21 December 2021

Public Sector Investment Facility Guidance Notes

Financing for developing countries' public investments using Finnish technology and expertise

Ministry for Foreign Affairs of Finland

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1. PUBLIC SECTOR INVESTMENT FACILITY - PURPOSE AND OBJECTIVES

The *Public Sector Investment Facility* (PIF) is one of Finland's development policy instruments for financing investments in developing countries. Its purpose is to provide financial support to such public sector investments in developing countries that are aligned with the UN Sustainable Development Goals (SDGs) and that make use of Finnish technology and expertise. PIF financing is a form of concessional credit for investments in a target country, granted by a financial institution, which is supported not only through an interest subsidy but also through other assistance granted from Finnish development cooperation funds.

Support can be given for investments focusing on, for example, the social, water supply, energy or cleantech sectors or other sectors eligible for development cooperation. The instrument is intended for investments that support target countries' efforts to achieve the Sustainable Development Goals (SDGs) of the 2030 Agenda and the objectives of the Paris Agreement. Investment projects supported by the PIF instrument should be based on the target country's own national development needs, and the procurement process for the investments should be conducted in compliance with the relevant legislation in the target country. The target country has the main responsibility for the project's overall expenditure and for obtaining project financing. PIF financing is intended to cover part of the investment and associated capacity building costs. Development cooperation belongs to the administrative branch of the Ministry for Foreign Affairs (MFA), which means that the MFA is responsible for decisions to grant PIF financing. Finnvera, which is Finland's official export credit institution, takes responsibility for granting buyer credit guarantees on credits for investment.

Internationally, PIF investment credits are listed among the so-called mixed credits that combine funding for development cooperation and export credits. PIF financing is a form of tied development assistance, which means that the funding is tied to a Finnish contractor delivering the project. When Finnvera makes the decision on issuing a buyer credit guarantee, it determines whether the project meets the domestic content requirement. All aspects of the granting, use and supervision of

PIF financing are regulated by the Act on Concessional Credit Granted to Developing Countries (1114/2000) and the Government Decree (1253/2000) issued by virtue of the Act. Provisions on the conditions and principles applied to the State's export credit guarantee activities are in turn laid down in the Act on the State's Export Credit Guarantees (422/2001).

Further direction and guidance for the implementation of PIF financing is provided by the recommendations of the OECD Development Assistance Committee and the OECD Arrangement on Officially Supported Export Credits (the so-called OECD Consensus), which has been elevated to legal status in the European Union through the co-decision procedure.

PIF financing is granted only to projects that support the achievement of Finland's development policy objectives. The projects should be implemented in compliance with Finland's development policy principles, such as the results-based approach, human rights-based approach, and tax responsibility as well as the guideline for the cross-cutting objectives. Furthermore, to be eligible projects should fulfil Finnvera's export credit terms and conditions.[1]

The PIF is one of the Team Finland instruments administered by the MFA. The Ministry collaborates closely with other Team Finland stakeholders in every core aspect of PIF financing.

1 https://um.fi/documents/35732/0/Tax+responsibility+principles+in+Finland%27s+development+cooperation+funding+to+the+private+sector.pdf/cf0cd254-c616-81a6-59dc-aec6908317df?t=1614867347967

2. TARGET COUNTRIES AND PROJECT PARTNERS

Eligibility for PIF financing is determined according to the criteria set out in the Act on Concessional Credits Granted to Developing Countries (1114/2000) and in the OECD Consensus. The principles of sustainable lending are followed in the appraisal of all target countries. In the assessment of target countries' debt sustainability, such international principles as the recommendations of the IMF's Debt Sustainability Framework are followed.

Section 3 of the Act on Concessional Credits states that concessional credits can be granted to countries that in the OECD's annual assessment are deemed eligible for mixed credits. According to the OECD Export Credit Consensus, financing instruments such as the PIF can be used to finance projects[2] in least developed countries (LDCs), low-income countries (LICs) and lower middle-income countries (LMICs).

Section 6 of the Act on Concessional Credits states that the acceptance of a credit as a concessional credit is subject to an export guarantee from Finnvera. Finnvera's decision is based on a credit risk assessment. If the target country is in the LDC category and/or if it is heavily indebted, further investigations should be undertaken as necessary.

In principle, the PIF eligibility of any given country can be checked from Appendix 1 to these Guidance Notes and from the Ministry for Foreign Affairs' PIF website, where the list is updated annually[3].

PIF investment credit is arranged by a financial institution (bank) approved by Finnvera. Finnvera makes the decision to grant buyer credit guarantees. In the target country, the borrower is usually the ministry of finance or central bank of the country concerned. The actual investment purchase is made by a public sector body (project owner) in the target country. The investment is delivered by a Finnish company or business cluster (project contractor) that meets Finnvera's buyer credit guarantee criteria. The Ministry for Foreign Affairs grants financing for the implementation of the project from the development cooperation appropriations. This support is intended to cover the interest on the investment credit (interest subsidy) as well as

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2 https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm

3 https://um.fi/investointituki-kehitysmaille

part of the investment's purchase costs. The MFA and Finnvera monitor the project's implementation. The project contractor and the project owner reports on the progress of the project to the Ministry for Foreign Affairs during the project and submit its final report after the project has been completed. Upon project completion, the project owner will report to MFA on the project's development impacts.

Financing procedure for concessional credits

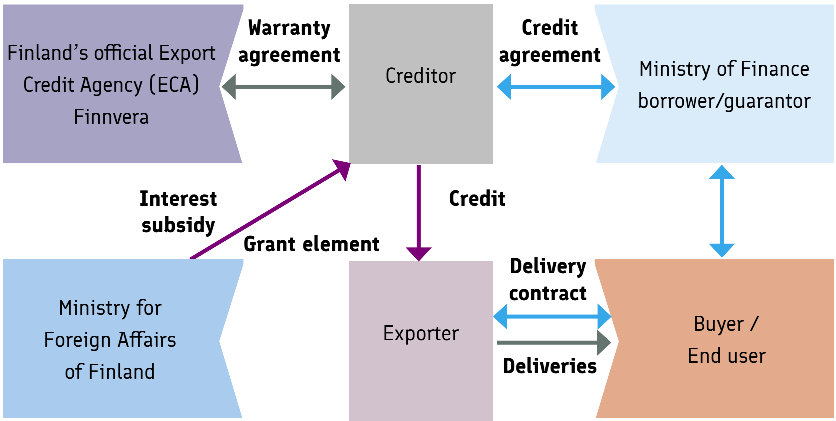

Diagram of the parties implementing the project and their contractual relationships

3. DEVELOPMENT IMPACTS

PIF financing can be made available for projects that support efforts to achieve the objectives of the 2030 Agenda and the Paris Agreement in the projects' target countries. The guiding principles of PIF financing are determined in the goals and priorities set out in Finland's current development policy programme.

The expected development impacts of projects receiving PIF financing and the monitoring of their achievement should be defined based on the general principles of the **results-based management**[4] (RBM). This requires that the project documentation describes:

- **Project outcomes:** In addition to project outputs (goods, services, capital), the project documentation should define the project's immediate outcomes upon project completion as well as the long-term impacts at least two years after completion. The immediate and long-term outcomes describe the project's expected development impacts for beneficiaries in the target country. The outcomes should have indicators that can be monitored and measured during the project as well as defined target levels and related baseline data. If some of the baseline data and objectives cannot be determined at the project's planning stage, they can be established when the project is launched.
- **Monitoring and evaluation system:** It is important that the realisation of the project's outcomes, i.e. development impacts, can be monitored and evaluated. The project documentation should therefore include a description of the project's monitoring and evaluation system, which means detailing how the project produces information on its progress towards the intended outcomes.

When the outcomes and activities in projects receiving PIF financing are determined, the following factors that are central to the quality of the project's development impacts should be considered:

- The project's outcomes support the target country's national development plans.
- The project's outcomes promote the fulfilment of the key objectives of Finland's development policy, poverty eradication and reduction of inequality.

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[4] For further information on development impacts, see Appendix 5.

- The project's outcomes respond to the needs of the people in the target country and promote their rights and/or strengthen the ability of the governments in the target countries to ensure the fulfilment of human rights.
- Potential impacts on human rights have been assessed as part of the project's more extensive risk and developmental impact assessment to ensure that the realisation of people's human rights in the target country are not adversely affected as a result of the project.
- The project has a strong national and local ownership in the target country.
- The project produces technically, institutionally, socially, environmentally and economically sustainable outcomes. In addition, key human rights principles should be taken into account in the implementation of the project (participation and inclusion; non-discrimination and equality; transparency and accountability).
- The cross-cutting objectives of Finland's development policy (gender equality and non-discrimination, especially the rights of persons with disabilities, as well as climate resilience and low emission development) and the guidance note on the human rights-based approach are applied in the planning, implementation and monitoring of the project[5].
- The project makes good use of existing local knowledge and skills, which strengthens the operations and maintenance as well as ownership of the investment.
- During the implementation of the project, the project owner in the target country will be advised on how to use, maintain and take care of the investment.
- Once completed, the project should use renewable energy sources if locally available.

Project documentation must describe how the qualitative factors mentioned above were taken into account in project planning.

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[5] https://um.fi/publications/-/asset_publisher/TVOLgBmLyZvu/content/kehityspolitiikan-l-c3-a4pileikkaavien-tavoitteiden-ohjeistus

https://um.fi/publications/-/asset_publisher/TVOLgBmLyZvu/content/ihmisoikeusperustainen-lahestymistapa-kehitykseen-yleisohje

4. FINANCING MECHANISM

PIF financing consists of an investment credit and associated financial support granted to the target country.

4.1 PIF investment credit

The investment credit is granted by a Finnish or international financial institution approved by Finnvera. The Finnish project contractor selects a suitable financial institution from amongst those that have an existing framework agreement for credit provision or that are prepared to conclude a separate credit agreement with the target country in order to arrange financing for the investment. To eliminate the need of separate negotiation of terms and conditions for each credit agreement, it would be good to select a financial institution that has an existing framework agreement. In the target country, the borrower is usually that country's finance ministry or central bank, which negotiates the terms of the credit agreement and the costs for credit provision directly with the financial institution. The MFA does not take part in these negotiations.

The investment credit has a maturity of 10 years. The repayment schedule does not include grace periods after project completion.

4.2 PIF financing

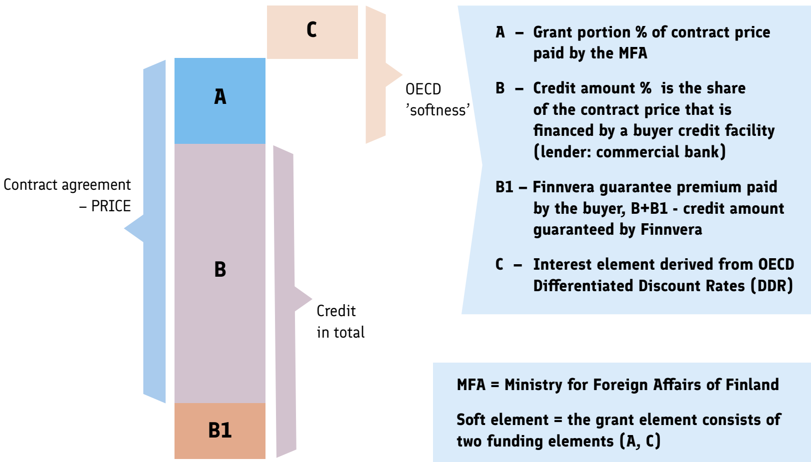
The MFA grants PIF financing in connection with investment credits for the following purposes:

- To cover interest payments on the investment credit, which is why the credit carries zero interest for the target country (interest subsidy).
- To cover part of the costs of the investment purchase, which is why the target country does not have to take out a loan for the full value of the investment purchase. The financial support is made available both to support the actual investment and to build supportive capacities.

PIF financing is granted in compliance with the OECD's minimum concessionality levels for tied aid credit. The concessionality level is calculated based on the total costs incurred to the State of Finland from the contract agreement and the interest payments on the investment credit. The minimum concessionality level depends on the target country's tied aid eligibility status:

- In Least Developed Countries (LDCs), the minimum grant element is 50%
- In low-income countries (LICs) and lower middle-income countries (LMICs), the minimum grant element is 35%

PIF elements of financing



Financing will not be granted until a credit agreement has been signed between the target country and the financial institution.

The target country borrower begins to withdraw and repay the loan in accordance with an approved payment schedule. The interest subsidy to the financial institution is paid on the day that the interest is due as prescribed in the credit agreement between the financial institution and the target country. The State Treasury takes care of the payment of the interest subsidy on behalf of the MFA.

The MFA pays the financial support intended to cover the investment purchase costs directly to the bank account opened for the project at the financial institution. After the project owner has approved the project contractor's deliveries and services, the financial institution will forward the support allocated to the project costs via the project account. The payments will be made in connection with each withdrawal of investment credit so that their percentage is always constant.

The MFA and the financial institution agree on the payment arrangements of financial support for projects either individually or under a framework arrangement.

4.3 PIF financing agreement between Finland and target country

PIF financing is paid out of development cooperation funds. Finland and the target country negotiate a Memorandum of Understanding (MoU) or a cooperative agreement on the use of the funds, monitoring and reporting, and other practical aspects of PIF financing. The MoU or the agreement can be prepared individually for each project or under a framework arrangement. The MFA will only grant PIF financing to a country with which it has a valid MoU/agreement.

4.4 Finnvera's buyer credit guarantee

The Finnish project contractor or the financial institution granting the investment credit applies for a buyer credit guarantee covering the investment loan from Finnvera. Finnvera makes the decision on issuing the credit guarantee to a project that meets the relevant eligibility criteria. Finnvera notifies the OECD of the PIF project after it has obtained a permission to do so from the MFA. This notification is part of the OECD Consensus procedure. The procedure allows 30 working days for countries participating in the Consensus to object and, for example, to request additional information on the project to be able to ascertain their eligibility for concessional credit. Finnvera can offer a credit guarantee to a Finnish project contractor or financial institution after the 30-day objection period if the project is not contested by other Consensus participants.

5. PROJECT CONTENT AND SCOPE

An investment project can consist of goods, commodities, work or services that meet the PIF criteria. In addition to the actual investment, the project should include measures that ensure the sustainability of the project results. These may include the development of operational and management systems related to the use of the investment and training of management and operating staff as well as the inclusion of the organisation of maintenance services and/or spare parts services in the project. The project documentation should present a cost breakdown of the project components, such as goods, services and technical support.

5.1 Scope of project and acceptable project costs

The recommended value of the contract agreement for a PIF project is 10–30 million euros. This includes both the investment and the capacity-building measures needed to ensure its sustainability. At least 10% of overall project costs should be earmarked for capacity-building, including the development of operating systems, training, spare parts services, etc.

Only costs directly related to the implementation of the approved project are considered as acceptable project costs. Project costs should be itemised in the contract or its appendices. No more than 20% of the total value of the contract can be allocated to construction, because construction work should be done mainly locally. PIF financing can, however, be used for construction planning and supervision purposes. Commissions paid to agents involved in preparing the project should not exceed 5% of overall project costs. Commissions should be detailed in the project contract agreement.

The projects should have a Finnish interest, included in Finnvera's terms on guaranteeing the export credit. In practice, this usually means that at least one third of the value of the PIF project's contract agreement consists of Finnish technology and/or expertise. In addition, the contract agreement should be concluded with an enterprise registered in Finland.

However, it is recommended that the project make use of the target country's capacities and that local purchases be made when that is reasonable from the point of view of project implementation.

5.2 Operations and maintenance training related to the project

Local capacity building is central to ensuring the operations and maintenance of a PIF financed investment and must be included in project planning from the earliest stages. The project proposal (project document or feasibility study) must describe the systems development and training programmes that will be included in the project. Adequate resources must be earmarked for these purposes, typically 5–10% of total investment costs, and these should be incorporated in the contract agreement. Training for institutional capacity building within the target organisation can be provided through various organisations from either the target country, Finland or other countries. In some cases, the capacity of the local organisation can also be strengthened through other local projects with development cooperation funding: examples include bilateral projects with Finnish funding, institutional cooperation projects (ICI) and NGO projects implemented by CSOs. In this case, these projects are not included in the PIF contract agreement.

5.3 Economically sound but commercially non-viable investments

The PIF is intended to support public sector projects that are economically sound but commercially non-viable investments and that promote socially, environmentally and economically sustainable development in that country. However, under OECD rules the project may not be commercially profitable. Commercial profitability means that the investment project would allow the borrower in the target country to increase its profit margins to such an extent that it could pay off the interest and repayments on a commercial loan out of those increased profits. The project's commercial non-viability will be assessed in connection with the appraisal of the project proposal. Finnvera ascertains that such an assessment has been made before making its guarantee decision. Finnvera also assesses whether the borrower in the target country has the means to pay back the debt. As in other projects, it is important to ensure that life cycle costs are sustainably covered.

6. PROJECT APPRAISAL CRITERIA

PIF financing is granted only for projects that support the achievement of Finland's development policy objectives. The projects should comply with Finland's development policy principles, such as the results-based management, human rights-based approach and tax responsibility as well as the guidelines for the cross-cutting objectives. Furthermore, eligible projects should meet Finnvera's terms and conditions for export credits. Projects do not have to meet all criteria in the initial stages of preparation, but the criteria listed below should be satisfied before the MFA makes its financing decision.

6.1 Minimum criteria

PIF financing is only granted to projects that meet the following criteria:

- The project content must be compatible with the OECD DAC classification. (See Appendix 1. Countries eligible for PIF financing)
- The project must fulfil the OECD Consensus principles on officially supported export credits, i.e. it must satisfy the OECD conditions as regards country and concessionality level.
- The project must be commercially non-viable.
- The target country must be listed as PIF eligible, i.e. included in the LDC, LIC or LMIC category under the current OECD classification.
- Finnvera must be satisfied that the target country is eligible for a guarantee and that the borrower is creditworthy.
- The project must have a project proposal in place. It must cover the content of the PIF instrument's feasibility study guidelines as fully as possible.
- As a rule, projects must have completed their environmental and social impact assessment (ESIA), which is equivalent to the performance standards required by the International Finance Corporation (IFC)[6], which is a member of the World Bank Group. The project must minimise any adverse impacts on the environment and society that, based on the impact assessment, may arise.

6 http://www.ifc.org/performancestandards

- The project must not have adverse effects on human rights or, based on the MFA guidance notes for the implementation of the human rights-based approach in Finnish development cooperation, be human rights blind[7]. Project documentation must include a human rights impact assessment in compliance with the UN Guiding Principles on Business and Human Rights[8].
- The project and the company implementing it must comply with the principles of good governance, tax responsibility, transparency and anti-corruption action. The company implementing the project must comply with the tax responsibility principles set for Finland's development cooperation funding.
- The project must not have any adverse impacts on gender equality, non-discrimination or climate. Risk and impact assessments must have been prepared in line with the guideline for the cross-cutting objectives. These may be part of the ESIA.
- Project documentation must describe the project's outcomes and the project's Monitoring and Evaluation System.
- Project documentation must include the project owner's description of its chain of supervision responsibility for monitoring compliance with the contract agreement.
- The projects must have a clear post-project operations and maintenance plan, including their budget.
- A description of the project contractor's current corporate social responsibility (CSR) policy and its most recent CSR report, if available, must be included in the documentation.
- The tax policy or tax strategy followed by the company implementing the project and its latest tax footprint report, if available and if it is not included in the separately appended corporate social responsibility policy and/or report, must be presented as part of the project documentation.
- The project must have a financing bank approved by Finnvera.
- The project must have an adequate Finnish project content approved by Finnvera, and this content must generate added value for the target country.
- The project must not be contrary to the EU Directive (EU) 2015/849[9] (money laundering and terrorist financing).

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7 https://um.fi/publications/-/asset_publisher/TVOLgBmLyZvu/content/ to human rights-based/corruption-related development general rule e

8 Human Rights-Based Approach in Finland's Development Cooperation, Guidance note, 2015 and United Nations Guiding Principles on Business and Human Rights (http://business-humanrights.org/en/un-guiding-principles)

9 https://eur-lex.europa.eu/legal-content/FI/TXT/PDF/?uri=CELEX:32015L0849&from=FI

6.2 Complementarity and coherence

The PIF instrument aims to support investments in the target country and in this way complement other channels of Finnish development cooperation. Its aim is to generate added value for project owners in the target country through projects for which commercial loans cannot normally be used or for which grants alone would not be available. A project that receives PIF financing may also belong to a larger investment package in which part of the financing is provided by the project owner and/or an international development bank, for instance. However, a project with partial PIF financing should have a separate procurement decision, credit agreement and buyer credit guarantee.

Where possible, PIF projects are used to foster new synergies with other activities funded by Finland. Other development cooperation instruments include the Institutional Cooperation instrument (ICI), the Developing Markets Platform (DevPlat), Finnpartnership, Finnfund and the Energy and Environmental Partnership Trust Fund, EEP Africa. Projects and programmes funded by the Government of Finland are implemented in Finland's partner countries for bilateral development cooperation. However, PIF projects can be developed in all countries that meet the minimum PIF criteria (Appendix 1).

6.3 Corporate social responsibility

The MFA channels financing to sustainable development that is grounded on the human rights-based approach. In this regard, the MFA follows the United Nations Guiding Principles on Business and Human Rights, which entail duties and obligations for both states and corporations. Project partners (project owner and project contractors) are expected to demonstrate environmental and social responsibility, which covers, for example, identifying the environmental, wider societal and human rights risks and impacts. Project partners are expected to prevent and minimise possible negative impacts on the environment and society. The human rights-based approach requires either a separate human rights impact assessment or its inclusion in the project's environmental and social impacts assessment. Furthermore, it is expected that the project owner has in place a mechanism as envisioned by the UN Guiding Principles on Business and Human Rights for identifying and addressing any adverse impacts emerging during the course of the project.

The company implementing the project is expected to comply with the principles of good governance, tax responsibility, transparency and anti-corruption activities. The company should be committed to the OECD Guidelines for Multinational Enterprises, which deal with responsible business conduct related, among other things, to conditions of employment, payment of tax liabilities, consumers, fight against corruption and the environment[10]. In addition, as regards tax responsibility, the company should comply with the tax responsibility principles set for Finland's development cooperation funding. The company's commitment to socially responsible practices should be reflected in the principles guiding the company's operations. Its corporate social responsibility policy should include internationally recognised corporate social responsibility issues, examples of which can be found in such documents as ISO 26000 – guidance on social responsibility and the *website* of the Global Reporting Initiative (GRI)[11], an organisation linked to corporate social responsibility reporting. The document is available for Finnish companies on the website of the Finnish Ministry of Economic Affairs and Employment.[12]

6.4 Project owner in the target country

The project owner in the target country should meet the following criteria before the MFA can take a decision to grant financing to a PIF project:

- The project owner is committed to responsible use of Finnish development cooperation funds. Finland and the target country must conclude a letter of interest or a cooperative agreement on PIF financing.
- The project owner should have sufficient capacity and experience to be a credible partner and take responsibility for the implementation of the project, including its efficient administration and to undertake any necessary building construction or installation work.

10 Guidelines for Multinational Enterprises http://tem.fi/documents/1410,877/2,870,803/OECDn+toimintaohjeet+ in English and http://www.oecd.org/corporate/mne/ in Finnish + companiese.pdf/2e3aa906-8 cd6-4,151-b 24F-1588c 079 dda4

11 https://www.globalreporting.org

12 http://tem.fi/yhteiskuntavastuun-ohjeet-ja-periaatteet

6.5 Project's Finnish lead contractor

The MFA cannot take a decision to grant financing to a PIF project until the project's Finnish lead contractor has met the following criteria:

- The project contractor is a company registered in Finland.
- The project contractor has an operational CSR policy prepared in line with the United Nations Guiding Principles on Business and Human Rights.
- The project contractor has prior experience of projects of a similar scope and scale or can otherwise prove that it has the experience and competence required in completing the project successfully.
- The project contractor has sufficient capacity to implement the project in a responsible way in a challenging environment and with due consideration of the target country legislation, including provisions on employees' rights, the environment and the payment of necessary taxes. Even if the legislation in the target country does not meet international standards, such as international human rights standards or the safeguards of the IFC/World Bank with regard to environmental and social impacts, the project contractor must meet the requirements of international norms and standards.
- The project contractor has managed its tax liabilities and follows the tax responsibility principles set out for Finland's development cooperation funding.

6.6 Combating corruption

The project owner in the target country, the Finnish project contractor and any subcontractors involved in the project should comply with the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (Finnish Treaty Series 14/1999) and the United Nations Convention against Corruption (Finnish Treaty Series 58/2006).

7. PROJECT CYCLE

An investment needed in a target country can develop into a project to be conducted under PIF financing in several different ways. The basic requirement for PIF financing is strong project ownership in the target country, which is reflected in the project's high priority status. Partners actively involved in developing the project may include the target country's central administration, the project owner in the target country, the company interested in delivering solutions contributing to development impacts, and/or the financial institution interested in financing the project. Partners preparing a project for PIF financing can solicit preliminary assessments and ideas on project development from the MFA and Finnvera. Finnvera can provide comments on eligibility for buyer credit guarantee, on OECD tied aid rules under the OECD Consensus, etc.

The MFA seeks to identify project proposals that may be eligible for PIF financing at as early a stage as possible by communicating its views and opinions on the project's suitability to PIF funding to those responsible for preparing the project. Since the organisation preparing the project needs to use its resources for project preparation, it is in the best interests of all parties concerned if only those projects move beyond the concept paper stage that have good prospects of materialising.

The MFA aims to ensure that the process from preliminary preparation to final financing decision for a PIF project takes no more than 1–2 years. The speed of project preparation is affected particularly by the target country partner's preparedness to carry out the project preparation and procurement process. The main stages of the project cycle and their estimated durations are described in Appendix 2.

7.1 Concept paper

The preliminary idea and basic information of the project can be submitted to the MFA in the early preparation stage by drafting a concept paper. This provides a useful opportunity to solicit the MFA's view on the project's potential eligibility for PIF financing based on preliminary data.

The MFA announces the deadlines for the submission of concept papers that are reviewed in one batch annually on its website. In its appraisal, the MFA gives its opinion on how the proposed project meets the PIF criteria described above. If the concept paper proves that the project meets or appears to meet the PIF criteria, the MFA notifies the applicant of the matter in writing.

If the MFA considers that the project does not come close to meeting the PIF criteria, the concept paper author will receive written feedback. In its appraisal, the MFA points out both the project's strengths in relation to the PIF criteria and the weaknesses that may hamper the project's prospects of succeeding in the PIF application process. The MFA aims to deliver its assesment to the author of the concept paper within two months from the dead line for the new concepts.

A concept paper may be submitted by a public sector body (such as the potential borrower or project owner) in the target country, a Finnish company interested in delivering the project, a company based in the target country or a third country, or a financial institution interested in financing the project. Appendix 3 shows a template for a concept paper. The paper should be submitted to the MFA or the Finnish Embassy in the target country. The concept paper must be accompanied by a letter from the borrower in the target country (Ministry of Finance or Central Bank), or the relevant ministry or body, expressing preliminary interest in using PIF financing for the project.

Upon request by the party submitting the concept paper, the MFA can inform Finnish companies that this kind of project is under preparation via the Team Finland network. This may improve the applicant's prospects of securing the best possible Finnish technology and expertise for the investment under preparation.

The MFA makes the final PIF funding decision only after the project owner and project contractor in the target country have signed a contract agreement on the implementation of the project and the borrower in the target country and the commercial bank registered in the European Economic Area (EEA) have signed the loan agreement.

7.2 Project proposal

The relevant authority in the target country (such as the project owner or borrower) should submit a project proposal describing the investment for which it hopes to receive financing from Finland to the MFA or the Finnish Embassy in the country. The project proposal may be in the form of a Project Document or Feasibility Study prepared on the investment project. A template for the proposal is available in Appendix 4. Alternatively, the project proposal may be structured using a national template or a template approved by international development finance institutions. However, it should cover as comprehensively as possible the issues presented in the concept paper (Appendix 3) and in the project plan templates (Appendix 4).

The project proposal should meet the PIF minimum criteria and clearly express the project's outcomes.

The Ministry for Foreign Affairs can support the preparation of environmental and social impact assessments (ESIA), human rights assessments and development impact indicators. The support is available for new companies/project owners selected for further PIF preparation or for projects that will not progress without the support after an external assessment (appraisal). The support is provided as a consultancy service. In addition, applications for financial support for project development can be submitted to Finnpartnership after a PIF concept has been selected for further development.

7.3 Project appraisal

The project's feasibility is assessed jointly by the MFA and Finnvera. The key document in this appraisal is the project proposal submitted by the target country, but the broader framework of the investment project is also considered in the appraisal. During the appraisal process, the MFA may use the services of an external consultant who is bound by the secrecy obligation.

If both the MFA and Finnvera share the assessment that the investment project in principle seems eligible for financing, the MFA will commission an in-depth outside appraisal of the project to be carried out in accordance with the criteria set out in section 6. The appraisal refers to a comprehensive consideration of the feasibility of the project and its compliance with the PIF criteria, including whether it is economically sound and commercially non-viable investment. The appraisal also includes the review of the following: a report related to ensuring the project's compliance with the human rights-based approach (due diligence), the tax arrangements related to the project, and the tax responsibility of the company implementing the project. An assessment of the sustainability of project outcomes is an integral part of the appraisal.

Based on the appraisal, improvements may be suggested to the project with a view to enhancing its development impacts, human rights-based approach, implementation of the cross-cutting objectives, and/or investment's sustainability. The MFA aims at delivering the possible recommendations based on the appraisal to the project owner within 90 days of receipt of the project proposal. If the project owner intends to incorporate these recommendations in the project proposal and in the tender documentation, it should inform the MFA in writing and submit the updated documents describing project implementation and contents. An internal quality assurance team at the MFA assesses the feasibility of the updated investment project. The MFA aims to communicate the quality assurance team's feasibility appraisal within 60 days of the receipt of the updates.

If the MFA's internal quality assurance team deems that the project fulfils the PIF criteria, it prepares a written notification indicating that the MFA is in principle prepared to provide PIF financing for the investment project. However, this does not yet constitute a binding decision on the MFA's part. The purpose of the written notification is to give the project owner the go-ahead to launch the procurement process.

7.4 Procurement process

The project owner is responsible for making the investment purchase, including preparing tender documents, reviewing the bids submitted, making the procurement decision, conducting the contract agreement negotiations and awarding the contract. The project owner selects the project contractor in compliance with current legislation in the target country through competitive tendering arranged for Finnish companies or direct negotiation with one or more bidders, provided that this is permitted under national law in the target country. If agreed in advance with the project owner, the MFA is entitled to appoint an impartial expert to be present at the opening of tenders. However, the expert does not take part in reviewing the tenders.

If the project contractor is not selected through competitive tendering, the MFA assesses that the prices quoted for delivery are in line with world market prices and that support provided from development cooperation funds does not distort local competition. This takes place when the MFA makes its final decision on financing.

A Finnish company may also have won an international bidding process organised by the project owner. In this case, the winning bid may have been made on the condition that the project receives PIF financing.

7.5 Contract agreement

Once the procurement decision has been made, the project owner should enter into negotiations on a contract agreement with the winning Finnish bidder. The contract should be drawn up subject to the condition that it will enter into force if the MFA decides to grant financial support. The MFA is not party to the contract agreement and does not participate in the negotiations.

The contract agreement should be based on internationally recognized standards, such as the World Bank *Standard Bidding Document & Procurement of Works*[13] and the International Federation of Consulting Engineers' (FIDIC) suite of contracts (such as the Conditions of Contract for Construction Multilateral Development Bank Harmonised Ed. *Version 3* June 2010)[14]

The parties to the contract agreement should also agree on the payment of local taxes, guarantees for project delivery and the repair of any defects during the warranty period. In the contract negotiations, the Finnish tenderer must not distort competition by seeking to get tax concessions that are not available to other tenderers in a similar situation or have not been agreed on in the PIF framework agreement. It is also important that the contract agreement specifies how any updates to the project content or timetable should be carried out.

The project owner should have a clear chain of supervisory roles within its organisation for monitoring compliance with the contract agreement. The project owner should submit this document to the MFA together with the contract agreement and its appendices for the MFA to be able to conclude the financing decision.

7.6 Application for PIF financing during or after the procurement process

The borrower in the target country may apply for PIF financing for a project during or after the procurement process. In this instance, the target country should submit to the MFA the necessary project documents so that the PIF eligibility of the project can be assessed. The MFA assesses the feasibility of the project together with Finnvera. If the procurement process has been completed, additional documentation may be requested for assessment purposes. It is important for the project owner to bear in mind that compiling the necessary documentation for the MFA and Finnvera and the subsequent appraisal process may take several months.

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13 http://documents.worldbank.org/curated/en/458841468739545677/pdf/multi-page.pdf

14 http://fidic.org/books/construction-contract-mdb-harmonised-ed-version-3-june-2010-Harmonised-Red-Book

7.7 Financing decision

After the contract agreement and credit agreement have been signed, the MFA makes its decision on whether or not to grant PIF financing for the project. The contract agreement is assessed to ensure that it meets the specified minimum criteria and that it is consistent with the content of the project proposal approved by MFA. A project that is granted financing should also have a valid decision on a buyer credit guarantee made by Finnvera.

If the project contractor is not selected through competitive bidding, the MFA ensures that the prices quoted for delivery are in line with world market prices and that the support allocated from development cooperation funds does not distort local competition. If the Finnish project contractor has changed or there have been significant changes in ownership since the early stages of project preparation, the MFA reassesses the project contractor's tax responsibility.

The MFA communicates its financing decision in writing to the project owner, Finnvera, the financial institution and the project contractor.

8. PROJECT IMPLEMENTATION

The project owner has the main responsibility for the project's implementation. The contractor delivering the project is responsible for implementing the project within the set timetable and in accordance with what is agreed in the contract agreement.

In the contract, the project owner and the project contractor should also agree on how any changes in project content and project timetable or any potential disagreements over project implementation will be resolved. The MFA is not party to the contract agreement and therefore not party to any disputes concerning implementation.

The project's payment schedule is decided jointly by the financial institution, the project owner and the project contractor. The financial institution should submit the project's payment schedule before the launch of the project to the MFA and to the State Treasury. If any changes take place in the payment schedule, the financial institution should provide an updated schedule.

If the credit withdrawal period is extended, the financial institution should contact Finnvera to get an approval for the extension.

8.1 Reporting

In accordance with section 8 of the Act on Concessional Credits (1114/2000), the MFA oversees that the concessional credit is used for the purpose determined in the decision. Section 9 of the same Act states that the credit institution should include in an agreement on a concessional credit the condition that it has the right to call in the credit if the recipient fails to fulfil the obligations imposed on it in the credit agreement.

The project owner and project contractor should report every six months to the MFA on project progress. The report should describe how the project is progressing towards the intended outcomes presented in the project's feasibility study. The report should describe how the project is progressing in relation to the intended outputs, outcomes and impacts set for it in the project plan, the status of project implementation, the project's expected date of completion, the status of project disbursements as well as realised or anticipated risks. Taxes and tax-like payments related to the project must be reported as part of the reporting of results.

On other taxes, at least the corporate tax must be itemised. If there are any changes in the project's schedule, the project owner and project contractor should inform the MFA about them.

The financial institution responsible for project financing should report every six months to the MFA and the State Treasury on progress with payments. If there are any changes in the project's payment schedule, the financial institution should submit an updated plan. If the credit withdrawal period is extended, the financial institution should contact Finnvera to get approval for this extension.

If necessary, the MFA may undertake or commission external experts to conduct evaluations and reviews on project implementation.

8.2 Completion of project

Upon completion of the project both the project owner and project contractor submit a final report to the MFA. The final report should include an assessment of the completion of the project in relation to the expected outcomes identified in the feasibility study, an assessment of the sustainability of the project's outcomes as well as a post-project operations and maintenance plan, including a related budget and financing plan. Any warranty obligations related to project delivery should be met in accordance with the contract agreement.

8.3 Post-project reporting on development impacts

The project owner is responsible for reporting on project performance two years after the project's completion. The report should include an assessment of the project's development impacts in relation to the expected outcomes identified in the feasibility study. The report should assess the project's impacts on poverty eradication and on reducing inequality. The report should also examine the project's impacts on the cross-cutting objectives and on human rights. Furthermore, the report should include an assessment of the sustainability of the project's outcomes as well as a post-project operations and maintenance plan, including a related budget and financing plan. Based on this report, the MFA may undertake or commission external experts to conduct a separate ex-post evaluation of the project's development impacts and sustainability.

Appendix 1. Countries eligible for PIF financing[15]

Group 1: 35%

Under its credit guarantee policy of 6 March 2018, Finnvera can consider granting export credit guarantees for PIF credits to the following LMICs. These countries fulfil the OECD’s conditions and are eligible for tied export credits. In these countries, the concessionality level required by the OECD is 35% (Group 1).

Bolivia
Egypt
El Salvador
Philippines
Ghana
Honduras
Indonesia
India
Kenya
Morocco
Ivory Coast
Uzbekistan
Vietnam

[15] Finnvera reserves the right to make changes.

Group 2: 50%
Finnvera may consider granting export credit guarantees for PIF credits to the following LDCs. In these countries, the concessionality level required by the OECD is 50% (Group 2).

Bangladesh
Benin
East Timor
Cambodia
Lesotho
Nepal
Rwanda
Senegal
Tanzania
Uganda

Group 3: Case-by-case discretion
Finnvera grants export credit guarantees to the countries listed below only in exceptional cases (Group 3). Such an exceptional case could be, for example, participation in a project package funded by an international development bank.

Algeria 35%
Eswatini 35%
Cameroon 35%
Moldova 35%
Mongolia 35%
Nicaragua 35%
Nigeria 35%
Pakistan 35%
Papua New Guinea 35%
Tunisia 35%
Ukraine 35%
Angola 50%
Bhutan 50%
Laos 50%

Group 4 does not grant guarantees

The following list consists of countries, which fulfil the OECD tied-aid criteria but, due to high credit risk, do not qualify for export credit guarantees with long credit periods. (Group 4): Afghanistan, Burundi, Burkina Faso, Djibouti, Eritrea, South Sudan, Gambia, Guinea, Guinea-Bissau, Haiti, Yemen, Central African Republic, Kyrgyzstan, Democratic Republic of the Congo (Kinshasa), Republic of Congo (Brazzaville), Republic of Korea, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Niger, Zambia, Sierra Leone, Somalia, Tajikistan, Sudan.

Appendix 2. Description of the project cycle

The target country should have strong ownership of the project. Therefore, the duration of the project cycle depends principally on the project owner's timetable and resources available for project preparation. During the project cycle, the MFA's role is to give feedback on the documents prepared by the project owner prior to the project's approval for PIF financing. The MFA consults Finnvera as necessary. In matters concerning the buyer credit guarantee, the financial institution interested in financing the project and the Finnish company should liaise directly with Finnvera.

The MFA seeks to identify projects that might qualify for PIF funding as early in the process as possible. Project preparation ties up resources on the part of the organisation developing the project, and it is in the best interests of all parties concerned if only those projects move beyond the concept paper stage that have good prospects of succeeding. The MFA sets annual deadlines for the submission of concept papers that will be reviewed and appraised in one batch by the Ministry. In its appraisal, the MFA gives its opinion on all relevant criteria for PIF financing. In addition, the MFA assesses the adequacy of its budget frameworks for successful project implementation. However, the MFA does not issue its final decision on PIF financing until the project owner in the target country has made a procurement decision and signed a project contract agreement. Additionally, a MoU/contract agreement on PIF financing must be in force between Finland and the target country.

The following clarifies the different stages of the project cycle. These guidelines describe the MFA's role in the various stages. Some matters in the different stages may take place at the same time. It is possible that the MFA does not become aware of a project until the procurement stage, for instance. The MFA aims to ensure that PIF project preparation does not take more than 1.5 to 2.5 years but, depending on the project owner's capacities for project preparation, the process may take longer.

1. Preparatory stage:
   - Identification of investment need in the target country
   - Preparation of a concept paper
   - Preliminary negotiations between the target country and the financial institution on the credit agreement
   - Preliminary discussions on buyer credit guarantee between Finnvera and the financial institutions / Finnish companies

2. Consultation stage, duration 2 months:
   - Submission of the concept paper to the MFA
   - Internal consultations between the MFA and Finnvera
   - The MFA's written assessment of the concept paper

3. Planning stage, estimated duration of the process at the MFA 12 months:
   - Preparation of a project proposal
   - Submission of the project proposal to the MFA
   - The MFA's internal assesement of the project proposal
   - External appraisal of the Feasibility Study, commissioned by the MFA
   - The project owner's updates to the Feasibility Study and their submission to the MFA
   - The MFA quality assurance group's assessment and written notification to the project owner
   - Preliminary discussion on the allocation of funding to the project between the MFA and the financial institution

4. Procurement process, estimated duration 6–9 months:
   - The project owner prepares procurement documents
   - The target country enters into negotiations on direct purchase procedures / opens a competitive bidding process. The MFA informs Finnish companies about the competitive bidding through the Team Finland network
   - The target country reviews the bids received and makes a procurement decision
   - The target country takes responsibility for contract negotiations and signs a provisional contract agreement
   - Finnvera makes buyer credit decision on the project and informs the MFA of its decision
   - The target country and the financial institution sign a credit agreement to fund project
   - The project owner submits the contract agreement and appendices for review by the MFA

5. The project financing decision, estimated duration 1 month:
   - The MFA reviews the content of the contract, using an external expert if necessary
   - The MFA makes the funding decision and informs the project owner, Finnvera, Finnvera, the financial institution and the project contractor in writing

6. Implementation, estimated duration 2–3 years:
   - The project owner and the project contractor assume responsibility for the project implementation
   - The project owner and the project contractor report to the MFA on the project progress every six months
   - The financial institution and the target country exchange information as decided in credit agreement
   - The financial institution reports regularly to the MFA on transactions under the payment schedule
   - On project completion, the project owner and the project contractor submit a final report to the MFA

7. Post-project follow-up, estimated duration 2–5 years:
   - The project owner and the project contractor are responsible for post-project warranty and related services as specified in the contract agreement
   - The project owner reports to the MFA on the project's development impacts two years after project completion
   - The MFA can conduct or commission external experts to conduct ex-post evaluations of the project's development impacts and sustainability. The evaluation should also examine the project's success (or failure) in promoting the MFA's own development policy objectives and guidelines (especially the human rights-based approach and cross-cutting objectives).

8. Repayment of the export credit, 10 years after the implementation:
   - Grace periods for repayment are not possible after project completion
   - The project owner repays the loan to the financial institution that granted the loan
   - The MFA pays the interest on the loan to the financial institution via the State Treasury

Appendix 3. PIF concept paper

A concept paper on a proposed investment project can be submitted by a public sector body in the target country, a company interested in delivering the project, or a financial institution interested in financing the project. The concept paper should follow the template below and document as many of its information items as possible. The concept paper should be 2–5 pages in length, plus any appendices. The paper together with its appendices should be sent by email to pif@formin.fi.

Cover page	• Name of the proposed project
	• Project's target country
	• Project partners (if known): Project owner in the target country
	  ○ Recipient of the credit in the target country
	  ○ Finnish lead contractor
	  ○ The financial institution arranging the credit agreement
	• Project sector
	• Project's preliminary overall costs and estimated share of PIF financing
	• Contact information of the person submitting the concept paper and his/her proposed role in the project
	• Date of the concept paper

Details of the project owner in the target country	• Brief description of the organisation • Prior experience of projects of a similar scope or scale • Prior experience of projects financed by international providers of funding • Contact information

Brief project description	• Background on how the need for the investment has emerged? Organisation that identified the investment need
	• Is the project among the priorities of the target country authorities? What authorities?
	• Possible earlier stages of the project;
	  ○ previous stages of planning
	  ○ earlier implementation
	  ○ Status of project infrastructure
	• Does the project belong to a national development programme in the target country or to an investment programme funded e.g. by a development finance institution?
	• Will the project contribute to the materialisation of a specific development goal (UN SDGs, Finland's development policy goals) and how would this happen?
	• Project outcomes
	  ○ Concrete content of the project receiving PIF financing and preliminary outputs, outcomes and impacts
	  ○ A short description of the investment
	  ○ Description of project's target area
	  ○ Other aspects of project, e.g. improvement and development of project owner's organisation
	• Budget
	  ○ PIF financing
	  ○ Total financing
	• Proposed schedule for implementation, broken down by major project stages

Preliminary plan for post-project operations and maintenance	• Measures to ensure long-term sustainability of operations and maintenance
	  ○ Improvement of organisational management and practices
	  ○ Training of operations and maintenance personnel
	  ○ Ensuring spare parts supply
	  ○ Resources and financing required by aforementioned actions

Human rights-based approach and cross-cutting objectives	• Who are the project's beneficiaries? Do the beneficiaries include groups in vulnerable situations? Will results data be disaggregated by age, gender and disability? Of which other population groups will results data be gathered? • Has the project assessed its presumed impacts on the beneficiaries of the project and, more broadly, on the realisation of human rights, gender equality, non-discrimination and the fulfilment of the rights of persons with disabilities? • Have the assessments brought up potential factors/risks that have a harmful impact on the realisation of human rights, gender equality, the situation of those in a vulnerable position and the rights of persons with disabilities, and how have they been addressed? • How are the key human rights principles followed by the MFA (participation and inclusion; non-discrimination and equality; accountability and transparency) taken into account in the implementation of the project? Does the project open opportunities for promoting the realisation of human rights, gender equality, non-discrimination or disability inclusion? How? Does the project include measures that promote accessibility for persons with disabilities? • Have the impacts of the project on the environment and climate been assessed? How? Can the eventual adverse impacts be avoided or mitigated? • Have safeguards been taken to ensure that the risks and impacts arising from climate change or environmental degradation do not threaten the feasibility and sustainability of the project? • Does the project promote the introduction of low emission, climate resilient and environmentally sustainable solutions? How?

Information on the borrower in the target country	• Brief description of the organisation • Prior experience of the use of a similar financing instrument in projects financed e.g. by development banks • Contact information
Additional information (if known)	• Finnish contractor / contractors • Description of the Finnish technology and expertise that the project would use • Finnish companies' prior experience of projects on similar scale and/or international projects • Financial institution approved by Finnvera that is prepared to provide the financing required by the borrower in the target country • Description of other partner organisations, their roles in the project and contact information
Appendices	• A letter of support for the project from the Ministry in the target country that is responsible for developing the project. The letter should contain the following information: the project's name, a brief description of the national programme or larger investment package in the target country to which the project belongs, and the Ministry's awareness of that PIF financing consists of both a grant element and concessional credit • Any project proposal and/or feasibility study that has already been prepared. • Other reports and material prepared on the project • The project company's CSR policy and the company's latest CSR report, if available. • The project company's existing tax policy or strategy and the company's latest tax footprint report, if available and it is not included in the separately appended policy and/or report on corporate social responsibility.

Appendix 4. Project proposal

A public sector body in the target country (such as the project owner or credit recipient) must prepare a project proposal for which funding is applied and submit it to the MFA or a Finnish embassy. The project proposal should include as many of the details presented in this template as possible, meet the PIF minimum criteria as fully as possible, and clearly describe the project's outcomes. The project proposal should provide the same information as is given in the concept paper, but in much greater detail. The project proposal should be accompanied by a letter of support from the Ministry of Finance or other authority responsible for borrowing in the target country. If the Finnish Ministry of Foreign Affairs grants support for the preparation of the project proposal, a letter from the target country's Ministry of Finance should be submitted before the support is granted. The proposal and its appendices should be sent by email to keo-50@formin.fi.

Cover page	• Name of proposed project • Project's target country • Project partners (if known): ○ Project owner in the target country ○ Recipient of the credit in the target country • Additional information (if known) ○ Finnish lead contractor ○ The financial institution arranging the credit agreement • Project sector • Project's preliminary overall costs and estimated share of PIF financing support • Contact information of the person submitting the project document and his/her proposed role in the project • Date of the project document
Contents	
Abstract (1-2 pages)	• Project owner and other partners involved in the project • Project beneficiaries and the project's objectives • Brief description of the project (investments, associated projects) • Duration of the project implementation • Estimate of operations and maintenance provision (including costs) • Estimated project budget (overall budget, PIF financing)

Information on the project owner in the target country	• Brief description of the organisation • Project owner's prior experience of running projects of a similar scope or scale • Prior experience of projects with international financing • Contact information
Background	• Description of how the need for the investment has emerged and what organisation has identified the investment need • Does the project belong to a national development programme in the target country or to an investment programme funded e.g. by a development financing institution? • Description of which authorities in the target country have placed the project among their priorities • Does the project contribute towards a specific development goal (UN sustainable development goals, Finland's development policy goals) and how? • Any earlier project stages • Earlier planning stages • Possible earlier implementation related to the project, e.g. investments that the project will continue • Status of the project infrastructure • Description of any existing agreements, procurements or financing related to the project

Human rights-based approach and cross-cutting objectives	• Who are the project's beneficiaries? Do the beneficiaries include groups in vulnerable situation? Will results data be disaggregated by age, gender and disability? Of which other population groups will results data be gathered? • Has the project assessed its presumed impacts on the beneficiaries of the project and, more broadly, on the realisation of human rights, gender equality, non-discrimination and the fulfilment of the rights of persons with disabilities? • Have the assessments brought up any factors/risks that may have a harmful impact on the realisation of human rights, gender equality, the situation of those in a vulnerable position and the rights of persons with disabilities, and how have they been addressed? • How are the key human rights principles followed by the MFA (participation and inclusion; non-discrimination and equality; accountability and transparency) taken into account in the implementation of the project? Does the project open opportunities for promoting the realisation of human rights, gender equality, non-discrimination or disability inclusion? How? Does the project include measures that promote accessibility for persons with disabilities? • Have the impacts of the project on the environment and climate been assessed? How? Can the eventual adverse impacts be avoided or mitigated? • Has it been ensured that the risks and impacts caused by climate change or environmental degradation do not threaten the feasibility and sustainability of the project? • Does the project promote the introduction of low emission, climate resilient and environmentally sustainable solutions? How?

Outcomes and indicators	• Objectives and indicators with which project implementation and project outcomes can be monitored. • Impact: Intended impact at least 2 years after project completion. Description of the project's long-term development impact (e.g. improved access to energy will benefit households and businesses, water supply will improve household health, social sector services, improved state of the environment) • Outcome: Intended immediate outcome upon project completion (e.g. x number of people will gain access to electricity, water, social services, or less waste in the environment) • Impact and outcome indicators should be defined to facilitate monitoring of outcomes and longer-term impact. Baseline information on the indicators should be presented. Wherever possible, follow-up data must be disaggregated by gender, age and disability
Project outputs and components	• Description of the project structure, e.g. different project components, any subprojects broken down by investments, operational development and staff training • Output: Major outputs in different project areas, e.g. equipment installed, structures completed, staff trained
Project implementation	• Description of the project implementation, e.g. if the project is divided into different stages • Description of major project activities • Work breakdown structure (e.g. Gantt chart)
Institutional arrangements	• Description of project's institutional arrangements, e.g. organisations involved in the project implementation and their roles ○ Project owner and the organisation responsible for operations and maintenance of investment ○ The most important authorities related to project ○ Finnish project partners that are committed to the project. ○ Financial institutions and other financiers ○ Organisations involved in the project monitoring and supervision

Monitoring and reporting	• Description of how the project will be monitored • Description of how the project progress will be reported and reporting schedule
Budget	• As detailed description of the budget and its components as possible • Breakdown of the project costs from different sources and the share of proposed PIF financing • The budget, itemised into different areas and outputs, as well as targeted action to ensure the realisation of the human rights-based approach and cross-cutting objectives.
Risks and risk minimisation	• Assessment of the project risks (economic, social, human rights, environmental, institutional and technical risks) • Plan for minimising risks.
The following appendices are required	• A letter of support from the Ministry of Finance (or other target country authority responsible for the borrowing, such as a central bank). The letter should indicate that the authority is willing to take out a soft loan for the PIF project • Work breakdown structure, timetable • Budget • Operations and maintenance plan after project's completion • Environmental and social impact assessments, human rights-based assessments as required in section 6.1. • Reports concerning land use

Appendix 5. Development impacts

PIF projects are aimed at achieving sustainable development impacts in the target countries. The projects are expected to contribute to the achievement of the SDGs of the 2030 Agenda and especially to promote the objectives and priorities of the Finland's current development policy programme.

The United Nations has identified 17 Sustainable Development Goals that include a range of development impacts[16]. PIF projects can contribute to each of them.

1. End poverty in all its forms everywhere.
2. End hunger, achieve food security and improved nutrition and promote declines as agriculture.
3. Ensure healthy lives and promote wellbeing for people at all ages.
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
5. Achieve gender equality and empower women and girls.
6. Ensure availability and sustainable management of water and sanitation for all.
7. Ensure access to affordable, reliable, sustainable and modern energy for all.
8. Promote sustainable economic growth, full and productive employment and decent work for all.
9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
10. Reduce inequality within and among countries.
11. Make cities and human settlements inclusive, safe, resilient and sustainable.
12. Ensure sustainable consumption and production patterns.
13. Take urgent action to combat climate change and its impacts.
14. Conserve oceans, seas and marine resources and promote their sustainable use.
15. Protect, restore and promote sustainable use of terrestrial ecosystems; promote sustainable use of forests; combat desertification; and halt land degradation and biodiversity loss.
16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
17. Strengthen the implementation of sustainable development and foster global partnerships.

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[16] Read more about Sustainable Development Goals on the website of the UN at https://sdgs.un.org/goals

PIF projects can support practically any sustainable development objective. It is important for those involved in the project preparation to define the most relevant SDG or SDGs from the project's perspective, which can be genuinely promoted through the investment. It is important to plan the activities of the project in such a way that they lead to these development impacts through the project's outputs and results. The project application must also explain how these development impacts will be monitored and measured.

The project documentation should describe the expected development impacts of projects that are granted PIF financing as well as the mechanisms proposed for monitoring their achievement based on the general principles of **results based management** (RBM)[17]. This entails a description of:

- **Project outcomes:** In addition to project outputs (goods, services, capital), the project documentation should describe the project's immediate outcomes upon project completion as well as its long-term impacts at least two years after completion. The immediate and long-term outcomes describe the project's intended development impacts for beneficiaries. Project outcomes must have indicators as well as specified target levels and related baseline data, which are presented in the results framework to be appended to the project plan.
- **Monitoring and evaluation system:** It must be possible to follow and assess the realisation of the project's outcomes, that is, its development impacts. The project documentation should therefore include a description of the project's monitoring and evaluation system, which means detailing how the project produces information on its progress towards the intended outcomes.

In assessing the project's development impacts it is essential to make sure that the project is compatible with national development plans in the target country. This is important when assessing the commitment of local authorities to the project and the project's wider impacts on social development. Some countries have multiannual national development programmes. Likewise, ministries and authorities in different sectors often have their own plans for their respective administrative branches. It may be relevant to consider, for example, the country's climate commitments (e.g.

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[17] An example of these principles in the publication: Results Based Management (RBM) in Finland's Development Cooperation – Concepts and Guiding Principles, Ministry for Foreign Affairs (2015). https://um.fi/documents/35732/48132/results_based_managementrbm in_finland_s_development_cooperation

Nationally Determined Contributions, NDC)[18]. A good project is well in line with public administration policies at its various levels both thematically and regionally.

Finnish development cooperation is based on the promotion of human rights[19]. Finland's development cooperation is based on respect for human rights and its objective is to promote the realisation of human rights. Therefore, it is important that PIF project outcomes meet people's needs, promote the realisation of their rights and strengthen states' capacity to implement their own human rights obligations. Furthermore, human rights must be part of the projects' more extensive impact and risk assessment to ensure that the project does not have any negative impacts on the realisation of the human rights of the people in the target country.

The project's development impacts should also be sustainable:

- The project must be economically sustainable, i.e. the client should have the necessary economic resources for post-project operations and maintenance.
- The technology used should be suitable for the conditions in the target country.
- The project client in the target country should have the capacity as an institution to assume responsibility for project implementation and make effective use of its outcomes after project completion.
- The project must be in line with the legislation of the target country and respect international human rights standards in cases where national legislation is not sufficient to guarantee protection in accordance with international human rights standards to which the target country has committed.
- The project should fit in with the social environment so that it has broad approval among various stakeholder groups in local communities. The project must promote equality and non-discrimination in the operating environment and it must not strengthen existing inequality or discrimination. Particular attention should be paid to the status and rights of women and girls and persons with disabilities.
- The project must be sustainable from the point of view of climate and the environment.
- The environmental and social impacts of the project must be assessed in accordance with the OECD principles on export credits.
- The project must promote climate resilient and low emission development.
- Once completed, the project should use renewable energy sources if locally available.

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18 https://www4.unfccc.int/sites/NDCStaging/Pages/All.aspx

19 Human Rights-Based Approach in Finland's Development Cooperation, Guidance note, 2015

It is also important that PIF projects contribute to strengthening national expertise and capacity in the target country. Projects should make good use of existing local knowledge and expertise and so strengthen the operations and maintenance and the ownership of the investment funded. During project implementation, the project owner in the target country will be trained particularly in skills and knowledge supporting proper operations and maintenance of the investment.

The project documentation should describe how the qualitative factors mentioned above have been taken into account in project planning.

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