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Public Sector Investment Facility Guidance Notes

Financing for developing countries' public investments using Finnish technology and know-how

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 the Finnish government's financing instruments in the development policy field. Its purpose is to provide financial support for developing countries' public sector investments that are aligned with the UN Sustainable Development Goals (SDGs) and that make use of Finnish technology and know-how. PIF financing is a form of concessional investment credit provided by a financial institution to the target country, which in addition to an interest subsidy element includes other support measures out of the Finnish government's development cooperation funds.

Financial support can be made available for investments in social services provision, water supply, energy, cleantech or other sectors eligible for development cooperation. The instrument is intended for investments that support target countries' efforts towards Agenda 2030 objectives. PIF supported investment projects shall be based upon indigenous development needs, and the investment procurement process shall be subject to relevant legislation in the target country. The target country will have principal responsibility for the project's overall costs and for obtaining project financing. PIF financing is intended to cover part of the investment and associated capacity building costs. Development cooperation comes under the responsibility of the Ministry for Foreign Affairs (MFA), and therefore the decision to award PIF financing rests with the MFA. Finland's official export credit agency Finnvera is in turn responsible for granting a buyer credit guarantee to cover the investment loan.

PIF investment credits are internationally classified as mixed credits that combine development aid with standard export credit. PIF financing is a form of tied development aid, which means that the funds are tied to the Finnish contractor delivering the project. The determination of whether these requirements are met is made in connection with Finnvera's decision on issuing a buyer credit guarantee. All aspects of the granting, use and supervision of PIF financing are regulated by the Act (1114/2000) and the Government Decree (1253/2000) on concessional credits granted to developing countries. 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 PIF implementation 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 only granted to projects that are consistent with the Finnish government's current development policy principles (including the application of a human rights and results based approach). Furthermore, it is required that eligible projects meet Finnvera's export credit criteria.

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

2. TARGET COUNTRIES AND PROJECT PARTNERS

Eligibility for PIF financing is determined according to the criteria set out in the Act on concessional credits (1114/2000) and the OECD Export Credit Consensus. The principles of sustainable lending are followed in the appraisal of all target countries. The target country's debt sustainability is assessed on the basis of IMF and other international recommendations.

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

Section 6 of the Act on concessional credit states that for a credit to be accepted as an interest subsidy loan, Finnvera shall grant an export guarantee to cover the loan. 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 shall be undertaken as necessary.

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

PIF investment credit is arranged by a financial institution (bank) approved by Finnvera. Finnvera shall also make the decision to grant a buyer credit guarantee. In the target country, the borrower is usually the finance ministry or central bank of the country concerned. The actual investment procurement 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 is deemed by Finnvera to meet the buyer credit guarantee criteria. MFA grants financial support to the project out of Finnish development cooperation funds. This support is intended to cover the interest payments on the investment credit (interest subsidy) as well as part of

1 http://um.fi/investmentfacility

the investment procurement costs and Finnvera’s guarantee fee. MFA and Finnvera shall monitor project progress. The project contractor and project owner shall report on progress to MFA throughout the project’s life cycle. Upon project completion the project owner shall report to MFA on the project’s development impacts.

3. DEVELOPMENT IMPACTS[2]

PIF financing can be made available for projects that support target countries' efforts towards Agenda 2030 objectives. Specific PIF priorities are the development goals and areas of focus identified in the Finnish government's current development policy.

Project documentation shall describe the intended development impacts of PIF funded projects as well as the mechanisms proposed for monitoring their achievement based on the general principles of results based management (RBM). This entails a description of:

- **Project outcomes**: In addition to project outputs (goods, services, capital), project documentation shall 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 in the target country. Project outcomes shall be assessed using a robust set of indicators and compared against targeted outcome levels and the baseline situation.
- **Monitoring and evaluation system**: It is imperative to have in place an effective system for monitoring and evaluating the project's outcomes, i.e. its development impacts. Project documentation shall therefore include a description of the project's monitoring and evaluation system, detailing how the project proposes to report on its progress towards the targeted outcomes.

For purposes of defining PIF funded projects' outcomes and the measures applied to achieve those outcomes, it is necessary to consider the following factors that are central to the quality of the project's development impacts:

- The project's outcomes support the target country's national development plans.
- The project's outcomes respond to end users' needs and advance their rights.
- Human rights are integrated in the project's risk and development impacts assessment to ensure that the project has no adverse affects on human rights in the target country.

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2 For further information on development impacts, see Annex 5.

- The project has strong national and local ownership in the target country.
- The project produces technically, institutionally, socially, environmentally and economically sustainable outcomes.
- The project's outcomes and project implementation are sustainable from a climate change point of view.
- The project shall make good use of existing local know-how and so strengthen ownership and maintenance of the investment.
- During the project know-how and expertise will be transferred to the project owner in the target country in order to support proper operation and maintenance of the investment.
- Once completed, the project should use renewable energy sources if locally available.

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

4. FINANCING MECHANISM

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

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 undertake a separate credit agreement with the target country so that the required financing can be provided. It is recommended that the financial institution selected should have an existing framework agreement, as this will eliminate the need to negotiate the terms and conditions of the credit agreement separately for each project. In the target country the borrower is usually that country's finance ministry or central bank, which will negotiate the terms of the credit agreement and the costs for credit provision directly with the financial institution. MFA will not take part in these negotiations.

The investment credit has a maturity of 10 years. There is no repayment grace period under the credit repayment schedule following project completion.

4.2. PIF financial aid

MFA grants financial aid in connection with the investment credit for the following purposes:

- To cover interest payments on the investment credit, which carries zero interest for the target country (interest subsidy).
- To cover part of the costs of the investment procurement, meaning that the target country will not have to take out a loan for the full value of the investment procurement. The financial aid is made available both to support the investment proper and to build supportive capacities.
- To cover the portion of Finnvera's guarantee fee exceeding 6% (one-off payment).

PIF financial aid is granted in compliance with the OECD's minimum concessionality requirements for a 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 development classification:

- In LDCs the minimum grant element is 50 %
- In LICs and LMICs the minimum grant element is 35%

Financial aid will only be granted once a credit agreement has been signed between the target country and the financial institution.

The target country borrower shall begin to withdraw and repay the loan in accordance with an approved payment schedule. Payment of the interest subsidy to the financial institution shall be made on the day that the interest is due as prescribed in the credit agreement between the financial institution and the target country. Payment of the interest subsidy shall be made by the State Treasury on behalf of MFA.

MFA shall make payment of the financial aid intended to cover the investment procurement costs directly into a project account opened with the financial institution. Once the project owner has approved the project contractor's deliveries and services, the financial institution will forward the financial aid from the project account. Aid payments will be made in connection with each withdrawal of investment credit so that their percentage share is always constant.

MFA and the financial institution shall jointly agree on arrangements for the payment of financial aid either on a project basis or under a framework arrangement.

4.3. PIF financing agreement between Finland and target country

PIF financial aid is paid out of development cooperation funds. Finland and the target country shall negotiate a memorandum of understanding (MoU) or cooperative agreement on the application of funds, monitoring and reporting, and other practical aspects of PIF financing. The MoU or agreement can be prepared on a project basis or under a framework arrangement. MFA will only grant PIF financial aid for a project that has a valid MoU/agreement.

4.4. Finnvera's buyer credit guarantee

The Finnish project contractor or the financial institution granting the investment credit shall apply to Finnvera for a buyer credit guarantee covering the investment loan. Finnvera shall take the decision to grant the credit guarantee once it is satisfied that the project meets the relevant eligibility criteria. Once granted permission by MFA, Finnvera shall notify the OECD of the PIF project. This notification is part of the OECD Consensus procedure. The procedure stipulates that within 30 working days, Consensus participants have the right, among other things, to request additional information on the project to ascertain its eligibility for concessional credit. Finnvera can offer a credit guarantee to a Finnish project contractor or financial institution after the 30-day challenge 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 satisfy the PIF criteria. In addition to the investment proper, the project shall include measures to ensure the sustainability of the project's outcomes, such as the development of operations and management systems, training for operational and management staff, and the provision of services, maintenance and/or spare parts. Project documentation shall indicate the share of different project components such as goods, services and technical support as a proportion of total costs.

5.1. Scope of project and acceptable project costs

The recommended contract agreement value for a PIF project is 5–30 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 purposes of capacity building, such as the development of operating systems, training, spare parts services, etc.

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

PIF projects shall involve a Finnish interest. This is considered to be established when Finnvera's conditions for granting an export credit guarantee are met. In practice this usually means that at least one-third of the PIF project's contract agreement value consists of Finnish technology and/or expertise. The project is thus expected to generate value added for the target country through its Finnish content.

However, it is recommended that the project take advantage of local capacities in the target country and that local purchases are made when that is beneficial to project implementation.

5.2. Operations and maintenance training related to the project

Local capacity building is central to ensuring the operation 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) shall describe the systems development and training programmes that will be included in the project. Adequate resources shall be earmarked for these purposes, typically 5–10 % of total investment costs, and these shall be incorporated in the contract agreement. Training for capacity building within the target organisation can be provided through various organisations either from the target country, Finland or other countries. In some cases capacity building within 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. In this case they are not included in the PIF contract agreement.

5.3. Socially profitable but commercially non-viable investments

PIF is intended to support public sector projects that are beneficial and profitable for the target country's economy and that promote socially, environmentally and economically sustainable development within 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 principal 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 will ascertain that such an assessment has been made before making its guarantee decision. Finnvera will additionally assess 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.

5.4. Investment aid for small investments

Small investment projects with a contract agreement value not exceeding SDR 2 million (approx. 2.2 million euros in 2016; the SDR or Special Drawing Right is an International Monetary Fund basket of currencies) differ from other projects. In connection with the appraisal of the project proposal it is not necessary to establish the project's commercial non-viability, but Finnvera will assess whether the borrower in the target country has the means to pay back the debt before making its guarantee decision. As in other projects, it is important to ensure that life cycle costs are sustainably covered. In small investment projects the credit may exceptionally have a maturity of five years.

6. PROJECT APPRAISAL CRITERIA

PIF financing is only granted to projects that are consistent with the Finnish government's current development policy principles (including the application of a human rights and results based approach). Furthermore, it is required that eligible projects meet Finnvera's export credit conditions. The project does not have to meet all criteria in the initial stages of preparation, but the criteria listed below must be satisfied before 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.
- The project must be in compliance with 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. This does not apply to small investments (see 5.3. above)
- 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 present a project proposal that covers every aspect of the PIF feasibility guidelines.
- The project must have completed an environmental and social impact assessment (ESIA), which is equivalent to the standards of the International Finance Corporation (IFC) under the World Bank Group[3].
- The project must have no adverse human rights effects, nor may it be human rights blind based on MFA guidance notes for the implementation of a human rights based approach in Finnish development cooperation.[4] Project documentation must include a human rights impact assessment in compliance with the

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

4 http://um.fi/public/download.aspx?ID=109804&GUID={E8B07334-3578-4C8C-AD6C-2C836DE8BA7C}

UN Guiding Principles on Business and Human Rights.[5]

- Project documentation shall describe the project's outcomes and the project's monitoring and evaluation system.
- Project documentation shall include a description by the project owner of its chain of command of responsibility for monitoring compliance with the contract agreement.
- The project shall have a clear post-project operations and maintenance plan, including a related budget.
- Project documentation shall include a description of the project contractor's current corporate social responsibility policy and its most recent corporate social responsibility report if available.
- The project shall have a financing bank approved by Finnvera.
- The project shall have an adequate Finnish project content approved by Finnvera, and this content must generate value added for the target country.

6.2. Complementarity and coherence

The purpose of PIF is to support investments in the target country and in this way to complement other channels of Finnish development cooperation. Its aim is to generate value added for project owners in the target country through projects that could not normally be financed with commercial loans or by grants alone. A PIF financed project may also be part of a larger investment programme 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 must have a separate procurement decision, credit agreement and buyer credit guarantee.

All operations and activities supported under the PIF financing scheme shall be aligned with Agenda 2030 sustainable development objectives and with Finnish development policy principles.

PIF projects shall be encouraged, where possible, to create synergies with other Finnish-financed activities. Other development cooperation instruments include the Institutional Cooperation Instrument (ICI), the Business with Impact programme

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5 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)

BEAM, the Finnpartnership programme, Finnfund as well as regional energy and environmental partnership programmes. Finland's development cooperation partner countries have various projects and programmes in place that are financed by the Finnish government. Among these partner countries Kenya, Myanmar, Nepal, Tanzania and Zambia are eligible for PIF financing. However, all countries meeting the minimum PIF criteria can develop PIF projects (Annex 1).

6.3. Corporate social responsibility

MFA financing for sustainable development is based on a human rights based approach. In this regard MFA follows the United Nations Guiding Principles on Business and Human Rights, which entail duties and obligations for both states and corporations. Project partners, both the project owners and project contractors are expected to demonstrate environmental and social responsibility, including the identification of human rights risks and impacts. A human rights based approach requires that a human rights impact assessment is conducted and that the partners acknowledge the findings of this assessment with a view to preventing adverse human rights impacts. 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.

Companies in charge of PIF project implementation are expected to demonstrate socially responsible business practices. They shall also adhere to the OECD Guidelines for Multinational Enterprises, which provide guidance and recommendations for responsible business conduct in such areas as employees' working conditions, the payment of taxes, consumers, the environment and the combating of corruption.[6] This should be reflected in the company's own corporate social responsibility programme. This programme shall include internationally recognized corporate social responsibility principles, examples of which are included in the ISO 26000 social responsibility guidance standard as well as on the Global Reporting Initiative (GRI) website.[7] For Finnish companies, another source of advice and direction for responsible business conduct is the Ministry of Economic Affairs and Employment website.[8]

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6 http://www.oecd.org/corporate/mne/

7 https://www.globalreporting.org

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

6.4. Project owner in target country

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

- The project owner is committed to the responsible use of Finnish development cooperation funds. Finland and the target country shall enter into a memorandum of understanding or a cooperative agreement on PIF financing.
- The project owner has sufficient capacity and experience to in a credible manner be able to ensure efficient administration of the project and to undertake any necessary building construction or installation work.

6.5. Project's Finnish lead contractor

The project's Finnish lead contractor shall meet the following criteria before MFA can take a decision to grant financing to a PIF project:

- The project contractor is a Finnish-registered company.
- The project contractor has an active corporate social responsibility policy.
- The project contractor has prior experience of running projects of a similar scope and scale or can otherwise show the experience and knowledge required to successfully complete the project.
- The project contractor has sufficient capacity to implement the project responsibly in a challenging environment and with due consideration of legislation in the target country, including employees' rights, environmental legislation and the payment of necessary taxes.

6.6. Combating corruption

The project owner in the target country, the Finnish project contractor and any subcontractors involved in the project shall 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 PIF financed project in several different ways. The most 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, a company interested in delivering solutions contributing to development impacts, and/or a financial institution interested in financing the project. Partners preparing a project for PIF financing can solicit preliminary assessments and ideas on project development from MFA and Finnvera. Finnvera can provide comments on eligibility for buyer credit guarantee, on OECD tied aid rules under the OECD Consensus, etc.

MFA will seek to identify potentially PIF eligible project proposals at as early a stage as possible by communicating its views and opinions to the people preparing the project. 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.

MFA is committed 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 the project cycle is crucially dependent on the ability of the project owner in the target country to proceed with project preparation and the procurement process. The main stages of the project cycle and their estimated durations are described in Annex 2.

7.1. Concept paper

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

The deadlines for the submission of concept papers that are reviewed in one batch by the Ministry is announced each year on the MFA website. In its appraisal MFA will consider and provide feedback on how the proposed project meets the PIF criteria described above. If based on the concept paper the project meets or seems to have good prospects for meeting the criteria for PIF eligibility, MFA will inform the concept paper author in writing. If it is MFA's assessment that the project does not come close to meeting the PIF criteria, the concept paper author will receive written feedback. The MFA appraisal will identify 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. MFA will aim to deliver its appraisal within two months of the annual deadline passing.

The 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. Annex 3 shows a template for a concept paper. The paper shall be submitted to MFA or the Finnish Embassy in the target country. If the concept paper is submitted by some other partner than the potential borrower or project owner, a letter shall be attached from the borrower or project owner that expresses their preliminary interest in using PIF financing.

If the party submitting the concept paper so requests, MFA can inform Finnish companies of the project under preparation via the Team Finland network. This may improve the applicant's prospects of securing the best possible Finnish technology and know-how for the investment under preparation.

MFA will not make its final decision on PIF financing until the project owner in the target country and the project contractor have signed a project contract agreement.

7.2. Project proposal

The relevant authority in the target country (such as the project owner or borrower) shall submit to MFA or the Finnish Embassy a project proposal describing the investment for which it hopes to receive financial aid from Finland. 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 attached as Annex 4. The project proposal may also be structured in accordance with a national template or a template approved by international development funding institutions. In either case the proposal shall cover as comprehensively as possible the information items listed in the templates for the concept paper (Annex 3) and project proposal (Annex 4). The project proposal shall meet the PIF minimum criteria and clearly state the project's targeted outcomes.

7.3. Project feasibility appraisal

The project's feasibility is assessed jointly by MFA and Finnvera. The key document in this appraisal is the project proposal submitted by the target country, but the assessment will also consider the broader framework of the investment project. During the appraisal process MFA may engage the services of an outside consultant that is bound by a duty of discretion.

If both MFA and Finnvera share the assessment that the investment project in principle seems eligible for financing, MFA will commission an in-depth outside evaluation of the project. This evaluation will comprehensively review the feasibility of the project and its compliance with the PIF criteria, including the social profitability and commercial non-viability of the investment. Furthermore, the evaluation will include a human rights due diligence review. An assessment of the sustainability of project outcomes is an integral part of this outside evaluation.

Based on the evaluation improvements may be suggested to the project with a view to enhancing its development impacts, human rights due diligence and/or investment sustainability. Every effort will be made to forward such recommendations to the project owner within 90 days of the receipt of the project proposal. If the project owner intends to incorporate these recommendations in the project proposal and in the tender documentation, it shall inform MFA in writing and submit the updated documents describing project implementation and contents. An MFA internal quality team will assess the feasibility of the updated investment project. MFA will aim to communicate the findings of the quality team's feasibility appraisal within 60 days of the receipt of the updates.

MFA's written notification that its internal quality team deems the project PIF eligible is an indication that MFA is in principle prepared to provide PIF financial aid for the investment project. However, this does not yet constitute a binding decision on MFA's part. The purpose of the written notification is to give the project owner the go-ahead to start preparations of the procurement process.

7.4. Procurement process

The project owner is responsible for making the investment procurement, including the preparation of tender documents, the review of bids submitted, the procurement decision, the contract negotiations and the awarding of the contract. The project owner shall select the project contractor in compliance with current legislation in the target country either by floating competitive tender invitations to Finnish companies or through direct negotiation with one or more bidders if this is permitted under national law in the target country. If agreed in advance with the project owner, MFA may appoint an impartial expert to be present at the opening of tenders. However the expert will not take part in reviewing the tenders.

If the project contractor is not selected through competitive tendering, MFA will ahead of its final decision on financial aid, in connection with the project appraisal, check to ensure that the prices quoted for delivery are in line with world market prices and that aid provided from development cooperation funds does not distort local competition.

The project owner may also have undertaken arrangements for an international competitive bidding process in which a Finnish company has taken part and emerged as the strongest bidder. In this case the winning bid may have been made on condition that the project receives PIF financing.

7.5. Contract agreement

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

The contract agreement shall be based on internationally recognized standards, such as the World Bank Standard Bidding Document for Procurement of Works[9] or the International Federation of Consulting Engineers' FIDIC suite of contracts (e.g. Conditions of Contract for Construction, Multilateral Development Bank Harmonised Edition Version 3: June 2010).[10]

The parties to the contract agreement shall also agree on the payment of local taxes, guarantees for project delivery and the repair of any defects during the warranty period. It is also important that the contract agreement specifies how any updates to the project content or timetable shall be carried out.

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9 http://go.worldbank.org/KDSPZDINF0

10 http://www.ebrd.com/downloads/procurement/project/mdbgcv3unprotected.pdf

The project owner shall have within its organisation a clear chain of command of responsibility for monitoring compliance with the contract agreement. The project owner shall submit this document to MFA together with the contract agreement and its appendices for purposes of the MFA financing decision.

7.6. Application for 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 shall submit to MFA the necessary project documents so that the PIF eligibility of the project can be assessed. MFA shall assess the feasibility of the project together with Finnvera. If the procurement process has already 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 MFA and Finnvera and the subsequent appraisal process may take several months.

7.7. Financing decision

Once the contract agreement has been signed, MFA will make its decision on whether or not to grant PIF financing for the project. The contract agreement and its content will be 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 financial aid must also have a valid buyer credit guarantee granted by Finnvera.

If the project contractor is not selected through competitive bidding, MFA will check to ensure that the prices quoted for delivery are in line with world market prices and that the aid provided from development cooperation funds does not distort local competition.

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

8. PROJECT IMPLEMENTATION

Principal responsibility for project implementation rests with the project owner. The contractor delivering the project is responsible for implementation in accordance with the contents and timetable specified in the contract agreement.

In the contract agreement the project owner and project contractor shall also agree on how any changes to project contents, to the project timetable or any other potential disagreements over project implementation shall be settled. MFA is not party to the contract agreement and therefore not party to any disputes concerning implementation.

The financial institution shall agree with the project owner and the project contractor on the project's payment schedule. The financial institution shall submit the project's payment schedule before the launch of the project to MFA and the State Treasury. If there are any changes to the payment schedule, the financial institution shall provide an updated schedule.

If the credit withdrawal period is extended, the financial institution shall contact Finnvera to gain approval for this extension.

8.1. Project reporting

Section 8 of the Act on concessional credits (1114/2000) states that MFA shall ensure that the interest subsidy loan is used for the end purpose specified in the decision. Section 9 of the same act states that the credit institution shall include in the agreement a condition stating that the credit institution may cancel the subsidy loan if the borrower fails to meet the obligations set out in the credit agreement.

The project owner and project contractor shall report every six months to MFA on project progress. The report shall describe how the project is progressing towards the targeted outcomes identified in the project's feasibility study. It shall describe the project's current implementation status, its expected date of completion, the project's payment status and any anticipated risks. If there are any changes in the project's schedule, the project owner and project contractor shall communicate these changes to MFA.

The financial institution responsible for project financing shall report every six months to MFA and the State Treasury on progress with payments. If there are any changes in the project's payment schedule, the financial institution shall submit an updated plan. Where necessary MFA may undertake or commission outside experts to conduct evaluations and reports on project implementation.

8.2. Completion of project

Upon completion of the project both the project owner and project contractor shall submit a final report to MFA. The final report shall include an assessment of project performance compared with the targeted 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 shall be met in accordance with the contract agreement.

8.3. Post-project reporting on development impacts

The project owner is required to report on project performance two years after the project's completion. The report shall include an assessment of the project's development impacts in comparison with the targeted outcomes identified in the feasibility study. Furthermore, the report shall 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 MFA may undertake or commission outside experts to conduct a separate post-evaluation of the project's development impacts and sustainability.

Annex 1. Countries eligible for PIF financing[11]

Under its credit guarantee policy of March 6th 2018 Finnvera can consider providing export credit guarantees for PIF credits to the following mostly lower middle-income countries. These countries fill the OECD requirements to be eligible for tied export credits. In these countries the concessionality level required by the OECD is 35% (group 1).

Bolivia
Cape Verde
Egypt
El Salvador
Georgia
Guatemala
Honduras
India
Indonesia
Ivory Coast
Kenya
Morocco
Papua New Guinea
Philippines
Sri Lanka
Tunis
Uzbekistan
Vietnam

[11] Finnvera reserves the right to changes.

For the following Least Developed Countries (LDC) Finnvera can consider providing export credit guarantees for PIF credits in a limited fashion based on additional enquiries. For these countries the concessionality level required by the OECD is 50 % (group 2).

Angola
Bangladesh
Benin
Cambodia
East Timor
Lesotho
Myanmar
Nepal
Rwanda
Senegal
Tanzania
Uganda

Finnvera provides export credit guarantees to the below listed countries only under exceptional circumstances (group 3). Such an exemption can e.g. be the participation of an international development bank in the total financing package of the project. Armenia, Bhutan, Burkina Faso, Cameroon, Ethiopia, Ghana, Kosovo, Laos, Liberia, Madagascar, Malawi, Moldova, Mongolia, Nicaragua, Nigeria, Pakistan, Sierra Leone, Swaziland, Ukraine and Zambia.

The following list consists of countries that fulfill the OECD tied-aid criteria, but for which PIF credits are not extended due to the high credit risk (group 4): Afghanistan, Burundi, Central African Republic, Chad, Comoros, Congo Brazzaville, Congo Kinshasa, Djibouti, Equatorial Guinea, Eritrea, Gambia, Guinea, Guinea-Bissau, Haiti, Kirgizia, Kiribati, Korea DPRK, Mali, Mauretania, Mozambique, Niger, Sao Tome and Principe, South Sudan, Somalia, Sudan, Syria, Tadzhikistan, Togo, Yemen and Zimbabwe.

Annex 2. Description of project cycle

The target country shall have strong ownership of the project, and 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 MFA's role is to provide guidance and feedback on the documents prepared by the project owner as the project moves towards approval for PIF financing. MFA will consult Finnvera as necessary. In matters concerning the buyer credit guarantee, the financial institution interested in financing the project and the Finnish company shall liaise directly with Finnvera.

MFA will seek to identify potentially PIF eligible project proposals at as early a stage 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. Each year MFA sets deadlines for the submission of concept papers that are reviewed and appraised in one batch by the Ministry. In its appraisal MFA will consider all relevant criteria for investment aid. In addition, MFA will assess the adequacy of the proposed budget frameworks for successful project implementation. However MFA will 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.

The following provides a simplified illustration of the different stages of the project cycle. MFA's role in these stages is as described in these Guidance Notes. Some items within the different stages may coincide and overlap. It is possible that MFA does not become aware of a project until the procurement stage, for instance. MFA is committed to ensure that PIF project preparation shall take no more than 1,5-2,5 years, but depending on the project owner's preparatory capacities the process may take longer.

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

2. Consultation stage, duration 2 months:
   - Submission of concept paper to MFA
   - MFA and Finnvera internal consultations
   - Written MFA appraisal of concept paper

3. Planning stage, MFA estimated processing time 6 months:
   - Preparation of project proposal
   - Submission of project proposal to MFA
   - MFA internal appraisal of project proposal
   - MFA-commissioned external evaluation of feasibility
   - Project owner's updates to project proposal and submission to MFA
   - Assessment by MFA quality group and written notification to project owner
   - MFA's and financial institution's preliminary talks on channelling MFA aid to project

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

5. Project financing decision, estimated duration 1 month:
   - MFA reviews content of contract agreement, using an outside expert if necessary
   - MFA makes decision to award financing for project and informs project owner, Finnvera, financial institution and project contractor in writing

6. Implementation, estimated duration 2–3 years:
   - Project owner and project contractor assume responsibility for project implementation
   - Project owner and project contractor report every six months to MFA on project progress
   - Financial institution and target country exchange information in accordance with credit agreement

- Financial institution reports regularly to MFA on transactions under the payment schedule
- On project completion the project owner and project contractor submit a final report to MFA

7. Post-project follow-up, estimated duration 2–5 years:
    - Project owner and project contractor are responsible for post-project warranty and related services as specified in the contract agreement
    - Project owner shall report to MFA on the project's development impact two years after project completion
    - MFA can conduct or commission outside experts to conduct post-evaluations of project development impact and sustainability

8. Repayment of export credit, 10 years after implementation:
    - There is no repayment grace period after project completion
    - Project owner repays the loan to the financial institution that granted the loan
    - MFA pays the interest on the loan to the financial institution via the State Treasury

Annex 3. PIF concept paper

A concept paper on a proposed investment project can be submitted by a public sector body within the target country, a company interested in delivering the project, or a financial institution interested in financing the project's procurement requirements. 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 and its appendices should be e-mailed to pif@formin.fi.

Cover page	• Name of proposed project • Project target country • Project partners (if known): ○ Project owner in target country ○ Borrower in target country ○ Project's Finnish lead contractor ○ Financial institution providing credit • Project sector • Project's preliminary overall costs and estimated share of PIF financing aid • Contact information for person submitting concept paper and person's proposed role in project • Date of concept paper
Information on project owner in target country	• Brief description of organisation • Prior experience of projects of a similar scope or scale • Prior experience of projects with international financing • Contact information

Brief project description	• How has the investment need emerged? Which organisation has identified the investment need?
	• Is the project ranked as a priority by authorities in the target country? Which authorities?
	• Any earlier project stages
	  ○ Earlier planning stages
	  ○ Earlier implementation
	  ○ Status of project infrastructure
	• Does the project belong to a national development programme in the target country or an investment programme funded e.g. by a development financing institution?
	• Does the project contribute towards a specific development goal (UN sustainable development goals, Finland's development policy goals)?
	• Project outcomes
	  ○ Concrete content of PIF funded project and projected outputs, outcomes and impact
	  ○ Brief description of investment
	  ○ Description of project's target area
	  ○ Other aspects of project, e.g. improvement and development of project owner's organisation
	• Budget
	  ○ Overall financing
	  ○ PIF financing
	• Proposed schedule for implementation, broken down by major project stages

<table>
<tr><td>Preliminary plan for post-project operations and maintenance</td><td>Measures to ensure long-term sustainability of operations and maintenance
Improvement of organisational management and practices
Operations and maintenance staff training
Ensuring spare parts supply
Resources and financing required by above tasks</td></tr>
<tr><td>How will project use and empower local people and communities</td><td>Major groups of beneficiaries and intended impacts, detail economic, social and environmental impacts separately
How does the project contribute towards gender equality and human rights?
Do beneficiaries include vulnerable groups? What steps are taken to ensure there are no adverse effects on these groups?
Other economic, social and environmental impacts on local communities
Potential adverse impacts</td></tr>
<tr><td>Information on borrower in target country</td><td>Brief description of organisation
Prior experience of the use of a similar financing instrument in projects funded e.g. by development banks
Contact information</td></tr>
<tr><td>Additional information (if known)</td><td>Finnish contractor / contractors
Description of Finnish technology and know-how that the project will 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 borrower in target country
Description of other partner organisations, their role in the project and contact information</td></tr>
</table>

Appendices	• Project owner's written notification of interest to use PIF • Any project plans and/or feasibility study already prepared • Other reports and material prepared on the project

Annex 4. Project proposal

A public sector body in the target country (e.g. project owner or credit recipient) shall submit to MFA or to the Finnish Embassy a project proposal describing an investment for which it is seeking Finnish financial aid. The document shall follow the template below and provide as many of the required information items as possible. It is expected to meet the PIF criteria as far as possible and to clearly state the project's outcomes. The project proposal should provide the same information as the concept paper, but in much greater detail. The proposal and its appendices should be e-mailed to pif@formin.fi.

<table>
<tr><td>Cover page</td><td>Name of proposed project
Project target country
Project partners (if known):
Project owner in target country
Borrower in target country
Project's Finnish lead contractor
Financial institution providing credit
Project sector
Project's preliminary overall costs and estimated share of PIF financial aid
Contact information for person submitting project document and person's proposed role in project
Date of project document</td></tr>
<tr><td>Contents</td><td></td></tr>
<tr><td>Summary
(1-2 pages)</td><td>Project owner and other partners involved in project
Project beneficiaries and aims
Brief description of project (investments, associated projects)
Duration of project implementation
Estimate of operations and maintenance provision (including costs)
Estimated project budget (overall budget, PIF financing)</td></tr>
</table>

Information on project owner in target country	• Brief description of 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 of project	• Description of how the investment need has emerged and which organisation has identified the investment need • Does the project belong to a national development programme in the target country or an investment programme funded e.g. by a development financing institution? • Description of which authorities in the target country rank the project as a priority • Does the project contribute towards a specific development goal (UN sustainable development goals, Finland's development policy goals)? • Any earlier project stages ○ Earlier planning stages ○ Earlier implementation, e.g. earlier investments that the project is following up ○ Status of project infrastructure • Description of any existing agreements, procurements or financing in connection with the project
Project beneficiaries	• Description of project's beneficiaries, i.e. the people who will see an improvement in their financial, social and/or environmental circumstances on completion of the project. How does the project contribute towards gender equality and human rights? Are there any other groups whose needs the project will seek specifically to address?

<table>
<tr><td>Outcomes and indicators</td><td>Goals and indicators with which project implementation and project outcomes can be monitored.
Impact: Targeted 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: Targeted immediate outcome upon project completion, e.g. x number of people will gain access to electricity, water, social services, less waste deposited in the environment)
Impact and outcome indicators should be specified to facilitate monitoring of outcomes and longer-term impact. Baseline information for indicators should be presented. Sex-disaggregated data should be presented, where possible.</td></tr>
<tr><td>Project outputs and components</td><td>Description of project structure, e.g. different project components, any subprojects broken down by investments, operational development and staff training
Major outputs in different project areas, e.g. equipment installed, structures completed, staff trained</td></tr>
<tr><td>Project implementation</td><td>Description of project implementation, e.g. if project divided into different stages
Description of major project activities
Work breakdown structure (e.g. Gantt chart)</td></tr>
<tr><td>Institutional arrangements</td><td>Description of project's institutional arrangements, e.g. organisations involved in project implementation and their roles
Project owner and organisation responsible for operation and maintenance of investment
Most important authorities related to project
Finnish project partners (if known)
Financial institutions and other sources of financing
Organisations involved in project monitoring and supervision</td></tr>
</table>

Monitoring and reporting	• Description of how project will be monitored • Description of how project progress will be reported and reporting schedule
Budget	• As detailed a description as possible of budget and its components • Breakdown of project costs from different sources and share of proposed PIF financing • Budget breakdown by project areas and outputs
Risks and risk minimisation	• Assessment of project risks (economic, social, human rights, environmental, institutional and technical risks) • Plan for risk minimisation
Attachments required	• Work breakdown structure, timetable • Budget • Post-project operations and maintenance plan • Environmental and social impact assessments, human rights based assessments • Land use reports

Annex 5. Development impacts

PIF projects are aimed at achieving sustainable development impacts in the project target countries. The projects are expected to contribute to the achievement of Agenda 2030 sustainable development goals and especially to promote the aims and priorities of current Finnish development policy.

The United Nations has identified 17 Sustainable Development Goals that include a range of development impacts.12 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 sustainable agriculture.
3. Ensure healthy lives and promote well-being for all at all ages.
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
5. Achieve gender equality and empower all 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 sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
9. Build resilient infrastructure, promote inclusive and sustainable industrialization 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 and sustainably use the oceans, seas and marine resources for sustainable development.
15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt 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 means of implementation and revitalize the global partnership for sustainable development.

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[12] For more on Sustainable Development Goals, visit the UN website at https://sustainabledevelopment.un.org/sdgs

Project documentation shall describe the intended development impacts of PIF funded projects as well as the mechanisms proposed for monitoring their achievement based on the general principles of **results based management** (RBM).13 This entails a description of:

- **Project outcomes**: In addition to project outputs (goods, services, capital), project documentation shall 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 shall be assessed using a robust set of indicators and compared against targeted outcome levels and the baseline situation.

- **Monitoring and evaluation system**. It is imperative to have in place an effective system for monitoring and evaluating the project's outcomes, i.e. its development impacts. Project documentation shall therefore include a description of the project's monitoring and evaluation system, detailing how the project proposes to report on its progress towards the targeted outcomes.

For the assessment of the project's development impacts it is crucial to establish that the project is compatible with national development plans in the target country. This is important in assessing the commitment of local authorities to the project and in weighing the broader social impact of the project. Some countries have multiannual national development programmes. Likewise, ministries and authorities in different sectors often have their own plans for their respective administrative branches. A good project is well in line with public administration policies at its various levels, both thematically and regionally.

Finnish development cooperation is based upon the promotion of human rights.14 For this reason it is important that the outcomes of PIF projects satisfy end user needs and in this way promote the fulfilment of their human rights. Human rights are also an integral part of the project's risk assessment: it is imperative to make sure that the project has no adverse effects on human rights in the target country.

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[13] For an example of the application of these principles, see Results Based Management in Finland's Development Cooperation – Concepts and Guiding Principles, Ministry for Foreign Affairs (2015). http://um.fi/public/download.aspx?ID=146690&GUID={5B479C3A-0703-45A4-BCDC-C90BC91FE5A4}

[14] Human Rights Based Approach in Finland's Development Cooperation, Guidance note, 2015

The project's development impacts must also be sustainable:

- The project shall be economically sustainable, i.e. the client must have the necessary economic resources for post-project operations and maintenance.
- The technology used must be appropriate for the conditions in the target country.
- The project client in the target country must have the capacity as an institution to assume responsibility for project implementation and make effective use of its outcomes after project completion.
- The project shall be in line with national legislation in the target country.
- The project shall fit in with the social environment so that it has broad approval among various stakeholder groups in local communities.
- The project shall be environmentally sustainable, i.e. its environmental impacts shall be assessed based on the principles of the OECD Export Credit Consensus.
- The project's outcomes and project implementation must be sustainable from a climate change point of view.
- Once completed, the project should use renewable energy sources if locally available.

It is also important that PIF projects contribute to national know-how and capacity building in the target country. Projects shall make good use of existing local know-how and so strengthen ownership and maintenance of the investment funded. During project implementation know-how and expertise will be transferred to the project owner in the target country, particularly with a view to supporting proper operation and maintenance of the investment.

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

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