

DEPUTY DIRECTOR
DEVELOPMENT CO-OPERATION DIRECTORATE
Director's Office

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To: DAC Delegates and Observers

Finland Mid-term Review, 25 March 2021, Helsinki – Paris

Dear Colleagues,

The week of 22 March, I conducted the mid-term review of Finland virtually, together with Emily Bosch of DCD. I would like to thank Ms. Eva Biaduet, Member of Parliament, Ms. Satu Santala, Director-General of Development Policy, and other Ministry for Foreign Affairs (MFA) officials with whom we held very constructive meetings. I would also like to thank Ms. Suvi Turja, Senior Officer, and Ms. Suvi Tuominen, First Secretary and DAC delegate, for their close co-operation in the lead up to the review. We also had rich and frank discussions with senior officials from the Development Policy Committee, Finnfund, and Business Finland.

The mid-term review focused on the DAC's 2017 peer review recommendations, and the developments that have taken place since. In particular, a comprehensive reform of Finland's development co-operation has led to strengthened results-based management tools and systems, as well as improved risk management efforts that will be finalised by the end of 2021. A [Government White Paper for Development Policy](#) was published at the end of May and will extend over several governmental and parliamentary terms. Encouragingly, it includes a target date of 2030 to reach Finland's international commitments to provide 0.7% of GNI as ODA.

I was pleased to note that Finland has already taken steps to address 10 out of 12 of the DAC's 2017 recommendations. In addition to results and risk management cited above, a few others relate to:

- Developing a strategic approach for engaging multilateral partners
- Developing a comprehensive overview of Finnish activities in long-term partner countries
- Expanding the use of existing knowledge platforms

Finland's comprehensive approach in partner countries and focus on climate change

Finland has designed publicly available country strategy and country programme documents for each of its long-term partner countries that span a period of four years. Country strategies start with an analysis of the country context and list Finland's strategic goals and how it will work to achieve these through the different diplomatic, business, development, security, and peace channels. In fact, Finland has strengthened its emphasis on peace setting up a Centre for Mediation at the Ministry for Foreign Affairs to fund peace processes at the end of 2020. Country programmes in turn operationalise the country strategies, reflecting funds that come from MFA's regional departments, listing impact areas and drawing a clear link to Finland's strategic goals, global development policy areas set out in its policy, SDG targets, and national country-level plans. As before, annual results reports of country programmes require a management response by regional departments in MFA. Civil society, private sector, and other partners funded from MFA would also be encouraged to make use of selected pooled indicators and to contribute to this annual country-level results report. I was extremely pleased to see that Finland has dealt creatively with the challenge of including all of Finland's development investments, including those of its policy departments that manage humanitarian, multilateral, and support to civil society, but also Finnfund, in a more strategic document, while using a separate country programme document to go into greater detail on its development programming. There are many lessons here for all members.

The current [Government Programme](#) confirms that Finland is politically committed at the highest level to contributing to international climate finance, and it is one of the first countries to have an Action Plan for Climate Smart Foreign Policy. Funding cuts introduced in 2015, however, weakened Finland's overall credibility and ability to influence, including on climate change, as highlighted in the [2018 Development Policy Results report](#). Current tracking of climate through the Rio markers show that in 2018-19, Finland spent a higher proportion of its bilateral ODA (22%) in support of climate change mitigation and/or adaptation than in 2015-16, but lower than the 27% reached in 2016-17. A [report](#) recently commissioned by Finland's National Audit Office with a view to increasing Finland's financial support suggests the need for a clear link between climate expenditure and the climate outcomes delivered by that investment. Indeed, two of Finland's four cross-cutting objectives for development co-operation relate to climate resilience and low emission development, and [new guidance](#) on these objectives was issued in 2020. The report also recommends identifying expenditure that can have a negative impact on climate policy. As the White Paper indicates, climate and the environment will feature more prominently across its development co-operation in the future. Finland's multilateral contributions to the Green Climate Fund, Global Environment Facility, and IFC joint climate fund complement its bilateral efforts.

Finland's ODA has started to increase again with hopeful signs for the future

Starting in 2019, Finland marked the reversal, for which it is to be commended, of a four-year decline of Finland's ODA. In 2020, Finland provided USD 1.3 billion (preliminary data), representing 0.47% of gross national income (GNI). This was an increase of 8.1% in volume in real terms, due to an increase in multilateral contributions, as well as an increase in per cent of GNI from 0.42% in 2019. Finland's ODA in 2020 included disbursements of USD 85 million in support of the COVID-19 response in partner countries, of which USD 74 million was for health-related investments. In 2019, the share of ODA allocated to LDCs was 0.14%, the same as in 2016. Current estimates for 2021 are optimistic that ODA will increase to 0.52% of GNI. It will be important to monitor how the increase in private sector instruments (through loans and investments) and climate finance will allow for an increase in ODA to its priority partner countries, 8 out of 9 of which are LDCs.

As Finland's development co-operation programme has expanded to focus more on private sector-driven instruments, we were pleased to see that the share of *de jure* untied aid covered by the recommendation (97.8% in 2018) has in fact increased since 2016, as has the share of untied aid beyond the scope of the definition (98.1% in 2018). The [2020 DAC Report on the DAC Recommendation on Untying ODA](#) confirms this good performance, but also underscores the fact that Finland does not report *ex ante* notifications for contracts above SDR 700 000, which in practice should represent a relatively limited reporting burden given the few contracts that fit this criteria. Further, although not an altogether new trend, Finland had a very high share (94.7%) of the total value of untied aid contracts awarded to national suppliers in 2017-18. While there may be a rationale for awarding certain types of contracts to Finnish suppliers, the overall very high share suggests that suppliers from other countries face informal barriers to entry in Finnish ODA procurement, such as lack of access to bidding information. Finland should in particular seek to involve more local suppliers.

Finland is a leader among DAC members in terms of instilling a results culture in development co-operation

Through an iterative process and a determined approach spurred by the 2015 budget cuts, Finland has succeeded in designing a coherent and robust results-based management system that works for its learning, direction, communication, and accountability purposes. The work that resulted in Finland's [2018 Development Policy Results report](#) and the continued focus on leading change through data have played a central role in the comprehensive reform effort. The four priority areas of the Government's development policy have been developed into "results maps", or theories of change, that show the contributions of all development cooperation modalities to the priority areas. Common indicators were selected and are used to facilitate monitoring and management. In this way, through its country strategies and programme documents, Finland is able to illustrate how its different priority and impact areas lead to change. Finland also plays an active role in the Results Community of Practice at the OECD DAC and has helped advance thinking in the DAC as to how systems can align to SDG priorities and results frameworks of partner countries. A knock-on effect of MFA's work on results over the years has been the sense of pride officials and partners take in their work and a sense of ownership of these results across Finnish society. In the future, and as it completes its next results report to parliament, I look forward to seeing how Finland links adaptive management to results in fragile and conflict-affected states and monitors the theories of change for each priority area, including on climate change and natural resources mentioned above. An open data, interactive platform and more work on internal learning and strategic planning are also planned. This will be important to ensure that the expertise in MFA is systematically shared with and transferred to partners and embassies.

Clear guidance on private sector partnerships and reinforced human resources to manage these are needed

The MFA plans to continue to work with partners like Finnfund to clarify the development objectives and results that Finland wants to achieve through private sector partnerships in each of its priority areas. This will be key to the long-awaited private sector guidance that will incorporate evidence from a 2020 independent evaluation on private sector co-operation. MFA officials have oversight of the different private sector instruments (those available via Finnfund, but also the public sector investment facility, Developing Markets Platform, and Finnpartnership) and have an important role to play in ensuring that objectives are met. Despite the increase in non-grant funding as a share of overall bilateral ODA, MFA staff resources dedicated to private sector instruments and partnerships have not increased since 2017. This gap places additional risk on MFA's role in quality assurance of private sector operations, including ensuring that these are adapted to the country context and offer sustainable solutions for developing countries, where relevant drawing synergies across programming. The future opening of a regional office for Finnfund in Nairobi has the potential to build up some of these skills related to private sector instruments within embassies in Africa.

Finnfund is a strong partner that offers a bridge between the MFA and the private sector and is clearly aligned to the objectives of Finland's development co-operation policy. A special risk guarantee instrument enables Finnfund to increase its investments to projects with high potential development impact in low-income countries. A 2018 [evaluation](#) found that investments that benefited from the instrument had more risk and more development and environment impact than Finnfund's other investments; 80% of these investments were in LDCs.

Securing and retaining development expertise is still a challenge

It is clear that attracting and retaining people with sufficient development policy and programming expertise within the MFA and in embassies remains a challenge for Finland. It is too soon to tell if an effort to improve the career prospects of development experts expected by end 2021 will help retain development expertise, or if a comprehensive development cooperation staff capacity development plan approved in 2020 will strengthen the development policy expertise of staff in different career paths. Numerous evaluations and the 2018 results report reiterate that Finland's development cooperation is most impactful when financial support is based on continuous partnerships combined with political dialogue, expertise and influencing efforts. The stakes are very high in current circumstances where some desks are especially understaffed or even unfilled. Exploring how locally employed staff might play a more prominent role if MFA systems and procedures become more accessible to them might be another critical avenue to explore.

Finland has expanded its use of existing knowledge platforms and found innovative ways of connecting officials, including through HowSpace, an interactive portal used for workshops, information sharing, and group planning. KAMPUS, the Government intranet, which now includes a development co-operation platform consolidates in one place all development policy and co-operation guidelines and best practices, allowing access to non-Finnish speakers for some areas. The recent institutionalisation of the Development Policy Committee (KPT) has allowed it to have a longer-term work programme and focus. It plays a key role in producing evidence for policy and encouraging dialogue, serving as a sounding board for the MFA.

Multilateral, civil society, and innovative partnerships are key to successful Finnish development co-operation

Given its limited human resources, it makes sense that Finland invests and relies heavily in partnerships. The recent [evaluation](#) of Finnish development policy influencing activities in multilateral organisations confirms that Finland has been very effective in contributing to significant changes in the policies and practices of multilateral organisations. These include efforts to strengthen the monitoring and evaluation capacity for UN Security Council Resolution 1325, to better reflect gender equality across a range of investments related to agriculture and climate change, and work to manage for results across a number of organisations. A multilateral strategy outlines Finland's approach by strategic area: championing gender equality, the rights of persons with disabilities, education, technology and innovation, and ensuring organisations deliver on their mandates effectively, and via organisation-specific plans, although these are not public-access documents. Planning for multilateral allocations is more long-term at the start of each four-year parliamentary plan, keeping different influencing targets in mind and allowing for adjustments within the four years.

Broadly speaking, CSOs are a significant partner for Finland's development co-operation compared to other DAC members, implementing USD 120.6 million (20%) of Finland's gross bilateral ODA in 2019, a dip from 2018. Funding levels have not

recovered to pre-2015 levels, but I was encouraged to see that the future trend shows an increase, albeit gradual. The 2017 civil society [guidelines](#) are still relevant and have at their core a priority to strengthen civil societies in partner countries. More regular dialogue between Finnish diplomatic missions and local actors would be welcome in this regard. New country strategies and programmes are more comprehensive and recognise the critical role of involving civil society in dialogue and programming, and it will be important to monitor this going forward.

The 2017 peer review found that the Discretionary Government Transfers Act had perhaps unnecessarily limited potential pooled funding opportunities for Finland, in particular in fragile and conflict situations. Since 2017, new partnerships with UN and World Bank partners, but also civil society and start-ups have been forged. MFA teams are increasingly working together early on when a new initiative and partnership are being considered for funding to determine what is possible and identify any roadblocks well ahead of time. One such challenge has been introducing a technical assistance facility to Finnfund, as many other European development financial institutions have done. This would allow Finnfund to provide specific training related to human rights and environmental risk to its clients (companies), for example. The MFA had set aside EUR 1 million for this facility in 2020; however, legal restrictions related to discretionary government transfers have so far prohibited the establishment of such a facility.

Comprehensive and clear risk management processes are part of the overall reform effort

Quality and risk management have been strengthened and operational processes made more efficient as part of the overall reform process. A risk management policy will be publicly available by the end of 2021. Much has been done to ensure that risk management procedures are built into planning, management and operational processes. Risks are identified and assessed in all phases of the project cycle, and risk factors that threaten the achievement of goals are addressed and reviewed periodically. Comprehensive country programmes now consider both risk management and mitigation measures (policy dialogue, continuous monitoring, joint programmes) at the overall country portfolio level. In the current context, the MFA and embassies have worked flexibly to propose different options for monitoring programmes, relying on local capacity and partners as much as possible and issuing clear guidance. An upgrade of information management systems will make monitoring and reporting of risks easier. A small working group in MFA is working to identify gaps and set up an action plan to work towards the DAC recommendation on ending sexual exploitation, abuse, and harassment. Training of officials took place in April both in Helsinki and embassies.

Conclusion

I was very encouraged by the progress made by Finland to address the DAC's 2017 recommendations. I was impressed by the ability of the Finnish system to respond quickly and decisively to the COVID-19 pandemic in developing countries – allocating more resources and shifting funding between development and humanitarian budget lines. The next peer review in 2023 will come at a crucial time after the Government White Paper and new country strategies and programmes have had time to take root. I look forward to hearing more about how Finland is continuing to lead on important issues and how it is continuing to work in areas where it faces on-going challenges.

Yours sincerely,



Mayumi Endoh

CC: Ms. Susanna Moorehead, DAC Chair
Mr. Jorge Moreira da Silva, DCD
Mr. Rahul Malhotra, DCD
Ms. Emily Bosch, DCD