

# **FINLAND**

Development Assistance Committee (DAC)  
PEER REVIEW



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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### The Peer Review Process

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

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

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

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from Germany and Norway for the Peer Review on 27 November 2007.

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

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

### Acronyms

DAC	Development Assistance Committee
DPC	Development Policy Committee
EC	European Community
EU	European Union
GHD	Good Humanitarian Donorship
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries Initiative
ICRC	International Committee of the Red Cross
IDA	World Bank's International Development Association
LRRD	Linking Relief, Rehabilitation and Development
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MFA	Ministry of Foreign Affairs
NGO	Non-Governmental Organisation
OCHA	United Nations Office for the Co-ordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
SWAp	Sector-wide Approach
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNMAS	United Nations Mine Action Service
UNODC	United Nations Office for Drugs and Crime
UNRWA	United Nations Relief and Works agency for Palestine Refugees in the Near East
WFP	World Food Programme

**Signs used:**

EUR Euro  
USD United States dollars

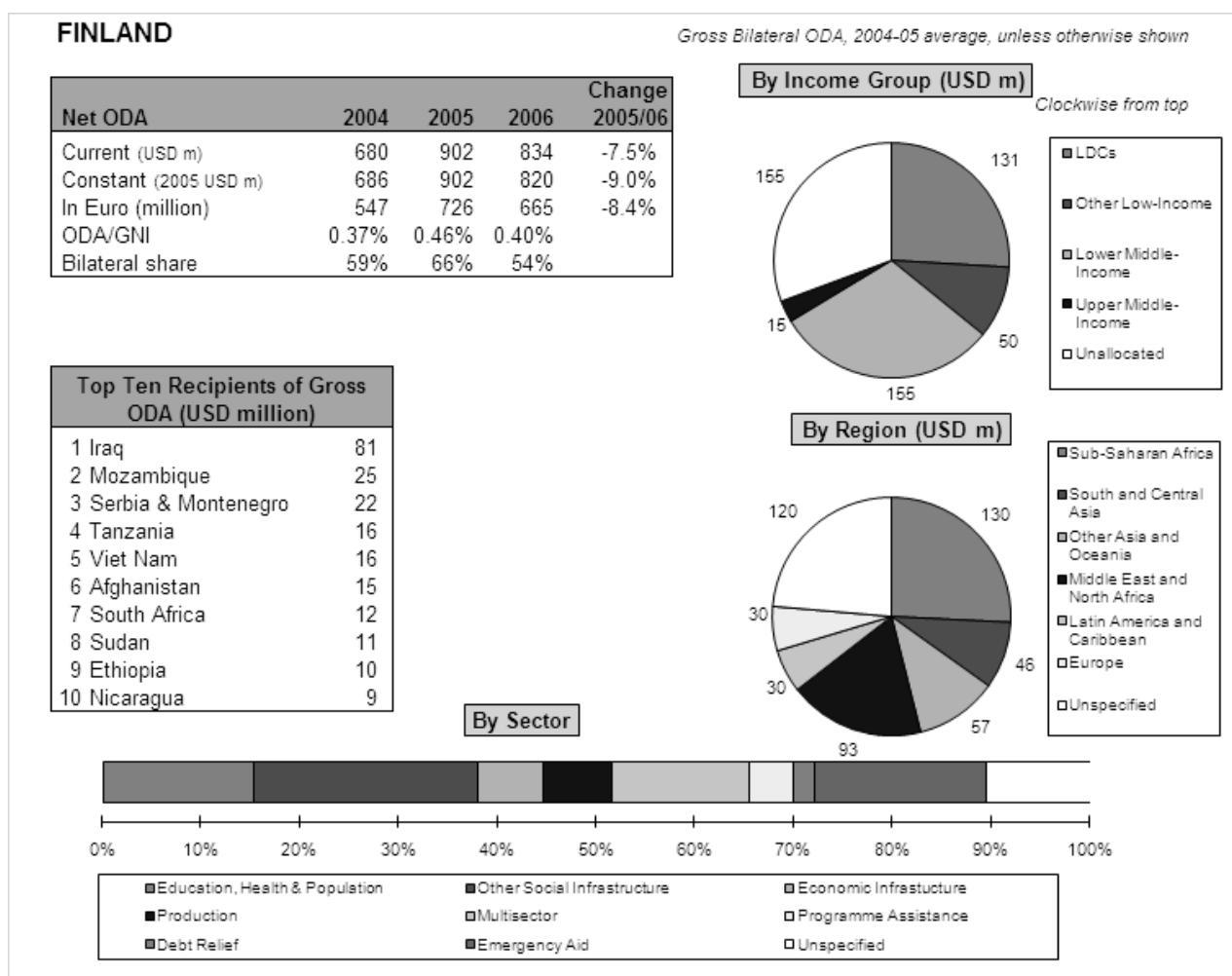
- ( ) Secretariat estimate in whole or part
- (Nil)
- 0.0 Negligible
- .. Not available
- ... Not available separately but included in total
- n.a. Not applicable

Slight discrepancies in totals are due to rounding

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

<b>2001 (FIM)</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
6.6392	1.0611	0.8851	0.8049	0.8046	0.7967

**Finland's aid at a glance**

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## THE DAC'S MAIN FINDINGS AND RECOMMENDATIONS

### **Overall framework and new orientations**

The 2007 peer review shows Finland to be a committed development co-operation actor that works closely with the EU, the Nordic and other like-minded countries and generally adheres to international best practice. Finland has clearly defined priorities confirmed in the new development policy with an increased focus on environment and climate change, crisis prevention and support for peace processes. It is also a keen proponent of policy coherence for development; it is making some progress in concentrating its aid and is committed to the aid effectiveness agenda including being a strong supporter of country ownership, alignment, harmonisation, division of labour and joint donor efforts. It has an active policy on multilateral development agencies. Finland still faces some challenges, including making progress towards its 0.7% ODA/GNI commitment, making sure its policy coherence for development and aid effectiveness policies bring real results, and ensuring that the Ministry of Foreign Affairs' development policy-related activities are properly resourced and efficiently organised.

#### ***A modest-sized, committed development actor***

Finland has a long-standing tradition and commitment to development co-operation. In 1961 the state budget included Official Development Assistance (ODA) for the first time and in 1965 the first national development co-operation office was established within the Ministry of Foreign Affairs (MFA). In 1970 Finland signalled its strong support for development co-operation through its commitment to the goal of allocating 0.7% of gross national income to development, although achieved it only once, in 1991. The current level is 0.40% (2006).

Finland's foreign policy objectives are outlined in the 2005 publication *Finland's Interest: Global Responsibility: A Strategy for the Ministry of Foreign Affairs*. These objectives comprise being influential and successful and helping to generate security in the international arena, as well as a commitment to a fair world – which includes “improving the quality of development co-operation and strengthening partnerships that favour sustainable development”.

Policy on development co-operation has been guided by the 2004 *Government Resolution on Development Policy* which contains priorities such as the Millennium Development Goals (MDGs), poverty reduction, policy coherence, sustainable development, country ownership, predictability and transparency. In late 2007, the government released a new policy statement maintaining the 2004 policy's over-arching goal of poverty reduction and commitment to the MDGs, while also prioritising sustainable economic, social and ecological development and adding a timetable for reaching 0.7% ODA/GNI. The policy also emphasises rural and regional development, initiatives for innovative funding mechanisms and aid effectiveness, the division of labour, and an increased focus on environment, climate change, crisis prevention and supporting peace processes. In implementing the new policy, Finland needs a prudent approach for establishing clear and coherent objectives. It should ensure clear criteria for the selection of partner countries and include sufficient flexibility to react according to changing circumstances at the field level.

Following the last peer review in 2003, Finland has made progress on most of the findings and recommendations. Particularly noteworthy are the government's commitment to strengthen policy coherence for development and the promotion of the aid-for-trade agenda (both also prominent topics of Finland's EU agenda), the explicit commitment to poverty reduction, the reduction of the number of long-term partner countries, and the efforts to improve aid effectiveness.

### ***Making full use of the European Union and collaboration with the Nordics and other like-minded donors***

Finland's close collaboration with its European partners is an important factor in its development co-operation policy. The government both engages actively in the EU, and with Nordic and like-minded countries to promote its policy priorities, and draws on the work of these groups to develop its own approaches and implement its activities, a judicious tactic for a small donor and EU Member State. Finland took over the presidency of the EU in the second half of 2006. Despite being a huge strategic and administrative challenge for small Member States, Finland was perceived by most commentators to have acquitted itself well in promoting development policies. In particular, the Finnish Presidency focused on and made progress in four main areas: i) securing agreement on the development co-operation instrument;<sup>1</sup> ii) contributing to the initial work leading to the EU's *Code of Conduct on the Division of Labour*; iii) advancing the aid-for-trade agenda through the first ever joint trade and development Council meeting; and iv) increasing the priority given to policy coherence for development.

### ***Good public awareness results, but a strategy is required***

The level of public support for development in Finland is on a par with other EU Member States with 89% of Finnish people saying they think development co-operation is important but only 8% are familiar with the MDGs.<sup>2</sup> However, Finland does not have a strategy for public awareness. A commitment to a multi-annual communication strategy is included in the new 2007 development policy. Producing a strategy and implementing it will be an important step in raising awareness and securing the necessary support for the scaling up of aid envisaged for the years to come. Furthermore, the Unit for Development Communication would benefit from better communication and information within the MFA. The unit could also profit from doing more on identifying and targeting specific groups such as parliament, media, local authorities, opinion leaders and youth groups.

## **Recommendations**

- The Committee noted that the new development policy (2007) maintains the over-arching goal of poverty reduction and commitment to the MDGs. In implementing it, Finland should maintain a focus on aid effectiveness, environment and climate change, and conflict prevention and fragile states, while promoting selected new policy initiatives.
- The DAC commends Finland for using the EU to take forward certain policy priorities such as the work on the division of labour. As a modest sized donor, Finland should continue to lean towards the EU and Nordic Plus groups and support joint initiatives (such as shared analysis and joint ventures) in order to reduce duplication of activities and transaction costs across donors.

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1. One of the main development financing instruments of the EC.  
2. According to the 2007 MFA opinion poll.

- Based on the mandate in the new 2007 development policy, the MFA should produce, and implement, a multi-annual public awareness strategy.

## Promoting policy coherence for development

### *Positive steps taken to put structures in place, but continued practical progress is required*

Policy coherence has had a higher profile in Finland's development co-operation system since the 2003 DAC peer review. Most notably, the new Government's 2007 Programme contains an explicit commitment to policy coherence for development. On a more practical level, Finland has made progress on establishing formal organisational structures for tackling policy coherence for development. In the MFA the main focal point is the Unit for Sectoral Policy within the Department for Development Policy. The Development Policy Steering Group (director-general level) can be a forum for discussing policy coherence for development, but this appears to occur on an *ad hoc* basis. The MFA has also recently created an advisor post tasked solely for policy coherence for development – a positive step. Across government, there are thematic working groups on various policy coherence for development issues, but they tend to vary considerably in their mandate, working methods, activity and ultimately, success. In reality, trade, security and migration have been the subject areas where Finland has put most emphasis.

There have been two other important institutional developments since the previous peer review. Firstly, in 2003 Finland introduced the position of Minister for Foreign Trade and Development in the MFA, a positive step to ensure greater coherence in tackling these two important, and at times conflicting, policy areas. Secondly, in the same year, a Development Policy Committee, comprised of parliamentarians, academics and expert civil servants was created<sup>3</sup>. The Committee focused in particular on policy coherence for development, and has produced helpful advice and recommendations that have generally been acted upon.

The government places great emphasis on its internal EU coordination mechanism which is used to formulate agreed positions across ministries for working with, and influencing, the EU, and suggests that this mechanism *de facto* deals with policy coherence for development. But this apparatus is not designed specifically for policy coherence for development nor can it guarantee that all development issues are taken on board in all subject areas to the same degree. Finland also acknowledges different levels of progress in different policy areas. For some topics, such as environment, taking account of developing country concerns is already routine, whereas in other policy areas (such as agriculture) inter-ministerial dialogue hardly takes place concerning the development perspective.

## Recommendations

- The general declaration in the Government's Programme, and the more concrete commitment to policy coherence for development made in the new development policy should be translated into clear mandates for bodies dealing with policy co-ordination between ministries.
- Finland's focus on the EU to further policy coherence is well-judged. Nevertheless, this should not divert attention from improving domestic policy coherence and finding practical solutions. The second, recently formed, Development Policy Committee should continue to

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3. The Development Policy Committee 2003-07 was the latest in a long line of advisory bodies instituted by Finland, and a second DPC running from 2007-11 was created in September 2007.

have a mandate to initiate proposals and promote thinking on policy coherence for development.

- The government should make full use of the annual reporting procedure on policy coherence for development to Parliament to enable it to monitor how policy coherence for development is promoted, and measure results in achieving coherence.

### **Aid volume and distribution**

#### ***Finland's ODA budget is increasing but the 0.7% target has been deferred***

In 2006, Finland's net ODA amounted to USD 834 million, representing 0.40% of its GNI and placing it eleventh amongst DAC member countries. Finland's ODA doubled in real terms between 1994 and 2004 and the ODA/GNI ratio has been increasing, albeit slowly, since 2000. Growth is likely to continue thanks to an 11% increase in the ODA budget for 2007, which will bring the ODA/GNI ratio to 0.43%.

Finland has committed to meet the 0.7% ODI/GNI ratio by 2015 (the EU Member States' timetable), which will require significant budgetary effort; it should be noted that the target date has changed from the previous commitment to reach 0.7% by 2010. Based on current projections of economic growth, the budget framework would enable Finland to attain an ODA/GNI ratio of 0.51% in 2010 and thereby comply with the EU mid-term target.<sup>4</sup> Unlike during the previous administration, the 0.7% target is not explicitly stated in the budget framework document<sup>5</sup>. However, the new development policy paper re-confirms Finland's commitment to the EU targets. The MFA needs to prepare a concrete plan for scaling up as recommended in the 2003 DAC peer review and also by the parliament, and to ensure the target is met even if GNI growth turns out to be faster than anticipated under the current budget plan to 2011. Moreover, it should strive to make use of the momentum created by the recent debate to ensure the plan also covers the large increases of roughly 10% per year required between 2011 and 2015.

Finland disburses 40-45% of its gross ODA through multilaterals, based on multi-year funding commitments and with over 90% of this funding in the form of core contributions. Finland has developed policy papers outlining principles and priorities for its multilateral co-operation but like other donors, it would like objective assessments of multilateral agencies' effectiveness to inform its allocation decisions and policy dialogue. Scaling up aid is likely to provide scope for increased funding to multilaterals, and this may enable Finland to increase its influence on the policies of the multilaterals by concentrating additional funding on selected multilaterals.

#### ***Efforts to concentrate on fewer countries and sectors risk being diluted by other policy priorities***

Finland is commended for acting on the advice of the previous peer review and successfully reducing the number of long-term partner countries from 11 to 8 and also for adopting clear and appropriate transition strategies where necessary. However, bilateral ODA gross disbursements to these eight countries fell from 40% in 1999-2000 to 28% in 2004-05 (partly, but not exclusively, due to high levels of Iraq debt relief), and the total number of recipient countries increased from 90 in 1999-2000 to 102 in 2004-05, largely due to NGO projects having a wider geographical spread. Finland's aid to Least Developed Countries (LDCs) as a percentage of total ODA fell from 49% in

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4. The EU 15 individual country targets are 0.51% for 2010 and 0.7% for 2015.

5. This document is the Decision on Government Spending Limits 2008-11(Ministry of Finance, 2007).

2003 to 32% in 2005 and aid to sub-Saharan Africa fell from 44% in 2003 to 28% in 2005. While the budget proposal for 2008 forecasts the share of aid to LDCs to rise back up to 48% and the share to sub-Saharan Africa will increase to 57%, it remains to be seen whether these levels can be reached if allocations continue to be made from other budget lines and/or exceptional allocations to countries recovering from crisis.

Finland has done better on sector concentration. In its long-term partner countries, Finland's objective is to focus aid on three sectors at most (in addition to providing general budget support). Concentration has increased in all countries. Between 2000 and 2005, over three-quarters of total aid (excluding debt relief and humanitarian aid) was allocated to the selected priority sectors in five of the eight countries. In two of the three other countries, priority sectors received over half of total aid.

### ***Cross cutting issues remain a priority***

Finland has identified gender equality, environment and vulnerable groups as three key horizontal issues, as well as highlighting HIV/AIDS, good governance and information, communication and technology as other broad based topics of importance. Internal policy papers on gender (2003), environment (2007), disability (2003), HIV/AIDS (2004), information, communication and technology (2005) have been produced to help mainstream cross-cutting concerns into project and programme interventions. However, these cross-cutting issues are not yet fully mainstreamed. Finland also gives support to NGOs to directly address these issues.

### **Recommendations**

- The Committee welcomes Finland's renewed commitment to reaching the EU agreed targets of 0.51% by 2010 and 0.7% ODA/GNI by 2015 at the latest as stated in the new development policy. Current plans for reaching the targets are based on relatively conservative estimates of growth. Therefore the commitment should remain firm even if economic growth is greater than predicted. Finland would benefit from a plan for reaching the target in 2015, to be updated along with economic forecasts.
- Finland is encouraged to retain its earlier 60% target of bilateral funding to long-term partners. It should monitor the share of bilateral country and regional co-operation in order to avoid a decrease and hence *de facto* fragmentation.
- Finland is encouraged to continue its policy of providing core contributions to multilateral organisations. Contributions to multilaterals should be a key consideration in the strategy for scaling up. The policy on multilaterals should be based on performance and used in policy dialogue and to inform decisions on funding allocations.
- Although Finland has policies on cross-cutting issues and guidelines on their implementation, there is still a need to ensure these guidelines are systematically applied in the dialogue with partners on projects and programmes.

### **Aid management and implementation**

#### ***Getting the organisation right and reducing centralisation***

The MFA has characteristics of a matrix system. It has 12 departments, 9 of which are considered to handle some aid. It is questionable whether the nine departments have sufficient expertise to deal with development co-operation, and ensuring clear communication and the consistent implementation

of policy and procedures is a challenge. There is also a risk of duplication of activities (for example between the Department for Development Policy and the Department for Global Affairs) and transaction costs in terms of time and effort when co-ordinating across many units in different departments appear to be high.

Decision-making is highly centralised and appears administratively burdensome. Projects and programmes have to be submitted by the project officer to management and/or the Quality Assurance Board for guidance and agreement a considerable number of times during the project management process, and every project above EUR 200 000 must be approved by the minister. This low threshold and high level of internal accountability may also cause delays and difficulties when Finland is participating in joint programmes and budget support. The MFA needs to consider greater decentralisation to empower embassies to decide how to implement the country programmes within an agreed framework laid out by headquarters.

### ***Increasing accountability and increasing staff skill levels***

To increase accountability, Finland introduced performance based budgeting in the early 1990s. The development co-operation budget proposal outlines “operational performance targets” and specifies the indicators for monitoring budget execution. A “financial status report” describing how well performance targets have been met is submitted to parliament at the same time as the budget proposal. It is unclear how the current system of performance targets is being used by managers to improve Finland’s development co-operation impact or whether proper channels for feedback exist. In Vietnam, the embassy went a step further and outlined a results reporting system using 40 indicators monitoring the country strategy. However, the Vietnam experiment could be followed up and applied broadly in a simplified and more realistic way.

A second accountability issue is the position of the audit and evaluation function within the MFA. The MFA should consider the State Auditors’ advice that the Unit for Evaluation and Internal Audit, currently located within the Department for Development Policy, should be placed in an independent position, to guarantee no conflict of interest. The MFA should also consider whether the development co-operation internal audit function should sit within the central unit for internal audit rather than in its present position.

Staff capacity and skills have increased since the previous DAC peer review through the recruitment of technical experts at headquarters and locally contracted experts in the embassies. However, a significant share of development co-operation work is still performed by diplomatic Foreign Service officials with limited development co-operation experience or training.

### ***Committed to the aid effectiveness agenda***

Finland is committed to the aid effectiveness agenda and the MFA includes progress on aid effectiveness in its Annual Statements to Government, but needs to ensure that it fulfils its pledge to update its current 2004 *Harmonisation Action Plan* this year to include Paris Declaration commitments. Within the MFA, aid effectiveness is a priority, has a strong profile and staff awareness appears to be high. The MFA emphasises that its country programmes are based on partner country national poverty reduction strategies and are discussed every two to three years in high-level bilateral consultations. Although not a formal country strategy process, it is an intensive and highly cooperative approach supportive of country ownership. However, Finland could make greater use of national public financial management and procurement systems.

Finland actively pursues increased co-ordination and harmonisation, and as a member of the Nordic Plus group it has been involved in progressing ways of working together, helping to develop a number of operational tools including guides on joint financing arrangements, joint procurement policy and delegated co-operation. Finland has begun participating in delegated co-operation arrangements such as with Norway in Sudan, while it generally seems to maintain an emphasis on visibility for Finland's contributions. Within the EU, Finland should be commended for contributing to the initial work during its presidency which led to the *EU Code of Conduct on the Division of Labour*.

### ***The untying of aid, and concessional credits***

Finland fully complies with DAC requirements to untie all aid to LDCs. However, contrary to the recommendation of the 2003 peer review, Finland decided to continue its concessional credit scheme (a form of financing which is particularly relevant to middle-income countries and that is tied). It considers concessional credits to be a way to involve the Finnish business sector in development co-operation, and a useful instrument for middle-income countries where Finland's grant-based aid is being gradually phased out. A new policy on concessional credits was approved in 2005 and Finland's use of concessional credits is in line with OECD rules, but a system of *ex-post* evaluation of the developmental impact of these credits should be put in place.

### **Recommendations**

- The reorganisation of the development co-operation structure in the MFA should ensure clear lines of accountability, reduce the high transaction costs and clarify the policy and implementation functions among and within departments. Finland should delegate more decision-making to embassies, for project approval and results reporting. The MFA should build upon and simplify earlier efforts to develop results-based management systems.
- It will be important to ensure that human resources are adequate to manage the programme effectively as Finland increases its aid: any staff reductions need to be considered in this context.
- The MFA should create and implement a human resources policy for the development co-operation function which should focus on increasing development co-operation skills through recruiting experts and strengthening the training for the diplomatic, non-development specialist, cadre, and to ensure that technical experts receive systematic training on MFA regulations, and practices and are fully integrated into MFA structures.
- The Unit for Evaluation and Internal audit should be moved out of the Department for Development Policy in order to ensure strict independence.
- The MFA is commended for initiating the work on the *EU Code of Conduct on the Division of Labour* and is encouraged to remain at the forefront of practical implementation of the code. The MFA should strengthen its participation in joint working arrangements, and delegated co-operation, seeking practical progress when possible. Finland should update its aid effectiveness action plan.

## Special themes

### *Room for greater clarity on capacity development*

Finland shares the general donor community and DAC view that capacity development is essential for successful development. However, the concept of capacity development receives little explicit attention and the term appears only sparingly in MFA strategic and policy documents or guidance notes. In most of Finland's interventions capacity building is an important implicit objective but there is no specific strategic approach to the issue.

### *Increasing attention on fragile states, conflict prevention and security system reform*

Finland is engaged in over 20 fragile states (receiving one fifth of its net ODA) for the most part through support to multilateral organisations, multi-donor programmes and international non-governmental organisations, and is currently planning to put a new emphasis on crisis prevention and support for peace processes. Finland is directly engaged in some fragile and conflict-affected countries, such as Iraq, Afghanistan, Sri Lanka, and Sudan. However, Finland does not have an explicit policy for fragile situations.

Security system reform is a new area for Finland, and some progress has been made with Finland adhering to the EU concepts for security sector reform 2005-06 and DAC *Guidelines on Security System Reform 2005*. Finland could work with, and learn from, other donors who have a track record in this area, continue channelling assistance through multilaterals and multi-donor trust funds, and consider delegated co-operation arrangements.

## Recommendations

- The MFA's programme guidelines provide some useful advice on capacity development, but there is room for further direction on how to implement the advice, including how to conduct analysis, align support with partner country objectives and strategies, and implement activities to develop capacity. The MFA should consider how to make more systematic use of lessons from capacity development successes and failures, and how to enhance and prioritise capacity development in the guidelines by making use of the OECD's reference documents.
- Finland could develop an explicit policy for engagement in fragile situations, including a more comprehensive inter-ministerial approach. Finland should work with other donors to identify opportunities for strategic partnerships and under-aided sectors or regions where Finland has specific expertise while also continue channelling assistance through multilateral institutions and multi-donor trust funds.

## Humanitarian aid

In April 2007, the government published revised guidelines for humanitarian assistance that are based on the Good Humanitarian Donorship initiative. The Humanitarian Aid Unit is located in the Global Affairs Department and the share of humanitarian aid is normally between 10-15%<sup>6</sup> of the overall development co-operation budget.

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6. These figures include both bilateral and multilateral contributions.

Seventy percent of Finland's humanitarian aid budget is allocated to on-going crises at the beginning of the year and the remaining 30% is allocated towards the end of the year, unless required for unforeseen emergencies. For acute crises the Humanitarian Aid Unit can get additional funding from unspent funds from the development co-operation budget or, in exceptional cases like the South-East Asian tsunami, parliament can allocate extra-budgetary resources. The unit can respond quickly to UN flash appeals by obtaining the minister's authorisation verbally. However, a 2005 evaluation of Finnish humanitarian assistance found the decision-making process for "non-natural disasters" complex and potentially cumbersome and slow, and recommended that the procedure be "accelerated and simplified".

Key characteristics of the Finnish humanitarian aid programme is that it is disbursed largely through multilateral channels, a fairly small number of organisations, and pooled funds such as the Central Emergency Response Fund. The concentration of funding on a small number of large humanitarian aid organisations is pragmatic and efficient given the size of the Humanitarian Aid Unit, and providing core funding and a low level of earmarking is seen as good practice. Also, the new humanitarian aid guidelines place great emphasis on the importance of linking emergency response with rehabilitation and development activities.

Finland does not undertake field assessments of humanitarian aid partners and has had limited involvement in jointly funded evaluations. The 2007 humanitarian aid guidelines highlight the inadequate monitoring of the effectiveness of aid delivery; hence the unit has recruited a special monitoring and evaluation advisor.

## **Recommendations**

- The Committee commends Finland for channelling its humanitarian aid through a limited number of multilateral and international organisations, and encourages it to continue this pragmatic approach. The MFA should streamline current decision-making procedures for humanitarian aid to reduce delays in acute emergencies. It should establish how crisis prevention, disaster preparedness and recovery activities will be funded and how the linkage will be co-ordinated between the humanitarian and geographical departments.
- In order to obtain more direct feedback from Finland's humanitarian operations, it may be helpful for the government to participate more in joint evaluations and field visits with other donors.

## SECRETARIAT REPORT

### *Chapter 1*

#### **Strategic Foundations and new Orientations**

##### **The foundations of Finnish development co-operation**

Finland has a long-standing tradition and well-established commitment to development co-operation. In 1961 the state budget included Official Development Assistance (ODA) for the first time, and in 1965 the first national development co-operation office was established within the Ministry of Foreign Affairs (MFA). In 1970 Finland continued to signal its strong support for development co-operation through its commitment to the goal of allocating 0.7% ODA of gross national income (GNI) to development. However, the country has achieved this target only once (in 1991).

Finland's development co-operation is not under-pinned by any specific legislation; instead it is based on annual state budgets and guiding stipulations/documents. Traditionally, cross-party political support and public backing ensures it remains on the Finnish policy agenda.

Since the previous peer review in 2003, the Finnish political situation and the context in which development co-operation has evolved, and continues to evolve. In 2005, partly in response to increasing globalisation, including security issues, the MFA published its foreign policy strategy and principles in *Finland's Interest – Global Responsibility: A Strategy for the Ministry of Foreign Affairs* (MFA, 2005b). This outlines five strategic goals: i) an influential Finland in the international community; ii) an international community generating security; iii) a fair world, including "improving the quality of development co-operation and strengthening partnerships that favour sustainable development"; iv) a successful Finland; and v) an open and service-orientated MFA. This also saw the broadening of Finland's development co-operation policy to include greater interest in conflict prevention and fragile states (Chapter 6). This has been accentuated with the election of the new government in April 2007 whose interest lie in maintaining a consistent focus on development co-operation within foreign, security and defence policy.

Finland's first development co-operation strategy was published in 1993 followed by a policy outline of the government's relations with developing countries in 1996 and an implementation plan of the policy outline in 1998. This culminated in the government adopting a White Paper on development policy in 2001 (MFA 2001a). Its headline goals included poverty alleviation; prevention of global environmental threats; and promotion of equality, democracy and human rights. The current guiding document is the 2004 *Government Resolution on Development Policy* (MFA, 2004a). This was an important paper written after the previous DAC peer review. It included priorities such as the commitment to the Millennium Development Goals (MDGs), policy coherence, a rights-based approach, sustainable development, comprehensive financing for development, public/private/civil society partnerships, country ownership, and predictability and transparency.

##### **The New Development Policy Paper 2007**

The government released a new development policy paper in late 2007 based on the government's written *Programme* (Prime Minister's Office, 2007). The main priorities of the 2004

*Government Resolution* have been retained – *i.e.* the commitment to poverty reduction, the MDGs and policy coherence. There is also more emphasis on other key issues including a renewed commitment to reaching 0.7% ODA/GNI, and priority given to sustainable economic, social and ecological development. Priority is also given to the issue of the division of labour among donors, as well as to environment, climate change, crisis prevention and supporting peace processes. In implementing the new policy, Finland needs a prudent approach for establishing clear and coherent objectives.

While acknowledging the increasingly complex global agenda and role of development co-operation, the government maintains the over-arching goal of poverty reduction and continue to progress new initiatives such as aid effectiveness, based on the Paris Declaration 2005. Finland should outline, using unambiguous targets and objectives, a forward-looking Finnish development policy promoting high-quality and results-oriented contributions towards the global development agenda.

### **Policy decision-making**

Finland's development co-operation is “part of foreign policy”<sup>7</sup> and is essentially implemented by the MFA (Figure 1). The development co-operation function is integrated within MFA's structure, with one horizontal department wholly mandated to development (the Department for Development Policy), another partially devoted to development (the Department for Global Affairs) and also a number of geographical departments covering the entirety of bilateral relations, including development, but also wider political, trade and consular issues (Chapter 4). In 2003 the government appointed a minister with joint responsibility for both foreign trade and development, driven partly by policy coherence for development concerns. Finland considers this approach to have been successful and it is set to continue under the current government.

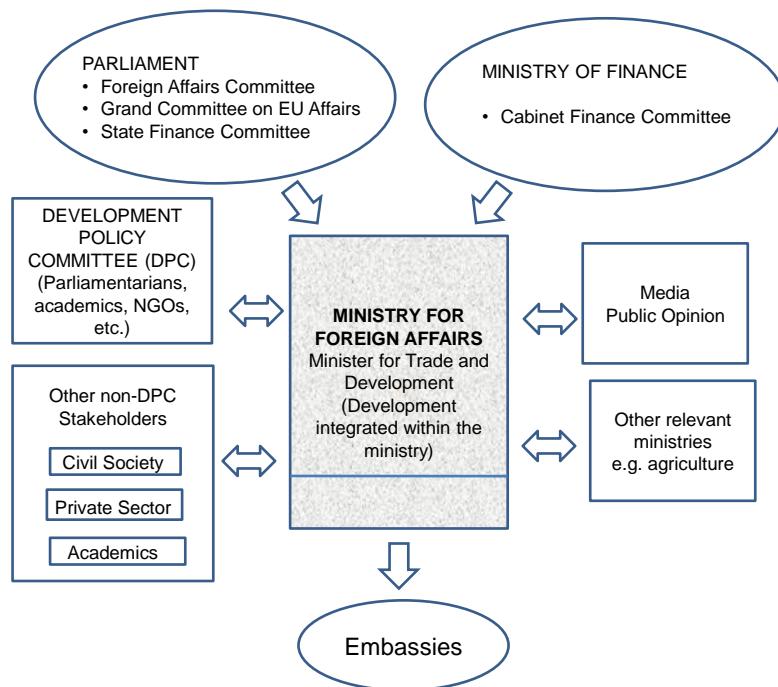
#### *Parliament and the Development Policy Committee*

Parliament and the Development Policy Committee (DPC, Box 1) are key actors in development co-operation (along with other relevant ministries, which is particularly important for policy coherence, see Chapter 2). Parliament approves the annual budget for development co-operation and monitors progress through three committees: the Foreign Affairs Committee, the Grand Committee on EU Affairs and the State Finance Committee (Figure 1). There is no single development specific committee. The MFA is also required to submit an *Annual Report on Finland's Development Co-operation* (MFA, 2006b) to parliament. However, development co-operation matters are not debated in plenary, although parliament has on many occasions stressed that Finland should fulfil its ODI/GNI commitments. Development co-operation has general cross-party support and is often perceived to be a “technical” issue for discussion by officials rather than a “political” issue for parliamentarians.

#### **Box 1. Finland's Development Policy Committee**

Finland has a history of setting up development co-operation advisory bodies composed of a cross-section of civil society including parliamentarians, trade unionists, NGOs, academics and expert members from the civil service. The latest incarnation was the Development Policy Committee, appointed by the previous government in 2003 for a four year term. Its mandate was to monitor the levels of public funding and the quality and effectiveness of development co-operation, including through policy coherence. It made proposals and recommendations and produced an annual statement, *State of Finland's Development Policy* (DPC, 2005, 2006, 2007) discussed publicly and in parliament. The Committee has fulfilled a very useful and necessary function. It was an active and credible partner, was productive and provided the moderate critical eye that fits appropriately with Finland's consensual way of doing business. Hence in September 2007, the government decided to establish a Development Policy Committee for 2007-11.

7. Finland Memorandum to the DAC peer review. Page 6.

**Figure 1. Overall system chart**

### **Finland's regional approaches**

Regional approaches are an important factor in Finland's development co-operation policy. The European Union is considered an integral part, and a main channel, of Finland's foreign and development policy. One of the government's aims is to continue to strengthen the EU as a global actor in both external and development action. The government simultaneously engages actively in the EU to promote its policy priorities, and draws on the work of the EU in developing its own approaches and implementing its activities. Finland's approach is to engage pro-actively and positively with the EU, the Nordic Plus Group (see Section below) and other constituency groupings in order to have an influence on global development, a judicious tactic for a small donor and EU Member State.

### ***Finland's Presidency of the EU***

Finland took over the Presidency of the EU in the second half of 2006. Despite being a huge strategic and administrative challenge for a small Member State, Finland was perceived by most commentators to have done well in promoting development policies. In particular, the Finnish Presidency focused on and made progress in four main areas: new financing instruments, division of labour, aid-for-trade and policy coherence. These are described in turn below.

#### *Agreeing the Development Co-operation Instrument*

During Finland's Presidency, a common position was reached among Member States and the European Parliament on the Development Co-operation Instrument and the European Instrument for Democracy and Human Rights. The Development Co-operation Instrument is one of the two main

development financing instruments<sup>8</sup> of the European Community (EC) totalling EUR 16 897 million for the years 2007-13.

#### *New division of labour initiative*

Finland is also to be commended for contributing to the initial work leading to *The Code of Conduct on the Division of Labour* (European Commission, 2007a). Alongside the European Commission, Finland produced a joint issues paper for the October General Affairs and External Relations Council (the ministerial level council meeting) setting out proposals for increased complementarity among donors. The idea was to go beyond simple co-ordination and improve the division of tasks among Member States. This led to the voluntary *Code of Conduct* released during the German Presidency in the first half of 2007, and is an extremely important step towards reducing duplication and increasing efficiency.

#### *Innovations in aid-for-trade*

Finland also took forward the “aid-for-trade” agenda. Innovatively, the October ministerial level Council was the first ever joint trade and development Council ministers’ meeting. Amongst other things, Member States committed to implementing aid-for-trade as part of their development policies and preparing a joint EU aid-for-trade strategy during 2007. Council conclusions were adopted (European Commission, 2007c) which set out four components for the future aid-for-trade strategy: i) increasing collective volumes of EU aid-for-trade to the level that has been pledged; ii) focusing on how aid-for-trade can achieve sustainable poverty reduction; iii) providing for monitoring and reporting; and iv) providing for greater effectiveness.

Furthermore, the role of Economic Partnership Agreements<sup>9</sup> as development tools was discussed and highlighted. Since trade is an essential component of development, and is an EC competence (rather than Member States’) Finland’s emphasis on, and pursuit of, the issue through the EU is well considered. In 2004 Finland proposed a ministerial OECD meeting on trade and development. Although it did not take place, it was a precursor to a closer working relationship between the OECD’s Development Assistance Committee (DAC) and the Trade Committee, and also with the World Trade Organisation’s (WTO) secretariat on aid-for-trade. Despite being a small player, Finland has been active and influential in raising the profile of the aid-for-trade agenda.

#### *Progress on Policy Coherence for Development*

Finally, Finland also prioritised policy coherence for development, with a joint foreign and development ministers meeting held to discuss a paper on how to integrate development concerns into Council decision-making (European Commission, 2006c). Consequently, the October Council meeting adopted two conclusions: i) on the integration of development concerns in Council decision-making; and ii) on the Policy Coherence for Development rolling work programme. These emphasised the need for better information on the impact of policy decisions on developing countries, greater dialogue among sectoral policies and increased monitoring of progress.

Holding the EU presidency is time-consuming and burdensome, but also a good opportunity for a small donor such as Finland to shape the international agenda and have more influence than normal. While noting the guiding rather than commanding mandate of the presidency role, Finland appears to have been strongly committed and well organised. While domestic priorities suffered slightly as

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- 8. The other main instrument is the European Development Fund. The Development Co-operation Instrument funds primarily Asian and Latin American programmes, while the European Development Fund is used for programmes in African, Caribbean and Pacific countries.
  - 9. The EC’s negotiated trade agreements with African, Caribbean and Pacific countries.

resources were dedicated to the presidency task and some work put on hold (*e.g.* updating the aid effectiveness plan), Finland is generally considered to have played a focused and successful EU team leader role, both in headquarters and in Vietnam (as observed by the peer review team, see Annex D).

### ***The Nordic Plus Group***

Another related alliance of prime importance to Finland is the Nordic Plus Group. Comprising the fellow Nordic countries of Norway, Denmark, Iceland and Sweden, as well as the “plus” members – the UK, Netherlands and Ireland –, this association is used both within the EU<sup>10</sup> and in wider forums to propose and advocate policy positions. Finland places great importance on being part of, and keeping up with, these perceived progressive and generally high volume donors. Finland also works collaboratively within regional constituency groupings at the World Bank and regional development banks, and in like-minded groups at the UN.

### **Cross-cutting issues**

Finland has identified gender equality, environment and vulnerable groups as its three focus horizontal issues, as well as highlighting HIV/AIDS, good governance and information, communication and technology as other broad-based topics of importance. Internal policy papers on gender (2003), environment (2007), disability (2003), HIV/AIDS (2004), information, communication and technology (2005) have been produced to help mainstream cross-cutting concerns into project and programme interventions. Finland also gives support to NGOs to directly address these issues. However, the extent to which these cross-cutting issues are truly mainstreamed remains questionable, and a robust institutional and systematic approach is still required for including cross-cutting issues in project/programme implementation, reaching down to field level (Chapter 3).

### **Public awareness**

#### ***Status of public support***

The level of public support for development in Finland is on a par with other EU Member States. In the MFA’s 2007 development co-operation public opinion poll (MFA, 2007a), 89% of Finnish people surveyed said they thought development co-operation was important. This tallies with the most recent Eurobarometer survey (Special Eurobarometer 222, 2005) which puts this figure at 91%, exactly the same as the EU 25 Member State average. According to the national survey, only 8% of the Finnish public are familiar with the MDGs, which is below<sup>11</sup> the 16% recorded for Finland by Eurobarometer in its survey, but similar to the 12% EU Member State average. In general terms, Finland scores roughly around the same as the EU Member State average in most categories.

The Finnish public’s awareness of the ODA/GNI percentage figure is high, perhaps partly due to the unchanging nature of the figure as well as negative media coverage as Finland increasingly lags behind other Nordic nations. In the MFA’s opinion poll, 26% of people correctly identified the figure (with another 43% choosing the next nearest option); however, care should be taken with this statistic as a limited number of close choices were given in the survey. The national poll also records that 76% of people questioned thought there is enough information about development co-operation and developing countries in Finland, while 59% of respondents believed that Finland should increase its development co-operation spending. The MFA concludes that the Finnish population has a broad but

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10. Note Norway and Iceland are not members of the EU, and therefore not part of the like-minded donor group when it comes to internal EU matters.

11. Note allowances should be made for the different wording of the questions.

shallow level of knowledge of development co-operation, and the ministry finds it hard to interest the public in the realities and the modalities of aid.

### ***Communicating and building public awareness***

The Unit for Development Policy Communication within the Department of Communication and Culture in the MFA is responsible for public awareness which includes external communication and development education (on which the MFA rightly works with the Ministry for Education). The main tools are reports, printed publications, periodicals, speeches, the MFA's general website, public information campaigns, events, exhibitions and a development education website. The level of public awareness is assessed annually through the survey noted above; this regularity is a commendable process. There is an annual scheme to support development information and education by NGOs. The Development Policy Communication Unit interacts with the media by supporting journalists' field trips, giving assistance to television productions dealing with development issues and conditions in developing countries, and providing background information and responses to queries. A reasonable budget of EUR 1.6 million (as well as EUR 1.9 million in the NGO fund), roughly 0.5% of ODA, is allocated to public awareness activities.

The Unit for Development Policy Communication is sometimes marginalised within the MFA and from the development co-operation centre. This may partly be explained by the fact that the unit is not directly represented at the highest management levels. Consideration should be given to how to ensure mechanisms for the systematic and efficient flow of information.

The Unit for Development Policy Communication has limited resources to develop specific approaches to particular target audiences. Staff were candid about the fact that they have not done enough to tailor approaches to particular groups such as parliament, media, local authorities, opinion leaders and youth groups, and that more work is required. The unit also finds it difficult at times to obtain factual information from MFA headquarters colleagues, and the flow of information from embassies for use in public awareness work, although improving, remains limited and *ad hoc*. Furthermore, the unit views the development co-operation statistics that it receives as robust and pertinent, but has limited capacity to conduct analysis and provide the optimum selection of statistics.

The commitment and resources directed towards increasing public knowledge appear adequate, and Finland is matching most donors in its efforts and is not alone in struggling to deepen awareness. However, Finland does not yet have a strategy for public awareness but in the new 2007 development policy, it is committed to producing one. Producing a strategy and implementing it will be an important step in advancing awareness. The Unit for Development Policy Communication would benefit from more regular and systematic reporting from MFA colleagues in headquarters and the field, and could also profit from doing more to identify and target specific groups.

#### **Box 2. A successful campaign**

Raising public awareness is always a challenge, but there is one outstanding example from Finland of how to tackle the problem. In 2005 the MFA commissioned a series of publications for schools based on an animal theme in order to highlight the Millennium Development Goals. Posters, a teacher's guide, brochures, postcards, playing cards and campaign web pages depicting a set of hand-drawn animal characters explaining the MDGs were used to appeal to primary and secondary school children. The publications are creative, colourful and easy to read and understand.

So successful was the campaign, that samples of the English versions (translated due to high demand) have been distributed upon request in different countries, with interest particularly strong in the UK and Ireland. Other countries are also planning to use the illustrations. Agreement has been reached for Spain to translate and produce the posters in Spanish, and a similar agreement is pending with Slovakia.

## **Future considerations**

- The team welcomed the fact that the new 2007 development policy maintains the overarching goal of poverty reduction and commitment to the MDGs. In implementing it, Finland should maintain the focus on aid effectiveness, environment and climate change, and conflict prevention and fragile states, while promoting selected new policy initiatives.
- Finland should be commended for using the EU during its presidency to take forward certain policy priorities such as work on the division of labour. As a modest sized donor, Finland should continue to lean towards the EU as well as the Nordic Plus Group and support progressive initiatives (such as shared analysis and joined-up ventures) in order to reduce duplication of activities and transaction costs across donors.
- Based on the mandate in the new development policy, the MFA should produce, and implement, a multi-annual public awareness strategy.

## *Chapter 2*

### **Policy Coherence**

#### **Prominence given to policy coherence for development**

Policy coherence has had a considerably higher profile in Finland's development co-operation system since the 2003 DAC peer review. The 2004 *Government Resolution* written by the previous administration puts the issue up front, making a clear reference to policy coherence for development on its first page: "development policy refers to coherent activity in all sectors of international co-operation and national policy that have an impact on the status of developing countries" (MFA, 2004a). The resolution also devotes a whole chapter to outlining how to tackle policy coherence for development in security, human rights, trade, environment, agriculture and forestry, education, health, immigration and information society policies. This is a significant improvement; the previous DAC peer review noted that such clear policy statements were lacking. The government intends to maintain this focus and makes an explicit commitment in its government programme commitment to tackle policy coherence for development (Prime Minister's Office, 2007).

Unquestionably, the MFA is committed to improving policy coherence for development, but like most donors it needs to tackle the two great challenges of: i) ensuring other parts of government take the issue as seriously as development officials do; and ii) applying policy coherence for development in practice, *i.e.* managing conflicts of interests and ensuring good outcomes for developing countries. By its nature, successful policy coherence for development can only be achieved if there is wide buy-in across government and at the supra-national level (*e.g.* the EU).

#### **Finland's emphasis on the European Union**

Generally, Finland is strongly inclined towards the EU, recognising it as both a driver of Member States' policies and as a conduit for Member States to take forward their interests. The EU is rightly viewed as fundamental to improving policy coherence for development, not least as it has competence over Member States for such significant matters as trade and agriculture, and a growing role in other domains such as security. The recent *European Consensus on Development* (European Commission, 2006a) continues to commit the European Community and Member States to policy coherence for development. This identifies 12 priority areas<sup>12</sup> and outlines plans for progress (with responsibility often at both the EU and at the national level).

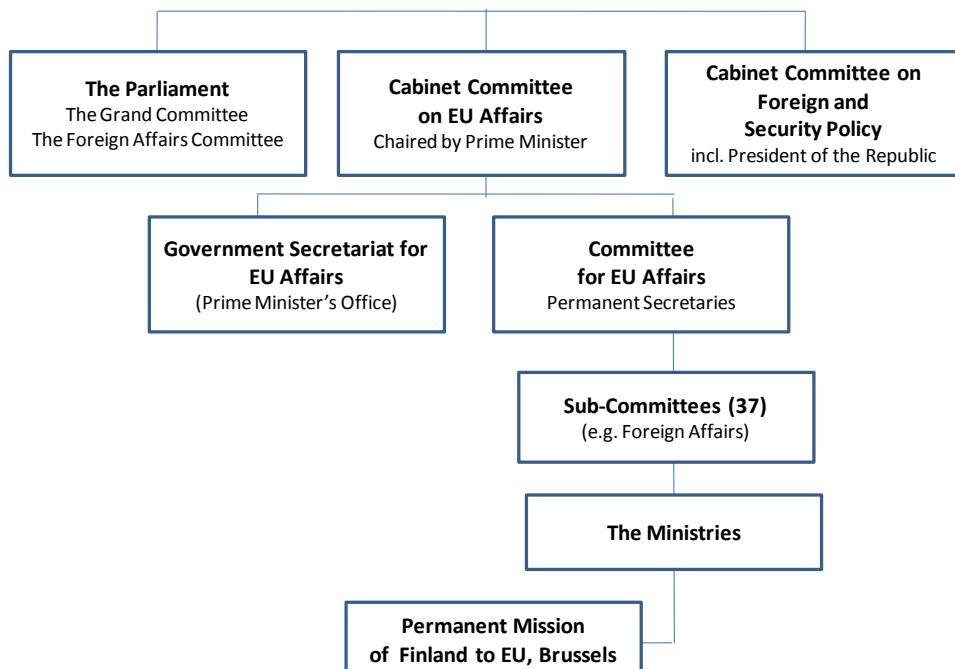
The Finnish Government places great emphasis on its internal EU co-ordination mechanism (Figure 2), which is used to formulate agreed positions across Finnish ministries for working with, and influencing, the EU. However, the system attempts to ensure policy agreement on all EU policies in general and is not designed specifically for policy coherence for development. Neither can it guarantee that all development issues are taken on board in all subject areas to the same degree, nor that

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12. The 12 priority policy coherence areas are: trade, environment, climate change, security, agriculture, fisheries, migration, social dimension of globalisation, research and innovation, information society, transport and energy.

developing countries' interests will take precedence. In fact, in its *Memorandum* to the DAC (OECD, 2007a), Finland acknowledges that the preparation of EU policies relevant to development will only take into consideration development issues to varying degrees: "for topics such as environment taking account of developing country concerns is already routine-like; whereas in some other policies, dialogue hardly takes place concerning the development perspective".<sup>13</sup>

**Figure 2. Finland's EU co-ordination system**



Source: MFA

### **Finland's organisational approach**

Finland's formal and written commitment to policy coherence for development is reinforced by considerable awareness of the subject among MFA officials and the broader Finnish development co-operation community. Policy coherence for development is primarily the responsibility of the MFA, and is dealt with in the Cabinet Committees on Foreign and Security Policy and EU Affairs from time to time. In 2003 Finland introduced the position of Minister for Foreign Trade and Development in the MFA precisely to tackle coherence in these two most important, and at times conflicting, policy areas. This is a positive step that is set to continue.

Another important institutional action was the establishment of the Development Policy Committee (DPC) with a focus on policy coherence for development. The DPC took its mandate seriously and actively assessed measures taken, highlighting issues, calling for progress and making clear recommendations (Box 1 and section below).

Since the 2003 peer review Finland has made progress in establishing formal organisational structures for tackling policy coherence for development. In the MFA the main focal point is the Unit for Sectoral Policy within the Department for Development Policy. This unit has recently created an

13. Finland memorandum to the DAC peer review. Page 21.

advisor post solely for policy coherence for development – a positive step. The advisor's role is to increase the policy coherence of Finland and the EU from a development policy perspective through analyses, awareness-raising and advocacy. The Development Policy Steering Group (director-general level) can be a forum for discussing policy coherence for development, but this appears to occur on an *ad hoc* basis.

Across government, one of the main mechanisms for policy co-ordination for development is the thematic working groups, which include groups on:

- trade and development (MFA)
- security and development (MFA, Ministry of Defence, Ministry for the Interior)
- migration and development (MFA, Ministry for the Interior, Ministry of Labour)
- external dimension of energy policies (MFA)
- international financial institutions, debt and innovative financing mechanisms (MFA, Ministry of Finance, Bank of Finland)
- climate change (MFA, Ministry of Environment, Ministry for Trade and Industry, Ministry for Agriculture and Forestry, Ministry of Finance, Ministry of Transport and Communications)

The working groups vary considerably in their mandate, working methods, participation and activity. Some groups are redefining their mandates and working methods, which appears to be a necessary and constructive step. In reality, trade, security and migration have been the main areas where there has been pro-active policy coherence for development work, and there has also been some progress on policy coherence for development in the area of “decent work”<sup>14</sup>. These are likely to remain the most important subject areas, with the new government also expected to prioritise environment, climate change and sustainable development.

Awareness of policy coherence for development across government differs and is generally stronger where thematic groups exist. Trade, security and migration are seen as the most active forums and knowledge levels about the impact of policies in these areas on developing countries are perceived to have increased in recent years (and this applies to a lesser extent to environment and climate change). In many areas, discussion of the policy coherence for development agenda is only just beginning in a systematic manner. For example, it is notable that there is no thematic working group on agriculture, and the network on rural development has not had policy coherence for development on its agenda yet. While it is not necessarily feasible to cover the large number of subjects that may have policy coherence for development implications, a focus on a few of the most significant may be practical and warranted, but including agriculture more actively would seem appropriate.

At the ministerial level, cabinet committees on foreign affairs, the EU and others can be used to discuss policy coherence for development, but in reality this appears to be relatively uncommon and unlikely to lead to substantial policy adjustments. As Finland’s *Memorandum* to the DAC explains: “although commitment to policy coherence for development by the whole of government is strong, it

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14. Progress on ‘decent work’ has been driven by the International Labour Organisation World Commission on social dimensions of globalisation rather than the policy coherence for development agenda.

is quite rare that other policy contents would be challenged by ministers on the basis of development policy".<sup>15</sup>

### ***The Development Policy Committee's report***

The Development Policy Committee was a strong proponent of policy coherence for development and considered that Finland had improved the incorporation of development perspectives into other policies, and had raised its profile as a promoter of the subject. However, despite this progress the DPC's 2007 annual report emphasised that further work was required in both the Finnish and international arenas. It felt that Finland had been more effective in promoting policy coherence for development within the EU than domestically and noted that improvement in the EU was not a substitute for national progress. Moreover the DPC emphasised the need to implement policy coherence for development in a functional manner and asserted that "the instruments for promoting practical work are still deficient" (DPC, 2007).

The committee's main recommendations included:

- The need for the new government to commit to policy coherence for development in its programme.
- The creation of a ministerial working group for global affairs to steer the implementation of development policy coherence in the government's activities, and a permanent body within the state administration to support the ministerial working group.
- Annual reporting to parliament on the advancement of policy coherence for development.
- Preparation of Finland's position on EU affairs should systematically take policy coherence for development into consideration.

In an earlier report (DPC, 2005), the DPC recommended that Finland should conduct policy coherence analysis on all of its long-term partner countries.

The DPC has a strong understanding of the policy coherence for development agenda in Finland, and the government would do well to heed its recommendations. The administration has made clear its obligations to policy coherence for development in its *Programme* (Prime Minister's Office, 2007). This is the first time the issue has been laid out in a government manifesto, and there is a commitment to policy coherence for development in the new development policy. In 2006 annual reporting on policy coherence for development to parliament was introduced, following the Development Co-operation Report; Finland is encouraged to make full use of this procedure.

The creation of a ministerial working group for global affairs and a permanent supporting body is an interesting proposal. At present there are focal points for policy coherence for development via mid-level officials (*i.e.* the Unit for Development Policy and Planning within the Department for Development Policy and the specific expert staff member tasked to work on policy coherence for development), and *ad hoc* ministerial involvement (*i.e.* through the EU and the Foreign Affairs Committees). A designated ministerial working group with ownership of the issue could provide greater focus and leadership as well as encouraging greater application of policy coherence for development across government. A long-term analysis of partner countries, focusing not only on aid

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15. Finland memorandum to the DAC. Page 24.

partners but also on the main trading partners and main sources of migration to Finland has yet to be carried out. This could prove to be a useful exercise. As well as monitoring the extent of Finland's policy coherence for development in practice across the broader spectrum of partner countries, it could provide valuable lessons.

A European Centre for Development Management report (ECDM 2007) considered the DPC to be a relevant and effective instrument for helping to foster policy coherence, but observed that the input of the DPC alone is inadequate to promote the policy coherence agenda. It suggested the DPC needed a counterpart authorised to make decisions within the Government – this is consistent with the DPC suggestion of creating a ministerial working group for global affairs.

### ***Applying policy coherence for development***

Finland is committed to improving policy coherence for development and the subject has a high profile as well as cross-party, and on paper, cross-government support. A number of useful formal structures are in place, such as the DPC and the thematic working groups. However, an organisational set-up and a commitment to policy coherence for development in theory do not in themselves guarantee development policy issues are taken into account routinely when other policy decisions are being made.

Although the EU has an essential role to play, a strong emphasis on the EU and the EU co-ordination mechanism, itself not primarily mandated nor specifically designed to deal with policy coherence for development, can dissipate the attention given to national policy coherence.

The 2003 DAC peer review's warning that “dialogue alone is not sufficient for achieving policy coherence” remains relevant. Finland needs to focus on the practical application of policy coherence, particularly at the domestic level. The case of Vietnam (Box 3) shows that Finland is making some efforts to address policy coherence at the field level.

#### **Box 3. Policy coherence in practice - Vietnam**

In Vietnam, unlike some of Finland's other long-term partner countries, Finland outlines the broad objectives of its co-operation in a country strategy paper. Policy coherence for development is included but is partly implicit and partly on a case-by-case basis, rather than being an explicit commitment. As well as focusing on pro-poor economic growth, the strategy paper includes broader objectives of human rights and increased trade and investment. The reference to trade focuses on promotion and lacks an explicit declaration to ensure policy coherence between trade and development (note that trade is primarily an EU competence). However, the strategy paper does state clearly that “at the headquarters level, the department will ensure that Finland's participation in Vietnam related discussions in Brussels, at the UN, the World Bank and the Asian Development Bank are in line with the objectives of Finland's development policy”. And Finland was as good as its word in the specific case of proposed trade restrictions on Vietnamese leather footwear, opposing protective tariffs that were supported by some other EU Member States.

Other policy coherence for development issues get less coverage, but Finland actively participates in the donor groups where these issues are discussed (i.e. the Partnership Group for Aid Effectiveness, and the Like-Minded Donor Group), and in practice the embassy puts development at the forefront of its objectives.

### **Future considerations**

- The inclusion of policy coherence for development in the government's *Programme*, and the more concrete commitment to policy coherence for development made in the new

development policy should be translated into clear mandates for bodies dealing with policy co-ordination between ministries. Most importantly, other ministries need to take these issues as seriously as the MFA.

- The EU is an essential forum for furthering policy coherence for development, and Finland's focus on the EU is well-judged. Nevertheless, this should not divert attention from improving domestic policy coherence and finding practical solutions to differing and sometimes contradictory policy objectives and programmes across the Finnish Government.
- The second Development Policy Committee that is being formed should continue to have a mandate to initiate proposals and promote thinking on policy coherence for development.
- The Government should make full use of the annual reporting procedure on policy coherence for development to parliament, to enable it to monitor how policy coherence for development is promoted, and measure results in achieving coherence.

## *Chapter 3*

### Aid Volume, Channels and Allocations

#### **ODA volumes and increases**

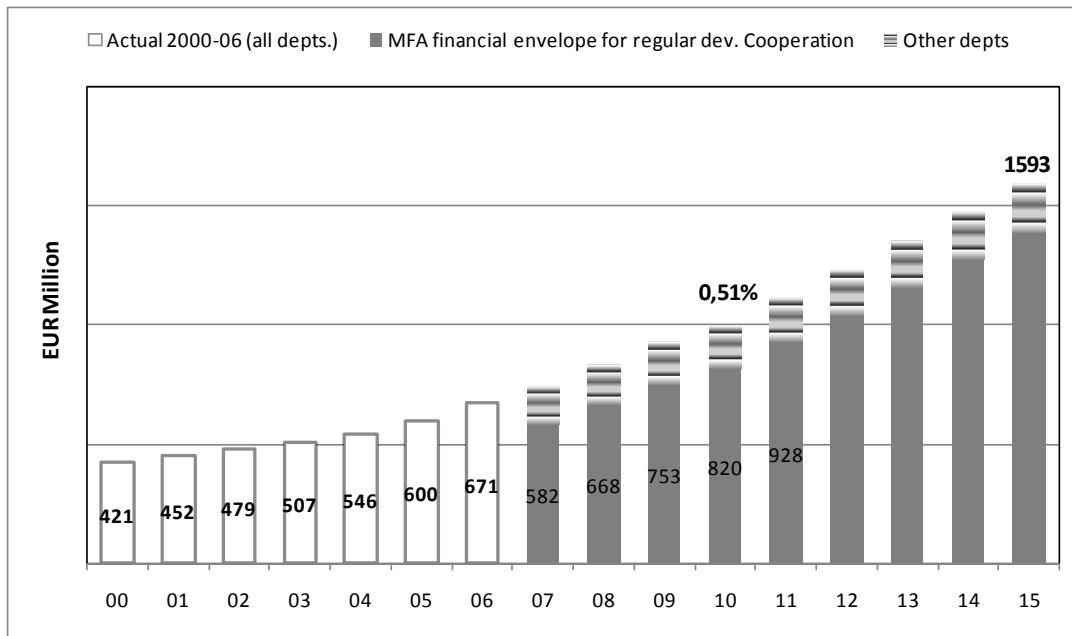
##### *Finland's increasing ODA budget*

In 2006 Finland's net ODA amounted to USD 834 million, representing 0.40% of its GNI and placing it eleventh amongst DAC member countries. In comparison with 2005, net ODA fell by 9.0%, although the 2005 figure was exceptionally high due to Iraqi debt relief. Ignoring this, the 2006 levels continued the increasing trend over the last decade. Finland's aid doubled in real terms between 1994 and 2004 and the ODA/GNI ratio has been increasing, albeit slowly, since 2000 (Annex B, Table B.1). Growth is likely to continue thanks to an 11% increase in the aid budget for 2007, which will bring the ODA/GNI ratio to 0.43%.

Finland's aid budget is annual, but the budget frame (spending limits) is set by each government for the entire parliamentary period of four years. The new government agreed on spending limits for 2008-11 in May, thus envisioning a continued increase in Finland's aid volume over the next few years (Figure 3).

**Figure 3. Finland's development co-operation budget appropriations, 2000-15**

(Excludes bilateral debt relief to Iraq in 2005)



Source: MFA

Finland's aid is primarily funded from so-called regular development co-operation appropriations, administered by the MFA. These represent 78% of the total aid budget for 2007 and 80% of the proposed aid budget for 2008. The "other ODA" appropriation (hatched in Figure 3) is primarily the development share of the EU budget (under the Ministry of Finance). Other ministries' ODA appropriations amount to less than 3% of the total. According to the Ministry of Finance, regular development co-operation is the most rapidly growing part of the state budget.

Based on current projections of economic growth (average 2.4% per year over 2008-11<sup>16</sup>), the budget frame would enable Finland to attain an ODA/GNI ratio of 0.51% in 2010 and thereby comply with the EU target.<sup>17</sup> While this will be a significant achievement, it should be noted that this means Finland will not meet the previous government's commitment to achieve ODA of 0.7% of gross national income by 2010. It is also noteworthy that unlike during the previous administration, the 0.7% target is not explicitly stated in the budget frame document (Ministry of Finance, 2007).

The 0.7% issue was debated during budget frame negotiations in Parliament's Foreign Affairs Committee. In its statement the committee: i) argued for a firm commitment to the 0.7% target in the government's programme, together with an emphasis on policy coherence and development results; ii) noted that Finland's undertakings had repercussions at the EU level; and iii) recalled that achieving the target was dependent on economic growth which could easily be higher than projected, given the government's objectives of strong growth and employment in Finland (promoted elsewhere in the budget frame). The committee further observed that lifting ODA from 0.51% in 2010 to 0.7% in 2015 would require annual increments of EUR 100 million. They suggested that exceeding 0.51% in 2010 would provide a more realistic basis for achieving 0.7% in 2015 (Foreign Affairs Committee, 2007).

The Development Policy Committee has actively pushed for the 0.7% target suggesting, for example, exempting development co-operation funds from the state budget framework procedure and passing a law to secure a permanent level of development funding. It has also suggested that this target is an issue of Finland's international credibility. According to the opinion polls, there seems to be strong public support for increasing development aid.

It is regrettable to note the delay in Finland's projections for reaching 0.7%. However, the new development policy re-confirms Finland's commitment to the EU targets. The MFA's view is that the current budget frame provides a solid basis for increasing Finland's aid. But it still needs to prepare a concrete plan for scaling up as recommended in the 2003 DAC Peer Review and by parliament, and show flexibility in increasing budget appropriations if GNI growth turns out to be faster than anticipated. Moreover, it should strive to make use of the momentum created by the recent debate to ensure the plan also covers the large increases required between 2010 and 2015.

### Predictability of Finland's ODA

Finland has an annual development co-operation budget which is outlined each year in March. The proposal is submitted to parliament in September for approval in December. Parliament decides on aid allocations by main categories of expenditure: multilateral ODA, country and regional development co-operation, European Development Fund, humanitarian aid, planning and support functions, evaluation/audit, NGO support and concessional credits. For the first two categories, the budget proposal includes a breakdown by recipient (organisation, country or region). For each main category of expenditure, parliament also approves so-called "budget authorities"<sup>18</sup> for future years.

16. Source: Ministry of Finance.

17. The EU individual country targets are 0.51% for 2010 and 0.7% for 2015.

18. The authority to make commitments in one year that result in expenditure in later years.

This enables the MFA to make multi-year commitments for both bilateral and multilateral programmes.

In parallel with budget drafting and negotiations, the regional and policy departments prepare their four-year “operating and financial plans”. The Department for Global Affairs plans allocations for each multilateral partner institution. Relevant regional departments (Africa/Middle East and Latin America/Asia) plan expenditure at the country level for Finland’s eight long-term partner countries (Mozambique, Tanzania, Ethiopia, Zambia, Kenya, Nicaragua, Vietnam and Nepal). Allocations for “regional programmes”, “other countries” and “local co-operation funds” are included in the plan at the aggregate level. The current operating and financial plan goes up to 2012.

Multi-year budget authorities, together with the four-year operating and financial plans, make Finland transparent and predictable to its long-term partner countries. The down-side is a lack of flexibility. According to MFA officials, up to 90% of funds are already allocated at the beginning of the year.

Predictability is also the aim of Finland’s multilateral co-operation. Finland gives over 90% of its funding to multilateral agencies as core contributions.<sup>19</sup> Earmarked funds are directed to thematic programmes and not for specific countries or projects. Furthermore, Finland’s support to the UN system has been based on multi-year funding commitments since 2002/03. Allocations to the international debt relief initiatives<sup>20</sup> are also multi-year.

## Bilateral aid allocations

### *Geographical concentration*

The 2003 DAC peer review recommended that Finland should focus its aid on about ten long-term partner countries. Subsequently, the *2004 Government Resolution* provided clear directions for a greater concentration of Finland’s bilateral aid to fewer countries and sectors, and on larger funding packages to improve effectiveness. The *Resolution* aimed to:

1. increase aid to Least Developed Countries (LDC) to 0.15% of gross national income as total aid rises to 0.7% of GNI;
2. increase funds for co-operation with countries in sub-Saharan Africa;
3. increase long-term partner countries’ share of total “country and regional development co-operation” to 60% and, if the prospects for successful aid improve, increasing annual disbursements to a minimum of EUR 10 million per country.

MFA reports indicate an increase in the geographical and sectoral concentration of Finland’s ODA; however this is less visible in DAC statistics. DAC statistics show that Finland’s aid to LDCs and sub-Saharan Africa has increased, but not as a share of its total aid. LDCs’ share of total aid allocable by country or region decreased from 49% in 2003 to 46% in 2004 and 32% in 2005. For sub-Saharan Africa the corresponding percentages were 44% in 2003, 41% in 2004 and 28% in 2005 (Table B.3, Annex B). The large fall in 2005 is partly due to Iraqi debt relief, but excluding Iraq from the calculation does not reverse the trend. The budget proposal for 2008 forecasts that the share of aid to LDCs will rise back up to 48% and the share to sub-Saharan Africa will increase to 57%.

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19. Finland’s Memorandum to the DAC peer review (OECD, 2007a. p. 38-39).

20. Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI).

Regarding the reduction in the number of long term partner countries (from 11 to 8) since the last peer review, DAC statistics show results which raise some concern. Aid to the eight long-term partner countries represented 28% of Finland's bilateral ODA gross disbursements in 2004/05 (37% excluding Iraq), while in 1999-2000 these eight countries had received 40% of the total. This apparent contradiction with Finland's policy statements is explained by the fact that DAC statistics on the geographical breakdown of aid relate to all aid expenditure, including, for example, humanitarian aid and NGO activities, whereas Finland's objectives are expressed as a share of its country and regional development co-operation frame (34% of total ODA budget in 2007). However, the data do raise the question of whether the concentration policy has been effective. The total number of recipient countries also increased from 90 in 1999/2000 to 102 in 2004/05. Furthermore, it is notable that the majority of the long-term partner countries are in the so-called "aid darlings", where the prominent presence of a large number of other, more major donors tends to reduce the possible added value of Finland's contribution as a comparatively small donor.

Statistics indicate that the concentration policy has successfully scaled down operations since 2004 in three former long-term partner countries (Egypt, Namibia and Peru). Only Namibia remained among the top 20 recipients in 2004-05. Finland emphasises the need to reduce aid in a controlled and sustainable manner, with the help of transition strategies that prepare the ground for more diversified co-operation. The country strategy for Vietnam, preparing for transition in 2015, includes a section to this effect. Under the heading of "trade and investment promotion" the strategy gives examples of targeted trade and investment measures to nurture business partnerships between Finnish and Vietnamese firms. They include high-level trade and investment promotion visits based on the identification of specific obstacles in Vietnam's business environment; provision of information to Finnish firms about the implications of Vietnam's WTO accession and of new Vietnamese legislation; and the implementation of a business partnership programme (Box 3). It is striking, however, that all measures – except for "exploring the possibilities for helping Vietnamese citizens' to study in Finland – relate to establishing or assisting Finnish firms in Vietnam.

#### **Box 4. Finnpartnerships**

**Finnpartnerships** is a new instrument created in June 2006 to i) mobilise Finnish investments and transfer of technology and expertise to developing countries, e.g. through joint ventures or business-oriented technological co-operation; and ii) enhance exports from developing countries to Finland and the EU. It provides grants for developing business partnerships, matchmaking services and advisory services in business legislation, strategic planning and financing. Between June 2006 and May 2007 about 60 grants were approved for a total amount of EUR 3.5 million. It is too early to examine the country or sector focus, but early statistics seem to indicate a special interest in China, India, Thailand and Vietnam.

A new element in Finland's aid allocation policy since the 2003 peer review is a specific focus on "co-operation of limited duration" in cases where participation is justified as part of the international community's efforts to prevent violent crises or to develop and rebuild countries recovering from crises. Afghanistan, East Timor and the Western Balkans are such recipients. They received over 10% of bilateral gross disbursements in 2004/05 (16% excluding Iraqi debt relief).

#### **Sector concentration**

A more convincing picture of concentration arises from the sectoral breakdown of aid (Table B5, Annex B). In its long-term partner countries, Finland's objective is to focus aid on three sectors or development programmes at most (in addition to providing general budget support, and with the exception of Tanzania). Table 1 presents the MFA's sector priorities together with data on Finland's aid commitments to these sectors in 2000-02 and 2003-05 as reported in DAC statistics. Concentration has increased in all countries. Between 2000 and 2005, over three-quarters of total aid (excluding debt

relief and humanitarian aid) was allocated to the selected priority sectors in five of the eight countries. In two of the other three countries, priority sectors received over half of total aid. As noted in Chapter 1, Finland's actions on sector concentration and the division of labour have been commendable. The data confirm that it has followed these good principles in its own programme.

**Table 1. Implementation of Finland's sector priorities in long-term partner countries**

Priority country	Priority sector	Total commitments USD		As a % of total commitments	
		2000-02	2003-05	2000-02	2003-05
<b>Ethiopia</b>	Education	1.4	13.3	7	56
	Water	12.8	0.1	64	1
	<i>Total commitments<sup>1</sup></i>	<i>19.9</i>	<i>23.7</i>	<i>100</i>	<i>100</i>
<b>Kenya</b>	Government	2.3	21.1	28	39
	Agriculture & forestry	1.7	15.8	20	29
	Energy	0.0	9.9	0	18
	<i>Total commitments<sup>1</sup></i>	<i>8.3</i>	<i>54.0</i>	<i>100</i>	<i>100</i>
<b>Mozambique</b>	Education	18.3	30.1	38	37
	Budget support	2.8	21.7	6	27
	Rural development	0.0	13.9	0	17
	Health	13.9	11.3	29	14
	<i>Total commitments<sup>1</sup></i>	<i>48.3</i>	<i>81.5</i>	<i>100</i>	<i>100</i>
<b>Nepal</b>	Education	0.9	15.8	12	45
	Environment <sup>2</sup>	0.4	4.9	5	14
	<i>Total commitments<sup>1</sup></i>	<i>7.7</i>	<i>35.0</i>	<i>100</i>	<i>100</i>
<b>Nicaragua</b>	Budget support	0.0	11.0	0	17
	Rural development	0.1	8.8	1	14
	Health	0.0	6.3	0	10
	<i>Total commitments<sup>1</sup></i>	<i>12.3</i>	<i>64.7</i>	<i>100</i>	<i>100</i>
<b>Tanzania</b>	Budget support	5.4	33.9	15	40
	Dev. of local administration <sup>3</sup>	4.5	27.3	13	32
	Education	7.0	12.7	20	15
	Environment	1.1	6.5	3	8
	Agriculture & forestry	10.2	0.3	29	0
	<i>Total commitments<sup>1</sup></i>	<i>35.2</i>	<i>85.8</i>	<i>100</i>	<i>100</i>
<b>Vietnam</b>	Rural development	4.2	25.4	23	33
	Water and sanitation	6.4	23.6	35	31
	Agriculture & forestry	2.3	7.7	13	10
	<i>Total commitments<sup>1</sup></i>	<i>18.3</i>	<i>77.2</i>	<i>100</i>	<i>100</i>
<b>Zambia</b>	Education	4.2	24.8	49	50
	Agriculture and forestry	1.7	12.4	20	25
	Budget support	0.0	0.0	0	0
	Private sector dev.	..	..	..	..
	<i>Total commitments<sup>1</sup></i>	<i>8.6</i>	<i>49.1</i>	<i>100</i>	<i>100</i>

1. Excluding debt relief and humanitarian aid.

2. Activities included under general environment protection.

3. Activities included under government & civil society

In countries where co-operation is of limited duration, interventions have been focused on the government and civil society sector (in addition to aid to refugees). In Afghanistan, Finland has channelled these contributions through the Afghanistan Reconstruction Trust Fund and a number of UN agencies, including the United Nations Mine Action Service (mine clearance), United Nations Development Programme (elections support), United Nations Office on Drugs and Crime (illicit crop monitoring) and United Nations Environment Programme (post-conflict environmental assessment). In the Western Balkans, Finland has financed civilian crisis management programmes. South Africa and Palestinian Administered Territories are also receiving limited-term funding, the former to build up information technology and the latter for education, water supply and sanitation projects.

All in all, there has been a clear shift in the sectoral breakdown of Finland's bilateral assistance over the last decade (Table B.5, Annex B). Further changes are likely to take place over the next few years as Finland moves, with other DAC members, to general budget support and other programmatic forms of aid. Aid to conflict prevention is likely to increase as the new government's programme places strong emphasis on peace building. While this is understandable and important for Finland's political standing, it does raise the question of where Finland's resources could be allocated most effectively. Over the past 10 years, the share of Finland's ODA going to government and civil society<sup>21</sup> has increased from 2% to 17% (Annex B, Table B.5). Further increases in this area should take into account the strong emphasis the sector already receives in other donors' programmes.

### Multilateral ODA allocations

Strengthening the capacity and effectiveness of the multilateral system is a clear objective of Finland's development policy. Multilateral ODA has represented 40-45% of Finland's gross ODA disbursements in recent years,<sup>22</sup> and in 2006 it amounted to USD 380 million (46%). Allocation decisions are guided by the principles of long-term predictable funding (see above) and the concentration of limited resources. In addition to EU contributions, Finland's multilateral ODA is focused on four UN agencies: the United Nations Development Programme, the United Nations Children's Fund, the United Nations Population Fund and the World Food Programme, as well as the World Bank's International Development Association and the regional development banks. Allocations to the United Nations High Commission for Refugees, the United Nations Relief and Works Agency in Palestine and the International Committee of the Red Cross come from the humanitarian aid budget.

According to the MFA there is scope to increase funding to some multilateral agencies, although the opportunities for increasing aid through multilateral channels are limited because of the government's policy to extend the bulk of aid through bilateral programmes. Finland has developed policy papers outlining principles and priorities for Finland's multilateral co-operation. These address the strengths and weaknesses of the different organisations in their contribution to the MDGs, their performance assessment mechanisms and their capacity to work with other relevant actors. The MFA participates actively in discussing the effectiveness of multi-annual co-operation for enhancing aid effectiveness in its own operations as well as in its partner agencies. However, like other donors, Finland would like further objective assessments of multilateral agencies' effectiveness to inform its allocation decisions. It also considers its opportunities for influencing the policies of the multilateral agencies, for example by allocating the extra resources in such a way as to be placed among the five biggest donors of a selected agency. If this policy successfully increases Finland's profile and influence in multilateral agencies, there may be a case for it to reconsider its policy of limiting the

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21. Largely the sub-sector category "conflict prevention and resolution, peace and security".

22. The 2005 figure was exceptionally low at 34% due to debt relief to Iraq.

share of its aid through multilateral channels. This would help remove one of the present impediments to scaling up Finland's aid, and allow it to continue its commendable multilateral allocation policy of core contributions.

### **Cross-cutting issues: mainstreaming environment**

The cross-cutting themes in Finland's development co-operation are: (i) the environment (ii) the rights and the status of women and girls, and promotion of gender and social equality (see statistics below); and (iii) the rights of groups that are easily marginalised, particularly children, the disabled, indigenous people and ethnic minorities, and promotion of equal opportunities for them. HIV/AIDS, anti-corruption and information, communication and technology are also treated as other important cross-cutting issues.

Like other donors, Finland encounters difficulties in mainstreaming environment into development co-operation. Finland has emphasised the integration of environmental considerations in all development co-operation interventions from the mid-1980s onwards. The 2004 *Government Resolution* puts forward the principles of mainstreaming and specifies a number of focus areas for Finland's aid to implement the environment-related MDGs: access to clean drinking water and sanitation services, sustainable management and protection of natural resources, support to partner countries in implementing global environmental agreements and processes, and forestry as part of rural livelihoods and as a means of reducing poverty.

According to the 2006 *Evaluation of Environmental Management in Finland's Development Co-operation* (MFA, 2006b), Finland has not fully implemented mainstreaming environment and "environment no longer enjoys the significant priority status it once had on the political and development agendas". The evaluation report draws attention to the lack of environmental strategy or guidelines for implementing the policy, shortage of human resources and the fact that assessment of environmental considerations at various stages of the project cycle is not well institutionalised. Work is ongoing at the MFA in some of these areas. For example, a draft strategy on environment and development has been prepared. This includes a detailed action plan for bilateral and regional co-operation, multilateral co-operation and NGOs as well as measures to improve the planning and reporting on environmental aid internally within the MFA.

Finland is one of the DAC members who can be complimented for applying the policy marker system for tracking aid which supports cross-cutting themes.<sup>23</sup> DAC statistics show that over 40% of Finland's sector allocable aid between 2003 and 2005 targeted environmental sustainability as a principal or significant objective (Table 2). However, the evaluation report refers to inaccuracies in the data on aid to environment which are common to all donors.<sup>24</sup> The data seem to confirm, however, the environmental focus of Finland's aid to water supply and sanitation, energy, agriculture, forestry and rural development. By contrast, only small amounts of aid to education, health or government and civil society sectors have been reported as environment-focused, which may reflect the mainstreaming difficulties highlighted in the evaluation report.

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- 23. Finland has not reported complete policy marker data on aid targeting the objectives of the Rio Convention during the last two years. This reflects the difficulties in implementing the marker system, such as modifications required to the MFA's information systems and internal procedures to collect marker data from desk officers at the commitment stage.
  - 24. The marker data are better suited to analysing trends and orders of magnitude rather than reporting on environmental financing in absolute figures.

**Table 2. Finland's environment and gender equality focused aid, commitments, 2001-05**

Environment focus of Finland's aid programme (USD million)				Gender focus of Finland's aid programme (USD million)			
	2003	2004	2005		2003	2004	2005
Principal objective	29	29	69	Principal objective	11	20	8
Significant objective	88	64	177	Significant objective	131	143	225
Not targeted	145	189	225	Not targeted	120	119	239
Not screened	12	7	6	Not screened	12	7	6
<b>Total sector-allocable aid</b>	<b>275</b>	<b>289</b>	<b>478</b>	<b>Total sector-allocable aid</b>	<b>275</b>	<b>289</b>	<b>478</b>
Environment focused aid <sup>1</sup>	45%	33%	52%	Gender equality focused aid <sup>1</sup>	54%	58%	49%
<i>Memo:</i>				<i>Memo:</i>			
<i>Total non sector-allocable aid</i>	112	140	202	<i>Total non sector-allocable aid</i>	112	140	202
<i>Aid to Environment<sup>2</sup></i>	8	6	23	<i>Aid to Women in Development<sup>3</sup></i>	1	1	3

1. % of sector allocable aid. Activities not screened against the environment/gender equality markers have been excluded.
2. Data collected through the environmental sector codes of the CRS are included in multi-sector/cross-cutting sector.
3. Since 2005 flows, the "women in development" sector is replaced by "Support to women's equality organisations and institutions", within the "Other social infrastructure" category.

**Note:** Statistics on environment/gender equality focus exclude non sector-allocable aid since several members do not apply the environment/gender equality markers on these forms of aid. This category includes programme assistance, debt relief and emergency aid.

An activity can target environment/gender equality as a "principal objective" or "significant objective". **Principal** means environment/gender equality was an explicit objective of the activity and fundamental in its design. **Significant** means environment/gender equality was an important, but secondary, objective. **Not targeted** means that the activity was screened for promoting environment/gender equality, but was found to not be targeted to it.

Discussions in Vietnam and in Helsinki suggest that problems identified with mainstreaming environment are of a general nature and the extent to which they are truly mainstreamed remains questionable. Policies exist but there are few tools for implementing them. To a large extent this also depends on the partners and their capacity and ability to integrate any number of cross-cutting issues insisted upon by donors. A robust institutional and systematic approach to the inclusion of cross-cutting issues is required, taking fully into account the capacity of the partner and ensuring real ownership.

## NGO co-operation

An estimated 12% of Finnish ODA is channelled through NGOs. The MFA provides programme funding to ten long-term "partner" NGOs and also provides individual project support to another 230 NGO projects through an annual tender process (for projects with a duration of up to three years). There are no geographic or sectoral demands from the ministry. Subsequently the geographical spread is wide with NGOs working in over 80 countries (in 2007 there was a total of 553 projects). However, the sector distribution is less broad, with an estimated two-thirds of NGOs working in health, education and the social sector. With so many NGO partners, the money is spread thinly – in 2007, 55 projects in 32 countries were receiving funds of less than EUR 20 000. The MFA should consider whether its NGO policy is sufficiently strategic, whether its administration process is overly

burdensome, and whether it should review the overall transaction costs of supporting so many NGO partners and projects.

Civil society is also supported at the country level through the Fund for Local Co-operation (Chapter 6). Embassies have direct authority over this small fund, to be used in support for governance and human rights activities and as they see fit. This modest decentralisation is generally positive; however flexibility could be increased. For example, in Vietnam the restriction that the fund can be used only for the non-governmental sector, in a country where the non-government sector is practically non-existent, was causing difficulties.

### **Future considerations**

- It is regrettable to note the delay in the government projections of reaching 0.7% ODA/GNI. The government's renewed commitments to reaching the EU agreed targets of 0.51% by 2010 and 0.7% by 2015 as stated in the new development policy are welcomed. Current plans for reaching the targets are based on relatively conservative estimates of growth. Therefore the commitment should remain firm even if economic growth is faster than predicted. Finland would benefit from a plan for reaching the target in 2015, to be updated along with economic forecasts.
- Finland is encouraged to retain the earlier 60% target of bilateral funding to long-term partners. Furthermore, it should monitor the share of bilateral country and regional co-operation as a percentage of total bilateral ODA, in order to avoid a decrease and hence *de facto* fragmentation.
- Finland is encouraged to continue its policy of providing core contributions to multilateral organisations. Contributions to multilaterals organisations should be a key consideration in the strategy for scaling up. The policy on multilateral organisations should be based on a consideration of performance and used in policy dialogue as well as to inform decisions on funding allocations.

## *Chapter 4*

### **Organisation and Management**

#### **Organisation**

##### *An integrated system within the Ministry of Foreign Affairs*

In 1972 Finnish development co-operation was managed by a separate Department of Development Co-operation within the Ministry of Foreign Affairs, known as FINNIDA between 1985 and 1995. Today there is no separate development co-operation department; instead development co-operation is spread across a number of departments.

The MFA has 12 departments, 9 of which handle some aid (Figure 4): i) one policy department focuses wholly on development issues (the Department for Development Policy), ii) five or six operational departments have development co-operation as a significant part of their work (but alongside other sometimes higher priority issues or broader foreign policy mandates); and iii) several service departments and units providing support. In total an estimated 18% of ministry staff work on development co-operation.

##### *The division of development co-operation across departments*

###### *Policy: the Development Policy Department*

Of the MFA's three policy departments, the Department for Development Policy is tasked with the overall planning and monitoring of Finnish development assistance. It is divided into four units: general development policy and planning, sector policies, evaluation and auditing and NGO liaison. It is the hub of the MFA's development co-operation system and the department's director-general has a key role in determining the MFA's development policy and direction. The department is responsible for:

- overall responsibility for planning
- budgetary groundwork and financial administration
- quality control of development assistance
- guidance, including new methodologies, regulations and instructions
- development co-operation in the EU and the OECD/DAC
- statistics and reporting
- development research
- concessional credits and Finnpartnership
- NGO co-operation
- production of training material and staff participation in training
- evaluation and internal auditing

*Operations: the geographical departments and the Department for Global Affairs*

There are four geographical departments: the Departments for Europe; Russia, Eastern Europe and Central Asia; the Americas and Asia; and Africa and the Middle East. They are responsible for preparing, implementing and monitoring geographic and some thematic/sectoral policies and programmes. They are also responsible for foreign policy, trade and cultural matters in their particular regions. Although they are principally implementing departments, they do have some influence on development policy.

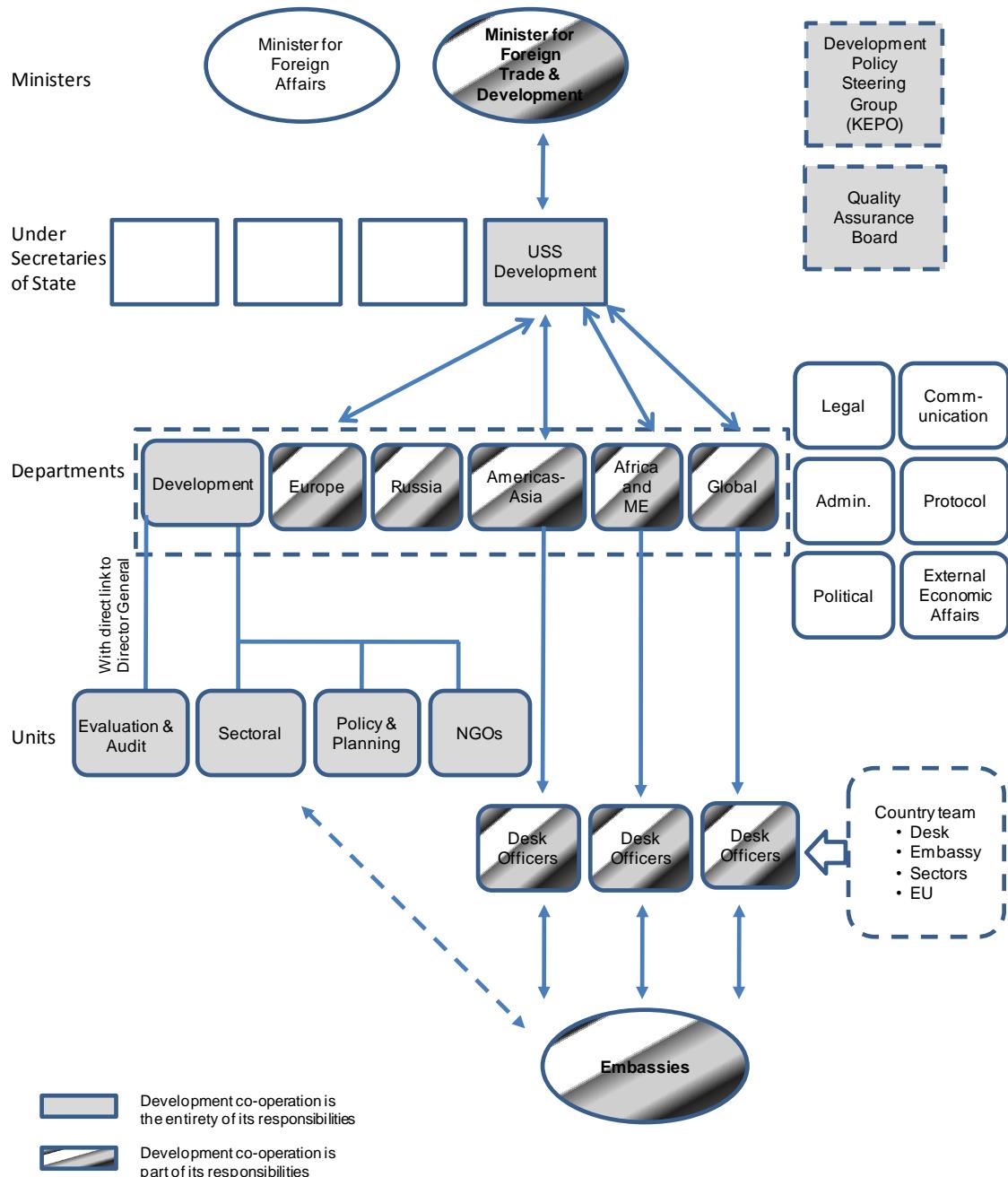
The Department for Global Affairs covers international and multilateral issues and deals with the United Nations (foreign policy, development and security issues), the International Financial Institutions and also humanitarian assistance (Annex C). The MFA recognises overlap in some areas between the Department for Development Policy and the Department for Global Affairs.

*Co-ordination across departments*

There are two central bodies that co-ordinate and oversee policy and operations: the Development Policy Steering Group and the Quality Assurance Board. The Development Policy Steering Group is a forum for strategic policy and operational discussions. It is chaired by the director-general of the Department for Development Policy, meets every second week and has a membership of director-generals or directors from all other departments involved in development co-operation. The Steering Group is not a decision-making body, but instead seeks to reach shared understandings and to agree positions on development issues. The Quality Assurance Board is chaired by the deputy director-general of the Department for Development Policy, is comprised of staff from various development-related departments dealing with development and meets weekly to consider and advise on projects and programmes while they are being prepared.

*Programme/project management: a highly centralised system*

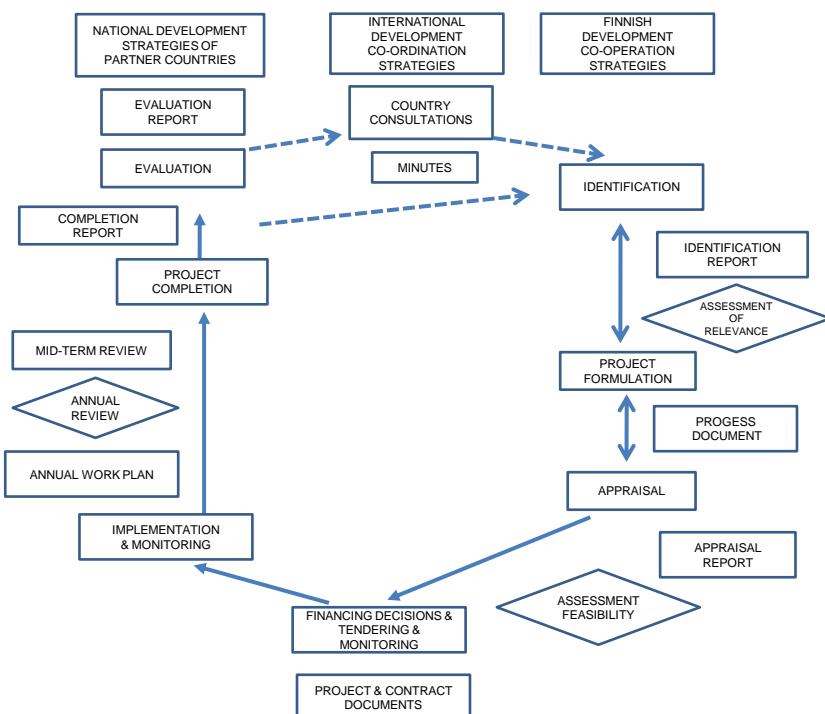
The country desk officers in the geographical departments have the lead role in taking forward operations. Often they are supported by a “country team” which may include an administrative official, the desk officer, experts from the Finnish embassy and sector or thematic experts from the MFA. The desk officers, with the support of the country team, are responsible for planning, executing and monitoring the project/programme in a particular partner country. They submit the project and programme proposals to the Quality Assurance Board. If the project is above EUR 200 000 it is submitted to the minister, and if not, it is submitted to the director general of the Department for Development Policy. The desk officer remit also includes procuring consultancy services, making financial transactions and reviewing the status of the country portfolio and specific interventions. Embassy officials work closely with the desk officers and play a significant identifying, informing, planning and guiding role – although decision-making remains highly centralised at the headquarters.

**Figure 4. The Ministry of Foreign Affairs' development co-operation structure**

The MFA's *Guidelines for Programme Design, Monitoring and Evaluation* (MFA, 2005f) outline the procedures for selecting, formulating and managing programmes and projects. The programme and project cycles start with the bilateral consultations between Finland and its partner countries which are held every two to three years (see Figure 5 for an illustration of the model project cycle). Based on a maximum three sector (plus budget support) policy and an assessment of Finland's comparative advantage and/or thematic expertise, the sectors of intervention are chosen. As seen in Vietnam, Finland's long standing history in certain sectors – and its subsequent comparative advantage - plays a role, as does some awareness of complementarity with other donors, although this is in its early stages.

As Finland moves towards more sector and budget support, local harmonisation processes increasingly establish the agenda for discussions and relations between partner and donor countries, hence reducing the need for bilateral negotiations. As joint programming develops among donors, and especially within the EU, this trend for fewer bilateral consultations is set to continue. Finland, like other donors, will need to adapt accordingly.

**Figure 5. The project cycle**



Source: MFA

Decision-making is highly centralised and appears administratively burdensome. The desk officer has to submit projects and programmes to management and the Quality Assurance Board for guidance and agreement a considerable number of times during all stages of the project management process. Furthermore, every project above EUR 200 000 must be approved by the minister and all projects above EUR 5 million must be approved by the Cabinet Finance Committee. But even for some activities below EUR 200 000, such as annual support to multilateral organisations, thematic support and humanitarian assistance, the minister has sole jurisdiction regardless of how small the funding may be. Also all NGO projects, regardless of size, must be agreed by the minister although the minister does receive a package of all the NGO projects together on an annual basis.

These low thresholds and high levels of accountability are partly due to Finland's risk averse culture; it values accountability greatly and is high on Transparency International's anti-corruption list (Transparency International 2006). However, as well as creating a heavy administrative system and probably high transaction costs, this approach may also cause delays and difficulties when increasing the use of innovative financing. Budget support and other non-project funding tools are not necessarily conducive to detailed accountability mechanisms and tracking every Euro spent; the MFA may find it hard to get certain proposals approved by government and parliament.

Another concern is the system's limited flexibility. Much of the funding is planned well in advance with little ability to be responsive to changing events. This is good for predictability but not for flexibility, which may be especially important as Finland increases its involvement in fragile and post-conflict states where the need to react quickly to windows of opportunity may be imperative.

### ***Organisational challenges***

#### *Reorganisation to clarify responsibilities and improve co-ordination*

The type of matrix system, where development is integrated into the MFA and development co-operation is but one of the operational departments' responsibilities, does have its benefits. Notable among these is easing the co-ordination of foreign, trade and development policies. Also, Finland's focus on a limited number of long-term partner countries means that the Department for Development Policy, the Under Secretary of State and the Minister can stay informed and in control of operations. However, the approach also brings a number of challenges.

One question is whether all of the nine departments involved in development assistance have sufficient levels of specialised expertise to deal with the issue. Most importantly, and despite the co-ordination mechanisms listed above, challenges arise in ensuring clear communication and the consistent implementation of policy and procedures across a diverse range of departments, as well as maintaining the quality of development co-operation. There is also the risk of duplication of activities (for example a number of staff members acknowledged some duplication between the Department for Development Policy and the Department for Global Affairs) and a lack of clarity about responsibilities. There may also be high transaction costs, particularly in terms of time and effort when co-ordinating across many units in different departments. As one senior staff member explained "co-ordination takes a lot of time".

In a moderate-sized organisation such as the Finnish MFA, some of these communication and consistency deficits may be mitigated to some extent by the existence of informal networks. But a reliance on informal personal contacts does not resolve the structural weaknesses of the system. There is also a general perception within the MFA that the present system does not provide the political guidance and leadership nor the required prioritisation of action, which are important in the context of the rather general political strategy for development co-operation. These shortcomings need to be overcome because the organisation will have considerably more aid funding to manage, and there are limited prospects for increasing staff numbers. The MFA is well aware of these issues, and has appointed a high-level official to develop and lead the reorganisation process.

Restructuring should focus particularly on ensuring clear lines of accountability and reducing transaction costs in programme development, implementation and monitoring. It should clarify the policy and implementation functions among and within departments, and could consider some rationalisation. It must also take staffing level requirements and training issues into account fully (see below).

#### *Further delegation of decision-making*

The MFA also needs to consider greater decentralisation of decision-making to the country level. At present, the relevant regional department in the ministry is the main responsible authority throughout the programming cycle from identification to completion. Some very modest decentralisation has begun, including for decision-making about the Funds for Local Co-operation, but this is a minor part of spending in a given country and a very limited concession.

Decentralisation could be the most efficient way of reducing the administrative burden and ensuring decisions on operations reflect country level realities. The MFA should empower the embassies to decide how to implement the country programmes within an agreed framework laid out by headquarters. Embassies should have greater authority to negotiate with partner governments. This would also enable the embassies to become more effective and flexible partners within donor co-ordination groups.

The restructuring of the ministry and increased delegation of decision-making authority are essential measures to enhance the efficiency of Finland's internal way of operating, but are also inextricably bound up with international efforts to increase aid effectiveness as outlined in the Paris Declaration. These steps will help Finland to support greater country partner ownership as well as to augment alignment and harmonisation – including the increased ability to pursue innovative ways of working such as joint donor approaches, the division of labour and delegated authority through other donors.

## **Management**

### ***Human resources***

The MFA has 921 Helsinki based staff, 752 staff posted to embassies abroad and 942 locally employed staff. It is difficult to put a precise figure on the number of people working on development, because of the integrated nature of development assistance within the MFA, but it is generally assumed that around 360 people in total are assigned to it (Table 3). Capacity and skills have increased since the previous DAC peer review through the recruitment of technical experts at the MFA and the expansion in the number of locally contracted expatriate and national experts in the embassies.

Despite increasing ODA commitments, personnel levels are expected to fall. The MFA must reduce its number of employees by 133 by 2011, and it is expected that these reductions will be spread fairly evenly across the board – *i.e.* an estimated 8% fall for all departments. MFA senior management perceive this to be a manageable reduction over the timescale. They view the numbers as not excessively large, nor the prescription as overly tough, but it is a change of direction, and understandably the MFA and the Ministry of Finance have differences of opinion regarding the necessity and efficiency of such a decrease. As yet, there are no specific plans for attaining these reduction targets.

**Table 3. Staff numbers in headquarters and the field, 2007**

	<b>Total</b>	<b>ODA</b>
Ministry headquarters (Finland)	921	170
Field: staff from HQ	752	71
Field: locally employed staff	942	119
<b>Total</b>	<b>2 615</b>	<b>360</b>

Source: Directly from Ministry of Foreign Affairs

A significant share of development co-operation work is performed by diplomatic career Foreign Service officials, who do not necessarily have the requisite knowledge and skills to implement development assistance policy and programmes. The general recruitment system is not designed specifically with development issues in mind, and training devoted to it is limited to one week out of a three-month general induction programme. Development co-operation is still perceived in some quarters as a fringe issue.

The MFA must ensure that it retains a cadre of well-trained development professionals. The recruitment of technical experts is a step forward and has gone some way to offset the skill deficit. It should also provide, and make mandatory, more substantial development training for diplomatic staff who serve in countries with significant development portfolios.

The MFA must also strive to retain sufficient staff in, and give sufficient weight to, technical issues such as communications and statistics. The latter must be kept under close review as the MFA's new information system is introduced, to avoid repetition of major problems which occurred a few years ago in Finland's statistical reporting to the DAC. The current statistics team is still working to fill gaps in reporting for 2004 and 2005. During 2007 the statistics team was called on to help with the twinning arrangement with Hungary, which – while positive *per se* – seems to have delayed the development of the MFA's internal reporting systems.

The ministry should consider developing a specific human resources management strategy for the development co-operation function within the MFA. This should focus on managing and mitigating the impact of core staff reductions; considering and creating the required staff skill mix (including increasing the number of specialised development co-operation practitioners); and augmenting the training and skills of foreign service generalists given development co-operation roles.

### ***Performance management***

#### *Results-based management*

Finland introduced performance based budgeting in the early 1990s. The development co-operation budget proposal outlines “operational performance targets” and specifies the indicators for monitoring budget execution. A “financial status report” describing how well performance targets have been met is submitted to parliament at the same time as the budget proposal.

The 2007 budget proposal included 13 specific targets covering both bilateral and multilateral aid. Targets for bilateral country allocations include increasing aid to least developed countries; concentrating aid to long-term partner countries (at least 60% of bilateral grants allocable by country or region, with a focus on a maximum of three sectors or programmes and annual disbursements rising to at least EUR 10 million); and delivering aid following the principles of ownership, alignment and harmonisation. Performance on aid delivery will be assessed using the Paris indicators (indicators 5, 7, 9 and 10 are explicitly mentioned). Targets for multilateral aid are less precise (*e.g.* “funding should be focused on UNDP, UNICEF, UNFPA, WFP, IDA and the regional development banks”).

The performance targets are further specified in the four-year operating and financial plans of the MFA and the policy and regional departments, as well as in the embassies' one-year work plans and performance agreements. The target-setting process takes place between September and October, with performance agreements finalised in November. The outcome of the performance targets is evaluated and the results recorded in the annual reports in February.

In Vietnam (Annex D), the embassy monitors progress against each strategic objective of the MFA through “scorecards” which link activities, outputs and outcomes, specifying indicators of success. In 2005, the embassy prepared a report monitoring the country strategy for Vietnam following the results-based management approach. It included 25 precise targets and over 40 indicators on Vietnam's economic and social development, the effects of Finnish foreign policy instruments and the adequacy of the embassy's financial and administrative resources. However, the Vietnam experiment could be followed up and applied broadly in a simplified and more realistic way. It is unclear how the

current system of performance targets is being used by managers to improve Finland's development co-operation impact or whether proper channels for feedback exist.

### *Evaluation and Internal Audit*

Evaluations are performed at two levels. The operational departments can conduct small-scale project or other assessments with limited scope (*i.e.* mid-term and end-of-project evaluations), while the Unit for Evaluation and Internal Audit manages the larger, more strategically significant work such as wide thematic and programmatic evaluations. This unit is based in the Department for Development Policy, has a staff of five to six people, and is mandated to "consult" departments and ensure that all evaluations are carried out independently. The head of unit reports to the director-general of the Department for Development Policy. The unit has resources of EUR 0.9–1.2 million and a small administrative budget which it uses to carry out a number of evaluations every year. The evaluations are contracted out to external consultants by competitive tender in a transparent and accountable manner.

New evaluation guidelines are being prepared and tested in 2007. Also, for the first time, an overall synthesis report of evaluations conducted by the MFA is being prepared. The evaluation unit has carried out a modest self-assessment in 2006 and reports that the evaluation studies are widely known and used within the MFA and in the embassies, but there is no evidence that they have an impact on policy debates and decisions. There is some *ad hoc* use of evaluations for lesson learning, but this is not systematic, and this gap could be filled.

The evaluation unit also carries out internal audit of development co-operation; an expert auditor and one general administrative staff member focus solely on these issues. These posts are kept separate from the central MFA-wide unit for internal auditing, because the former exclusively examine development co-operation and provide specialist awareness of the subject (*i.e.* they work specifically with development NGOs, the embassies' Funds for Local Co-operation and with consultants engaged in project and programme implementation).

The location of the Unit for Evaluation and Internal Audit within the Department for Development Policy is questionable. No doubt there are moderate benefits to be had through senior staff in the department being able to provide guidance on the types and subjects of evaluation that are required, and in the unit being part of the management group and therefore having a good awareness of current debates and activities. In the open and transparent Finnish system there is not the slightest suggestion of impropriety. However, it is standard good practice for evaluation and internal audits to be separate functions to ensure they are independent, and seen to be as such. The State Auditors have advised that the unit should be placed at a higher level, outside the Department for Development Policy, in order to guarantee there is no conflict of interest, and this recommendation should be followed up. The MFA should also consider whether the development co-operation internal audit function should sit within the central unit for internal audit rather than in its present position.

### **Future considerations**

- The reorganisation process of the development co-operation structure in the MFA is essential and should be supported and completed. It should ensure clear lines of accountability, reduce transaction costs and clarify the policy and implementation functions among and within departments. The MFA should also consider ways to decentralise decision-making.
- Finland should delegate more decision-making to the embassies, such as for project approval and results reporting. The MFA should consider greater decentralisation to enable embassies

to implement the country programmes within an agreed framework, become effective and flexible partners within donor consultation groups, and have greater authority to negotiate with partner governments.

- The MFA should build upon earlier efforts to develop simple and efficient results-based management systems.
- The MFA should create and implement a human resources strategy for development co-operation. The strategy should focus on ensuring that human resources are adequate to manage the programme effectively as Finland increases its aid: staff reductions need to be considered in this context.
- A human resources strategy should focus on increasing development co-operation skill within the ministry through recruiting development assistance experts and strengthening the training for the diplomatic, non-development specialist, cadre. It should ensure that technical experts receive systematic training on MFA regulations and practice and are fully integrated into MFA structures.
- The Unit for Evaluation and Internal Audit should be moved out of the Department for Development Policy and placed separately from development co-operation line management structures in order to ensure strict independence and remove any possible conflicts of interest. In addition, evaluations should be used systematically for lesson learning.

## *Chapter 5*

### **Aid Effectiveness**

#### **Commitment to aid effectiveness**

Finland is committed to the aid effectiveness agenda. It demonstrated its intent in the *2004 Government Resolution* (MFA, 2004a) which states that Finland is committed to “the efficiency, effectiveness and impact of development co-operation by concentrating activities and working for the harmonisation of donor procedures”. Finland signed the Paris Declaration in 2005, thus pledging to a broader range and more specifically-defined set of objectives, which include, but go beyond, harmonisation. In its annual statements to government, the MFA includes a report and update on progress on aid effectiveness. The impending new development policy confirms Finland’s commitment to the aid effectiveness agenda.

The MFA’s current strategy on aid effectiveness is the out of date *2004 Harmonisation Action Plan* (MFA, 2004b). Although based closely on the OECD’s *Guidelines for Aid Effectiveness Practices* (OECD, 2003) and the Nordic *Plus Harmonisation Plan* (Norad, 2006), and although it outlines Finland’s priorities at the global, headquarters and country level, it clearly requires revision to reflect new thinking. The MFA should fulfil its pledge to update the Action Plan in 2007 to include Paris Declaration developments and commitments.

#### ***EU and Nordic Plus commitments***

The EU and the Nordic Plus groups are also important parts of Finland’s involvement with aid effectiveness. Finland has always been an active proponent of aid effectiveness, starting with its participation in the EU Harmonisation Working Group. The EU has taken the harmonisation issue forward and is a strong advocate of the Paris agenda. As a Member State, Finland has also signed up to the four extra EU commitments that go beyond the Paris Declaration:

- i) To provide all capacity building assistance through co-ordinated programmes.
- ii) To channel 50% of government-to-government assistance through country systems, through global budget support and sector-wide approaches.
- iii) To avoid establishing any new project implementation units.
- iv) To reduce the number of uncoordinated missions by 50%.

Furthermore, as a party to the EU communication on *EU Aid: Delivering More, Better and Faster*<sup>25</sup> (European Commission, 2006b) Finland, like all Member States, is committed to three axes of activities with specific targets: i) transparent and knowledge-based mapping of activities; ii) implementing collective commitments adopted by the Paris Declaration on harmonising and aligning;

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25. The EU’s action plan for implementing the Paris Agenda

and iii) executing the aid effectiveness pillar of the new EU strategy (European Commission, 2006b). Moreover, the EU adopted a common framework for country strategy papers and principles for joint multi-annual programming, made commitments to further develop co-financing and joint financing arrangements and to promote donor complementarity and division of labour.

Finland uses the EU in two ways: firstly, as a body which helps develop policies and positions which Finland follows (*e.g.* the extra-Paris commitments above), and secondly as a forum for actively promoting specific aid effectiveness initiatives. During the EU Presidency, the October 2006 EU General Affairs and External Relations Council agreed on the principles for aid complementarity and the division of labour. This led to proposals for the division of labour in individual partner countries, and cross-country as well as cross-sector division of labour. This work formed the basis of the *Code of Conduct on the Division of Labour* (European Commission, 2007a) produced and adopted during the following German Presidency.

The Nordic Plus<sup>26</sup> group is at the forefront of the aid effectiveness debate. In particular, this group of donors is implementing the harmonisation agenda by developing joint ways of working, for example through delegated co-operation. This informal network meets at director-general level twice a year and activities are based on a joint action plan on aid effectiveness (see below). Finland is an active participant, and in collaboration with Denmark, leads the group's work on harmonisation within the EU.

### **Policies and organisation**

In practical terms, Finland's approach to aid effectiveness includes a number of over-arching policies. Firstly, Finland is committed to concentrating its resources in a limited number of partner countries. If all donors did this successfully it would lead to fewer, but larger, donors in a given country with co-ordination and harmonisation among them made easier (assuming that donors can agree on who acts where, and that certain partner countries are not neglected). To this end, Finland has identified eight long-term partner countries and has had a certain amount of success in concentrating its resources, although it reacts to pressure to allocate beyond these eight. Finland's second policy is to focus on a maximum of three sectors, plus budget support, in a partner country. Again this concentration of efforts should facilitate donor harmonisation. Thirdly, Finland has a policy of increasing the use of budget support, both general and sectoral. According to the harmonisation objective in the Paris Declaration (see below), increasing the use of budget support should improve effectiveness in countries where this is the appropriate aid modality.

In the MFA, high-level policy issues on aid effectiveness are dealt with in the Development Policy Steering Groups, and an internal MFA intra-departmental working group on aid effectiveness has been created to give thought to operational issues, and to provide guidance to the embassies on practical experiences in the field of implementing the aid effectiveness agenda. So far the working group has prepared some guidance notes on particular aid effectiveness issues, and the MFA asserts that it will produce a national aid effectiveness action plan in 2007.

Within the MFA, aid effectiveness is a high priority, has a high profile and there appears to be good staff awareness. As mentioned above, there are nevertheless tendencies among political decision-makers and elsewhere, to add to initiatives that lead to more fragmentation. And in its *DAC memorandum* (OECD, 2007a) the MFA acknowledges that there is the need for further staff training

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26. Denmark, Finland, Iceland, Ireland, Netherlands, Norway, Sweden, United Kingdom.

on the issue. Finland participates in the Training4Development<sup>27</sup> network which has organised training on specific issues such as poverty reduction strategies, sector budget support and public financial management. But demand for training is high and the MFA recognises that field-level training is a particular challenge.

## **Ownership**

Finland is committed to partner country ownership, but along with donors' good intentions, the extent of country ownership also depends on the capability and ambitions of the partner country and its government. Donors can assist by creating space to nurture ownership and by backing governments. Also, donors have to make judgements – for example, be keen to support country ownership but be aware of the limitations in each particular circumstance.

The MFA emphasises that its development work is programmed around national poverty reduction strategies. The MFA exercises a strong partnership approach, and the backbone of its work is the high-level bilateral consultations held every two or three years with each partner country. These meetings have a specific mandate and a fixed format and involve considerable preparation. The high-level discussions result in agreed and signed minutes on how to proceed based upon the poverty reduction strategy, and they form the basis of Finland's subsequent intervention in that particular country. Although not a formal country strategy process, it is an intensive and highly co-operative approach supportive of country ownership.

Decentralisation can also help to reinforce country ownership; embassies that are close to the action are the best judges of the opportunities and limitations of supporting ownership. Finland, with its lack of decentralisation to the country level, may be missing out on opportunities to further strengthen ownership. In its 2007 report, the Development Policy Committee also warns there could be tensions if a partner government wanted Finland to move from its traditional and long-term sectors of interventions into new sectors. As seen in Vietnam (Annex D), Finland has over 30 years experience in the water and sanitation sector which is generally seen to be an asset, but it would be difficult to switch its intervention radically into other sectors.

Good support for country ownership was observed in Vietnam. The Government of Vietnam has a well-developed national poverty reduction strategy, and is strongly committed to the Paris agenda. Vietnam has been a leader of aid effectiveness among developing countries and in July 2005 created the *Hanoi Core Statement on Aid Effectiveness* (Government of Vietnam, 2005) which localises the Paris Declaration and lays down Vietnam's and its development partner's commitments to increase aid effectiveness. Finland works closely with the Vietnamese government, with all interventions agreed at the high-level biennial meeting and in support of the government's poverty reduction strategy.

## **Alignment**

Table 4 below presents the results of the Paris Declaration monitoring survey for Finland which covered Finland's assistance to 11 countries (OECD, 2006c). Indicators 3 to 8 measure alignment, and 9 and 10 harmonisation. The MFA considers the survey to have been a valuable exercise. It has carefully examined the results and attempted to explain the reasons for Finland's below average score on some of the indicators.

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27. Part of the Joint Donors Competence Development Network promoting aid effectiveness for poverty reduction.

**Table 4. Indicators on Aid Effectiveness for Finland**

Indicators (3-8 alignment, 9-10 harmonisation)		2005 baseline ratio	Illustrative 2010 targets
3	Aid flows are aligned on national priorities	87	93
4	Strengthen capacity by co-ordinated support	53	100 (EU target)
5a	Use of country public financial management systems	38	50 (EU target)
5b	Use of country procurement systems	52	50 (EU target)
6	Avoid parallel implementation structures	9	3 & no new PIUs <sup>1</sup> (EU target)
7	Aid is more predictable	27	64
8	Aid is untied	98	More than 98
9	Use of common arrangement or procedures	39	66
10a	Joint mission	26	63 (EU target)
10b	Joint country analytical work	58	66

1. PIU – Parallel Implementation Unit

Source: OECD DAC Survey on Monitoring the Paris Declaration: overview of results May 2007.

For example, for indicator 6 (parallel implementation structures), there is a significant level of confusion in defining a parallel project management unit. In Vietnam, detailed discussions and comparisons with the practice of other donors over the workings of one particular management unit recorded as parallel demonstrated that it was unclear whether or not it should be classified as such. Reporting technical assistance (capacity development support) implemented through co-ordinated programmes consistent with country development strategies (indicator 4) is particularly difficult. Detailed analysis of DAC statistics on technical co-operation for 2003 by the Working Party on Statistics had highlighted major problems in the comparability of data between donors. Such technical issues have not prevented Finland from using the survey results to advance the aid effectiveness agenda in its work.

### ***Concessional credits and untying of aid***

Contrary to the recommendation of the 2003 peer review (Annex A), Finland decided to continue its concessional credit scheme. It considers concessional credits to be a way to involve the Finnish business sector in development co-operation, and a particularly relevant instrument for middle-income countries where Finland's grant-based aid is being gradually phased out, or is planned to be phased out (Egypt, Namibia, Peru and Vietnam). The 2004 *Government Resolution* stated that the objective was

to make the use of concessional credits more effective and diversified, while ensuring compliance with the OECD rules<sup>28</sup> and compatibility with the recipient's poverty reduction strategy.

A new policy on concessional credits was approved in 2005. It stresses the need to assure the developmental quality of projects financed through the scheme, for example by providing technical assistance for project planning and procurement processes. The previous 50% domestic content requirement has been replaced by a looser concept of "Finnish interest". This makes it possible to use concessional credits for financing projects with a lower, though not less than 30%, Finnish content in Finland's long-term partner countries, in business sectors where Finland can offer know-how and technology that particularly benefits the partner country. The administrative handling procedures have not been changed.<sup>29</sup>

Finland's use of concessional credits is in line with OECD rules. Like other members with concessional credit schemes, Finland has used the instrument primarily in China. In recent years, Honduras, the Philippines, Sri Lanka and Vietnam have also obtained concessional credits. In Vietnam the scheme is part of Finland's exit strategy: phasing out ODA while increasing commercial relations. Both the embassy and the Vietnamese authorities emphasise the value added of these resources. However, the scheme is extremely complicated with overly cumbersome procedures. This is despite the fact that there have been several revisions of MFA guidelines on concessional credits and that the embassy has worked to improve the operation of the scheme in Vietnam, including assigning a dedicated member of staff. Further simplifications should be considered, including further decentralisation of decision-making and upgrading the operational back-up at the embassy. According to the MFA, administration of concessional credits in Vietnam is very time-consuming because of the Vietnamese bureaucratic structures, whereas in other countries these operations run more smoothly.

The concessional credit scheme is the only tied component of Finland's bilateral aid. A system of evaluating the developmental impact of these credits should be put in place. According to DAC statistics, 95% of Finland's ODA commitments in 2005 (excluding technical co-operation and administrative costs) were untied. An open procurement procedure is required for all contracts above EUR 1 million in the case of works and above EUR 200 000 for supplies and services (MFA, 2001b). Finland asserts it is committed to widening the application of the 2001 DAC Recommendation on Untying ODA to LDCs. Previous problems with the notifications to the DAC untied aid bulletin board have been solved.

## **Harmonisation**

Finland actively pursues increased co-ordination and harmonisation opportunities. It engages in various co-ordination forums in different partner countries and also recognises the need for an evolution from simple exchanges of information to more advanced forms of co-ordination where possible. In particular, Finland supports the evolution of co-ordination systems where different donors take the lead role in various sectors. With its limited personnel this is a rational approach, giving Finland the opportunity to lead in certain sectors where it has strong engagement and allowing it to take a less burdensome role in others. As noted earlier, Finland played a key role contributing to the

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- 28. Concessional credits may be granted only to commercially non-viable projects.
  - 29. The process begins when Finnvera receives the buyer credit guarantee application from the exporter. The MFA conducts a project appraisal, supervises the procurement process and decides whether interest subsidy will be granted to the project. Finnvera prepares the OECD notification and makes a decision on the guarantee. The financier (bank) is in charge of the loan negotiations and signing the loan agreement. The State Treasury takes care of the disbursement of the interest subsidy.

initial work leading to the EU's division of labour work and continues to be a strong supporter of the EU's Code of Conduct on this issue (European Commission, 2007b).

The Development Policy Committee advises Finland's initial priority should be active support for harmonisation, especially in all Finland's development co-operation partner countries. The committee also highlights another harmonisation challenge: the increasingly diversified range of development co-operation actors including non-DAC donors (*e.g.* China) and the private sector. It recommends that Finland should deepen new partnerships and should clearly define the principles guiding Finnish support to strengthen new development actors and their activities. This is welcome awareness of an issue that is applicable to all DAC members.

Finland is a proponent of joint working arrangements. As a member of the Nordic Plus group it has been involved in progressing ways of working together and has helped develop a number of operational tools. These include:

- A guide on Joint Financing Arrangements (February 2004, includes Canada).
- A Joint Procurement Policy and Guide (November 2004, includes Canada and Germany).
- Complementarity principles (November 2005) guiding the division of labour part of Joint Assistance Strategy Processes.
- A practical Guide to Delegated Co-operation (October 2006).

In the Paris Declaration baseline monitoring survey (OECD, 2006c) which attempts to record some joint working realities, the number of joint missions recorded for Finland is 26%, but like its peers Finland has a long way to go to reach the 63% target. For joint country analytical work Finland scored 58%, close to the 66% target.

### ***Delegated co-operation***

Finland has also been party to the Nordic Plus Group's efforts to increase delegated co-operation which should increase efficiency by enhancing the division of labour. In 2006 Norway led an assessment of the barriers to delegated co-operation (COWI Consultancy, 2006) within the member states in order to start reducing obstacles and increasing the number of delegated co-operation arrangements. The Controller of the Finnish Government approved Finnish participation in delegated co-operation in November 2005. Both the MFA and the Development Policy Committee are in favour of these efforts, so Finland has begun to participate in delegated co-operation arrangements (*e.g.* delegated co-operation to Norway for interventions in Sudan). The MFA's aid effectiveness working group has prepared a guidance note on delegated co-operation, but so far, according to the barriers to delegated co-operation report the MFA has not prepared a specific policy on this issue nor taken any political decisions on the criteria for participation in delegated co-operation arrangements.

At the country level, field realities must be taken into account and adapted to the specific situation. Several partner countries have made progress on aid co-ordination and have drawn up joint assistance strategies. In Tanzania, the strategy was completed in 2006, with Finland playing a strong role as chair of the co-ordination group and holder of the EU Presidency at the time. There is no joint assistance strategy in Vietnam. Finland has participated in the EU mapping exercise as a first step towards developing the division of labour, but donors question whether a joint assistance strategy is useful considering that Vietnam should graduate from LDC status within five to seven years and is low aid dependent.

### **Programme-based approaches**

In its *Memorandum* (OECD, 2007a) Finland states that its bilateral development co-operation focus has shifted towards programme-based co-operation and financing of larger programmes with other donors. According to the Paris Declaration monitoring survey (indicator 9, Table 4), which covered Finland's assistance to 11 countries, 39% of Finland's aid was disbursed within programme-based approaches, *i.e.* direct (general or sectoral) budget support, sector-wide approaches (SWAps) or SWAp-type arrangements.

Table 5 presents DAC statistics for general budget support allocated to seven of Finland's eight long-term partner countries between 2003 and 2005. Over 20% of DAC members' aid commitments to Mozambique and Tanzania over the three-year period were for general budget support. The share of general budget support in Finland's aid to these countries was even larger, 27% and 39% respectively. Finland is also ahead of the DAC average for this measure in Nicaragua. Preparations are also in progress for providing general budget support to Zambia.

The MFA has established standard criteria (MFA, 2004c) for evaluating the eligibility of the partner country for budget support. The criteria fall under four headings: i) the country's need for assistance; ii) the country's commitment to development and a Poverty Reduction Strategy; iii) Finland's ability to provide assistance (*e.g.* experts acquainted with budget support present in country, existence of a common policy regarding budget support in the donor community); and iv) pre-requisites for effectiveness (*e.g.* conflicts or the threat of conflicts do not hamper co-operation). On this basis the MFA has decided that Ethiopia's current political and human rights situation and Kenya's weakened governance make them ineligible for budget support, but they will be given sectoral support. For Vietnam, the MFA's assessment of the use of budget support concluded that fiduciary risks were too great for Finland's participation.

In moving towards general budget support Finland has taken a "slowly but surely" approach. This has been necessary to convince the various stake-holders in Finland, including the Ministry of Finance, other parts of the government, and the public, of its merits. According to MFA officials Finland "could not afford a scandal with general budget support" and is therefore satisfied with the risk-avoiding approach, allowing for slow but steady progress.

**Table 5. General budget support to Finland's long-term partner countries, total commitments, 2003-05**

Finland's priority countries covered in PD survey	Finland		Total DAC members	
	GBS commitments USD million 2003-05	as a share of total commitments 2003-05	GBS Commitments USD million 2003-05	as a share of total commitments 2003-05
Ethiopia	-	0%	302.7	7%
Kenya	-	0%	162.6	7%
Mozambique	22.9	27%	663.2	23%
Nicaragua	11.3	18%	88.1	3%
Tanzania	34.4	39%	731.1	20%
Vietnam	0.6	1%	355.6	7%
Zambia	-	0%	343.0	9%
<b>All ODA recipients</b>	<b>69.1</b>	<b>4.5%</b>	<b>10 205.0</b>	<b>3.8%</b>

## Future considerations

- Finland is encouraged to update its aid effectiveness action plan in line with the Paris Declaration commitments as soon as possible.
- The MFA is commended for contributing to the initial work which led to the *EU Code of Conduct on the Division of Labour* and is encouraged to remain at the forefront of progress, especially in the practical implementation of the code of conduct.
- Given that the concessional credit scheme is tied, a system should be put in place to evaluate the developmental impact of these credits.
- The MFA should continue to be a strong proponent of joint working arrangements, seeking practical progress when possible. It should also increase its involvement in delegated co-operation making full use of the *Nordic Plus Practical Guide* (October 2006).

## *Chapter 6*

### **Special Issues**

#### **Background to the special issues**

For the 2007-08 biennium, the DAC has decided that all peer reviews should cover two special topics. The first, capacity development, is obligatory for all peer reviews. The second can be one of two options, and Finland chose fragile states, conflict prevention and security system reform, partly as it is increasing its interest and activity in this area.

#### **Capacity development**

##### *Policies and approach*

Finland shares the general donor community and DAC view that capacity development is essential for successful development in the medium to longer term, although it also recognises the difficulties in achieving lasting capacity development. The MFA has a good awareness of the essentials of local ownership and for an endogenous development process, and supports the inclusion of capacity development in national development plans. But like most other donors, Finland does not have any over-arching policy or guidelines for capacity development.

Capacity development is a term that merits better definition in Finland's development co-operation system. The concept of capacity development receives little explicit attention and the term appears only sparingly in strategic and policy documents or guidance notes. The *2004 Government Resolution's* (MFA, 2004a) eight main principles of Finland's development policy includes "the principle of sustainable development" which is an expression often used interchangeably with "capacity development", although sustainable development is also used to describe "environmentally sustainable development", and sustainability in sectors such as forestry and agriculture. There is no specific strategic approach to the issue and frequently capacity development is not a specific aim in a project/programme, even though in reality it often features prominently in many of Finland's interventions (see Box 4 for examples from the water sector in Vietnam).

##### *Capacity development in practice*

During planning and programming, the MFA attempts to understand a partner country's capacity. During the programming cycle, capacity assessment is carried out as part of the identification and/or project formulation phase. The method and criteria for the assessment vary depending on the context and are outlined in the mission's terms of reference.

The MFA also recognises that the use of project assistance has not always been conducive to comprehensive capacity development actions. It notes that stand-alone activities, by definition, may be less systematically integrated than interventions at the programme or sector level. The ministry is increasingly moving to reduce project support in favour of more programmatic assistance, including general budget support and forms of sector budget support, which may go some way towards tackling

this. For example, in Mozambique 84% of Finland's assistance is through programme support, mainly through sector-wide approaches.

Finland's keen support of and adherence to the aid effectiveness agenda should also help to improve capacity development. While acknowledging that countries should lead and donors support is more easily said than done, nevertheless activities that fragment efforts and divert critical resources should be phased out. As a signatory of the Paris Declaration, Finland has confirmed its commitment to partner country ownership as well as specific steps towards alignment and harmonisation. A number of specific Paris Declaration targets such as increasing the amount of aid flows aligned to national priorities (Paris Declaration indicator 3), strengthening capacity by co-ordinated support (indicator 4), avoiding the use of parallel implementation units (indicator 6), should all facilitate greater capacity development. Finland also embraces working with other donors, such as through division of labour and joint activities, which can contribute to a greater focus and combining of efforts to increase capacity development. Pooling of efforts and funds are encouraged and applauded, and are likely to have more significant impact than individual, smaller scale interventions.

#### *Technical assistance*

Technical assistance is an important instrument used by the MFA in its projects. In 2001-2004 technical co-operation represented 20-25% of Finland's total gross ODA disbursements (30-40% of bilateral aid, Table B.2., Annex B). In 2005 Finland, like some other donors, reported a smaller amount applying a stricter definition, so as to improve the comparability of the data between donors.<sup>30</sup> In terms of co-ordinated technical assistance,<sup>31</sup> in the DAC monitoring survey, Finland scored 53%.

#### *The Fund for Local Co-operation and exchange programmes*

Capacity development is also supported by the Fund for Local Co-operation which is decided upon and managed by Finland's embassies, and is used for providing small-scale funding for civil society organisations in country. Good governance is a priority topic and the fund may contribute to modest capacity development, although experience suggests such small and fragmented schemes often have limited potential for supporting capacity development. Finland also runs<sup>32</sup> a student and teacher exchange programme called the North-South-South Higher Education Institution Network Programme. During the pilot phase (2004-06), 375 student scholarships were granted, and another 206 for teachers, and the programme has since been continued. All students must return to their home countries to graduate in order to support institutional development, and there is some awareness, although it is not systematic, of the progress of the people who have been trained.

#### *Programming/project guidance*

The MFA provides staff with some explicit instructions on how to consider and tackle capacity development when identifying and formulating programmes and projects. In the ministry's internal guidelines (MFA, 2005f), a section entitled "*Institutional capacity makes a difference*" briefly sets out the importance of capacity development and how to analyse and prioritise the issue in a given project. It expressly instructs that "if local institutional capacities are inadequate, they must be identified and

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30. This follows the OECD DAC investigation on free-standing technical co-operation in 2006 that highlighted the need to clarify the classification of free-standing assistance.

31. Measured by: co-ordinated technical co-operation divided by the total of its technical co-operation.

32. The administration of the network has been outsourced to the Centre for International Mobility (CIMO).

developed". Furthermore the guidelines state that capacity development requires analysis of actors, institutions, individuals, and activities, as well as the need to consider the normative context (*i.e.* vision, values and policies), the societal context (*i.e.* political, social and cultural) and the physical resources (including financial and intellectual) required. This broad understanding of capacity development is in line with DAC thinking, particularly the concept that thought must be given to a wide range of factors which include the "enabling environment" (comparable to the MFA's normative and societal contexts) alongside the core issues of individual and organisational capacity development.

#### **Box 5. Capacity development in practice: Zambia and Vietnam**

In Zambia, Finland builds capacity development through both project and programme approaches. For projects, capacity development features in Finland's rural development sector interventions. For programmes, Finland is involved in some sector-wide approaches (SWApS), basket funding and budget support. For example, in the Zambian Ministry of Education's "Sector Strategy" (an education SWAp), capacity needs and the technical assistance required was analysed, and this systematic approach was supported by Finland. Capacity gaps are also being mapped in the environment and natural resources sector.

Capacity development mainly occurs through technical assistance embedded in projects, using a mixture of local and international expertise. There has also been some technical assistance pooling in the education sector. Some training is integrated into projects, but this has focused mainly on "on-the job" training. Finland is also engaged in budget support, where the focus on capacity development is on country systems for procurement and public financial management. Furthermore, the embassy has a Fund for Local Co-operation budget line which it uses to support local NGOs and public institutions and which helps to build the capacity development of these organisations.

Pooling with other donors is through budget support, sector-wide support and pooled technical assistance in education, and joint planning is being conducted for a joint capacity development effort in the environment and natural resources sector. In sum, capacity development efforts in Zambia are fairly sizeable and diverse.

#### **Vietnam**

As in Zambia, Finland engages in capacity development in Vietnam quite substantially and in a variety of ways, despite not having an overall strategy for capacity development.

Technical assistance embedded in projects is a key instrument. Comprehensive training analysis is conducted in most of the partner organizations. Organisational analysis is rare: although the embassy offers this, Vietnamese partners (always government) are not inclined to take up the offer as they are not keen to share information on organisational structure and personnel. Long-term interventions, such as in the water sector (e.g. the Hanoi Water Supply Company and Haiphong Water Supply Company) provide proof of sustainable complex institutions through Finnish co-operation.

Finnish participation in multi-donor initiatives includes i) its contributions to the pooled Comprehensive Capacity Building Programme, run by the Ministry of Planning and Information, which aims to improve the legal and institutional framework for managing ODA; and ii) support for joint efforts on capacity development in procurement through the Like Minded Donor Group's harmonisation project.

The MFA's programme guidelines provide useful advice on capacity development for staff, but there is room for further thought and direction on how to operationalise the advice, including how to conduct analysis and implement activities to develop capacity. It should also consider how to make better systematic use of lessons from capacity development successes (and failures). The MFA should consider giving higher priority to capacity development in the guidelines and making use of the OECD's reference document *The Challenge of Capacity Development: Working Towards Good Practice* (OECD, 2006a) in order to enhance this internal guidance. Furthermore, in its *Memorandum* the MFA states that its procedures and tools for capacity development have not yet been updated in line with Paris Declaration commitments but that work on this is being planned. Finland is encouraged to complete this work, and could also liaise on this with other donors who are actively improving approaches to capacity development, in particular within the Nordic Plus Group.

## Fragile states, conflict prevention and security system reform

### **Policy framework**

Finland is engaged in over 20 fragile states directly (one-fifth of its net ODA), but mostly indirectly through multilateral organisations, multi-donor programs and international non-governmental organisations. Finland supports a wide range of programmes and projects in fragile states, including humanitarian aid, health and education, rule of law, human rights, police reform and democracy.

Fragile states and violent conflict are high on the agenda and are referred to in the *2004 Government Resolution* and in the new development policy paper, in which Finland puts a new emphasis on crisis prevention and support for peace processes. However, Finland does not have an explicit policy for fragile situations, nor has it defined key terms and indicators for situations. Finland aligns with policies and guidelines developed elsewhere, including the *DAC Principles for Good International Engagement in Fragile States and Situations* (OECD, 2007c), European Union, United Nations and IFI policies and doctrine on situations of fragility, conflict prevention and security system reform as well as policies and guidelines from other countries in the Like Minded Donor Group and Nordic Plus. Given these, and Finland's *Guidelines on Democracy Assistance* (MFA, 2002) and growing experience in fragile states (MFA, 2005g), Finland could now define its own terms and priority objectives, particularly as it is engaged in fragile states through a multiplicity of partners and in a wide range of projects.

Large projects above EUR 1 million use a logical framework which integrates governance objectives. Smaller projects, for example education and water and sanitation in Palestine and Nepal, do not have an explicit peacebuilding or conflict prevention objective. When operating in fragile environments with high levels of political tension, insecurity and violent conflicts, all activities may affect or be affected by the parties in conflict. Unless there is clear understanding and conflict sensitivity, activities may end up "doing harm" and contribute to more tension and violence, rather than contributing to peacebuilding, social cohesion and stabilisation.

### **Resource allocation**

Finland is not among the top ten donors in any fragile state, but makes creative use of multi-donor trust funds and delegated authority, for example supporting the African Union Mission in Sudan through Norway. Most of Finland's aid to fragile states goes through European and multilateral channels, with little or no earmarking and alignment of the existing reporting requirements: EC delegations and EU missions, UN missions and agencies (e.g. the UN Relief and Works Agency for Palestine Refugees in the Near East, the Peacebuilding Commission, the UN High Commissioner for Refugees, the World Food Programme, the United Nation Children's Fund and the African Union). Finland contributes staff to EU missions such as the Aceh Monitoring Mission in Indonesia and election observation and to the UN and International Financial Institutions. Finland also engages through the Red Cross movement and a wide range of Finnish and other international NGOs. These NGOs, such as the Crisis Management Initiative, support war-to-peace transitions and state-society dialogue and engage in service delivery in fragile states.

Finland is directly engaged in fragile and conflict-affected countries, such as Iraq, Afghanistan, Sri Lanka, Sudan, and also in several post-conflict countries such as Serbia and Montenegro, and Ethiopia. Countries of engagement are mostly selected on the basis of Finland's previous experience, networks, skills and knowledge specific to these regions. In the case of Somalia, there is the additional consideration of a Somali diaspora in Finland.

At present, resource allocation is a political decision made country-by-country at the highest level and includes considerations of other donors and UN engagement. The overall level of aid is approved by parliament. Finland should recognise that the specific challenges of fragile states (*e.g.* strong political antagonisms, high levels of tension and insecurity, limited capacity and lack of social cohesion) suggest that engagement in these states should be conflict sensitive, requires a high degree of flexibility, and that constructive engagement normally implies a long-term involvement. Currently, two of Finland's eight long-term partner countries are considered fragile (Nepal and Ethiopia). Finland's engagement in other fragile states usually follows a one-to three-year cycle.

### ***Management and staffing***

Management is increasingly in the field, but the threshold for project approval is low. Embassies have a Fund for Local Co-operation for local civil society organisations. There is no rapid response mechanism besides this fund, but the humanitarian response to Consolidated Appeals is relatively quick. Disbursement in East Timor and Iraq after their respective donor conferences was particularly speedy.

There are no in-house instruments for analysis, nor systematic use of particular analytical frameworks. Country strategies and projects draw from UN and World Bank analysis, inputs from other EU member states, and independent research. Strategy and programming rely on national development strategies when they exist, and multilateral frameworks when they do not, such as the UN-WB Post-Conflict Needs Assessment in Sudan. Within such frameworks, Finland supports particular sectors and regions on the request of partner governments, or selects under-aided areas such as Western Nepal, and Copan in Honduras.

Staff working on governance, civilian crisis management, and other types of projects form three distinct groups and could benefit from learning from each other. To draw on special skills, embassies recruit thematic governance and conflict advisers. At headquarters, the Ministry of Foreign Affairs hires external experts. At present, there is no formal process for experience sharing.

There is close co-ordination in Helsinki and in the field with other EU member states and the EU, and particularly with the Like Minded Donor Group and Nordic Plus Group, including shared facilities. Participation in joint assessment missions is occasional, as human resources are scarce.

### ***Security system reform***

Security system reform is a new area for Finland, but progress has been made. Finland adheres to the EU concepts for Security Sector Reform 2005-06 and the DAC Guidelines on Security System Reform and Governance 2005. In April 2007, Finland joined the USD 500 million Multi-country Demobilization and Reintegration Program for the Greater Great Lakes Region, benefitting from the programme's existing administrative structures, experience, and presence on the ground.

**Box 6. Applying the principles to the case of Finland**

- |      |   |       |  |
|------|---|-------|--|
| i)   | <b>Take context as a starting point.</b> Finland relies on multi-stakeholder consultations (local stakeholders and international donors) in some conflict and fragile states such as Nepal, with a key role played by the embassies and thematic conflict and governance advisers. In other countries, Finland should make maximum use of existing conflict analyses.   | vi)   | <b>Promote non-discrimination as a basis for inclusive and stable societies.</b> Gender and human rights, particularly, are cross-cutting issues in Finnish programmes and projects. Finland may well rely on assessments undertaken by multilateral or other donors for these purposes.   |
| ii)  | <b>Do no harm.</b> Finland is one of the main promoters of the policy coherence agenda. However, Finland's position that "all development policy and aid contribute to conflict prevention" may be wishful thinking, in the absence of a more systematic approach to conflict sensitivity.  | vii)  | <b>Align with local priorities according to context.</b> Like other donors, Finland is using a qualified approach to the Paris Declaration in fragile states, based on these fragile states principles.  |
| iii) | <b>Focus on state building as the central objective.</b> Through INGOs, the EU, the UN, the African Union, and multi-donor programmes, Finland supports a wide array of activities that contribute to strengthening state legitimacy and capacity. Moreover, Finland is careful to align with national development strategies, when they exist. Meanwhile, statebuilding is not always recommended, and in some cases, such as Nepal during the King's emergency rule, Finland clearly chose to support civil society rather than the central state.                    | viii) | <b>Agree on practical co-ordination mechanism among international actors.</b> Finland contributes to several donor co-ordination mechanisms, including the use of delegated authority and multi-donor trust funds, and has played a key role in promoting the EU Division of Labour. Finland could promote inter-donor co-ordination further, notably joint assessment missions, joint analysis, and joint donor offices (provided they turn out more successful than at present in Juba). |
| iv)  | <b>Prioritise prevention.</b> Although it recognises that bricks-and-mortar projects can well contribute to peace and state building, Finland has not designed programmes and projects with systematic, explicit stabilisation, conflict prevention, and peacebuilding or state building objectives.  | ix)   | <b>Act fast... but stay engaged long enough to give success a chance.</b> The project approval threshold is low, hampering the ability of the country office to respond flexibly to opportunities as they arise. In order to "stay engaged" Finland may have to reconsider its short-term perspective for "co-operation of limited duration". Finland could also consider duplicating its model in Nepal (peace fund) and scaling-up its contribution to the African Union Peace Fund.     |
| v)   | <b>Recognise the links among political, security and development objectives.</b> Finland supports political, development, economic, and security objectives. However, Finland is only beginning to promote a more comprehensive inter-ministerial approach at headquarters and in the field. For example, there is potential through the recently set up inter-ministerial Security and Development Network. There is also increasingly joined-up work on Afghanistan, with Foreign Affairs in the lead with participation from the department of defence and interior. | x)    | <b>Avoid pockets of exclusion.</b> Finland creatively uses delegated authority arrangements and multi-donor programmes to support under-aided fragile states where it does not have embassies in (e.g. Central African Republic; Togo; Burundi; Democratic Republic of Congo).   |

## Future considerations

### *Capacity development*

- The MFA's programme guidelines provide useful advice for staff on capacity development, but there is room for further thought and direction on how to implement the advice, including how to conduct analysis and implement activities to develop capacity. The MFA should consider how to make better systematic use of lessons from capacity development successes (and failures).
- The MFA should consider giving higher priority to capacity development in the guidelines and make use of the OECD's reference document *The Challenge of Capacity Development: working and towards good practice* to enhance this internal guidance. Furthermore, Finland is encouraged to update its procedures and tools on capacity development in line with Paris Declaration commitments.
- Finland should make better use of its lessons from capacity development and adopt a clear and widely understood approach to capacity development. This should be disseminated across the MFA and Finland's development co-operation system. It should outline an explicit commitment and systematic approach to developing capacity in its partner countries.
- As a small donor, Finland should continue to consider and prioritise joint donor ways of working, such as pooled funding, division of labour and multi-donor exercises.

### *Conflict prevention, fragile states and security system reform*

- As a small donor in most fragile state situations, Finland could:
  - i) Develop an approach for engagement in fragile situations based on Finland's own priorities and areas of strengths, the *DAC Principles for Good International Engagement in Fragile States and Situations* and EU standards.
  - ii) Identify areas of strength and work together with other donors, notably the UN, the EU and the Nordic Plus Group, to identify opportunities for strategic partnerships as well as under-aided sectors or regions where Finland has a specific expertise.
  - iii) Promote a more comprehensive inter-ministerial approach where Finland has a multiple engagement including political diplomacy, military/security, humanitarian and/or development programmes.
  - iv) Continue channelling assistance through multilateral institutions and multi-donor trust funds. Where Finland's direct engagement is too limited in time or amount, it should consider delegating responsibility.
  - v) Invest in better independent monitoring and evaluation of partners' work, in relation to the strategic objective of Finland's engagement in each fragile state, and managing knowledge from these partnerships.

***Annex A*****Progress since the 2003 DAC Peer Review Recommendations**

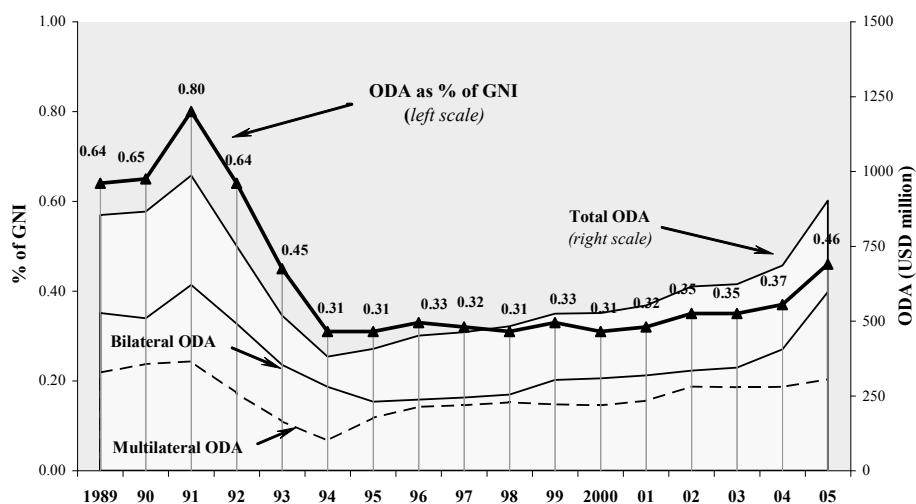
<b>Key Issues</b>	<b>Recommendations 2003</b>	<b>Achievements since 2003</b>
<i>Strategic Foundations and New Orientations</i>	Poverty reduction to be clearly articulated in the next White Papers. Publication of a strategy for public education should be considered.	<ul style="list-style-type: none"> <li>The 2004 <i>Government Resolution</i> set out poverty reduction and the MDGs as the over-arching aims of Finland's development policy.</li> </ul>
<i>ODA volume, channels and allocations for Poverty Reduction</i>	Encouraged to reach 0.7% ODA/GNI ratio by 2010, along an agreed commitment path. If ODA increases rapidly an allocation plan within multilateral and bilateral aid is needed. Could focus on about 10 long-term partners in order to have cumulative impact and enhanced ability to influence other donors and partner countries.	<ul style="list-style-type: none"> <li>New commitment to 0.7% ODA/GNI by 2015 made by the new government in its <i>government programme</i>.</li> <li>Number of long-term partner countries successfully reduced from 11 to 8.</li> </ul>
<i>Sectors and Cross-cutting issues</i>	Further institutional strengthening may be necessary to enhance mainstreaming of poverty reduction throughout MFA. The synthesis study of the country programme evaluations and plan of action could 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.	<ul style="list-style-type: none"> <li>Gender, vulnerable groups and environment identified as key cross-cutting issues.</li> <li>Committed to the 2005 Paris Declaration aid effectiveness agenda.</li> </ul>
<i>Policy coherence</i>	Needs to establish a clear policy and improve analytical capacity. As an EU member could play a role in improving policy coherence in the EC, particularly the CAP. As the 1998 White Paper states, it could phase out its concessional credit scheme whose effectiveness in supporting poverty reduction is unclear.	<ul style="list-style-type: none"> <li>Thematic working groups on main policy coherence for development issues established.</li> <li>Staff member hired to work full-time on policy coherence for development.</li> <li>Some improvements made in the concessional credit scheme.</li> <li>Drove forward the "aid-for-trade" agenda at the EU level.</li> </ul>
<i>Organisation and Management Change</i>	Due to increasing ODA, should look at increasing staff numbers and staff development skills. 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 scope to improve the independence and jurisdiction of the evaluation system as well as systematic learning mechanisms. Could develop country strategies as framework for its ODA and dialogue with partners.	<ul style="list-style-type: none"> <li>Staff numbers increased through recruiting non-civil servant technical experts at the MFA and expat and national staff in the embassies.</li> </ul>

**Annex B****OECD/DAC Standard Suite of Tables<sup>33</sup>****Table B.1.Total financial flows**

USD million at current prices and exchange rates

Finland	Net disbursements						
	1989-90	1994-95	2001	2002	2003	2004	2005
<b>Total official flows</b>	<b>776</b>	<b>473</b>	<b>394</b>	<b>465</b>	<b>566</b>	<b>677</b>	<b>902</b>
Official development assistance	776	339	389	462	558	680	902
Bilateral	467	217	224	251	309	402	597
Multilateral	310	122	165	211	250	278	305
Other official flows	-	134	5	3	7	-3	0
Bilateral	-	134	5	3	7	-3	-
Multilateral	-	-	-	-	-	-	-
<b>Net Private Grants</b>	<b>25</b>	<b>4</b>	<b>9</b>	<b>10</b>	<b>13</b>	<b>14</b>	<b>16</b>
<b>Private flows at market terms</b>	<b>165</b>	<b>100</b>	<b>932</b>	<b>- 656</b>	<b>- 622</b>	<b>647</b>	<b>723</b>
Bilateral: <i>of which</i>	165	100	932	- 656	- 622	647	723
Direct investment	93	45	641	16	78	600	149
Export credits	26	62	361	48	- 297	96	- 161
Multilateral	-	-	-	-	-	-	-
<b>Total flows</b>	<b>966</b>	<b>578</b>	<b>1 334</b>	<b>- 180</b>	<b>- 44</b>	<b>1 338</b>	<b>1 642</b>
<i>for reference:</i>							
ODA (at constant 2005 USD million)	860	394	552	615	623	686	902
ODA (as a % of GNI)	0.64	0.31	0.32	0.35	0.35	0.37	0.46
Total flows (as a % of GNI) (a)	0.80	0.53	1.11	-0.14	-0.03	0.72	0.84

a. To countries eligible for ODA.

**ODA net disbursements  
At constant 2005 prices and exchange rates and as a share of GNI**

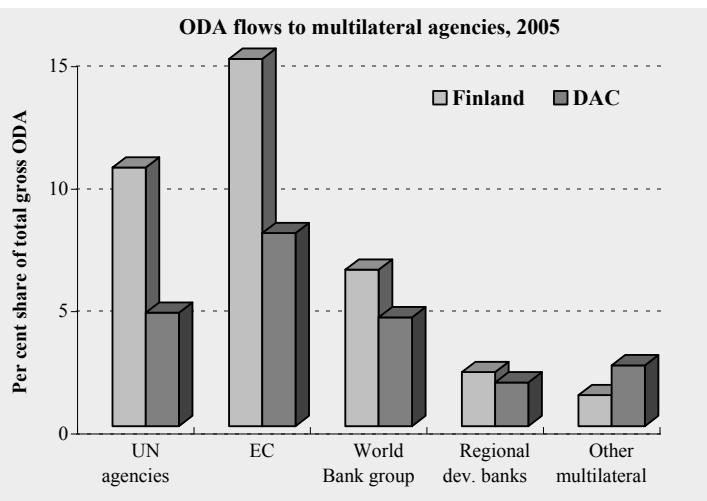
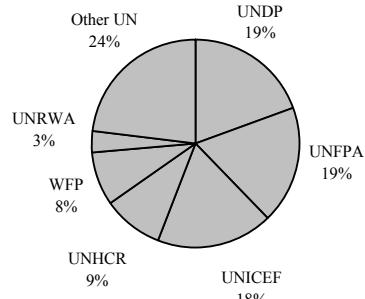
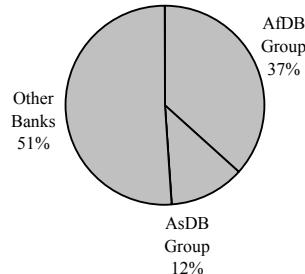
33. This report is based on OECD data up to 2005. At the time of publication, figures for 2006 were in the process of being released and will be available on the OECD website ([www.oecd.org/dac](http://www.oecd.org/dac)).

**Table B.2. ODA by main categories**

Finland	Disbursements										
	Constant 2005 USD million					Per cent share of gross disbursements					Total DAC 2005%
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	
<b>Gross Bilateral ODA</b>	<b>330</b>	<b>342</b>	<b>346</b>	<b>414</b>	<b>602</b>	<b>59</b>	<b>55</b>	<b>55</b>	<b>60</b>	<b>66</b>	<b>79</b>
<i>Grants</i>	<i>324</i>	<i>330</i>	<i>335</i>	<i>400</i>	<i>591</i>	<i>58</i>	<i>53</i>	<i>54</i>	<i>58</i>	<i>65</i>	<i>71</i>
Project and programme aid	104	103	94	86	137	18	17	15	12	15	15
Technical co-operation	100	124	144	180	98	18	20	23	26	11	18
Developmental food aid	0	0	0	0	-	0	0	0	0	-	1
Humanitarian aid	36	42	38	34	74	6	7	6	5	8	6
Action relating to debt	8	0	-	25	150	1	0	-	4	17	21
Administrative costs	23	27	28	31	34	4	4	5	5	4	3
Other grants	53	33	30	43	97	9	5	5	6	11	6
<i>Non-grant bilateral ODA</i>	<i>6</i>	<i>12</i>	<i>11</i>	<i>14</i>	<i>11</i>	<i>1</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>1</i>	<i>8</i>
New development lending	0	-	3	1	-	0	-	1	0	-	6
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	1
Acquisition of equity and other	6	12	8	13	11	1	2	1	2	1	0
<b>Gross Multilateral ODA</b>	<b>234</b>	<b>281</b>	<b>278</b>	<b>280</b>	<b>305</b>	<b>41</b>	<b>45</b>	<b>45</b>	<b>40</b>	<b>34</b>	<b>21</b>
UN agencies	95	92	89	90	96	17	15	14	13	11	5
EC	78	84	120	130	140	14	14	19	19	15	8
World Bank group	56	97	56	48	58	10	16	9	7	6	4
Regional development banks (a)	12	55	16	16	20	2	9	3	2	2	2
Other multilateral	5	8	13	13	12	1	1	2	2	1	2
<b>Total gross ODA</b>	<b>564</b>	<b>623</b>	<b>625</b>	<b>695</b>	<b>907</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Repayments and debt cancellation</b>	<b>-12</b>	<b>-8</b>	<b>-2</b>	<b>-9</b>	<b>-5</b>						
<b>Total net ODA</b>	<b>552</b>	<b>615</b>	<b>623</b>	<b>686</b>	<b>902</b>						
<i>For reference:</i>											
<i>Associated financing (b)</i>	<i>20</i>	<i>9</i>	<i>5</i>	<i>4</i>	<i>7</i>						
<i>ODA to and channelled through NGOs</i>											
- In USD million	45	53	51	42	57						
- In percentage of total net ODA	8	9	8	6	6						
- Median DAC percentage of total net ODA	8	8	8	8	9						

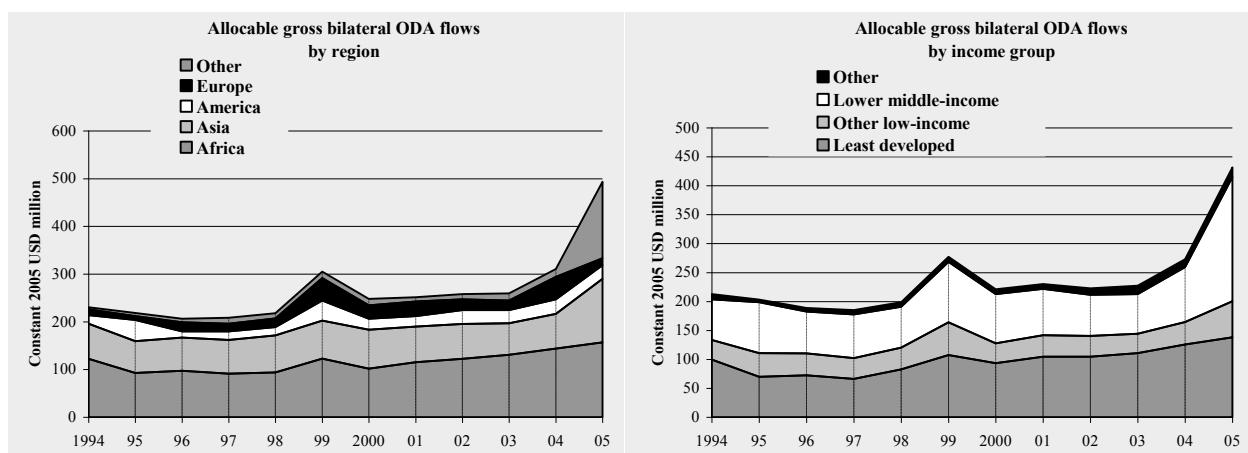
a Excluding EBRD.

b. ODA grants and loans in associated financing packages.

**Contributions to UN Agencies (2004-05 Average)****Contributions to Regional Development Banks (2004-05 Average)**

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

Finland	Constant 2005 USD million					Per cent share					Total DAC 2005%
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	
<b>Africa</b>	115	122	130	144	157	46	47	50	46	32	<b>35</b>
Sub-Saharan Africa	106	99	114	126	136	42	38	44	41	28	<b>31</b>
North Africa	6	7	6	5	6	2	3	2	2	1	<b>3</b>
<b>Asia</b>	74	73	66	72	133	30	28	26	23	27	<b>24</b>
South and Central Asia	29	39	31	33	59	12	15	12	11	12	<b>11</b>
Far East	40	31	29	33	48	16	12	11	11	10	<b>12</b>
<b>America</b>	22	29	27	31	29	9	11	11	10	6	<b>8</b>
North and Central America	16	19	19	18	18	7	7	7	6	4	<b>4</b>
South America	5	10	8	10	10	2	4	3	3	2	<b>3</b>
<b>Middle East</b>	8	11	15	16	160	3	4	6	5	32	<b>29</b>
<b>Oceania</b>	0	0	0	0	0	0	0	0	0	0	<b>1</b>
<b>Europe</b>	31	23	20	47	14	12	9	8	15	3	<b>4</b>
<b>Total bilateral allocable by region</b>	<b>251</b>	<b>258</b>	<b>260</b>	<b>310</b>	<b>494</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Least developed</b>	104	105	111	126	138	45	47	49	46	32	<b>23</b>
<b>Other low-income</b>	37	36	34	39	62	16	16	15	14	14	<b>20</b>
<b>Lower middle-income</b>	80	71	68	95	215	35	32	30	35	50	<b>53</b>
<b>Upper middle-income</b>	8	11	14	14	17	4	5	6	5	4	<b>3</b>
<b>More advanced developing countries</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Total bilateral allocable by income</b>	<b>230</b>	<b>223</b>	<b>227</b>	<b>273</b>	<b>432</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>For reference:</b>											
<b>Total bilateral</b>	330	342	346	414	602	100	100	100	100	100	<b>100</b>
<b>of which: Unallocated by region</b>	79	84	86	104	109	24	25	25	25	18	<b>13</b>
<b>of which: Unallocated by income</b>	100	120	119	141	171	30	35	34	34	28	<b>18</b>



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

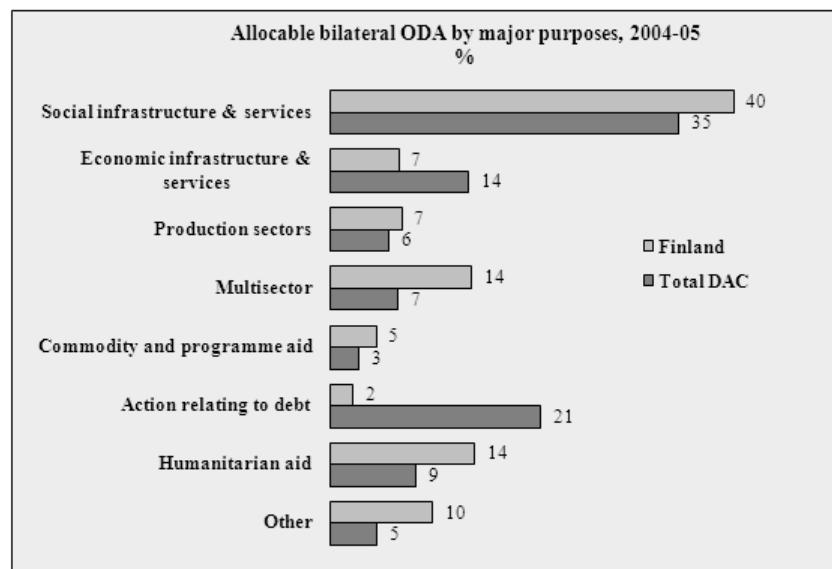
**Table B.4. Main recipients of bilateral ODA**

Finland	1994-95				Memo: <i>DAC countries' median</i>	1999-2000				Memo: <i>DAC countries' median</i>	2004-05				Memo: <i>DAC countries' median</i>
	Current USD million	Constant 2005 USD mn.	Per cent share			Current USD million	Constant 2005 USD mn.	Per cent share			Current USD million	Constant 2005 USD mn.	Per cent share		
Tanzania	16	20	9		Serbia	17	22	9		Iraq	81	81	23		
China	14	16	8		Mozambique	17	22	9		Mozambique	25	25	7		
Peru	13	14	7		Nicaragua	16	21	9		Serbia	22	22	6		
Zambia	12	15	7		China	13	17	7		Tanzania	16	16	5		
Mozambique	12	14	7		Tanzania	12	16	6		Viet Nam	16	16	5		
<b>Top 5 recipients</b>	<b>68</b>	<b>79</b>	<b>38</b>	<b>38</b>	<b>Top 5 recipients</b>	<b>74</b>	<b>98</b>	<b>40</b>	<b>34</b>	<b>Top 5 recipients</b>	<b>160</b>	<b>161</b>	<b>46</b>	<b>44</b>	
Viet Nam	10	11	5		Zambia	8	10	4		Afghanistan	15	15	4		
Namibia	9	10	5		Viet Nam	7	9	4		South Africa	12	12	3		
Thailand	8	9	4		Namibia	7	9	4		Sudan	11	11	3		
Zimbabwe	6	7	4		Bosnia and Herzegovina	6	8	3		Ethiopia	10	10	3		
Sts Ex-Yugoslavia unsp.	6	8	4		Ethiopia	6	8	3		Nicaragua	9	9	2		
<b>Top 10 recipients</b>	<b>106</b>	<b>124</b>	<b>60</b>	<b>57</b>	<b>Top 10 recipients</b>	<b>107</b>	<b>142</b>	<b>58</b>	<b>54</b>	<b>Top 10 recipients</b>	<b>216</b>	<b>217</b>	<b>62</b>	<b>62</b>	
Nepal	6	7	4		Nepal	6	8	3		Kenya	8	8	2		
Kenya	6	7	3		Afghanistan	4	6	2		Nepal	8	8	2		
Egypt	6	7	3		Kenya	4	6	2		Zambia	7	7	2		
Nicaragua	6	7	3		Thailand	4	5	2		Pakistan	7	7	2		
Ethiopia	6	7	3		Palestinian Adm. Areas	4	5	2		China	6	6	2		
<b>Top 15 recipients</b>	<b>136</b>	<b>159</b>	<b>77</b>	<b>67</b>	<b>Top 15 recipients</b>	<b>130</b>	<b>171</b>	<b>70</b>	<b>66</b>	<b>Top 15 recipients</b>	<b>252</b>	<b>253</b>	<b>73</b>	<b>73</b>	
Bangladesh	5	6	3		Uganda	4	5	2		Bosnia and Herzegovina	5	5	1		
Sri Lanka	3	4	2		Iraq	4	5	2		Palestinian Adm. Areas	5	5	1		
Rwanda	3	3	1		Egypt	3	4	2		Namibia	5	5	1		
Iraq	2	3	1		Cambodia	3	4	2		Somalia	5	5	1		
India	2	2	1		South Africa	3	4	1		Indonesia	5	5	1		
<b>Top 20 recipients</b>	<b>151</b>	<b>177</b>	<b>85</b>	<b>75</b>	<b>Top 20 recipients</b>	<b>145</b>	<b>192</b>	<b>79</b>	<b>75</b>	<b>Top 20 recipients</b>	<b>276</b>	<b>277</b>	<b>79</b>	<b>80</b>	
<b>Total (78 recipients)</b>	<b>177</b>	<b>207</b>	<b>100</b>		<b>Total (90 recipients)</b>	<b>185</b>	<b>245</b>	<b>100</b>		<b>Total (102 recipients)</b>	<b>348</b>	<b>349</b>	<b>100</b>		
Unallocated	58	68			Unallocated	72	96			Unallocated	159	159			
<b>Total bilateral gross</b>	<b>235</b>	<b>275</b>			<b>Total bilateral gross</b>	<b>256</b>	<b>341</b>			<b>Total bilateral gross</b>	<b>506</b>	<b>508</b>			

**Table B.5. Bilateral ODA by major purposes**

at current prices and exchange rates

Finland	1994-95		1999-2000		2004-05		Commitments - Two-year averages 2004-05 Total DAC per cent
	USD million	Per cent	USD million	Per cent	USD million	Per cent	
Social infrastructure & services	49	25	89	40	230	40	35
Education	11	5	19	9	61	11	8
of which: basic education	1	1	0	0	20	4	2
Health	12	6	14	6	23	4	4
of which: basic health	6	3	6	3	9	2	3
Population & reproductive health	2	1	1	1	7	1	3
Water supply & sanitation	16	8	13	6	25	4	5
Government & civil society	3	2	28	12	99	17	11
Other social infrastructure & services	5	3	15	7	15	3	4
Economic infrastructure & services	8	4	8	4	40	7	14
Transport & storage	2	1	1	1	0	0	5
Communications	1	0	1	0	6	1	1
Energy	2	1	5	2	30	5	5
Banking & financial services	3	1	1	0	3	0	1
Business & other services	0	0	1	0	1	0	1
Production sectors	36	18	12	6	41	7	6
Agriculture, forestry & fishing	32	16	9	4	37	6	3
Industry, mining & construction	4	2	2	1	3	1	2
Trade & tourism	-	-	-	-	-	-	0
Other	0	0	1	0	1	0	0
Multisector	41	21	28	13	80	14	7
Commodity and programme aid	0	0	3	1	27	5	3
Action relating to debt	13	7	19	8	13	2	21
Humanitarian aid	21	10	28	13	82	14	9
Administrative costs of donors	17	9	17	8	32	6	5
Core support to NGOs	2	1	5	2	5	1	2
Refugees in donor countries	9	4	13	6	22	4	2
<b>Total bilateral allocable</b>	<b>196</b>	<b>100</b>	<b>221</b>	<b>100</b>	<b>572</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>							
Total bilateral	199	62	232	58	598	67	77
of which: Unallocated	3	1	11	3	26	3	1
Total multilateral	122	38	165	42	292	33	23
<b>Total ODA</b>	<b>321</b>	<b>100</b>	<b>397</b>	<b>100</b>	<b>890</b>	<b>100</b>	<b>100</b>



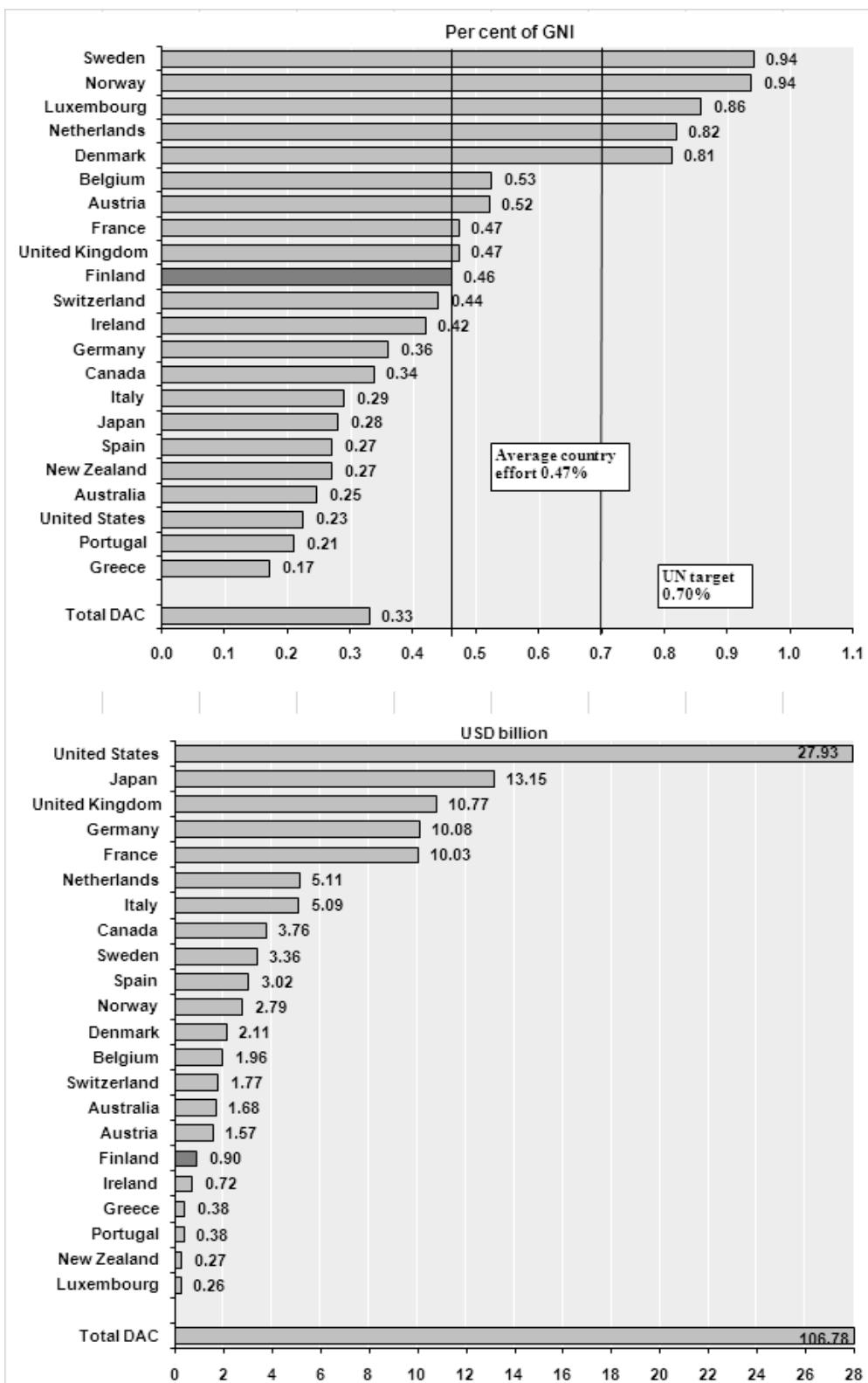
**Table B.6. Comparative aid performance**

	Net disbursements							
	Official development assistance			Grant element of ODA (commitments) 2005	Share of multilateral aid		ODA to LDCs Bilateral and through multilateral agencies 2005	
	2005		99-2000 to 04-05 Ave. annual % change in real terms		% of ODA (b)	% of GNI (c)	% of ODA (b)	% of GNI (c)
	USD million	% of GNI		% (a)				
Australia	1 680	0.25	1.8	100.0	13.8	0.03	24.9	0.06
Austria	1 573	0.52	12.0	100.0	21.7	7.7	0.11	0.04
Belgium	1 963	0.53	9.3	99.7	33.4	14.6	0.18	0.08
Canada	3 756	0.34	6.5	100.0	24.6	0.08	27.9	0.09
Denmark	2 109	0.81	-2.9	100.0	35.6	26.4	0.29	0.21
Finland	902	0.46	8.6	100.0	33.8	18.3	0.16	0.08
France	10 026	0.47	6.8	95.0	27.8	9.7	0.13	0.05
Germany	10 082	0.36	5.0	95.0	26.1	4.3	0.09	0.02
Greece	384	0.17	3.1	100.0	46.3	5.2	0.08	0.01
Ireland	719	0.42	12.8	100.0	32.9	17.4	0.14	0.07
Italy	5 091	0.29	10.5	95.9	55.4	30.6	0.16	0.09
Japan	13 147	0.28	-1.8	87.3	20.8	0.06	17.7	0.05
Luxembourg	256	0.86	7.4	100.0	27.1	17.4	0.23	0.15
Netherlands	5 115	0.82	0.5	100.0	28.0	19.6	0.23	0.16
New Zealand	274	0.27	4.4	100.0	18.2	0.05	25.5	0.07
Norway	2 786	0.94	4.3	100.0	27.0	0.25	36.9	0.35
Portugal	377	0.21	12.0	96.7	42.1	8.3	0.09	0.02
Spain	3 018	0.27	6.8	95.2	38.3	12.3	0.10	0.03
Sweden	3 362	0.94	6.8	100.0	32.9	27.0	0.31	0.25
Switzerland	1 767	0.44	5.8	100.0	20.8	0.09	22.9	0.10
United Kingdom	10 767	0.47	12.1	100.0	24.2	12.8	0.11	0.06
United States	27 622	0.22	17.1	100.0	8.5	0.02	20.6	0.05
<b>Total DAC</b>	<b>106 777</b>	<b>0.33</b>	<b>7.2</b>	<b>97.1</b>	<b>23.1</b>	<b>14.4</b>	<b>0.08</b>	<b>0.05</b>
Memo: Average country effort		0.47						

*Notes:*

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

Graph B.1. Net ODA from DAC countries in 2005



***Annex C*****Finland's Humanitarian Assistance**

This annex outlines Finland's humanitarian aid programme in accordance with the *Assessment Framework for Coverage of Humanitarian Action in DAC Peer Reviews*. It covers the following areas: 1) humanitarian policy and principles; 2) organisation and management; 3) volume and distribution; 4) policy coherence; and 5) future considerations.<sup>34</sup>

### **1. Humanitarian Policies and Principles**

The Finnish government commissioned an independent evaluation of Finnish humanitarian aid from 1996-2004, which was published in April 2005 (EMMA Ltd, 2005). One of its key recommendations was that the government should revise its 1997 policy statement on humanitarian aid because it was “inadequate and not applied”. As a result, the government published revised guidelines for humanitarian assistance in April 2007.

According to these guidelines, humanitarian aid comprises the provision of material assistance to, and protection of civilians, particularly children and vulnerable groups, the wounded and injured, and also soldiers who are no longer participating in hostilities. The primary goals of humanitarian aid are “to save human lives, relieve distress, and maintain human dignity during and immediately after a disaster” and such assistance should be provided according to the humanitarian principles of humanity, impartiality, neutrality, and independence. However, the guidelines recognise that, in particular emergencies, humanitarian aid may also include activities that are not directly aimed at saving lives, such as protecting livelihoods to break the cycle of poverty. The guidelines refer to international humanitarian law, international human rights agreements and international refugee law as the legal basis for Finnish humanitarian assistance.

The Humanitarian Aid Guidelines (MFA, 2007b) briefly mention cross-cutting issues such as the environment, age and gender. Finnish humanitarian aid emphasises the importance of these issues and the active implementation of UNSC Resolution 1325 on “Women, Peace, and Security” “in any and all humanitarian aid activities and programmes”. However, the guidelines do not describe how the Finnish government can ensure that humanitarian aid agencies address cross-cutting issues. Since most funding is provided through multilateral channels and as core funding, the government is limited in its ability to check that funding recipients prioritise cross-cutting issues and to impose sanctions for non-compliance.

Since Finland signed up to the Good Humanitarian Donorship (GHD) initiative when it was adopted by the DAC in 2006, the guidelines note that Finnish humanitarian assistance is guided by these principles.

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34. The government published a new set of humanitarian aid guidelines at the beginning of 2007 (MFA, 2007b) following an evaluation of the Finnish humanitarian aid programme (EMMA Ltd., 2005). It is too soon to assess the extent to which the commitments and practices outlined in the guidelines are being implemented.

## Organisation and management

Humanitarian aid has a sub-budget line within Finland's budget for development co-operation. However, the small humanitarian aid unit is located in the Global Affairs Department of the Ministry of Foreign Affairs (MFA). The Global Affairs Department also covers multilateral assistance (through the Economic and Social Development Unit) though the Political Affairs Department takes the lead in relations with the United Nations High Commission for Refugees (UNHCR) (even though it is funded by the Global Affairs Department). There is a separate budget for humanitarian mine action which is managed by the humanitarian aid unit.

Seventy percent of Finland's humanitarian aid budget is allocated to on-going crises at the beginning of the year and the remaining 30% is allocated in the autumn, unless it is required for unforeseen emergencies. This allows for up-front funding to implementing organisations, though in cases where natural disasters, like the tsunami and Pakistan earthquake, occur at the end of the year, there may be a need for exceptional budget allocations. The Humanitarian Aid Unit can set aside EUR 3-5 million from its budget at the beginning of the year. It can also get additional funding for these from unspent funds from the development co-operation budget or, in exceptional cases like the tsunami, Parliament can allocate extra-budgetary resources.

Allocation plans are discussed in the MFA's Development Policy Steering Group and all funding decisions over EUR 200 000 have to be approved by the head of the Global Affairs Department as well as the Development Policy Department and the minister.

Though funding decisions for new emergencies require the same level of authorisation as other humanitarian funding decisions (including the minister's approval), the humanitarian aid unit can respond quickly to UN flash appeals by obtaining the minister's authorisation verbally and channelling funds mainly to the Finnish Red Cross. However, the 2005 evaluation of Finnish humanitarian assistance found that the decision-making process for on-going emergencies is complex and potentially cumbersome and slow. Hence, it recommended that the procedure be "accelerated and simplified". It also suggested that targets should be set "for the speed with which appeals or proposals will be processed" as this would help in assessing the humanitarian aid unit's efficiency while facilitating planning and response by fund recipients. In response, the new Humanitarian Aid Guidelines acknowledge that "Finland is bound, as a signatory to the GHD Principles, to accelerate the process of making funding decisions" and state that "Ways and means are being sought by which allocations and the disbursing of funds can be accelerated".

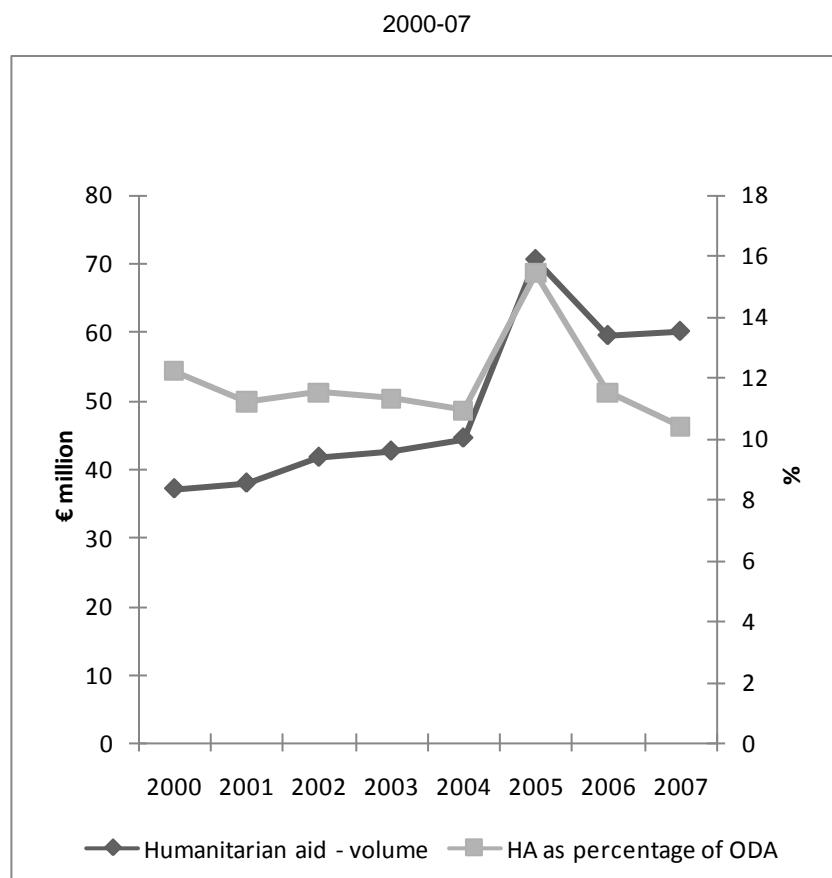
The 2005 evaluation also noted "a marked absence of detailed, explicit funding criteria and practical, written guidance for prioritising funding" (EMMA Ltd., 2005), which has led to some confusion amongst Finnish aid organisations about the decision criteria for funding natural disaster responses, core and other humanitarian funding. The new 2007 guidelines try to address this confusion.

## Volume and distribution

Figure C.1 shows Finnish humanitarian aid both in absolute volume terms and as a percentage of the total aid budget. Finland has a relatively small humanitarian aid budget ranging between EUR 37-45 million between 2000 and 2004. The tsunami and South Asia earthquake, the humanitarian aid budget increased the humanitarian aid budget sharply to EUR 70.5 million in 2005. Although the budget has decreased since then, it has not fallen to pre-2005 levels (staying at EUR 59-60 million).

Figure C.1 also shows that Finnish humanitarian aid has usually represented around 10-12% of the overall aid budget.<sup>35</sup> However, with the sharp increase in humanitarian aid in 2005, this share rose to 15.4%. It then dropped back to 11.5% in 2006 and 10.4% in 2007 (though the 2007 figure is still provisional). According to the Humanitarian Aid Guidelines, the share of humanitarian aid in the government's current development policy is set between 10-15% of the overall development co-operation budget. This will be re-examined when a new development policy is drawn up in 2007 and the Global Affairs Department hopes that the government will increase the percentage of Finnish ODA for humanitarian assistance and move towards more flexible funding.

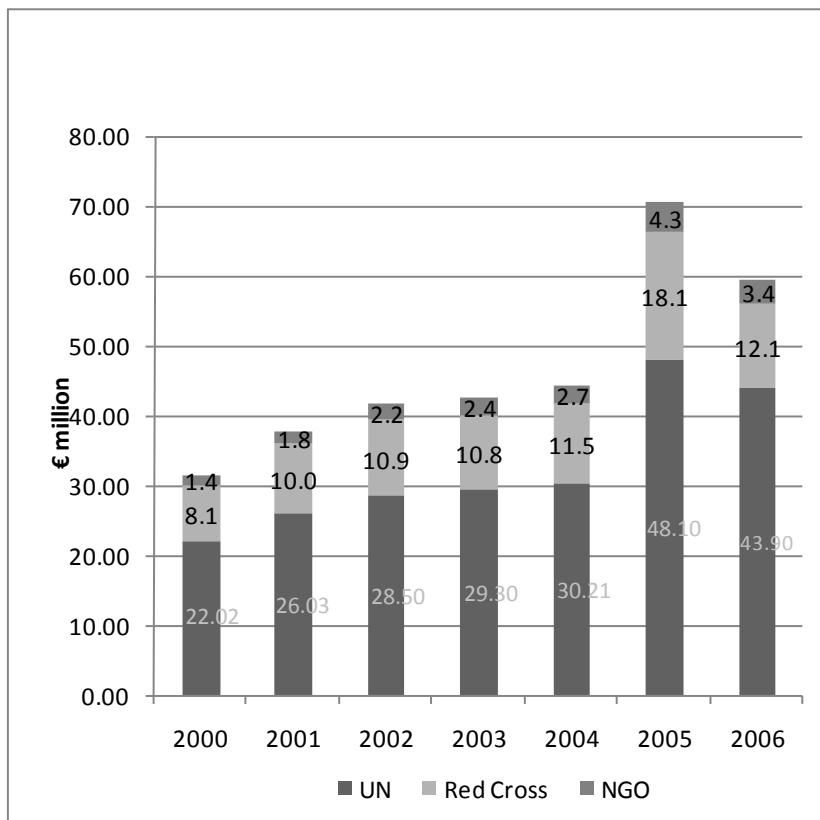
**Figure C.1. Finnish humanitarian aid - total volume and as percentage of ODA**



Source: Ministry of Foreign Affairs, Finland and Telford, J. et al (2005), *The Evaluation of Finnish Humanitarian Assistance: 1996-2004, Helsinki, Finland*.

One of the key characteristics of the Finnish humanitarian aid programme is that it is disbursed largely through multilateral channels and focused on a fairly small number of organisations (Figure C.2) mainly the UN system, the Red Cross and Red Crescent movement (funded through the Finnish Red Cross), and Finnish NGOs.

35. These figures include both bilateral and multilateral contributions.

**Figure C.2. Finnish Humanitarian Aid by Channel: 2000-06**

Source: Ministry of Foreign Affairs, Finland and Telford, J. et al (2005), *The Evaluation of Finnish Humanitarian Assistance: 1996-2004, Helsinki, Finland*.

Of the humanitarian funding to the UN system, UNHCR receives by far the largest amount (EUR 16.1 million or 36% of the EUR 43.9 million to UN agencies in 2006). The World Food Programme has been getting gradually larger amounts of funding, though it received EUR 12.4 million in 2005, only EUR 2 million less than UNHCR. The small amount of NGO funding is focused on two to three organisations: mainly FinnChurch Aid and Fida International. This may be because it is the government's policy to channel funding through Finnish organisations only when they can demonstrate added value and sufficient capacity, including experience of operating in the affected country.

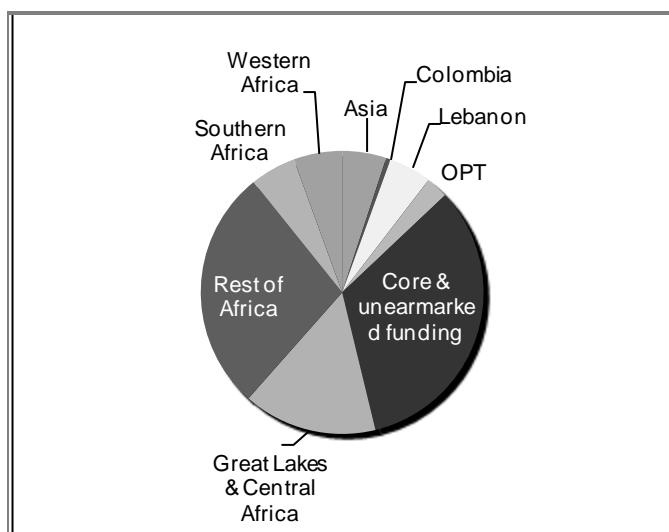
According to the 2005 evaluation of Finnish humanitarian aid, the concentration of funding on a small number of large humanitarian aid organisations is pragmatic and efficient, given that the MFA's humanitarian aid unit is small. Overall, the evaluation found that these "large partner organisations are well-chosen, appropriate, global and capable of large-scale, effective responses" (EMMA Ltd., 2005) though it questioned the focus on UNHCR because the number of refugees globally has fallen substantially since 2000.

The Finnish government also gives core funding to a small number of organisations like UNHCR, United Nations Office for the Co-ordination of Humanitarian Affairs (OCHA), the United Nations Relief and Works Agency for Palestine Refugees in the Middle-East (UNRWA) and the International Committee of the Red Cross and "thematic funding" to the International Federation of Red Cross and the International Organization for Migration. Its support for multilateral assistance is

demonstrated by its contributions to the Central Emergency Response Fund managed by OCHA and to the UN Peacebuilding Fund. It provided over USD 5 million to the Central Emergency Response Fund in 2006 and USD 6.7 million to it in 2007, making Finland the twelfth and tenth largest donor respectively in these years. Finland has also given EUR 1.6 million to the Peacebuilding Fund (not funded from the humanitarian budget). Due to its low level of earmarking and its core funding, the 2005 evaluation found that Finland is respected as a “good” donor.

Since the Finnish government is providing multi-annual development funding to UN agencies such as UNDP and UNICEF, the humanitarian aid unit would like to do the same. This move has been opposed on the grounds that it is not possible to “plan” humanitarian aid though it would be logical to provide more predictable core funding to Finland’s key UN partners that are engaged in humanitarian activities.

**Figure C.3. Geographical Distribution of Finnish Humanitarian Aid in 2006**



Source: Ministry of Foreign Affairs, Finland

Core funding and unearmarked contributions mean that it is difficult to identify the geographical distribution of all of Finland’s humanitarian assistance. However, based on the data available, Figure C.3 shows the main regions that received humanitarian assistance in 2006. This highlights the fact that Finland’s humanitarian aid is largely concentrated in Africa, which received almost 54% of total funding in 2006 (the “rest of Africa” category covers mainly the Horn of Africa and Sudan). Asia (covering Indonesia, Pakistan, Myanmar and North Korea), Lebanon and the Occupied Palestinian Territories) were the other main recipients of humanitarian aid, with Colombia the only recipient country in Central and Latin America.

### Policy coherence and co-ordination

This section discusses three areas of policy coherence that are relevant for Finnish humanitarian aid: the role of the military in humanitarian aid; civil protection activities; and linking relief, rehabilitation and development aid.

### ***The role of the military***

As in many other donor countries, the Finnish army is keen to see humanitarian aid and reconstruction ongoing in areas where they are operating. The MFA, though, wishes to maintain a clear distinction between humanitarian aid and military activities. This is because neutrality – and being perceived to be neutral – is critical for the safety of humanitarian aid workers in increasingly dangerous environments. The use of military escorts can not only compromise the perceived neutrality of humanitarian organisations but can also put aid recipients at risk of attack. Therefore, the 2007 Humanitarian Aid Guidelines make it clear that military assets should only be used to provide humanitarian aid as a last resort, and then should be in accordance with the Oslo guidelines, whereby humanitarian actors play a leading role.

### ***Civil protection***

Civil protection operations respond to acute crises which have been caused by natural disasters such as flood, forest fires, and earthquakes, as well as those caused by industrial accidents, oil spills, or radiation accidents. They differ from humanitarian aid in that they seek to save property and the environment, as well as human life. In Finland, civil protection activities are managed by the Interior Ministry, which can call up emergency services and deploy them in less than a day. In general, Finnish humanitarian aid is targeted at developing countries eligible for ODA while civil protection operations focus on developed countries, particularly EU Member States. However, civil protection operations have been undertaken in humanitarian crises such as the Bam earthquake, highlighting an area of overlap and the need to clarify the role of the different actors. In particular, the Ministry of Foreign Affairs has been concerned that civil protection activities in developed countries might be funded from the humanitarian aid budget since policy documents do not make it clear that humanitarian aid should be restricted to ODA-recipient countries. Hence, the MFA's Humanitarian Aid Guidelines argue that the government should develop a separate mechanism to finance assistance to developed countries:

In the case of a sudden, acute catastrophe in an industrialised country, general emergency aid can, in the name of global solidarity, be provided if the country in question requests it and the Government of Finland so decides. This aid cannot, however, be funded from the development co-operation resources, but the government should make a separate appropriation for it. *Humanitarian Aid Guidelines* (MFA, 2007b).

NGO representatives interviewed by the review team suggested that the Ministries of Interior and Foreign Affairs should establish a forum to discuss humanitarian and policy issues. This would help clarify the division of labour between them and facilitate the flow of information on planned activities, thereby preventing overlap.

### ***Linking Relief, Rehabilitation and Development (LRRD)***

The new Humanitarian Aid Guidelines place great emphasis on the importance of linking emergency response with rehabilitation and development activities. They argue that “Finnish HA is underpinned by the concept of systematic linkage between relief and development” and that Finland tries to ensure a smooth transition between the different phases of assistance. Recognising that LRRD requires “seamless co-operation” both within the MFA and with other ministries, the guidelines suggest that planning for reconstruction should begin at the earliest possible stage and that the humanitarian aid unit should take the initiative, “ensuring that the principle of continuity is implemented in all MFA activities”. With regard to funding prevention and reconstruction, the humanitarian aid unit can support reconstruction activities, when these are included in international

humanitarian appeals, and disaster preparedness. The geographical departments of the MFA which are responsible for development activities, are expected to be responsible for country and regional-level linkage activities and disaster preparedness.

In practice, though, it is more difficult to implement the linkage between humanitarian and development programmes. It is unclear how reconstruction and disaster preparedness activities will be funded because the Global Affairs Department does not see scope to fund them from its limited humanitarian budget and the Development Policy Department seems to focus primarily on its eight priority countries.

However, Finland is not alone in struggling to implement LRRD – the European Commission has been working on the issue for at least a decade. As a result, the Finnish government is also active in promoting the concept of LRRD in international fora, ensuring that it is taken into account in international strategies for poverty reduction and by the country strategy documents of the UN, the EU, the World Bank and regional organisations.

### ***Co-ordination***

The MFA has a number of co-ordination mechanisms to ensure the smooth working of its matrix organisational structure. One of these was a Humanitarian Aid Working Group, but this has been discontinued. The Humanitarian Aid Unit already works closely with the Development Policy Department to have funding decisions approved but it is also geared towards developing more transparent consultations with the MFA's geographical departments when drawing up humanitarian aid funding proposals based on the UN consolidated appeals process.

In addition, the Humanitarian Aid Unit is represented in the Security and Development Working Group established in 2005. This includes all MFA departments as well as representatives from the Interior Ministry, the Ministry of Defence and the Prime Minister's Office. This group does not focus on particular countries or crises but is a forum for an exchange of views both within the MFA and between ministries. It has discussed, in general terms, issues related to LRRD, such as crisis prevention and ways to move from humanitarian aid to sustainable development. This could be a useful group in which to discuss and resolve ambiguities around the application of the Oslo guidelines and the distinction between humanitarian aid and civil protection.

### **Promoting learning and evaluation**

Finland's humanitarian aid policy documents are usually based on evaluations of its aid programme: the 1997 humanitarian aid policy paper was based on an evaluation in 1996 and the new Humanitarian Aid Guidelines respond to a 2005 evaluation of the aid programme from 1996-2004. As the 2005 evaluation makes clear, though, it is difficult to assess the impact of Finnish humanitarian aid specifically because much of it is provided as core or unearmarked funding, which is good practice.

The Humanitarian Aid Guidelines (MFA, 2007b) state that it “is the obligation of the donor to take responsibility for decisions and actions in the field”. However, as a relatively small humanitarian donor which provides core and unearmarked funding, the Finnish government is limited in its ability to influence agency decisions and actions on the ground. Instead, the Humanitarian Aid Unit tries to be active on the boards of the multilateral agencies that it funds in order to encourage them to improve their performance. For example, Finland hopes to become chair of OCHA's Donor Support Group in 2008. It also actively encourages debate in the European Union's Humanitarian Aid Committee.

Finland does not undertake field assessments of humanitarian aid partners and has had limited involvement in jointly funded evaluations so it is reliant on the evaluations undertaken by implementing organisations for information about performance and impact on the ground. As a result, the 2005 evaluation highlights the need for more systematic monitoring and for strengthening the capacity of the humanitarian aid unit and Finnish embassies (though there are a very limited number of Finnish embassies in developing countries). In response, the 2007 Humanitarian Aid Guidelines commit the government to making greater use “of the comments and opinions of representatives working in and near the crises areas” (MFA, 2007b), and to strengthening the monitoring of the effectiveness of aid delivery. The Humanitarian Aid Unit has recruited a humanitarian policy advisor to implement the evaluation’s recommendations.

### **Future considerations**

- Finland is commended for its pragmatic approach of channelling its humanitarian aid through a limited number of multilateral and international organisations. Finland is a well-respected humanitarian aid donor whose low level of earmarking sets a good example. However, its influence is limited partially due to its small humanitarian aid budget.
- The MFA’s current decision-making procedures for humanitarian aid are cumbersome and have the potential to cause delays. Therefore, the MFA should streamline these procedures as a priority.
- Since the Humanitarian Aid Guidelines emphasise the importance of funding crisis prevention, disaster preparedness and recovery activities, the MFA should clearly establish how these activities will be funded and how the linkage will be co-ordinated between the humanitarian and geographical departments.
- To ensure implementation of the Oslo guidelines on the use of military and civil defence assets in humanitarian aid, it would be helpful for the MFA to talk with the Ministry of Defence, to promote understanding of the guidelines and how to manage relationships between humanitarian and military activities.
- Since the 2005 evaluation of the Finnish humanitarian aid programme highlighted some poor performance by fund recipients and given the limited monitoring and evaluation capacity of the Humanitarian Aid Unit, it may be helpful for the government to participate more in joint evaluations and field visits with other donors.

***Annex D*****Vietnam Field Visit Report**

As part of the review of Finland's assistance programme, a DAC team consisting of representatives of Germany, Norway and the OECD Secretariat visited Vietnam from 21-25 May 2007. The team met with Finnish development co-operation officials in Vietnam, representatives of the Vietnam Government and local officials, officials from bilateral and multilateral aid agencies, academics and local organisations. Discussions were held in Hanoi and during a short visit to Haiphong.

**Introduction to Vietnam**

Vietnam is a sizeable developing country (329 560 km<sup>2</sup>, estimated population 83 million) bordered by China, Laos and Cambodia. It ranks at number 109 out of 177 in the United Nation's Human Development Index 2006 (UNDP, 2006). It is one of the most rapidly growing economies in the world. Compared with countries of similar income levels, its social development indicators are high (an average life expectancy of 70.8 years and an adult literacy rate of 90.3%). The country has had remarkable success in overall income poverty reduction in the last 15 years principally due to the combined effects of an active policy for equity and income distribution, with exceptionally high sustained economic growth of 6-7% per annum. At the current rate of growth it is expected to graduate to Middle Income Country (MIC) status by 2010. The UNDP's Human Poverty Index is down to 15.7%. However, there are persistent pockets of poverty, particularly among ethnic minorities in the mountainous regions, and this has been reflected in a slowing down of the overall rate of income poverty reduction in recent years.

The former French colony achieved independence through armed struggle in 1954. Under the Geneva accords of that year the country was divided into the communist ruled north and a military dictatorship in the south, and after a bitter war with heavy US engagement, the country was united under Communist Party rule in 1975. The following decade was one of little economic growth, but in 1986 the enactment of the "*doi moi*" (renovation) policy, introducing structural reforms and increased economic liberalism, brought unprecedented economic growth. However, the country remains a one-party state with strict limitations on political and civil rights.

Vietnam's first *Comprehensive Poverty Reduction and Growth Strategy* was issued in 2002. However, it was prepared outside the constitutionally mandated five-year planning cycle and was not well linked to resource allocation. A *Socio-Economic Development Plan* for 2006-10 merges the poverty reduction strategy and five-year plan and should provide a stronger basis for the alignment of external assistance to the country's development priorities.

**Finland's presence in Vietnam - strategy and programming**

Finland has been providing development assistance to Vietnam since the 1970s and it is one of Finland's eight long-term partner countries. Although Finland is a small donor, accounting for less than 1% of total aid received by Vietnam, and though Vietnam is far from being aid dependent,

Finland's long-term commitment to key sectors (*e.g.* the water and forestry sectors) and the careful manner in which it interacts ensures that it is held in high regard by the Vietnamese authorities.

On the initiative of the embassy, Finland has prepared a country strategy paper for its co-operation with Vietnam which is in line with overall Finnish development policies and emphasises the need to increase aid effectiveness. The strategy has a long-term perspective (2006-15) and includes the gradual phasing out of assistance after the assumed graduation of Vietnam to MIC status around 2010. It covers the entirety of Finland-Vietnam relations (beyond development assistance) and has a clear focus on the three key sectors of aid intervention (water and sanitation, forestry and rural development) and the introduction of new aid modalities. The strategy paper has been shared with Vietnam for information, but it is not a joint document between the two countries.

Country strategy papers are not required by headquarters. There is scope to consider whether the systematic use of strategy papers in the Finnish system would be of benefit (provided they are focused, strategic, comprehensive, long-term and, where appropriate, jointly developed with the partner). In order to make the strategy paper a useful instrument to enhance mutual accountability, a proper system of results-based monitoring of its implementation could be put in place.

European Union partners in Vietnam provided positive feedback on Finland's Presidency of the EU. Finland was seen to be active, focused and having steered a considered diplomatic course. Despite its small size and limited resources, Finland is generally perceived to be a highly respected actor by the partner and donor community; and is seen to be adding value in Vietnam.

### **Policy coherence**

Policy coherence for development is clearly noticeable in the country strategy paper. The objectives of increased trade and investment, respect for human rights and accountable administration are integrated in the strategy along with a focus on poverty reduction. In practice, however, the first two objectives are promoted primarily through separate interventions.

Trade policy is mainly an EU matter. It is noted that Finland defended Vietnam's continued open access to the EU market (*e.g.* for leather shoes) and opposed restrictions supported by some other EU members. There are two instruments for promoting commercial relations: concessional credits (see below) and the recently established Finnpartnership (promoting commercial match-making). There has been little progress with Finnpartnership in Vietnam so far.

Human rights issues are pursued mostly at political levels (bilateral as well as within the EU and other groupings such as the like-minded donors group). In addition, small amounts of grant aid are allocated for specific activities through the Fund for Local Co-operation. This is used to promote human rights, transparency and good government by financing small-scale civil society and grassroots projects. All international donors in Vietnam face the difficult challenge of how to promote human rights, good governance and democracy in a one-party state with strong political controls. Finland should ensure it makes use of the DAC publications *Integrating Human Rights into Development: Approaches, Experiences and Challenges* (OECD, 2006b) and *Human Rights and Aid Effectiveness* (OECD, 2007b) in order to make its contribution more effective.

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

Finland's strategy in Vietnam includes an indicative financial plan for 2006-15. Grant-based development assistance in 2005 was EUR 15 million. The plan outlines a rise of ODA to over EUR 20 million in 2010, followed by a scaling down to zero by 2015, when Finnish assistance to

Vietnam is expected to end (although more mature forms of co-operation will continue beyond 2015, in particular private sector co-operation). This is longer-term planning than most other donors and the information is shared with the Government of Vietnam, therefore providing predictability. Financial planning in collaboration with headquarters appears to work smoothly and the embassy can influence allocations by “arguing their case”.

Aid allocations are clearly focused on three sectors. From 1994 to 2005, 35% of total commitments have been allocated to water supply and sanitation, 22% to rural development and 10% to forestry. Targeted budget support was introduced in 2006 and a total commitment of EUR 17 million has been made for the next four years. There is also the Fund for Local Co-operation with a planned annual budget of EUR 500 000 between 2007 and 2012. The selection of sectors is based on a long history of involvement in these areas, the subsequent expertise, comparative advantage and mutual trust that has built up, and the Vietnamese Government’s demand for Finland to continue focusing on these sectors.

Bilateral co-operation funds are allocated with the primary objective of poverty reduction whereas the Fund for Local Co-operation is complementary and used to finance governance and human rights activities. The fund’s current rules restrict its use to interventions outside the public sector. Given differences between countries,<sup>36</sup> the Finnish authorities could make the scheme more flexible or grant exceptions to the rule on a case-by-case basis for embassies that have proven responsible use of the funds.

Finland’s development co-operation is seen by some of its partners to include a relatively large proportion of expensive foreign technical assistance, and it may need to consider whether this is optimal long-term and whether such assistance could be used even more effectively for training and capacity building. However, Finland was complimented for systematically ensuring that the selection of chief technical advisors was done jointly by Finland and Vietnam.

### **Organisation and management**

The Finnish Embassy remains small despite having expanded in recent years. There are two regular embassy staff working full-time on development co-operation and four locally-employed staff (one Finnish, three Vietnamese). Including the Ambassador (more than 50% of whose time is spent on development assistance), the embassy’s development staff are seen as active, high profile and professional.

Headquarters and the embassy have developed an implementation plan (MFA, 2005e) for piloting the delegation of responsibilities to the field. Despite intentions for further delegation in a second phase, the plan remains weak in decentralising decision-making. It is mainly a description of division of labour between headquarters and the country level whereby the embassy essentially has a supporting role. As a consequence, decision-making remains cumbersome. More effective decentralisation, including the delegation of decision-making authority to grant ODA funds, negotiate agreements and make financial transactions, could be considered in order to streamline administration. Further decentralisation might also require enhancing the capacity of the embassy, and will be more effective if a system of performance-based management is put in place.

The Fund for Local Co-operation’s small-scale projects considerably add to the embassy’s workload, and their added value seems to be marginal – at least at the present scale of activity. Care is

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36. In the Vietnamese context, civil society organisations are only starting to emerge and the rule impedes, for example, support aimed at strengthening democracy through local governments.

needed to avoid inventing too many small-scale complementary schemes, so that staff can concentrate on strategic areas of co-operation and ensure the overall effectiveness of the embassy's work.

Generally information appears to flow quickly from headquarters to the field, but headquarters should ensure that all potentially useful documents - such as the recently agreed and previously referred to DAC documents on human rights which are highly relevant to the work in Vietnam – are systematically disseminated.

### Aid effectiveness

Finland and Vietnam are fully committed to implementing the Paris Declaration agenda. In July 2005 Vietnam and development partners signed up to the *Hanoi Core Statement*, an agreement and local action plan to implement the Paris Declaration commitments in Vietnam. On the strategic and planning level, Finnish co-operation is aligned with Vietnamese development priorities and strategies. Alignment is less complete when it comes to implementation, partly due to deficiencies in the country systems.

Finland is introducing a mix of aid modalities by increasing its programme forms of aid. An assessment of the options (MFA, 2005c) concluded that because of fiduciary risks Finland should not contribute to the existing multi-donor general budget support, namely the World Bank managed Poverty Reduction Support Credits. However, the embassy was encouraged to engage in targeted budget support. Specifically, the embassy was advised to consider backing the National Targeted Programme P135 which sits within the government budget and is an earmarked programme for support to infrastructure in mountainous regions. Finland is also considering allocating direct budget support to provincial authorities, and is encouraged to pursue this innovative approach, combined with a well thought-out strategy for capacity development.

Finland is also looking at innovative funding mechanisms in its core sectors of intervention. It is one of four donors participating in the multi-donor Trust Fund for Forests. This pooled funding modality was established in June 2004 when Finland, the Netherlands, Sweden and Switzerland signed a memorandum of understanding with the Ministry of Agriculture and Rural Development and agreed to pool their ODA support to Vietnam's forest sector. Furthermore, the embassy has established a special fund for flexible short-term consultancies in order to participate actively in donor co-ordination and develop innovative schemes. Stand-alone projects will be phased out.

In Vietnam, of four parallel Project Management Units (PMUs) recorded by Finland, three are envisaged to continue within the focus sectors. However there is a significant level of confusion over defining a parallel PMU. Detailed discussions, and comparisons with the practice of other donors, over the workings of one particular PMU recorded as parallel demonstrated that it was unclear whether it should be classified as a parallel PMU or not. Along with the rest of the donor community, Finland needs to give further thought to the definition of parallel PMUs. Like all donors, Finland needs to continue to attempt to reduce parallel, duplication of activity, where this is occurring.

An attempt was made to introduce results-based management in 2005, (MFA, 2005d). This included a table of selected national indicators and sources of verification, but little in terms of impact assessment. However, this initiative was not followed up. Finland could consider continuing its results-based management work, building on this promising first attempt. This is also the only major recommendation from the independent evaluation (2001) of Finland's bilateral co-operation with Vietnam, which has not been implemented.

Finland is also encouraged to build actively on its initiative during the EU Presidency to enhance donor complementarity and the division of labour, and to follow-up on this in Vietnam with other donors. It should support and implement the *EU Code of Conduct on the Division of Labour in Development Policy* (European Commission, 2007a) agreed at the EU General Affairs and External Relations Council in May 2007.

### **Capacity building**

According to the *Memorandum* provided to the DAC and the peer review team by Finnish development co-operation (OECD, 2007a), capacity development does not appear to have been taken up as a strategic challenge within the context of the Paris Agenda. However, evidence of co-operation in Vietnam suggests that capacity development has been, and continues to be, an important element of its interventions. In particular, good results from the long-standing co-operation in the area of water supply (*e.g.* with the Hanoi Water Supply Company as well as the soon-to-be finalised Haiphong Water Supply Company) provide proof of sustainable complex institutions developed with Finnish co-operation. Finland could look at developing more systematic approaches to link the various project/programme related capacity development activities to the broader agenda of improving governance.

Finland is also an active partner in a multi-donor initiative to contribute to a pooled funding scheme, the Comprehensive Capacity Building Programme under the Ministry of Planning and Investment. The Programme's objective is to improve the overall legal and institutional framework for managing ODA, including through introducing new aid modalities which use government systems. Along with other donors, Finland could consider integrating the Comprehensive Capacity Building Programme into other existing efforts for capacity development in the fields of public finance, budget planning and implementation, and financial control in general. It could look at supporting this expanded type of programme beyond 2008.

### **Concessional credits**

Contrary to the recommendation of the 2003 peer review, Finland decided to continue its concessional credit scheme. Concessional credits are part of Finland's development policy, and in Vietnam's case help to prepare for the phasing out of ODA and to increase commercial relations. Their use is in line with OECD rules, and both the embassy and the Vietnamese authorities emphasise the added value of these resources. However, the scheme is extremely complicated and cumbersome, despite the fact that there have been several revisions of MFA guidelines on concessional credits, and that the embassy has worked to improve the operation of the scheme in Vietnam. Further simplifications of the scheme need to be considered, including further decentralising decision-making and upgrading the operational back-up at the embassy.

### **Debriefing**

At the end of the visit the peer review team made a short presentation and had a useful discussion with the embassy about a number of initial impressions and important issues to investigate further. These included country strategy papers; policy coherence, and in particular human rights and trade; aid allocations and the use of technical assistance; decentralisation and the flexibility of Fund for Local Co-operation rules; new aid modalities, particularly forms of Budget Support, including targeted and provincial; parallel Project Management Units (PMUs); results based management; capacity building; and concessional credits.

## 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.<sup>37</sup>*

**ASSOCIATED FINANCING:** The combination of official development assistance, whether grants or loans, with other official or private funds 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 to total 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 ODA RECIPIENTS:** The DAC uses a List of ODA Recipients which it revises every three years. From 1 January 2005, the List 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 GNI USD 825 or less in 2004 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 826 and USD 3 255 in 2004. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

**UMICs:** Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 3 256 and USD 10 065 in 2004.

**DEBT REORGANISATION (ALSO RESTRUCTURING):** Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, or 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 ODA 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.

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

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37. For a full description of these terms, see the *Development Co-operation Report 2006*, Volume 8, No. 1.

**EXPORT CREDITS:** Loans for the purpose of trade and which are not represented by a negotiable 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). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* as an indication of the opportunity cost to the donor of making the funds available. 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 loan flows include deductions for repayments of principal (but not payment of interest) on earlier loans.

**OFFICIAL DEVELOPMENT ASSISTANCE (ODA):** Grants or loans to countries and territories on the DAC List of ODA Recipients and multilateral agencies active that are undertaken by the official sector; with the promotion of economic development and welfare as the main objective; 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):** Developmentally relevant transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as official development assistance.

**TECHNICAL CO-OPERATION:** Includes both a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and b) 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):** The flow data are expressed in United States dollars (USD). 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. This means that adjustment has been made to cover both inflation in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.

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