DAC average of 77% (see Table III-3). In other words, 30% of Finnish aid was not attributed to a specific region. An

15. According to document, KYO-11/HS, "2. Aid volumes, allocation and policies."

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enhanced pro-rating system may improve Finland's accountability towards its recipient partners. Of the allocable data, Finland shows a relative focus on Africa (46%) and LDCs (43%). Table 1 below shows the distribution of Finnish ODA disbursements in terms of region and income groups compared to the total DAC average. As for specific countries, the top recipients of Finnish bilateral ODA were Tanzania, Serbia and Montenegro, Mozambique, China, Nicaragua, Afghanistan, Namibia, Viet Nam, Kenya, and Ethiopia (Table III-4).

Even though public opinion polls suggest that Finland should focus on Africa, policy documents do not specify any regional concentration or focus on LDCs. MFA suggests that public opinion polls, however important, do not directly influence political decision-making. According to the Implementation Plan for the 2001 policy, Finland will concentrate on about ten long-term partner countries. In these countries, the main aim of poverty reduction is to be achieved through policy dialogue at various levels and provision of bilateral government-to-government programmes, commercial and economic co-operation, and through various multi-donor approaches. Long-term partner countries include Egypt, Ethiopia, Kenya, Mozambique, Namibia, Nepal, Nicaragua, Peru, Tanzania, Vietnam, and Zambia. Only five of these countries are LDCs.¹⁶ Future plans include monitoring and reassessing Kenya, Nicaragua, and Zambia, and phasing out of middle income countries such as Egypt, Namibia and Peru over three to seven years.

Table 1. ODA Distribution according to Region and Income Groups, in per cent, 2001

	By Region					By Income Group			
	Africa	Asia	Americas	Europe	Others	LDCs	Other LICs	Lower Middle Income Countries	Upper Middle Income Countries
Finland	46	30	7	13	4	43	24	31	1
Total DAC	32	41	15	6	6	26	34	35	5

Source: OECD.

It should also be mentioned that China, Serbia and Montenegro and Afghanistan are not on the priority list for Finnish ODA but in 2001 were among the top ten recipients. This is because the latter two countries received substantial short-term humanitarian and reconstruction assistance. China, however, received a large amount of Finnish ODA in the form of subsidies on concessional credits. These subsidies have kept China among one of the top ten recipients over the last decade and made it the largest recipient of Finnish ODA in 1995/96. Although China does not receive significant operational bilateral grants, the subsidies are still part of Finland's ODA budget. It would therefore seem appropriate for Finland to either state clearly that China is one of its long-term priority countries, or to reduce its subsidies on concessional credits so as to shift more resources to other countries in need.

There have been criticisms regarding the dispersion of Finnish aid across too many countries. The trend seems to be increasing, as up to the late 1980s, Finland had a high concentration on a few partner countries, while in 1990/91 and 1995/96, 61% and 58% of allocable bilateral aid was disbursed to the top ten recipients, respectively, which dropped to 53% in 2000/01 (see Table III-4). Finland currently has more than 96 ODA recipients. It may therefore be useful for Finland to clarify how it plans to co-operate with the non-long-term partner countries. As the sixth smallest member among the 22 DAC countries, Finland is usually not a major donor in its top recipient countries. Although Finland believes that influence is not directly and solely related to aid volume, in reality, greater selectivity and

16. Ethiopia, Mozambique, Nepal, Zambia and Tanzania.

targeting for its long-term partner countries may allow Finland to have more cumulative impact, enhanced effectiveness, and increased ability to influence other donors and partner policy dialogue and co-ordination. More concentration on the ten or so long-term partner countries should at least be maintained, which may require a certain level of discipline.

Official aid

Finland's gross bilateral Official assistance (OA) to Part II countries has been decreasing since 1998 and recorded USD 32 million in 2001 (see Table III-1). This amount was approximately equivalent to the combined amount of ODA to the Americas and developing countries in Europe, but less than either to Africa or Asia. According to DAC data, Finland has been providing OA to Russia, Estonia, Latvia, and Lithuania from 1991 - now part of a programme called "Cooperation with the Neighbouring Areas." As a note, Russia received more OA than the largest ODA recipient country - Tanzania - in 2000/2001 (see Finland's aid at a glance). The major sectors of co-operation are in environment, energy and nuclear safety, forestry, and the social sectors, with horizontal programmes in ICT, entrepreneurship, and public administration. Finland also contributes OA through multilateral organisations such as the European Bank for Reconstruction and Development and the EC. It would be interesting to learn about the future implications of Finland's OA to the Baltic countries as they begin the process of joining the EU.

Sector distribution

Table III-5 shows the sector distribution of Finland's ODA commitments for 2000/01. In general, there is a trend towards less economic infrastructure type support (see Box 4) and an increase in Social Infrastructure and Services. Specifically, the latter have proportionally increased in the last decade from 17% in 1990/91 to 44% in 2000/01, higher than the Total DAC average of 33% in 2000/01. Finland explains that since it became more focused on poverty reduction during the 1990s - reflecting the global shift - it started to consider the social sectors to be the most effective channel to target poverty. Finland also saw its comparative advantage to be in these areas.

Within the Social Infrastructure and Services, there has been an increase in support to Government & Civil Society and decrease in large infrastructure projects of Water Supply and Sanitation. Looking at basic social services, however, despite Finland's official commitment to the Copenhagen 20-20 Initiative, its bilateral commitment to basic education, primary health care, nutrition and safe water and sanitation collectively was 11.6% of bilateral ODA for 2000-2001, which was lower than total DAC average of 14.8%. Nevertheless, the proportion has been consistently increasing since 1996-97.

Box 4. Shift in characteristics of the Finnish aid programme

According to J. Koponen and L. Siitonen, in the 1980s, when ODA was fast growing, Finnish projects focused mainly on expensive infrastructure or industrial projects and were trusted to Finnish consultancies with a view to maximise Finnish delivery of goods and services. There was top down planning and a parallel implementation structure. However, longer-term results as well as commercial benefits turned out to be modest. The significant reduction of ODA in the 1990s slowly led to a different way in development thinking. Bilateral projects are now planned on a smaller scale and are more conscious of sustainability, ownership, and capacity building. The development of local expertise is prioritized, thereby reducing the role of consultancy companies to the provision of support for local development efforts rather than serving as a projects implementer. The remaining challenge today is the fragmentation of projects in many areas leading to poor effectiveness.

Source: Juhani Koponen and Lauri Siitonen (2002), "Finland – aid and identity (unpublished manuscript)", University of Helsinki, Institute of Development Studies.

Other higher divergence included emergency assistance, which was partly refugee costs in Finland mentioned above. The large proportion of multi-sector aid includes assistance to areas such as: general environmental protection, rural development, multi-sector aid for basic social services, and so on. Although not diverging from the DAC average, Finland strongly supports the area of forestry, categorised under the Production Sectors. The low proportions were Economic Infrastructure and Services, Commodity and Programme Aid, and Action Relating to Debt (described above). In particular, Economic Infrastructure and Services reduced drastically from 19% of allocable bilateral ODA in 1990-91 to 1% in 2000-01.

Future considerations

- As the Special Committee recommends, Finland is encouraged to increase ODA to reach 0.7% ODA/GNI ratio by 2010, along an agreed commitment path.
- Should the Special Committee's recommendation on increased multilateral contributions be accepted, a clearer strategy on multilateral co-operation would be useful, complemented by specific strategies for target organisations.
- It would require discipline for Finland to remain focused on about ten long-term partner countries, which is necessary for cumulative impact and enhanced ability to influence other donors and the partner country.

CHAPTER 3

POLICIES AND CONCEPTS IN SELECTED CROSS-CUTTING ISSUES

Poverty reduction

Since the last review, progress can be seen in the poverty reduction focus of Finnish aid. First, as mentioned earlier, poverty reduction has become generally understood as the overarching goal, although it still needs to be articulated unambiguously in policy. Finland is committed to supporting national poverty reduction strategies such as the PRSP, with further intention to actively influence PRSPs and engage in national macro policies to enhance poverty reduction. On the other hand, some MFA officials see that Finland faces a dilemma, since the PRSP approach, which is negotiated with central ministries, carries the risk of neglecting local governments and communities where the poor are located. Finland is also uncertain of the future role of area-based approaches, which have been an important part of Finnish aid. It therefore advocates further strategic approaches within PRSPs, such as promotion of decentralisation of authority to local governments.¹⁷ In this connection, Finland has contributed to the donor community's thinking on the issue of pro-poor policies and pro-poor growth in Tanzania (see Box 5).

In terms of adherence to the DAC Guidelines on Poverty Reduction, Finland sees that its development policies are fully in line with the various components of the Guidelines. First, poverty is regarded as a multi-dimensional problem and Finland thus carries out multi-dimensional policy actions. Regarding forging partnerships for reducing poverty, Finland stresses the need to carry out transparent dialogue on the inherently political and often controversial issue of promoting pro-poor structural change. In this connection, it supports broad-based participation and democratic procedures, which include working with parliaments of partner countries. Finland believes in mutual accountability for performance and results - at the same time, improvements could be made regarding country strategies (see Chapter 6) and ODA predictability and reporting to all its partner countries. Currently, Finland does not have a system of regularly reporting its ODA commitments and disbursements to its partner countries, although open dialogue is encouraged and data is provided when the need arises.

As a way of enhancing poverty reduction, Finland is fully committed to the idea of new aid modalities, although they present a major learning challenge for all donors (see Chapter 6). Finland believes that ODA needs to be entirely accounted for in the national budgets of partner countries and should be increasingly channelled through budget support. It is also committed to harmonisation of accounting and reporting procedures and is making gradual progress on this front. Regarding TA, Finland sees that its experience has been project-related and that Finnish consultants are still not ready for the shift from project to programme approaches. However, as mentioned in Chapter 2, Finland has basically untied its TA.

17. Footnote 1 in Box 3.

The DAC guidelines also stress the need for policy coherence in order to enhance poverty reduction. To this end, Finland's MFA states that there is commitment at the top of the ODA administration. Progress is also seen in the Ministries of Environment and Social Affairs & Health but perspectives still differ somewhat with the Ministry of Trade, despite intensive dialogue with MFA's Foreign Trade Department. Within MFA, owing to the full integration of aid administration in the Ministry, particularly in the geographical departments which encompass aid, trade, political affairs and culture, achieving policy coherence has become easier than before. At the same time, the non-aid aspect of the MFA has a different logic which does not prioritise poverty reduction as the overarching objective. There are still further challenges in enforcing policy coherence, including the establishment of a clear policy statement and carrying out analyses on pertinent issues related to coherence (see Chapter 4).

Box 5. Pro-Poor Policies and Pro-Poor Growth

Finland actively supported multi-donor training in Tanzania organised by the World Bank on Partnership for Poverty Reduction which aimed to strengthen donor coordination by sharing lessons learned and to strive for a common approach to the poverty reduction strategy processes. In this training, Finland took charge of a module on pro-poor policies and pro-poor growth. Here, pro-poor policies included sector policies that ensured pro-poor allocation of social sector spending, such as basic education rather than higher education, rural primary health care rather than urban hospital care, preventive health rather than curative care, and so on. In terms of pro-poor infrastructure policies, Finland considers safe water, sanitation and irrigation as the most important areas and that roads, cars, and internet are not always key to poverty reduction. In fact, it states that participatory assessment of the genuine transport, mobility and communication needs of the rural poor must be conducted with realistic affordability estimates including maintenance costs. In the process, disaggregated gender and socio-economic data should be obtained. In implementing infrastructure projects, Finland emphasises that local contractors and labour intensive approaches help the local economy. Furthermore, financial issues such as subsidies for public transport or tax for private transport, as well as appropriate technology such as bicycles, pathways, small bridges, radios, etc. should be taken into consideration in projects and in policy dialogue.

Finland attempts to define the concept of pro-poor growth—which is the weakest area in the poverty agenda - and asks how to promote it. Pro-poor growth means that the proportional income growth of the poor (e.g. lowest quintile or those below the national poverty line) should exceed the average income growth rate. This requires policies to enable poor people to use their capabilities and assets to generate enhanced and sustainable livelihoods. These include access to extension working, microfinance, land keep, civil rights, networks, health, education, etc. Pro-poor growth also requires policies that favour poorer regions and pro-poor priority sectors. Finland's view is that reliance on the private sector is often unlikely to succeed unless there is government involvement. More generally, prudent management is required to ensure that the poor benefit from globalisation and trade-led or FDI-led growth. An indirect way of inducing pro-poor growth is to have a progressive taxation system and government spending targeted on the poor. Growth is highly contingent on the quality of human capital and therefore investment in education, health, and extension, especially for women and girls, is necessary to facilitate sustainable growth. Finally, policies that Finland proposes for the international community to consider include: increased external budgetary support, speedier debt relief, and effectively targeted ODA to protect vital pro-poor social expenditures.

Source: http://www.worldbank.org/wbi/attackingpoverty/events/Tanz_0602/event1_voipio.ppt

Finland has undertaken some organisational changes to focus on poverty reduction. For example, it has started to invest in developing staff skills required for the new aid modalities within PRSP contexts. Training has been carried out for staff in the geographic departments particularly on the new procedures of budget support and other programme approaches. Since training of all staff at headquarters and embassies, as well as consultants and NGOs, would take too much time, internet-based reference material on poverty reduction was developed so as to allow concerned people to be tutored flexibly and widely (see Chapter 5). A Programmatic Assistance Working Group has also

been established which takes part in joint donor dialogues on programmatic approaches (*e.g.* at the Special Programme for Africa) and shares lessons-learned with the rest of the staff. Production of guidelines for programme-based assistance is part of the future work plan for the group. In terms of cross-cutting issues, Finland has developed a new guideline to better mainstream gender equality.

At the same time, Finland is self-critical and sees that there is still a long way to go to mainstream poverty reduction. For example, even within development co-operation not all systems are consistent with the objective of poverty reduction. There is also a shortage of a broad range of specialist skills to address the multi dimensional aspect of poverty. Staff performance, management, and training are yet to be sufficiently linked with incentive and reward systems for poverty reduction. Decentralising decision-making and ensuring adequate staffing in the field also continue to be major challenges. The fact that MFA admits to these shortcomings and is actively working to improve the situation is encouraging and commendable.

In 2002, the MFA commissioned a study that evaluated eight country programmes (see Box 10, Chapter 5).¹⁸ Although the resulting judgements are somewhat inconclusive, the study states that project objectives have been achieved in many cases but that overall impact and sustainability were largely unknown or unimpressive, especially regarding poverty reduction. Such findings are similar to those of previous evaluations concerning Finnish projects in the 1980s and early 1990s. It would be of interest to the DAC to hear Finland's plan of action on the findings, especially regarding how to increase its impact on poverty reduction.

Anti-corruption

In addition to poverty reduction, Finland's development co-operation objectives relate to: environment; equality, democracy and human rights (including gender equality); global security; and economic interaction. A cross-cutting theme which is becoming quite important in achieving these objectives is anti-corruption. Finland has recently developed a comprehensive guideline entitled "Preventing Corruption: a Handbook of Anti-Corruption Techniques for Use in International Development Co-operation." Since few DAC members have produced such a handbook, this could serve as a reference for those who are planning to develop a similar document.

Aside from open discussion and political dialogue on anti-corruption, the handbook proposes concrete measures at different levels. These include: 1) collaboration with international organisations; 2) support to national anti-corruption strategies; 3) mechanisms to reduce risks of corruption in development assistance; and 4) implementation of anti-corruption projects (see Box 6). A backdrop to Finland's effort in anti-corruption is OECD's Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which came into force in 1999. Like most DAC members, Finland has enacted laws to ensure the implementation of the Convention. The penal code has been modified so that the offence of bribing a public official is extended to cover the bribery of foreign public officials. Transparency International ranks Finland as one of the least corrupt countries in the world. It could be interesting to learn, as a matter of policy coherence, how Finland prevents Finnish companies from getting involved in corruption with developing country officials.

18. Egypt, Ethiopia, Kenya, Mozambique, Nepal, Nicaragua, Vietnam, and Zambia.

Box 6. Approaches to Anti-corruption

Collaboration with international organisations

Collaboration with international organisations includes drawing up international agreements as well as promoting discussions on corruption at multilateral forums, such as the Consultative Group meetings. Multi-bi contributions to the IFIs and UN agencies on specific anti-corruption projects could also be considered. In bilateral projects or policy dialogue on anti-corruption, Finland considers that having multilateral backing could be more effective than undertaking action alone. At the same time, sufficient resources are needed to closely follow-up on implementation of anti-corruption activities by the multilateral organisations and therefore careful consideration needs to be given regarding the added value of Finnish support. Finland also believes that it needs to ensure that the multilaterals themselves do not carry out practices that lead to corruption in recipient countries.

Anti-Corruption strategies

Support for national anti-corruption strategies in partner countries could include the following elements: a) establishment of adequate legislation on anti-corruption through policy making and working with judicial institutions; b) identification of public sector areas most evidently in need of addressing corruption; c) establishment of processes to prevent corruption; and d) partnership between public sector and civil society, including private sector and religious organisations. To assist in a national anti-corruption strategy, a precondition and a vehicle for support includes people and organisations which stimulate and create necessary pressure. These consist of vertical institutions such as independent media, electoral system, and NGOs, as well as horizontal institutions such as anti-corruption commissions, the Ombudsman's offices, auditing agencies, and the legal system as a whole.

Mechanisms to Reduce Risks of Corruption in Finnish Development Assistance

(a) Legally binding clauses in agreements

Anti-corruption clauses are included in the General Principles of Cooperation, framework and project agreements with the partner country, and procurement agreements and contracts. Principles are legally binding on the parties, including discontinuation of the agreement and legally imposed remedies. Requests for bids and purchasing agreement must contain clauses whereby a bid will be rejected or a possibly finalised agreement will be cancelled if the sub-contractors of the other party have resorted to bribery to obtain the agreement. Finland also reserves the right to see all the documents relating to the purchases. Documents related to bidding competitions are accessible to the public upon request after each project agreement has been made, as stipulated by the new law.

(b) In basket funding and budget support

Elements to seek and conditions required in carrying them out are: a) appropriate implementing organisation; b) clear administrative rules, responsibilities, and activities; c) adequate salaries for civil servants; d) effective control mechanisms and supervision of authorities; e) adequate monitoring and reporting systems; f) precise procurement and competitive supply system; g) thorough financial planning and administration capacity, including auditing plan; h) public's knowledge about corruption problems; and i) strong institutions engaged in anti-corruption work. In sector programmes, Finland suggests that financing agreements should include the possibility of conducting special audits and that donors should jointly request them if there are concerns over financial management.

(c) In selection of consultants

Finland uses consultants to help counterpart organisations deliver on-time and quality services in sector programmes. Large sums of money transferred between Finland and the partner country are also channeled through the consultant company. Therefore, Finland considers that the selection of consultants must be meticulously carried out. As mentioned in Chapter 2, Finland has untied TA, although the bidding competition takes place in Helsinki under the procurement rules of Finland and not of the partner country. To minimise bidders offering bribes, Finland carries out: a) a general information meeting; b) publicity of the meeting; and c) discussion with the partner country regarding whether any of the consultants have tried to approach them. It also ensures d) access to documents as mentioned above. After the consultants are selected, they sometimes carry out procurement on behalf of the counterparts. As a procedure, a procurement team is formed, consisting of members from Finland and the partner country. Consultants must also include anti-corruption clauses in the procurement. Throughout project implementation, quarterly reviews are carried out comparing the costs incurred with the budgeted amount.

Specific Anti-corruption projects

Finland has funded some anti-corruption projects. There are not many, and the few that were committed in recent years are listed below.

Although Finland does not yet have guidelines *per se* for programme-based assistance and harmonisation of procedures, the anti-corruption handbook refers to them in detail. For example, it maintains the view that harmonisation is one of the most effective means of reducing corruption in the long run. In other words, uniform and transparent local procurement rules would be most beneficial from the point of view of combating corruption - on the other hand, Finland still carries out important procurement in Helsinki due to reservations about partner country procurement capacity. The handbook states that the ultimate aim is to channel donor funds directly to the government treasury, and that if the country's financial administration does not fulfil the basic criteria, a donor could loosely support a sector programme through a form of earmarking. Finland is of the opinion that earmarking is a poor solution due to fungibility of resources and that it should be carried out only by donors whose laws prescribe the precise identification of the end use from every sum paid. Finland's law does not require this and therefore allows it to carry out budget support and basket funding. At the same time, the handbook states that these modalities should be supported only if the financial administration is predictable and transparent.¹⁹ Although this is still an on-going discussion, it would be of interest to learn which countries meet this condition, according to Finland, and what the lessons-learned have been in terms of preventing corruption in budget support and basket funding.

As for specific anti-corruption projects, Table 2 lists the commitments made for 2000-2001. The DAC's field mission to Tanzania found that implementation of an anti-corruption project is a long-term process. Furthermore, one of the key findings from DAC members is that anti-corruption projects have not been assessed or evaluated adequately. Many have been presumed useful, but have yet to be convincingly proven to be efficient and effective. In other words, how much donors can contribute to actually reducing corruption through anti-corruption projects in a given country remains to be seen. Finland could share lessons-learned in effective as well as ineffective anti-corruption projects when it has gained sufficient experience.

Finland recognises the need to analyse its own administrative practices to ensure that they do not facilitate corruption. It also sees the importance of disseminating the concept and tools for anti-corruption and improving the necessary skills in headquarters and in the field. It envisions carrying out workshops or short, seminar type presentations to teach the practical implementation of the anti-corruption handbook. Regional training and sessions for NGOs are also being planned. As with many important cross-cutting areas, translation of theory into practice is the difficult challenge, and Finland's lessons-learned in this area would be of interest to the international community.

Table 2. Finland's Anti-Corruption Projects, Commitments, 2000-2001

Area	Project Description	Amount	Year
		(USD 000)	
Africa Unspecified	Support for the Africa Capacity Building Foundation for Research in Macroeconomics	1 807	2001
Tanzania	Support work against corruption	1 100	2000
Africa Unallocated	AfDB Trust Fund for Good Governance	1 056	2002
Serbia & Montenegro	Transparency International's Accountability Programme	1 037	2002
LDCS Unspecified	Finnish Anti-corruption expert and Transparency International	294	2000
Namibia	Budget formulation and expenditure monitoring capacity of the Ministry of Finance	226	2001
LDCS Unspecified	Audit of public accounts in a programme by the International Organization of Supreme Audit Institutions in Oslo, Norway	38	2001

Source: OECD.

19. Page 26, "Preventing Corruption" MFA.

Finland

Future considerations

- Further institutional strengthening may be necessary to enhance mainstreaming of poverty reduction as an overarching goal throughout MFA's aid administration.
- A plan of action on the findings from the synthesis study of the country programme evaluations, especially regarding poverty impact, could be of interest to the DAC and serve as a useful roadmap to improve Finnish aid quality and effectiveness.
- Finland could share lessons-learned from its experience in anti-corruption projects and mechanisms, including preventing bribery by Finnish companies to developing country stakeholders.

CHAPTER 4

POLICY COHERENCE FOR DEVELOPMENT

General background on policy coherence

The OECD and its members recognise that sustainably reducing poverty in developing countries will require mutually supportive and coherent policies across a wide range of economic, social and environmental issues beyond development co-operation. When agreeing to the “Action for a Shared Development Agenda” in 2002, OECD members acknowledged the importance of giving increased attention to the impact of their policies on developing countries. This was built on undertakings previously made within the DAC to elevate policy coherence for development as a general concern in overall government policies and to develop the necessary means for promoting it across administrations and within international forums.²⁰

In the case of the EU, policy coherence also includes the position a member country holds in the framework of the EC and, if possible, the influence it could exercise to assure policy coherence in the EU. In this respect, the area of agriculture has been identified as a challenge for a number of years. Efforts are being made in the EC on reforming the Common Agricultural Policy (CAP), partly with the intention of making it more coherent with the development objectives of the EC (see Box 7). For DAC members in general, the World Trade Organisation (WTO) is another important forum to discuss and increase policy coherence. Whatever the platform, DAC members are expected to enhance their domestic efforts in order to achieve policy coherence before they take positions at various international forums.

Box 7. Policy coherence in the EU

Policies adopted by the EU can have a substantial impact on developing countries, both positive and negative. As a major trading bloc, market access is an obvious example of an area where policy formulation should consider repercussions for developing countries. To promote policy coherence for development, the recent “Everything but Arms” initiative removed all quantitative and tariff barriers to the EU market for exports from LDCs (with the exception of arms, bananas, rice and sugar for which transitional periods apply before full liberalisation occurs). However, like other developing countries, LDCs may still have difficulty meeting various non-tariff barriers, including rules of origin and sanitary and phytosanitary safeguards on agricultural trade. These barriers become increasingly important as other obstacles are removed.

Internal EU policies, such as the CAP which subsidises agricultural production, helps maintain rural livelihoods within the EU but this in turn impacts substantially on development prospects in developing countries. Subsidised EU farm products can create unfair competition in markets of developing countries where agriculture provides livelihoods for the majority of people and where few alternative sources of income exist for the rural poor. Surpluses are also disposed of in other markets through export subsidies, which depress world prices. Some EU Member states are calling for reforms to the CAP so as to reduce its trade-distorting provisions.

20. In 1996, when adopting the “Shaping the 21st Century” strategy, DAC members collectively set out their aim to assure that the entire range of relevant policies are consistent with, and do not undermine, development objectives. The “Guidelines on Poverty Reduction,” endorsed by the DAC in 2001, highlighted the importance of overall coherence for poverty reduction between different policies as a key factor in influencing the effectiveness of development co-operation efforts.

Finland

Elements of policy coherence and Finland's situation

Experience in DAC member countries shows that to achieve policy coherence, there should be vision, policy, political will, organizational structures and analytical capacities related to policy coherence. In the case of Finland, there seems to be a vision and some organisational structures, but clear policy, political will, and analytical capacity could be enhanced. The most formal statement of vision can be found in the 2001 Decision-in-Principle, which states that: "Finland's policy on relations with developing countries...aims to reconcile the objectives of Finland's foreign and security policy, trade policy and international co-operation." Although this implies a desire to attain policy coherence in general, it falls short of being a clear statement that calls for policy coherence for development.

There is no formal organisational structure as such in place in the MFA to assure policy coherence for development. However, the fact that areas such as trade and foreign political affairs are "under the same roof" as development co-operation implies the increased potential for attaining policy coherence. In addition, the MFA has a number of committees that ensure synergies between departments. On EU co-ordination, for example, there are several active committees which include representatives from civil society. Migration is another field where co-ordination has been significant; the Department of Global Affairs has contributed development perspectives to the Ministry of Internal Affairs, which is responsible for migration issues. Within the MFA, there are also frequent meetings of a more informal character between representatives of the different departments. At the same time, dialogue alone is not sufficient for achieving policy coherence. It requires analytical capacities and analyses in identifying and prioritising issues that need to be addressed in policy coherence and to find solutions. In this respect, MFA officials working in development co-operation see a need for enhanced capacities to handle the complexities and conflicts that often characterise policy coherence considerations.

Examples of policy coherence issues for Finland

Finland's policies are to a great extent coherent with its developmental objectives, but there are a few areas in which coherence could be improved. These include, for example, agricultural policies and the concessional credit scheme established in 1987.

Agricultural policies

In signing the Doha Declaration, Finland confirmed its support for pro-development reform on agriculture. The Doha Declaration states the desire of 121 countries to correct the restrictions and distortions in world agricultural markets by establishing a fair and market-oriented trading system through a programme of fundamental reform. The suggested reforms are: (i) increase market access; (ii) reduce export subsidies; (iii) diminish domestic support that distorts trade; and (iv) take into account non-trade concerns. One of the most important reasons behind the declaration is the negative effect that the current situation has on many developing countries with limited market access and subsidies.

For Finland, agricultural production represents a small part of the economy (3% of GDP and 4% of the labour force).²¹ The limited size of the sector is mainly due to the fact that the Finnish climate is sub optimal for agriculture. To maintain a certain level of production under the unfavourable growing conditions, a system of subsidies has been put in place. In 2001, subsidies to agriculture and horticulture amounted to EUR 1.7 billion, of which 58% was financed by Finland and 42% through the CAP. Among all EU members, Finland's share of national assistance to agriculture is the highest. Furthermore, when Finland joined the EU in 1995, it successfully negotiated the creation of a new category of support called the Least Favoured Areas (LFA) in the EU. With the addition of support through LFA, the amount of subsidies Finnish farmers receive have more than doubled.

Finland's agricultural policies create trade distortions and do not make it easier for poor countries that are dependent on agriculture to develop their economies. It is important for Finland to be aware of the incoherence of its current agricultural policy with development co-operation policy, especially in considering reforms both at the national and the EU levels. Although Finland's market itself may not be so large for developing countries, the potential impact of free agricultural trade by EU and other OECD members can be enormous; Finland could contribute to expediting the process, including at the up-coming WTO meeting in Cancun. Moreover Finland would be more credible, in encouraging its partner countries to enhance free trade, if it is itself heading in this direction. On a number of occasions, Finland has declared that it would like to see a different CAP.²² The Finnish position is that the CAP should increasingly aim at creating equity among EU members. In other words, Finland believes that the support system should be based on the needs of farmers instead of production volume in order to compensate for the different conditions in various regions. It also advocates a shift of emphasis from the traditional commodity support policy to rural development. Such a reform could reduce the negative effects of the CAP, although income to farmers is fungible and therefore it would still create some distortions. Additionally, Finland would like to increase the incentives for environmentally sustainable production. However, Finland is facing challenges in conforming to the Doha Declaration and in trying to reform the CAP in this direction. The main reason is that the authorities recognise that Finnish agriculture needs some kind of subsidies in order to exist and, quite understandably, want to preserve the current rural demography.

Concessional credits

Most DAC member countries have created concessional credit schemes, generally with the objective of boosting the domestic economy by facilitating exports. As such, these schemes have frequently been the subject of criticism by development experts. Aside from the trade distorting nature of the schemes, in the case where developing countries are the recipients they are not explicitly directed towards poverty reduction. However, thanks to international agreements, most schemes are increasingly poverty oriented and the domestic content requirements have been reduced.

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21. Finnish agricultural production consists mainly of cereals, dairy products and sugar. The average size of farms is gradually increasing, but most of them are still small and run by individual families.
 22. See several speeches published at the MFA website, <http://formin.finland.fi/english/>.

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Since 1987, Finland has had a concessional credits scheme.²³ The objective of the scheme, which was established by the MFA and is now operated by the Ministry in close collaboration with the official Export Guarantee Agency of Finland (FINNVERA), is both commercial and developmental. It was created since Finland wanted to be competitive at a time when many other countries were initiating similar schemes to help export domestic industries. During the first years, the scheme experienced a rapid growth and by 1991, it had issued credits of a value of EUR 443 million. However, the trade distorting effects of these types of schemes were receiving more and more attention, and in 1991, OECD members met in Helsinki and agreed to make stricter rules concerning concessional credit schemes. Most importantly, it was decided that projects which should be able to attract commercial financing would be excluded from concessional financing. Since the rules have been implemented, fewer companies in Finland have become interested in the scheme, and between 1993 and 2001, 56 projects with a credit value of EUR 175 million were approved by the MFA. As for the ODA component, it was EUR 14 million in disbursement, representing 4% of total ODA in 2001. The current Finnish scheme is in line with the Helsinki Package and in 1993-2001, half the credits went to the preferred areas (mostly social infrastructure and environment), which were not considered sufficiently attractive for commercial financing.²⁴

The critique of the scheme was presented in the 1998 Peer Review. According to an evaluation in 1992, projects financed through the scheme did not necessarily reflect aid policy priorities or those of the recipient countries. Moreover, it was proven that the credits were unhelpful in increasing Finnish exports. The 1996 Decision-in-Principle therefore stated that interest subsidies paid in the guise of development co-operation distort international competition and that Finland's policy would be to seek an end to these concessional credits. Finland has recently carried out another comprehensive evaluation of the concessional credit scheme, which indicates that some of the earlier critiques still apply. The evaluation also indicates that the countries that receive the investments are generally better off than most of Finland's long-term partner countries. As referred to in Chapter 2, between 1993 and 2001, 70% of the credits went to China. Although the evaluation is unclear as to the effectiveness of the scheme in terms of poverty reduction, it makes several recommendations to overcome some of the shortcomings (see Box 8). It would be interesting to learn about the decisions made regarding the results and recommendations.

Among DAC members, the tendency is now to partly open up concessional credit schemes to international competition. Finland has also taken steps in this direction by lowering its domestic content requirement from 80% to 50% in 2000, which is notable. At the same time, Finland could reassess the administrative cost and trade-off of maintaining such a scheme whose links with poverty reduction are still tenuous. In terms of management, MFA is responsible for the most part, while FINNVERA only receives the applications from the exporters and deals with the guarantees. Two MFA staff are currently working full time on the scheme. Considering the small size of the ODA component of the scheme, this may not be cost-effective, particularly since MFA officials repeatedly mention the serious shortage of staff resources. Finland could thus consider reconciling with the 1996 policy by ending concessional credits.

23. The term "concessional" indicates that the credits are given with a subsidised interest (in some cases the interest is zero). The grant element, when it is directed towards investment in eligible countries, can then be counted as ODA. The minimum share of grant element (concessional) is set at 35 % for lower middle income countries and LICs and at 50% for LDCs.

24. The MFA's "Evaluation of the Finnish Concessional Credit Scheme", January 2003, p. 14.

Box 8. 2003 Evaluation of the Concessional Credits Scheme

An external evaluation of the MFA's concessional credits scheme completed in January 2003 issued the following recommendations.

- The credit volume of the scheme is seen to be below a minimum economic scale that would make it efficient. Thus, the evaluation recommends an expansion of the grant element of the scheme to 10% of Finnish ODA.
- Instead of focusing almost solely on China, it is recommended that 5-6 priority countries be chosen and that administrative procedures and decision-making with these countries become more transparent.
- Instead of favouring specific sectors, such as health, environment and water, the credits should be directed at projects with clear environmental, social and economic impact.
- A positive trend has been to increasingly focus on aid projects rather than on subsidized export promotion. The evaluation recommends that this tendency be reinforced.
- The domestic content requirement (50%) reduces aid quality and should therefore be eliminated. Procurement and some of the project management responsibility should, however, be kept in Finnish hands. Moreover, there should be better accountability in order to assure aid effectiveness. Regular monitoring of projects should also be put in place.

The division of labour between the MFA and FINNVERA should be clearer. The MFA should mainly give policy guidance, and since the scheme requires technical expertise, some operations should therefore be outsourced.

Future considerations

- Finland could enhance its efforts to achieve policy coherence for development, particularly by establishing a clear policy and improving analytical capacity to deal with pertinent issues.
- As an EU member, Finland could play an important role in achieving better policy coherence in the EC, particularly concerning the CAP.
- As the 1998 Decision-in-Principle states, Finland could consider phasing out its concessional credit scheme whose effectiveness in supporting poverty reduction is unclear.

CHAPTER 5

ORGANISATION, MANAGEMENT CHANGES AND STAFFING

Reorganisation of MFA

As mentioned in Chapter 1, the MFA underwent several reforms in the 1990s. According to a report entitled “*Challenges for the Finnish Foreign Service in the 21st Century*” issued in 2001, Finland was transformed from being “a calm observer in the grey zone of the Cold War to an outwardly oriented, active member of the EU,” which required major changes in the way it was involved in international affairs. Furthermore, in order to manage Finland’s first EU Presidency in 1999, the MFA needed to enhance capacity and to create an efficient and well co-ordinated administration.

Despite the increased mandates, the appropriations to the MFA in general have fallen due to major fiscal cutbacks, which particularly affected development co-operation. Measures such as streamlining with ICT and sharing embassies with other Nordic countries (*e.g.* in Tanzania and Zambia) have been insufficient to generate savings to cover current and future needs. The above mentioned report estimates that the ministry as a whole would need 40-50 additional officials to handle the increasing workload; how many of these are for development co-operation is unclear. The reforms have continued after the new government was elected in March 2003 as the Ministry strives to find the organisational framework suitable for the new environment. In particular, if ODA volume is to be substantially increased to reach the 0.7% target by 2010 - as committed by the new government - additional staff would be essential to preserve the quality and effectiveness of the development co-operation programme. The following sections describe the latest organisational framework.

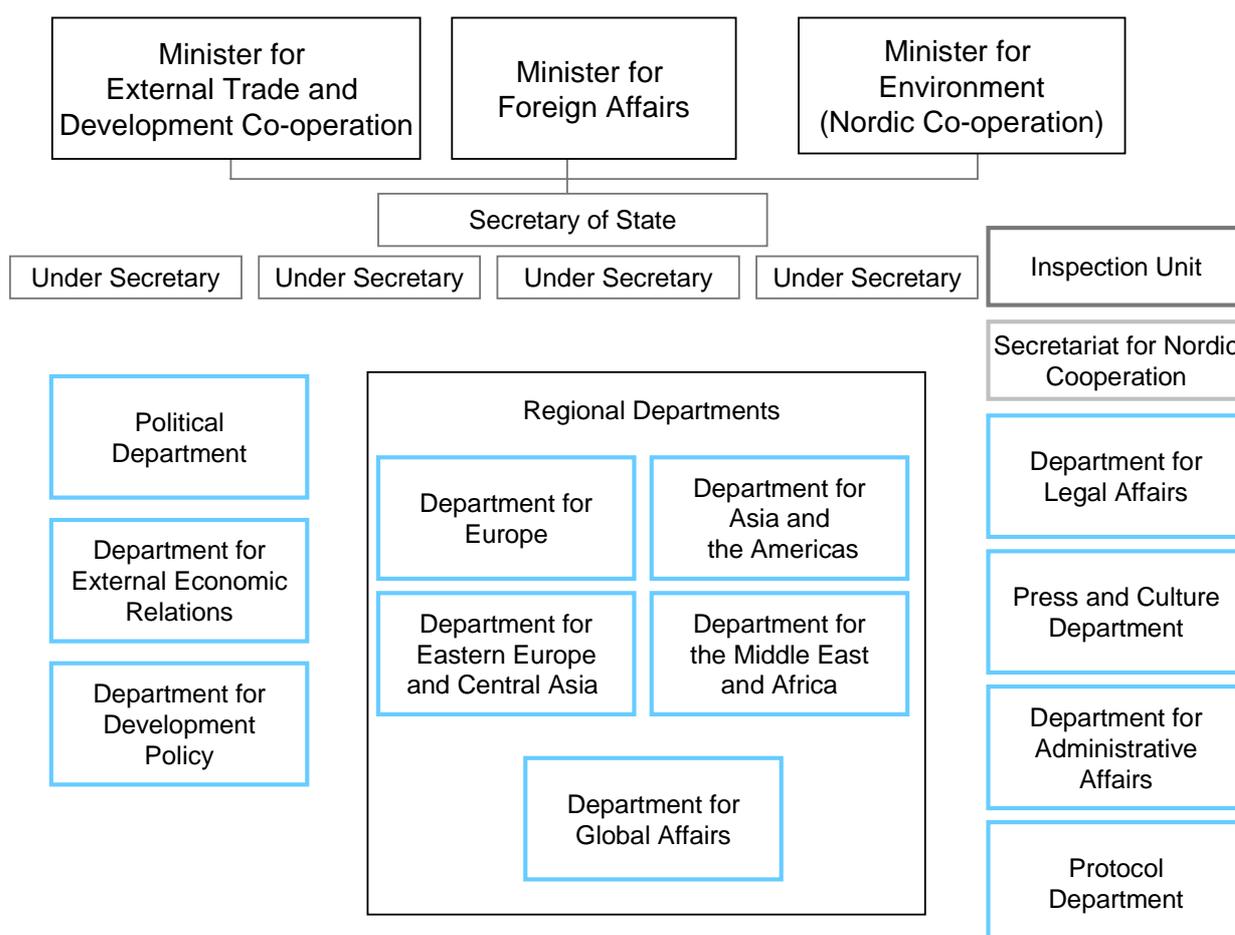
Overall organisational framework for development co-operation

Finland’s aid programme has always been administered predominantly by the MFA. As mentioned before, earlier reorganisations included a consolidation of divisions dealing with trade, aid, political affairs, and culture to ensure internal synergies. For development co-operation, MFA officials consider the new structure to be positive in enhancing its interrelation with other areas such as trade and European affairs. In particular, the link with trade policy is seen as important, as trade would be pursued not only for purely economic aims, but also for improving the economy of developing countries and promoting sustainable development. At the same time, when there is a conflict between trade and aid, it is not certain that aid considerations would prevail. Furthermore, because of the high degree of integration, it is difficult to identify fully which parts of the organisation are actually dealing with development co-operation.

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The number of ministers in the MFA cluster has fluctuated between two and four in the last decade, and until the most recent election, there was a minister exclusively for development co-operation among four.²⁵ However, the new government has reduced the cluster to three, and the minister concerned is now the Minister for External Trade and Development Co-operation.²⁶ The ministers are all members of the Cabinet and are considered as equal.²⁷ How the new ministerial mandates would influence development co-operation, particularly in ensuring policy coherence between trade and aid, would be of much interest to the DAC.

Figure 1. Organisation chart, Finland's Ministry of Foreign Affairs



Source : OECD.

25. Ministers for Foreign Affairs; Development Co-operation; European Affairs & Foreign Trade; and Nordic Co-operation & Matters Relating to Adjacent Areas.
26. The other two being the Minister for Foreign Affairs and the Minister for Environment (& Nordic-Co-operation).
27. Although *de facto* some MFA officials may disagree.

Department for Development Policy

The Department for Development Policy,²⁸ headed by a Director General, is the only department in the MFA dealing primarily with development co-operation. Its current responsibilities for the area are:

- Policies.
- Operational and financial planning and monitoring, statistics, and reporting.
- Quality control and development of guidelines.
- Research.
- Evaluation and internal auditing.
- Pertinent international agreements, preparations for legislation, and other legal issues.
- Support to international and national NGOs.
- External and internal information and communication, including library services.
- Pertinent issues regarding the EU and the OECD.
- Recruitment of and related training for Finnish professionals working in international organizations.
- FINNFUND and concessional credit policies.

Aside from this Department, several other parts of the ministry are important for policy and implementation of Finnish development co-operation, although they concurrently deal with other areas of work. This is particularly relevant for the geographical departments, as well as the Department for Global Affairs, created in the beginning of 2003.

The role of the geographical departments

The main trend and organisational challenge since the Peer Review in 1998 has been the strengthening of the geographical departments.²⁹ Their key responsibility is to plan and administer country specific co-operation in political affairs, trade, development co-operation, and cultural issues. The tasks also include policy coherence within the geographical regions and the relevant countries. Concerning development co-operation, the departments undertake implementation of the bilateral programme.

Depending on the partner country's situation, the geographical departments use different strategies, sometimes with development co-operation being only a part. For example, transitional strategies are used for countries in southern Africa, by combining development co-operation with commercial forms of assistance such as in public-private partnerships for South Africa or in small and medium enterprise development in Namibia. According to MFA officials, this mix of working areas has resulted in development co-operation dialogues and project plans encompassing more political, economic and social factors than previously. It remains to be seen whether development effectiveness is given the same weight as other policy areas such as Finnish trade and commercial interests.

28. Former Department for International Development Co-operation.

29. Previously designated as divisions.

New Department for Global Affairs

In order to deal with the emerging issues of globalisation, the Department for Global Affairs³⁰ was established in 2003. Although the Department is still in the process of developing its strategy and future work plans, it deals with issues such as the UN, the IFIs, environmental and human rights issues, as well as humanitarian affairs. Its mandate is to increase co-operation, coordination and coherence in global issues within MFA and between the ministry and national stakeholders, such as other ministries and civil society. The Department ensures that the hands-on experience from the bilateral programme is used as a reference in the work with multilateral organisations, and conversely, that the global agenda developed in multilateral forums is integrated throughout the MFA. The Department also provides information to parliamentarians on international affairs and events such as the Doha, Monterrey and Johannesburg Summits.

Human resource management

As mentioned earlier, the MFA experienced a long series of budget cuts in the 1990s while being assigned additional tasks, especially with the EU accession in 1995 and increasing global co-operation on environment, security and development. A major constraint in development co-operation, as in many other functions of the ministry, is the shortage of human resources. Although the exact number of relevant staff is difficult to calculate - as employees can be involved simultaneously in several areas, *e.g.* trade, political affairs and development co-operation - out of 973 staff members³¹ in MFA headquarters, an equivalent to 160 staff or 16% were working on development co-operation in 2002. This included staff of the Department for International Development Co-operation, and some from the geographical departments, top management and general administration.³²

Compared to other DAC members, the ratio of Finland's headquarters staff compared to aid volume appears to be about average. Although an imperfect way of measuring, it takes six to seven staff in the Finnish aid system to manage ODA of USD 10 million. In comparison, it takes six staff in the aid administrations of Sweden and Australia, respectively, five staff in the United Kingdom, two and a half staff in the Netherlands, and twelve staff in Canada. Nevertheless, there is a widespread perception of personnel shortage among Finland's MFA headquarters staff working on development co-operation. There may be several reasons for this. First, Finnish development efforts may be considerably dispersed in relation to the size of the programme, which would necessitate more administrative resources. Second, the system of recruiting mostly generalist diplomatic staff instead of development experts may be making the workload heavier for those who are involved in the more technical aspects of development co-operation. Third, the embassies are not well staffed in terms of carrying out development co-operation activities, nor is there sufficient delegation of authority, which implies that the workload is undertaken mostly by MFA headquarters.

Under a newly introduced team-work approach, the geographical departments now have the support of about 20 in-house advisors (on poverty, gender, health, and other themes and sectors), and occasionally hire external consultants. At the same time, these measures may not be entirely adequate, particularly in view of expected ODA increases. The Africa department claims, for instance, that they still have great difficulty in participating in multi-donor country evaluations due to shortage of staff.

30. Originally set up as a division.

31. Including part time workers.

32. The Department for Global Affairs did not exist in 2002.

Furthermore, from 2006 onwards, a large number of staff is expected to retire, which implies that recruitment for replacement has to be done expeditiously in advance. Since 2003, it has been agreed between the MFA and the MOF that 5% of the increase in operational development assistance can be used for ODA administrative costs, which includes a possible staff increase for development co-operation.

Regular recruitment of aid personnel proper ceased in the early 1990s, and the MFA now focuses on a general diplomatic career system. This change may be logical since development co-operation is organisationally well integrated in the MFA. On the other hand, since rotation and outside postings are the rule for most MFA professionals, there is high probability of staff unfamiliar with developing country issues being assigned development co-operation tasks. This may pose a challenge since effective development co-operation is increasingly requiring skilled specialists in, *inter alia*, poverty reduction efforts which demand social, economic, and cultural knowledge of grass-roots issues, developing country government reforms, and results-based and outcome-oriented implementation of projects and programmes. Furthermore, according to some officials, the integrated approach of the ministry presents challenges, as the strategies, culture, systems, procedures and reforms of the “mother MFA” are driven by a different logic that does not prioritise poverty reduction as the overarching objective. To improve the situation, training has been set up especially in the area of poverty reduction and in the new modalities of co-operation, such as budget support and basket funding, as mentioned in Chapter 3. At the same time, a stronger commitment and leadership within MFA might be necessary to move from theory to practice in mainstreaming poverty reduction.

Finland’s country representation

Finland has about 50 overseas missions engaged in ODA administration.³³ In most of these missions, only one or two foreign service officers are engaged in development co-operation. The shortage of aid personnel is affecting the quality of aid delivery as well as the capacity for involvement in donor co-ordination and co-operation. An interesting way of measuring the weight of co-operation activities is to estimate on how much embassy time is devoted to ODA as a share of total work time. In countries such as Ethiopia, the percentage is estimated at around 70% (among four diplomats and a member of Finnish or local staff), and in Tanzania, it is 60% (among seven diplomats and other local staff). In countries with smaller or phasing-out ODA programmes such as Peru, only 20% of work is related to development. However, this does not include the work of TA consultants—mostly Finnish—who play an important role in implementing development co-operation projects or programmes (see Box 9).

For regular development co-operation activities, the embassy's role is to: a) take part in project identification, together with MFA headquarters, the partner government, and others; b) negotiate agreements (mandates and draft contracts provided by headquarters); and c) monitor implementation of projects and report back to headquarters. To increase effectiveness of administration, decision-making power has been partly transferred from MFA headquarters to the embassies, and budgetary functions under the embassies’ control have somewhat increased. For example, the embassy makes independent decisions during the year if they are within the approved annual plan and budget, although headquarters has to approve any substantial changes. In local co-ordination meetings and preparations for consultative group meetings, embassy representatives can act independently, with MFA headquarters giving guidance only if asked specifically by the embassy.

33. Some are in New York, Geneva and Paris, to co-ordinate with international organisations.

Box 9. Finnish Consultants

Finland's bilateral projects normally involve TA consultants who provide support services for implementation. There are about 15-20 Finnish consultancy companies active in development co-operation which undertake areas such as agriculture and forestry, water and sanitation, road construction, area mapping/survey, health, education and environment, meteorology, ICT and capacity building. Although in most cases, the consultant companies establish project management offices they are supposed to work closely with the counterpart organisations and follow their management structures and procedures. Project management is based on Finnish guidelines and procedures, but in many projects, adjustments to the local systems are made. The consultants are responsible for financial management of the project, but work planning and budgeting is a joint process with counterparts.

Finnish consulting companies are quite critical and somewhat pessimistic over the trends in Finnish development co-operation. First, they claim to be losing ground, partly due to untying aid and the ensuing competition from an increasing number of international consultant companies (see Box 3 in Chapter 2). Second, in the past few years, there has been a tendency by MFA to provide project funds on a case-by-base basis directly to counterpart organisations, under the new modalities of co-operation such as SWAs and budget support. The consulting companies think that these forms of co-operation tend to centralise budgets and reduce the scope for regional and local activities. Third, they also fear that development co-operation is becoming a mere "budget line", which could jeopardise broad public support for aid. However, with their present abilities to facilitate implementation on the ground, there seems to be ample scope for the Finnish companies to build capacities of counterparts who would be required to deal with new tasks especially in public financial management under the new modalities of co-operation.

A similar division of role also applies to the Local Co-operation Fund, a new instrument for the embassy. The Fund, with a budget between EUR 7 000 and EUR 1 million per country, primarily finances activities of local NGOs in areas of democracy and good governance, social and cultural issues, gender equality and youth. The embassy drafts a plan suggesting the principles, thematic areas and the budget, which has to be approved by the Minister responsible for development co-operation. During the given year, the embassy administers the funds independently, according to the agreed plan. If there are any substantial changes to the plan, the Embassy has to consult with the ministry for approval.

In general, there is a perception among embassy aid personnel of being understaffed and having insufficient delegation of authority, which are probably inter-related. With so few staff and therefore a fragile check-and-balance system in the field, it is conceivable that the ministry headquarters would be inclined to carry out most of the decision-making. The understaffing is also exacerbated by the dispersion of co-operation sectors in a partner country (see Chapter 6) as well as the relatively large number of co-operation countries for Finland's ODA volume (see Chapter 2). Therefore, reconsidering the optimal number of partner countries and co-operating sectors may partially help in resolving the challenge of the understaffing and insufficient delegation of authority.

Evaluation and Internal Audit

The Unit for Evaluation and Internal Audit, situated in the Department for Development Policy, is responsible for matters related to evaluations and audits, reporting directly to the Director-General of the Department. The Unit prepares an annual evaluation plan based on proposals from the geographical departments, other units, and overseas missions. The plan is approved by the Director-General. The Unit then prepares the terms of reference and the evaluation proper is outsourced to consultants (unrelated to the activity to be evaluated and including NGOs) in Finland, abroad and, whenever feasible, those from developing countries.³⁴

34. The internal audit system follows the same approach.

The evaluations here involve priority policy areas, entire country programmes, or various forms of assistance or activities in a certain sector. Evaluations of individual projects are normally not included since it is the responsibility of each operational or organisational unit to evaluate project performance. Occasionally, a synthesis study is carried out, such as that in 2002 on evaluations of eight country programmes. The objective of this study was to examine whether Finnish development co-operation was strategically heading in the right direction (see Box 10). Although the MFA has a limited overview of Finnish NGO activities in partner countries,³⁵ as with other DAC members, over the last few years, a growing number of evaluations have been undertaken on various NGO-related issues. The Unit frequently co-operates with other donors by participating in suitable joint evaluations, as well as making use of studies made by other donors. Finland has also begun implementing recipient-led evaluations, i.e. where the team members come from the recipient country.³⁶ Experience has been positive, particularly with regards to capturing the ownership and sustainability aspects. All evaluation reports are published and made public.

Box 10. Synthesis study of eight country programme evaluations

The MFA decided in 2002 to undertake a study to assess the operationalisation of Finland's development objectives and priorities, particularly to answer the following questions. "Does Finland co-operate with the right partners with appropriate measures? And if not, how should Finnish aid be redirected geographically and sector-wise and in terms of selected strategies and measures?" The study examined eight country programmes (Egypt, Ethiopia, Kenya, Mozambique, Nepal, Nicaragua, Vietnam and Zambia) and pointed out several deficiencies in the Finnish aid programme. They include the following:

- Although many individual projects had proved to be successful at a local level, there was little evidence of having an effect at the macro level.
- The sustainability of programmes was at risk due to lack of full ownership by partner countries.

The study presented a number of recommendations on how Finland could improve its aid effectiveness, including the following:

- As a small country, Finland could be more effective by concentrating on 2-3 countries and in a few sectors.
- Finland should not be involved only in the social sectors, but also create more programmes in the productive and infrastructure sectors, since generating income is an important element in poverty reduction.
- Finland should make poverty reduction the explicit and unambiguous goal of Finnish development co-operation. Simultaneously, to this end, capacity needs to be strengthened particularly in the field.

35. However, auditing of NGO accounts is a standard practice.

36. Completed for Kenya and planned for Tanzania.

Finland

There is some difficulty in taking action regarding the results and proposals from evaluations or using them as a basis for decision-making, which the Unit recognises. First, the evaluation results are reported to the Executive Board of the Department for Development Co-operation, whose members consist of the Director and Deputy Director General and the unit Directors. This means that the follow-up is in the hands of those who were responsible for the evaluation outcomes, instead of an independent body or a higher office with more authority. It also calls into question the responsibility of the geographical departments that have a major role to play in the strategic orientation of Finnish development co-operation but are not under the jurisdiction of the Executive Board. There could be further rethinking by MFA regarding the institutional appropriateness of the reporting, follow-up and learning system of evaluations.

Future considerations

- Consideration should be given to formal organisational links between the Departments for Development Co-operation and Global Affairs as well as to the geographical departments. The Executive Board for Development co-operation could serve as the platform for these stronger links.
- Special attention should be given to increasing staff capacity, both in terms of numbers and development expertise, especially in view of prospective substantial ODA increases.
- In particular, augmenting field capacity by increasing staff through, for example, reducing the number of co-operating countries and sectors, would be needed for quality aid programming and donor co-ordination.
- There is further scope to improve the independence and jurisdiction of the evaluation system as well as follow-up and systematic learning mechanisms.

CHAPTER 6

COUNTRY OPERATIONS

This chapter gives a description of the country operations of Finnish development assistance mainly based on the field mission to Tanzania³⁷ - Finland's largest ODA recipient country. In general, the review mission observed considerable effort by Finland to support Tanzania's national poverty reduction strategies and ownership by the Tanzanians. At the same time, considering the size of ODA disbursed to the country, the sectoral diversity of the Finnish programme may require higher focus on main areas. Furthermore, an increase in staff capacity should be considered.

Current challenges for the Tanzanian government

Tanzania, which has a population of 35 million, is one of the world's poorest countries, with a per capita income of USD 270. About half the population are below 18 years old and life expectancy is estimated at 44 years. Furthermore, around 10 to 12% of the population live with HIV/AIDS. About 80% live in rural areas where poverty incidence is estimated at 57%. Simple smallholder agriculture accounts for some 80% of employment. Tanzania is faced with similar problems as other low-income countries, particularly in that the much discussed concept of pro-poor growth is not easily implemented. Many policy reforms are needed to improve prospects for poverty reduction in this formerly socialist country, including development of the private sector and employment creation for more than 700 000 school leavers annually. At the same time, Tanzania has proven to be an important refuge for those fleeing conflict in the nearby Great Lakes region and is currently home to as many as one million refugees, largely located in camps in the northwest part of the country.

Senior officials of the Tanzanian government see the nation as being in the midst of a substantial reform process, which touches all sectors and levels of the country. Main initiatives are the Public Sector Reform, the Legal Sector Reform, and the Local Government Reform. In particular, Tanzania's decentralisation effort (new forms of decision-making at the district level) is challenging. For example, institutions at the national level are required to create mechanisms to transfer large amounts of development funds to district level institutions, which are new and yet to be firmly established. As highlighted in the 2002 Tanzanian government report on Public Expenditure Review, and other assessments, one of the major problems is the need for capacity in public finance and accountability at local, district and national levels. Equality of regional access to funds is also a problem to be solved by the government. These areas of concern have been taken into account in Finnish co-operation in the Mtwara and Lindi regions, and to a lesser degree in the projects supported at the national level by Finland.

The Tanzanian government is implementing the new modalities of co-operation and aid management, especially budget support and basket funding arrangements. As Finland's assistance will

37. Observations were obtained during the Peer Review field visit to Tanzania, March 1–13, 2003, which was also part of the joint assessment of four donors, namely, Denmark, Finland, Ireland, and Japan.

Finland

be increasingly channelled to the Tanzanian public sector, *e.g.* through direct budget support, Finland, as well as other donors, are aware that they would need to give more attention to the capacity building needs of the institutions concerned.

Finland's co-operation with Tanzania

According to DAC data, between 1998 and 2001, average disbursement of Finnish ODA to Tanzania amounted to USD 13 million per year. Tanzania is the largest recipient of Finnish ODA, and received 8% of allocable bilateral ODA in 2000/2001. At the same time, Finland was the 12th largest DAC donor to Tanzania. Even though a small donor, Finland's co-operation is welcomed and well accepted by partner organisations and NGOs in Tanzania. This is due not only to the long-term co-operation relationship of more than 30 years, but may also be attributable to several factors, such as:

- Good diplomatic relations between government representatives, especially at the presidential level. High ranking Tanzanian officials praise the reliability and positive diplomatic influence of Finland.
- Finnish emphasis in choosing a mix of different modes of delivery. Finland supports national programmes and area-based projects with components of TA that enhance ownership (see Box 11). Finland also participates in the sector-wide approach (SWAp) for education and has provided budget support for its initial phase.
- The commitment of Finnish NGOs in supporting Tanzanian NGOs at the local and national policy levels.

In Tanzania, the most important national development reference documents are the "National Poverty Eradication Strategy" (1998), "Vision 2025" statement (1999), the "Tanzania Assistance Strategy (TAS)" (2000)³⁸ the "Poverty Reduction Strategy Paper (PRSP)" (2000). Finland is orienting its co-operation to these strategies, even though it does not have a country strategy document for Tanzania and not all project documents refer to them or the MDGs (See Box 11). However, current projects concern activities which were planned prior to the strategies and MDGs; according to Finland, these strategies and goals are now central in new project planning. Nevertheless, existing projects and programmes could be readjusted to the recent national strategies and MDGs in order to avoid 'isolated' activities that are not priorities of the Tanzanian government.

38. This defines the Tanzanian vision for poverty reduction and the role of donors in the country.

Box 11. Country Programming and country strategies

As in the case of other donors, the inefficiency of wide-spread development co-operation and the need for greater selectivity is a main issue in the current Finnish development policy debate. Finland therefore intends to concentrate the majority of its bilateral operation programme in ten so-called long-term partner countries (see Chapter 2). The following aspects characterise long-term partnerships, *inter alia*: the main objective is poverty reduction; active and continuing participation in dialogue with the partner country at various levels; partnership based on government-to-government development programmes and projects; and commercial and economic co-operation.

Finland holds bilateral consultations with long-term partner countries every two to three years. In these consultations, a wide range of political, trade and aid issues are discussed. This is also the forum where Finland's country programme for development co-operation is agreed. First, the desk officer of the country unit in the appropriate geographical department prepares the "mandate" and "memorandum" for the country consultation which is to be carried out by the Finnish delegation, headed by a high-ranking MFA official. The mandate and the supporting background memorandum include a situational analysis, statement of objectives and an outline of the co-operation programme for the coming years. The guidelines on preparations for bilateral consultations encourage consultation with other departments within the Ministry. A representative of KESU is usually part of the delegation in the bilateral consultations, and it is further recommended that civil society and private sector representatives in Finland be consulted. The Minister finally approves and signs the mandate. In between the high-level bilateral consultations, a more technical review meeting is held annually at the local level, which reviews and gives opportunity to discuss the on-going programme and the way forward.

The mandate, memorandum and agreed conclusions of annual consultations do not constitute a country strategy. In fact, Finland has not developed a comprehensive country strategy document even for its largest ODA recipient, Tanzania. The absence of a tool for prioritising sectors and associated policies as well as identifying counterparts and channels for co-operation in order to ensure complementarity was also raised in the 1998 Peer Review in the context of the Finnish programme in Nicaragua. Having a clear country strategy is important for accountability, transparency and monitoring purposes, and therefore, Finland could consider establishing a system of developing these strategies in the official language of the partner country when appropriate.

In a standard project management set-up, two committees are established for each project, the Supervisory Board and the Project Steering Committee. The members of the Board are representatives of the line ministries in the partner country as well as Finland's representatives from MFA headquarters and the Embassy. The Supervisory Board meets annually to discuss policy and the implementation strategy and to review progress and financial reports. The Supervisory Board also approves the annual work plan and budget for the coming year. The members of the Project Steering Committee are from implementing partner institutions and the Embassy. It meets quarterly and is mandated to deal with operational issues.

Finland's programming in Tanzania

As a general strategy for East Africa, Finland aims to enhance regional security, democratic transformation and crisis management. For Tanzania, Finland sees these aims as best met by supporting the continuation of democratic development and internal stability. The main instruments are policy dialogue, development cooperation (including all the instruments) and contributions to economic and cultural relations. More specifically, Finland's bilateral programme in Tanzania focuses on: poverty reduction; strengthening of democratic institutions; support for good governance and a constitutionally governed state; and sustainable environmental policy. In particular, Finland actively supports the priorities of the Tanzanian government such as decentralisation and democratisation through several programmes at national and local levels. In general, Finnish co-operation priorities can be regarded as being in compliance with the country's priorities. Nevertheless, the programme seems to be quite ambitious and diverse for a small donor and could be more focused strategically. The main areas of Finland's support are:

- Poverty Reduction Budget Support (PRBS).
- Decentralization and Local Government Reform (LGRP), and participatory rural development (see also Box 12).

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- Tanzanian anti-corruption initiative.
- National Forest Programme (NFP).³⁹
- SWAp for education.⁴⁰
- Legal Sector Reform Programme and other areas of reform.⁴¹
- Various areas through the Local Cooperation Fund for Tanzanian NGOs.

Due to the historically dominant role of the Tanzanian state which tended to downplay the role of Tanzanian civil society and the private sector, donors still tend to emphasise co-operation with the Tanzanian central government. However, the Finnish approach on partnership and ownership is not limited to the government alone. Finland sees a major need to promote private sector development, especially in the forestry sector in Tanzania. Furthermore, capacity building and participatory approaches through the Rural Integrated Project Support programme focus on the community and district levels in the southern region. (See Box 12.) The Local Cooperation Fund⁴² for Tanzanian NGOs supports the empowerment of NGOs in areas such as democracy, human rights, and gender equality - at the same time, since each project is relatively small, Finland should be aware of the high administrative costs in the dispersion of such local funds.

As seen in RIPS, Finland's TA is an integrated part of Finnish projects or programmes. In other words, Finland does not provide free-standing TA or carry it out in the limited sense of a pre-investment measure. Although no particular guideline exists, Finland's TA supports decision making processes by communities and districts as well as the implementation of institutional reforms. The role of TA is to facilitate and increase ownership by the counterpart institutions instead of substituting their functions. TA needs are identified as part of the project preparation process, which includes background analysis on problems, stakeholders, and opportunities, as well as resource assessment.

With regard to the use of new forms of co-operation, especially budget support and basket funding, Finland will gradually participate in these approaches. Debates on this matter continue in the MFA, covering issues such as the reliability of partner governments and the need for a relatively high level of trust between the donors and the recipient partner (regarding poverty orientation, quality of public financial management and auditing, etc.) At this time, Finland has yet to develop guidelines for programme-based assistance. Discussions between the review team and several donors in Tanzania on basket funding and budget support showed that risk taking is recognised by both sides, but of entirely different nature. The partner country risks its reputation with the donor community in the event of corruption or misplaced funds, which may lead to the loss of credibility for further debt relief. In the long run, limited absorptive capacity may also lead to poor results in poverty reduction, which would again fail to meet the expectation of the donor community. Donors, on the other hand, who are in many cases keen to see quick disbursement, are also responsive to their taxpayers; therefore, there is a

39. The forest sector is in a pre-stage of a sectoral programme, and the change of Finnish co-operation has been remarkable: while former approaches were centred more on logging activities, Finland now focuses on participation of small holders and sustainability aspects. Furthermore, increased emphasis on entrepreneurship is envisaged for future support in this sector.

40. The ongoing District Based Support for Primary Education programme (DBSP) is in the process of being mainstreamed into the more general SWAp for education. The experiences from the DBSP programme supported by Finland should be used for further orientation of the SWAp.

41. The health sector is one of the main areas of cooperation by Finnish NGOs and churches in Tanzania, which makes the Finnish cooperation even more diverse.

42. In 2002, the amount for Tanzania was EUR 750 000.

risk of eroding public support for aid, unless special attention is given to the capacity needs at local, district and national levels. In the future, it would be of interest to learn from Finland's experience in the new forms of co-operation.

Box 12. The Rural Integrated Project Support Programme (RIPS) - a learning process

Finland's efforts to support rural development in Tanzania date back to the 1970s. At that time, Finnish support consisted of providing wells and safe drinking water to rural areas. In 1988, a more comprehensive strategy was launched in the Lindi and Mtwara regions called the Rural Integrated Project Support Programme, with the main component being capacity building on a multi-sectoral basis. Subsequently, an evaluation showed that projects did not sufficiently reach communities in need and that a more participatory and poverty focused approach was required.

Phase II of the RIPS was accordingly developed in collaboration with people from the Lindi and Mtwara regions. Furthermore, the objective of RIPS became focused on facilitating and supporting the process of identifying priorities, while using available local resources and opportunities through dialogue with the local authorities. Phase II received a positive mid-term assessment which led to the decision to further institutionalise the participatory approach.

The current Phase III focuses on sustainability. A recent evaluation of this phase concludes that its efforts to develop local governance are highly relevant and in line with the goals of both the Tanzanian and the Finnish governments. The RIPS focus areas also concur with the objectives stated in the Tanzanian PRSP. A substantial part of the budget has been allocated to training, innovation, and testing. At the same time, despite this creative and dynamic environment, the administrative structure has become too heavy with numerous committees and frequent meetings. Today, most projects supported by RIPS which belong to the communities through their Village or District Councils or local NGOs, are experiencing some difficulties with implementation, monitoring and evaluation at the community level.

In terms of ownership, the RIPS promotes local decision-making processes by methods like Participatory Rural Appraisal which allows the community to: assess the local needs and resources available in the community; set priorities; and carry out step by step implementation and systematic monitoring and reporting. Unlike a donor-driven approach, people in the villages stress that they provide their *own* contribution in kind and through labour for the projects, which is supported by the Council's share, as well as contributions by Finland and other donors. At the same time, further attention is needed to results-based management and sustainability of the outcomes. In particular, the RIPS supports the construction of dispensaries, classrooms and other forms of rural infrastructure, which have to be operated and maintained properly and cost effectively by the communities and other partner organisations.

The RIPS has evolved significantly and has undergone a learning process over the years. Currently, a Finnish consultant company with three international staff and a large number of highly experienced local experts administer the programme, which is dynamic and open to continuous change. In recent years, the learning exercise has paid off, and the participatory approach of the RIPS programme will be used not only in the communities but also in the 11 district levels of Mtwara and Lindi regions and at the national level. At the same time, more systematic training on, for example, new participatory methodologies, and information exchange with other international groups may be of great benefit to the programme. In 2005, Phase III is expected to be completed, but current efforts to institutionalise the participatory approach will hopefully ensure its sustainability. Finland is encouraged to share valuable information on its experience with RIPS in the coming years.

Sources: The Finnish Ministry of Foreign Affairs: (i) Reviews of RIPS, 27 August 2002 and 30 April 2002; (ii) *Paths for change-experiences in participation and democratisation in Lindi and Mtwara regions* (RIPS II); and field visit to the Mtwara region in March 2003.

Donor co-ordination and staffing

In the case of Tanzania, where donor coordination has widespread support, Finland is part of the local “DAC”⁴³ where all major donors coordinate at the policy level as well as in specific areas of work.⁴⁴ Finland chairs the DAC Sub-group on Good Governance. In general, Finnish efforts are appreciated by other donors, although the Embassy is short of staff to participate in all coordination efforts. However, other donors comment that when Finland is there, it is a reliable partner. Along with other donors, Finland faces a dilemma since, with better co-ordination, the transaction costs could be reduced for the Tanzanian government (at least in the long run), while conversely, its own administrative costs may increase due to time spent in meetings, preparations and debriefings. Some Finnish researchers have critical views of donors in Tanzania in general (see Box 13).

Box 13. Critical views on donors in Tanzania

After visiting Tanzania’s capital as well as the region of Mtwara, Finnish researchers expressed fairly critical views on the partnership between donors and the Tanzanian government as well as on the PRSP process. They criticized the partnership as a sort of managerial approach, combined with the belief in budget support as the government’s main tool for addressing social issues. They also see a sort of de-politicisation of decision-making on development policy. Participation is deemed as insufficient and even leading to less democratic structures where decision-making processes are shaped by some selected NGOs, excluding substantial civil society at the local level.

Another area of concern is sustainability, especially in the area of investment in social sectors, without sufficient emphasis on employment policy. The high aid dependency of Tanzania has not been reduced sufficiently by the HIPC debt relief, and in the long term, it is feared that Tanzania might become more aid dependent

Source: “Merging in the Circle”, The Politics of Tanzania’s Poverty Reduction Strategy, Jeremy Gould and Julia Ojanen, Institute of Development Studies, University of Helsinki, Policy Papers 2/2003.

At the Embassy, Finnish capacity in analytical work is limited due to the staffing situation. This constraint could be mitigated by using and following the analysis of other donors, although Embassy staff argue that one of their main tasks is to provide headquarters with their own analyses and resulting strategies. Furthermore, as mentioned in Chapter 5 Finland could consider strengthening operations by increasing staff capacity and by further decentralising decision making processes. Unlike some other donors, equally understaffed at the field level, the Finnish mission has yet to build a support system with local experts.⁴⁵ Although donors have to be mindful in not contributing to the domestic brain drain from the Tanzanian government, Finland could consider augmenting its field staff capacity with more local expertise.

43. It is chaired by UNDP and the World Bank and groups all bilateral and multilateral donors.

44. In 1995, a group of independent advisors under the leadership of Professor Gerald Helleiner recommended increased donor co-ordination, further efforts in reducing transaction costs, and enhanced predictability of aid in Tanzania.

45. For example, the Canadian International Development Agency, which provides less ODA to Tanzania than Finland, has contracted about seven Tanzanian experts working on various sectoral issues, such as law reform or education, to compensate the shortage of Canadian staff and to strengthen the mission’s capacity in donor dialogue.

Future considerations

- Finland could develop country strategies, preferably in the official language of the partner countries, so as to provide a framework for its ODA programme.
- Finland could focus on a few selected sectors in each partner country.
- Sharing lessons-learned from experience with participatory approaches and the new forms of co-operation, such as budget support and basket funding would be valuable to the international community.
- Increased staffing for embassies in partner countries could be explored, including augmenting with local expertise.

ANNEX I

THE 1998 DAC PEER REVIEW AND FINLAND'S ACHIEVEMENTS

Key issues	Concerns expressed in 1998	Current status
Flexibility vs. continuity and concentration	In the 1998 Decision-in-principle, Finland stated its desire to be flexible, as to be able to use aid as an instrument of political influence. However, in practice, the flexibility concept could reduce continuity, and the possibility to expand the numbers of countries and sectors risks spreading Finnish development co-operation efforts too thinly.	The level of concentration has decreased in the last years. In 1995/96, 58% of bilateral aid was disbursed to the top 10 recipients, while in 2000/01, the figure was 53%. Finland is currently involved in developing co-operation in 96 countries, which is an increase of 10 countries since 1995/96.
Policy Guidelines	Since a new comprehensive strategic framework is in place (the Decision-in-principle), clearer policy guidance on the sector level is needed in order to achieve coherence in the Finnish approach.	New guidelines have been developed for some areas, e.g. gender. Moreover, Finland is in the process of reducing the number of sectors in some countries.
Stable volume	In view of the severe cut in ODA since 1991, it is important for Finland to make development co-operation resources more predictable and stable in the future.	Finland's ODA/GNI ratio is about the same level as it was at the time of the last review, but the plan is to augment it. At Monterrey, Finland made a pledge to achieve 0.4 ODA/GNI by 2007, and the new government has recently committed to reaching the UN target of 0.7 by 2010.
Mixed credits scheme	A recent evaluation showed that the mixed credits scheme did not increase Finnish exports to LDCs, nor did it reflect the developmental priorities of recipient countries and the Finnish administration. Moreover, the scheme risks creating trade distortions.	The critiques mentioned in the last Review still remain. However, more projects are now within the preferred sectors; health, environment and social infrastructure, and thus the scheme has become more poverty oriented. The MFA recently commissioned an independent evaluation of the scheme, and is now in the process of analyzing the results.
Technical expertise	In the new organizational structure, the relative number of diplomatic career staff working with development co-operation has increased in relation to aid career staff, and for several years, there has been no new recruitment of the latter. This trend could result in that the MFA loses some of the technical competencies needed in development co-operation.	The MFA is keeping its focus on a general diplomatic career system. No new recruitment of staff specialized in development co-operation has been carried out. However, efforts are being made to train staff in issues such as on the DAC's poverty reduction guidelines.
Staff limitation	There is a shortage of staff in the ministry which has sometimes led to the MFA not being able to keep country strategies up to date or prepare new ones.	There is a shortage of staff particularly in the field. Appropriate country strategies are not being produced, which is due to several factors beside staff limitation.
Decentralisation	To handle the increasingly complex work in the field, more staff resources and a greater degree of delegation of authority is needed.	There is a tendency to shift decision-making from Helsinki to the embassies. However, the shortage of staff is still a major challenge.

ANNEX II

COMIC STRIPS: COMICS WITH AN ATTITUDE

Figure II-1. On getting it wrong...

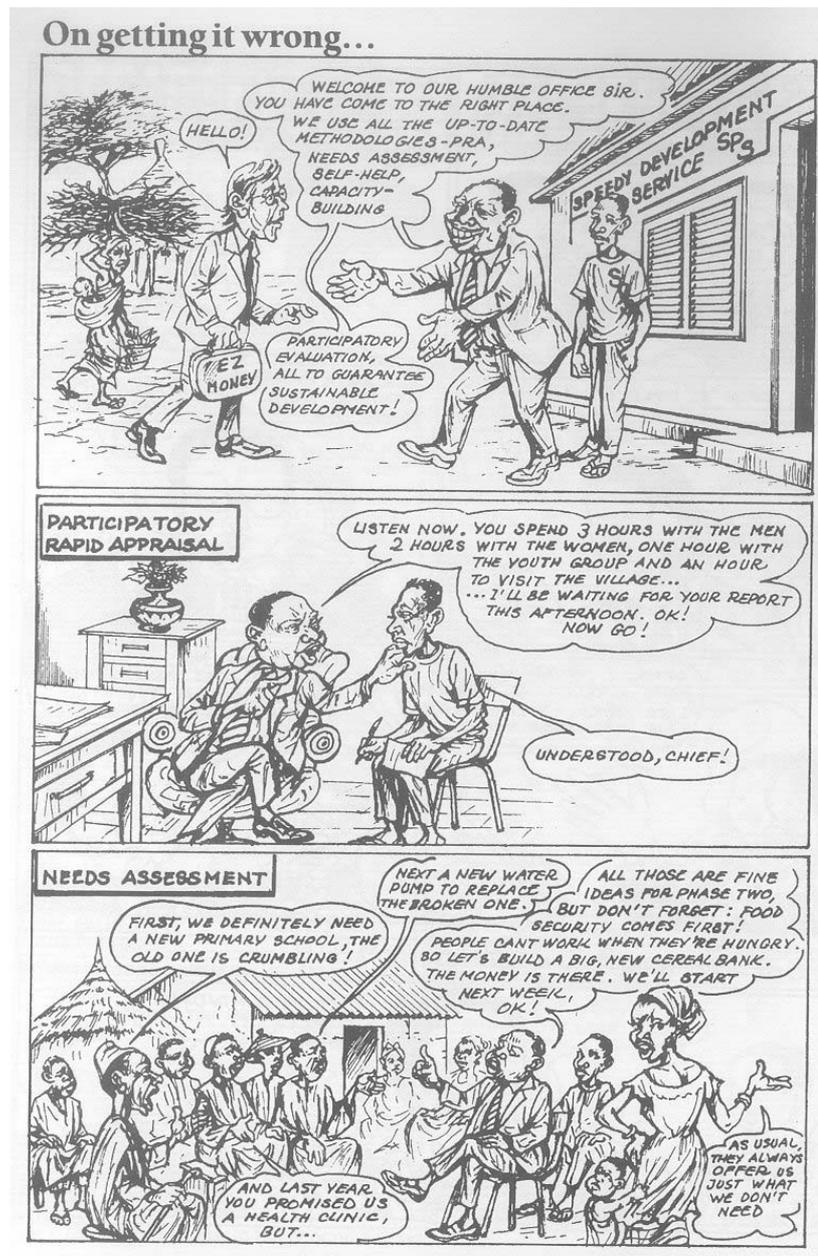
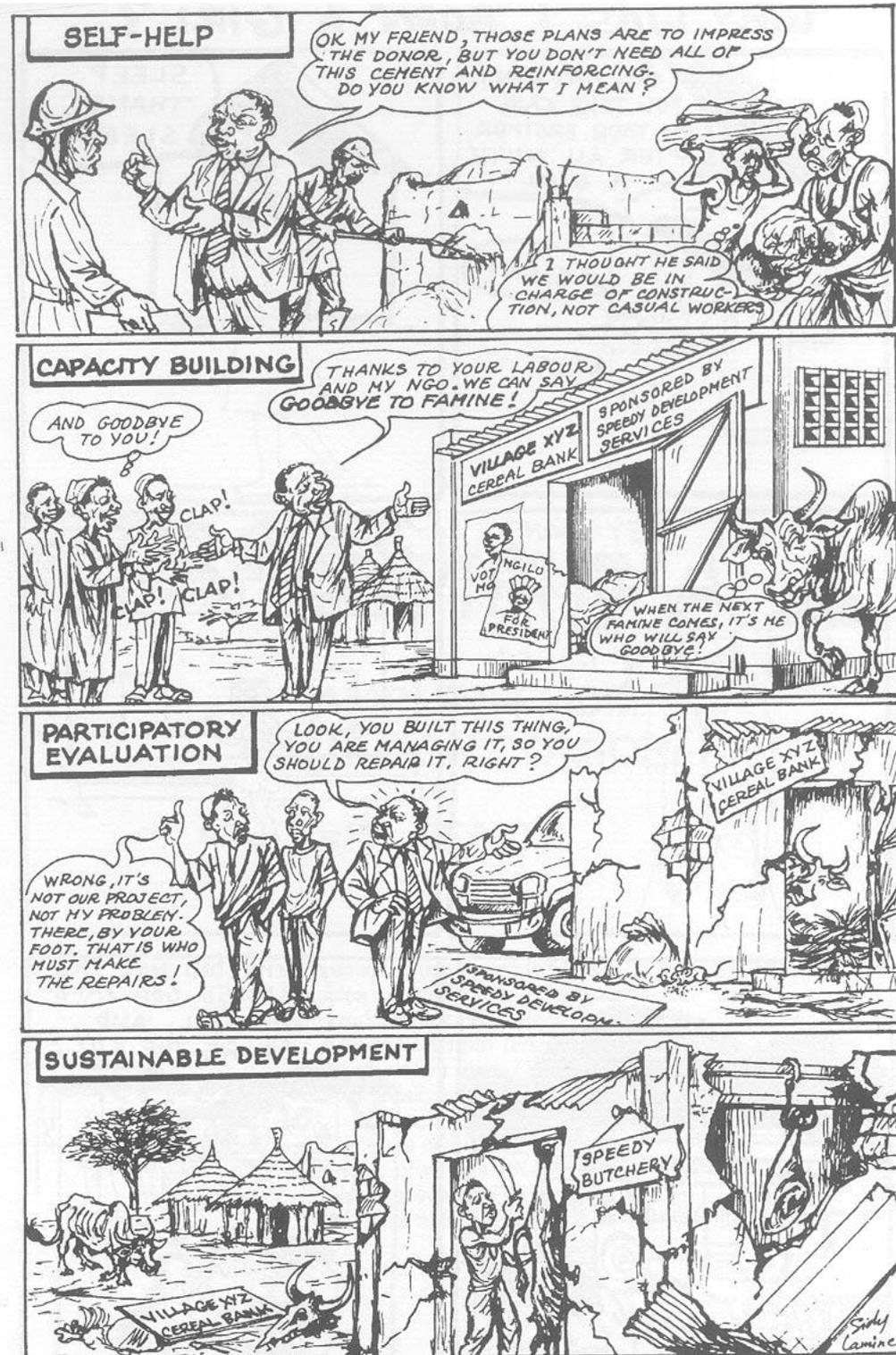


Figure II.1. On getting it wrong (Ct'd)



Source: Comics with an attitude – A Guide to the use of comics in development information, p. 24, MFA of Finland.

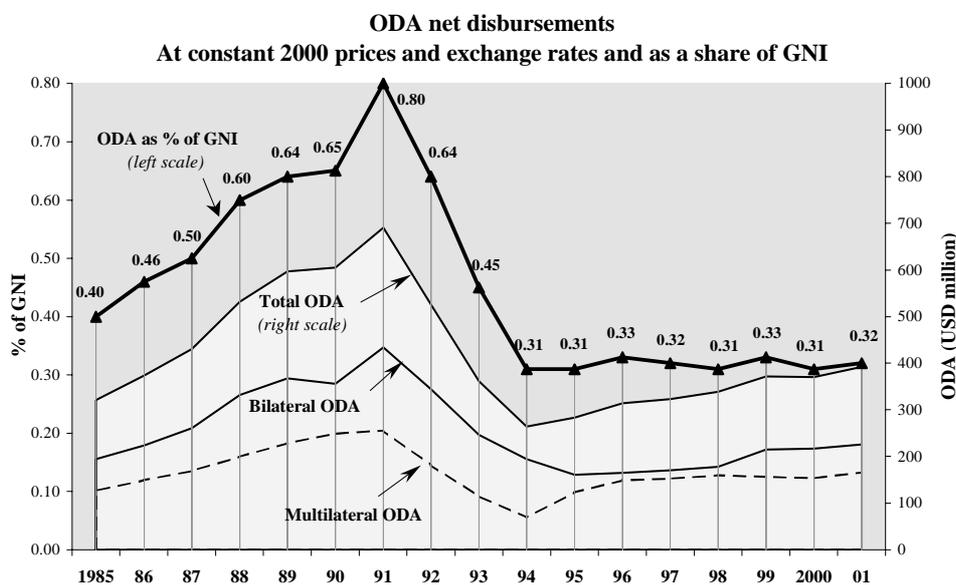
ANNEX III
OECD/DAC STANDARD SUITE OF TABLES

Table III-1. Total financial flows

USD million at current prices and exchange rates

Finland	Net disbursements						
	1985-86	1990-91	1997	1998	1999	2000	2001
Total official flows	285	993	479	531	649	431	452
Official development assistance	262	888	379	396	416	371	389
Bilateral	158	542	200	209	241	217	224
Multilateral	104	347	179	187	176	154	165
Official aid	n.a.	66	71	82	74	58	61
Bilateral		59	50	51	37	33	32
Multilateral		7	20	31	38	25	28
Other official flows	23	38	29	53	158	2	2
Bilateral	-	38	29	53	158	2	2
Multilateral	23	-	-	-	-	-	-
Grants by NGOs	20	25	10	5	6	5	9
Private flows at market terms	51	92	403	2 573	892	1 682	2 021
Bilateral: of which	51	92	403	2 573	892	1 682	2 021
Direct investment	32	69	391	257	571	1 376	931
Export credits	19	22	334	36	84	676	372
Multilateral	-	-	-	-	-	-	-
Total flows	356	1 109	892	3 110	1 546	2 117	2 481
<i>for reference:</i>							
ODA (at constant 2000 \$ million)	348	647	323	338	372	371	392
ODA (as a % of GNI)	0.43	0.72	0.32	0.31	0.33	0.31	0.32
Total flows (as a % of GNI) (a)	0.59	0.82	0.37	1.30	0.68	0.91	1.09

a. To countries eligible for ODA.



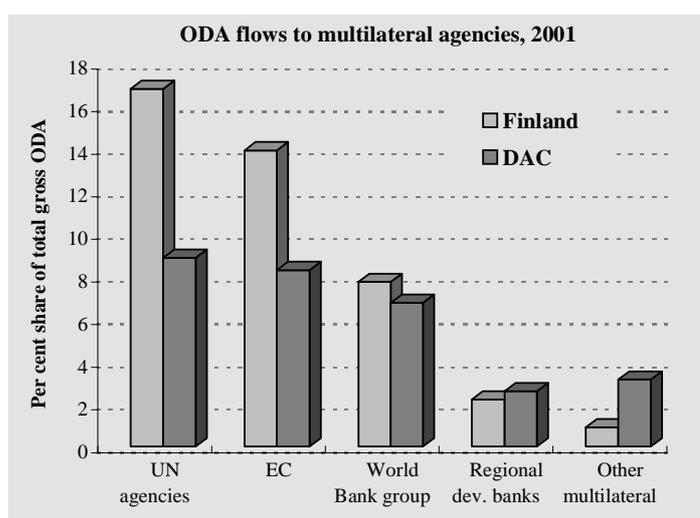
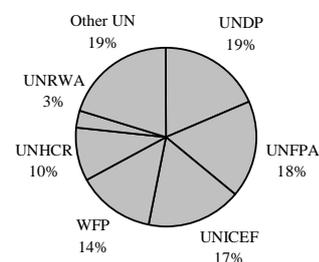
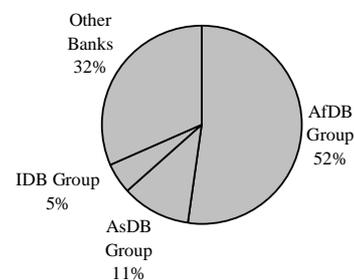
Source: OECD.

Table III-2. ODA by main categories

Finland	Constant 2000 USD million					Per cent share of gross disbursements					Total DAC 2001%
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
	Gross Bilateral ODA	180	188	258	224	234	54	54	62	59	
<i>Grants</i>	<i>174</i>	<i>185</i>	<i>255</i>	<i>219</i>	<i>230</i>	<i>52</i>	<i>53</i>	<i>62</i>	<i>58</i>	<i>58</i>	<i>56</i>
Project and programme aid	55	61	67	67	74	17	18	16	18	18	13
Technical co-operation	50	58	64	71	71	15	17	15	19	18	23
Developmental food aid	-	0	0	-	0	-	0	0	-	0	2
Emergency and distress relief	24	22	49	39	41	7	6	12	10	10	5
Action relating to debt	-	1	33	-	5	-	0	8	-	1	4
Administrative costs	17	15	16	16	16	5	4	4	4	4	5
Other grants	28	29	26	26	23	8	8	6	7	6	4
<i>Non-grant bilateral ODA</i>	<i>6</i>	<i>2</i>	<i>3</i>	<i>5</i>	<i>4</i>	<i>2</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>14</i>
New development lending	4	1	-	0	0	1	0	-	0	0	13
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	1
Acquisition of equity and other	3	2	3	5	4	1	0	1	1	1	0
Gross Multilateral ODA	153	160	157	154	166	46	46	38	41	41	30
UN agencies	68	66	65	62	67	21	19	16	17	17	9
EC	41	55	51	51	56	12	16	12	13	14	8
World Bank group	12	9	12	14	31	4	2	3	4	8	7
Regional development banks (a)	21	24	23	22	9	6	7	5	6	2	3
Other multilateral	10	6	7	5	4	3	2	2	1	1	3
Total gross ODA	332	348	415	378	400	100	100	100	100	100	100
Repayments and debt cancellation	- 9	- 9	- 43	- 7	- 8						
Total net ODA	323	338	372	371	392						
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	23	27	30	29	32						
<i>Associated financing (b)</i>	23	22	18	18	14						

a. Excluding EBRD.

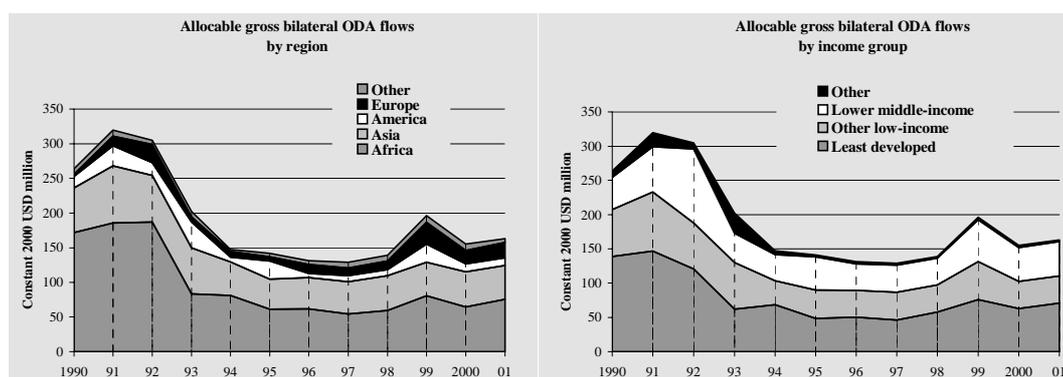
b. ODA grants and loans in associated financing packages.

Contributions to UN Agencies
(2000-01 Average)Contributions to Regional Development
Banks (2000-01 Average)

Source: OECD.

Table III-3. Bilateral ODA allocable by region and income group

Finland	Constant 2000 USD million					Per cent share					Total DAC 2001%
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001	
	Africa	55	60	81	64	76	42	43	41	41	
Sub-Saharan Africa	52	57	78	61	72	41	41	40	39	44	25
North Africa	2	2	3	4	4	2	2	1	2	3	7
Asia	46	50	49	51	49	36	36	25	33	30	41
South and Central Asia	13	20	17	18	20	10	14	9	12	12	18
Far East	33	31	32	33	28	25	22	16	21	17	23
America	9	9	26	11	11	7	6	13	7	7	15
North and Central America	7	8	25	9	8	6	5	13	6	5	7
South America	1	1	2	3	3	1	1	1	2	2	8
Middle East	8	8	10	9	6	6	6	5	6	4	4
Oceania	0	0	0	0	0	0	0	0	0	0	2
Europe	11	13	31	19	22	9	9	16	13	13	6
Total bilateral allocable	129	139	196	155	163	100	100	100	100	100	100
Least developed	46	58	76	63	71	36	42	39	40	43	26
Other low-income	41	40	55	40	40	31	28	28	25	24	34
Lower middle-income	40	39	61	50	51	31	28	31	32	31	35
Upper middle-income	3	2	4	3	2	2	2	2	2	1	5
High-income	-	-	-	-	-	-	-	-	-	-	0
More advanced developing countries	-	-	-	-	-	-	-	-	-	-	-
<i>For reference:</i>											
<i>Total bilateral</i>	180	188	258	224	234	100	100	100	100	100	100
<i>of which: Unallocated</i>	51	48	62	68	71	28	26	24	31	30	23



Source : OECD.

Table III-4. Main recipients of bilateral ODA

Finland	1990-91			1995-96			2000-01		
	Current USD million	Constant 2000 USD mn.	Per cent share	Current USD million	Constant 2000 USD mn.	Per cent share	Current USD million	Constant 2000 USD mn.	Per cent share
Tanzania	46	33	11	16	12	9	13	13	8
Kenya	33	24	8	13	10	7	12	12	8
Mozambique	26	19	6	12	9	6	11	11	7
Zambia	25	18	6	11	9	6	10	10	7
Egypt	23	17	6	10	8	6	7	7	5
Top 5 recipients	152	111	38	63	47	35	53	54	34
Ethiopia	20	14	5	9	7	5	7	7	4
Nicaragua	19	14	5	9	7	5	7	7	4
Somalia	19	13	5	8	7	5	5	5	3
Viet Nam	17	13	4	8	6	5	5	5	3
Nepal	17	12	4	8	6	4	5	5	3
Top 10 recipients	244	177	61	106	80	58	83	84	53
China	14	11	4	7	6	4	5	5	3
Bangladesh	14	10	4	6	4	3	5	5	3
Sudan	14	10	3	6	4	3	4	4	2
Sri Lanka	14	10	3	5	4	3	4	4	2
Namibia	12	9	3	5	3	3	3	3	2
Top 15 recipients	312	227	78	135	101	74	104	104	65
Zimbabwe	11	8	3	3	2	2	3	3	2
Turkey	7	5	2	3	2	2	3	3	2
Peru	5	4	1	3	2	2	3	3	2
Malaysia	5	4	1	3	2	1	3	3	2
Sis Ex-Yugoslavia unsp.	5	4	1	2	2	1	2	2	2
Top 20 recipients	345	251	86	149	112	82	119	119	75
Total (92 recipients)	400	292	100	182	137	100	159	159	100
Unallocated	145	106		56	42		69	70	
Total bilateral gross	545	397		238	179		228	229	

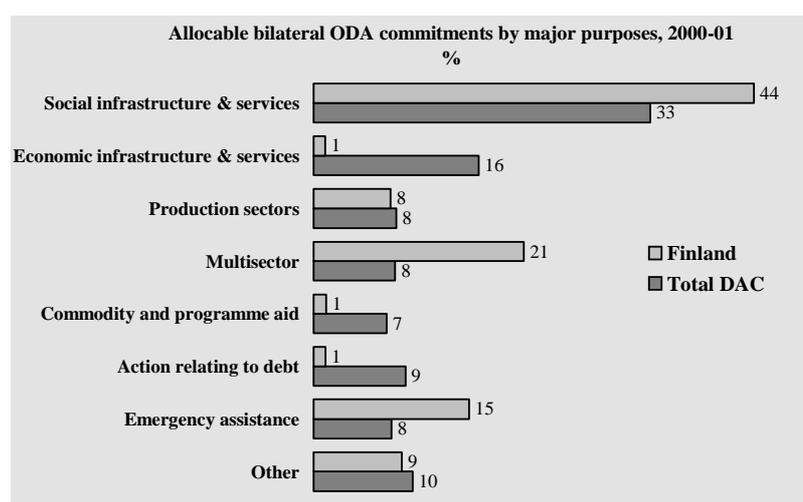
Source: OECD.

Table III-5. Bilateral ODA by major purposes

at current prices and exchange rates

Commitments, two-year averages

Finland	1990-91		1995-96		2000-01		Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
Social infrastructure & services	114	17	51	24	102	44	33
Education	24	3	11	5	21	9	9
of which: basic education	-	-	2	1	3	1	2
Health	23	3	10	5	12	5	4
of which: basic health	-	-	3	1	5	2	2
Population programmes	1	0	2	1	4	2	3
Water supply & sanitation	48	7	20	9	12	5	6
Government & civil society	13	2	5	2	37	16	6
Other social infrastructure & services	6	1	4	2	15	6	6
Economic infrastructure & services	133	19	22	11	3	1	16
Transport & storage	38	6	1	0	0	0	9
Communications	16	2	0	0	1	0	1
Energy	77	11	16	8	1	0	4
Banking & financial services	0	0	3	1	1	0	1
Business & other services	1	0	1	1	0	0	2
Production sectors	172	25	20	10	18	8	8
Agriculture, forestry & fishing	83	12	17	8	16	7	6
Industry, mining & construction	77	11	2	1	1	0	2
Trade & tourism	12	2	1	0	1	0	0
Other	0	0	0	0	0	0	-
Multisector	95	14	49	23	48	21	8
Commodity and programme aid	13	2	-	-	3	1	7
Action relating to debt	20	3	14	7	3	1	9
Emergency assistance	99	14	32	15	36	15	8
Administrative costs of donors	26	4	18	9	17	7	7
Core support to NGOs	15	2	4	2	3	1	3
Total bilateral allocable	687	100	211	100	232	100	100
<i>For reference:</i>							
Total bilateral	689	69	227	52	241	60	71
of which: Unallocated	3	0	16	4	9	2	4
Total multilateral	305	31	206	48	161	40	29
Total ODA	995	100	433	100	402	100	100



Source: OECD.

Table III-6. Comparative aid performance

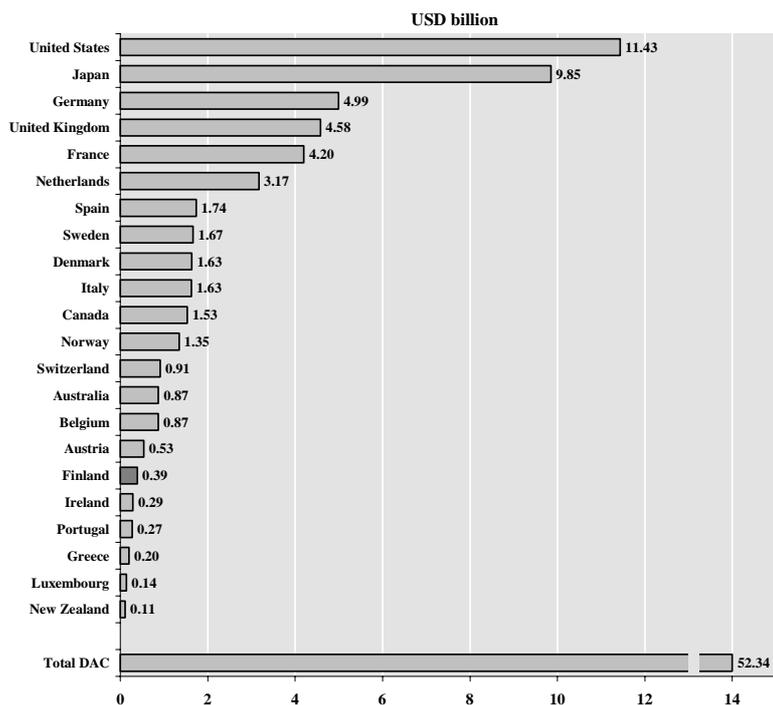
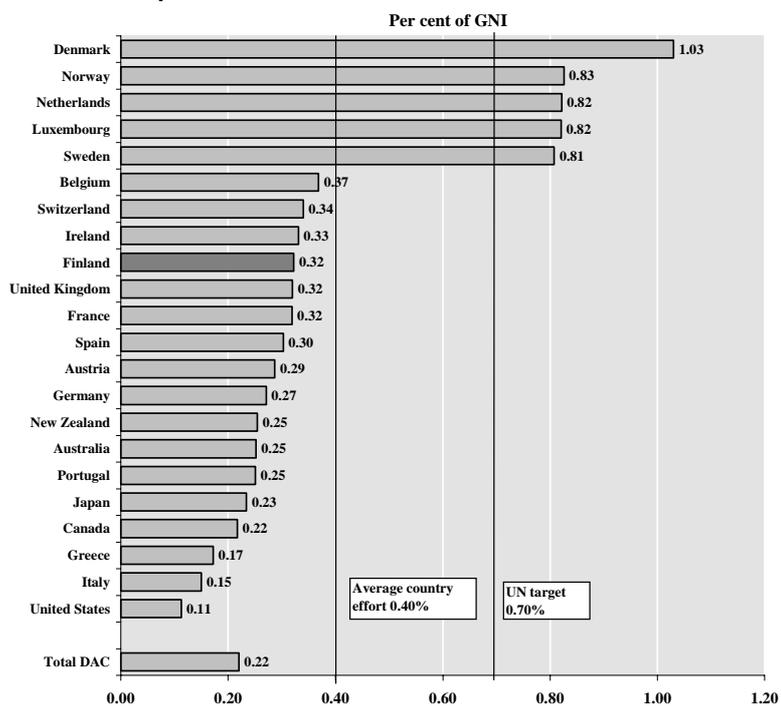
	Official development assistance			Grant element of ODA (commitments) 2001	Share of multilateral aid 2001			ODA to LDCs Bilateral and through multilateral agencies 2001		Net disbursements	
	2001		95-96 to 00-01 Ave. annual % change in real terms		% of ODA			% of ODA		2001	
	USD million	% of GNI			(b)	(c)	(a)	(b)	(c)	USD million	% of GNI
Australia	873	0.25	0.6	100.0	24.3	0.06	21.4	0.05	5	0.00	
Austria	533	0.29	0.2	90.8	35.9	18.4	18.8	0.05	212	0.11	
Belgium	867	0.37	3.5	99.6	42.1	20.1	32.4	0.12	88	0.04	
Canada	1 533	0.22	-2.6	100.0	21.7	0.05	15.1	0.03	152	0.02	
Denmark	1 634	1.03	4.4	100.0	36.7	31.3	32.4	0.33	181	0.11	
Finland	389	0.32	5.0	100.0	42.3	28.1	28.5	0.09	61	0.05	
France	4 198	0.32	-6.6	95.5	38.2	13.3	24.7	0.08	1 334	0.10	
Germany	4 990	0.27	-1.2	95.8	42.8	19.8	22.1	0.06	687	0.04	
Greece	202	0.17	8.2	..	59.1	12.5	11.3	0.02	9	0.01	
Ireland	287	0.33	11.9	100.0	35.7	14.3	50.0	0.17	0	0.00	
Italy	1 627	0.15	-2.3	99.6	72.8	34.8	27.4	0.04	281	0.03	
Japan	9 847	0.23	3.0	88.2	24.3	0.06	18.1	0.04	84	0.00	
Luxembourg	141	0.82	18.1	100.0	24.8	13.5	31.9	0.26	9	0.05	
Netherlands	3 172	0.82	5.0	100.0	29.9	23.8	30.8	0.25	214	0.06	
New Zealand	112	0.25	5.6	100.0	24.1	0.06	26.0	0.07	0	0.00	
Norway	1 346	0.83	1.7	100.0	30.1	0.25	33.5	0.28	32	0.02	
Portugal	268	0.25	6.7	94.7	31.7	6.0	42.9	0.11	28	0.03	
Spain	1 737	0.30	7.3	95.1	33.8	14.1	11.1	0.03	14	0.00	
Sweden	1 666	0.81	4.4	99.8	27.7	20.9	27.7	0.22	119	0.06	
Switzerland	908	0.34	3.0	100.0	29.0	0.10	28.5	0.10	63	0.02	
United Kingdom	4 579	0.32	5.8	100.0	42.7	24.8	34.8	0.11	461	0.03	
United States	11 429	0.11	3.2	99.7	27.5	0.03	14.8	0.02	1 542	0.02	
Total DAC	52 336	0.22	1.8	96.4	33.1	23.6	22.5	0.05	5 574	0.02	
Memo: Average country effort		0.40									

Notes:

- a. Excluding debt reorganisation.
b. Including E.C.
c. Excluding E.C.
.. Data not available.

Source: OECD.

Graph III-1. Net ODA from DAC countries in 2001



Source: OECD.

PRESS RELEASE OF THE DAC PEER REVIEW OF FINLAND

DAC ENCOURAGES FINLAND TO INCREASE THE SIZE AND FOCUS OF ITS AID PROGRAMME AND TO BUILD ON GOOD WORK ON AID QUALITY

The DAC welcomed Finland's government commitment to reach an Official Development Assistance/Gross National Income ratio of 0.45% by 2007, on the way to the internationally agreed aid target of 0.7% ODA/GNI by 2010. This will mean a doubling of the 2002 figure of USD 466 million or an ODA/GNI ratio of 0.35%, and would imply a significant increase in the rate of growth after 2007. Finland's ODA/GNI ratio ranks ninth amongst DAC members.

Following the review of Finland's aid policies and programmes, Chair of the DAC Richard Manning made the following comments and recommendations:

- **Plan for ODA increases.** Finland is encouraged to establish steady and predictable movement to the 2010 target of 0.7% of GNI through setting a specific growth path for the development cooperation budget. The Committee was encouraged by the attention being paid to the quality of the expanding programme. The DAC commended Finland's public education campaign to ensure continued public support for development issues.
- **Forthcoming development cooperation policy.** The Peer Review took place as Finland is preparing to launch a consultation leading to the writing of a white paper which it was hoped would feature poverty reduction as the overarching development goal, and would enshrine Finland's commitment to the MDG's.
- **Priorities for ODA.** The increases planned in Finland's ODA provide an opportunity for considering how its added value can be maximised in both bilateral and multilateral aid. Finland focuses its bilateral ODA on Africa (46%) and least developed countries (43%), but the aid relatively widely dispersed. The Committee saw a case for greater focus. This could include phasing out middle-income countries and concentrating on fewer low-income countries which could make Finnish bilateral aid more effective and give Finland greater influence with both partner countries and other donors. It could also include stronger focus on areas of comparative advantage. The DAC recognised that Finland already gives above-average support to multilateral organisations. The Committee encouraged the Finnish government to consider its strategy for multilateral co-operation.
- **Enhance policy coherence.** The new post of Minister for External Trade and Development Co-operation and reorganisations within the Ministry of Foreign Affairs should create synergies between trade, aid and political affairs, but there must be a strong commitment within the Ministry of Foreign Affairs to ensure that aid considerations are given appropriate weight. Finland signed the Doha Declaration, confirming its support for pro-development liberalisation of agricultural markets and recognises that the mid-term review of the CAP is an important opportunity to pursue this. Finland's interest subsidy scheme is mostly directed

Finland

to China, which is not a long-term partner country. In 2001 the scheme amounted to EUR 14 million, or 4% of total ODA. The Committee encouraged Finland to consider seriously the future of this scheme. Finland's anti-corruption measures for its co-operation programmes were seen as a useful model for other donors.

- **Improve aid management and implementation.** While Finland supports national poverty reduction strategies and ownership by partner countries, it could also benefit from having clear country strategy documents which are useful for accountability, transparency and monitoring purposes. The independence of the evaluation function and the follow up of evaluations could be strengthened. Finland has a critical shortage of staff in the field which affects the quality of its bilateral aid delivery and its capacity to work with partner countries. As Finland looks to increase its ODA over the coming years, augmenting the field staff with Finnish and local expertise will become essential for ensuring aid effectiveness.

The Finland delegation for the 17 June 2003 review of Finland's Development Co-operation policies and programmes was led by Ms Paula Lehtomäki, Minister for Foreign Trade and Development. The examiners were Denmark and New Zealand.

Participating in the Peer Review meeting as an observer was Professor Haidari Amani, Head of the Tanzanian Economic and Social Research Foundation.

DESCRIPTION OF KEY TERMS

The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with any other funding to form finance packages.

AVERAGE COUNTRY EFFORT: The unweighted average ODA/GNI ratio of DAC members, i.e. the average of the ratios themselves, not the ratio of total ODA GNI (cf. ODA/GNI ratio).

DAC (DEVELOPMENT ASSISTANCE COMMITTEE): The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its members are given at the front of this volume.

DAC LIST OF AID RECIPIENTS: The DAC uses a two-part List of Aid Recipients which is revised from time to time following decisions taken within the DAC. Part I of the List comprises developing countries (eligible to receive official development assistance). It is presented in the following categories (the word "countries" includes territories):

LDCs: Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

Other LICs: Other Low-Income Countries. Includes all non-LDC countries with per capita GNP less than USD 760 in 1998 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 761 and USD 3 030 in 1998. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 3 031 and USD 9 360 in 1998.

HICs: High-Income Countries, *i.e.* with GNP per capita (Atlas basis) more than USD 9 360 in 1998.

Part II of the List comprises "Countries in Transition"; assistance to these countries is counted separately as "official aid". These comprise (i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and (ii) more advanced developing countries.

DEBT REORGANISATION: Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, rescheduling or refinancing.

DIRECT INVESTMENT: Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of Aid Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

Finland

DISBURSEMENT: The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. They may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of loan principal or recoveries of grants received during the same period).

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable financial instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees

GRANTS: Transfers made in cash, goods or services for which no repayment is required.

GRANT ELEMENT: Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to the first repayment of capital). The grant element is calculated against a fixed interest rate of 10%. Thus the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

LOANS: Transfers for which repayment is required. Data on net loans include deductions for repayments of principal (but not payment of interest) on earlier loans.

OFFICIAL AID (OA): Flows which meet the conditions of eligibility for inclusion in official development assistance, except that the recipients are on Part II of the DAC List of Aid Recipients.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a loan, having a grant element of at least 25%).

ODA/GNI RATIO: To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, i.e. the weighted ODA/GNI ratio of DAC members (cf. Average country effort).

OTHER OFFICIAL FLOWS (OOF): Transactions by the official sector with countries on the DAC List of Aid Recipients which do not meet the conditions for eligibility as official development assistance or official aid.

TECHNICAL CO-OPERATION: Includes both (i) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (ii) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

TIED AID: Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries.

VOLUME (real terms): Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. These data show the value of aid in terms of the domestic purchasing power of a US dollar in the year specified.

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