



Finland's  
**Aid for Trade**  
Action Plan (2008–2011)

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# Finland's Aid for Trade Action Plan (2008–2011)

Better integration of developing countries into international trade plays an important role in global efforts to reduce poverty. Increasing exports provides new opportunities for enterprises in developing countries to expand their production and to create more and better jobs. Exports are also a vital source of income to finance the import of goods and services that a country does not produce itself.

Poorer developing countries, particularly in sub-Saharan Africa, often base their economies on a narrow set of low-value-added products, which limits their opportunities to participate in external trade. As a result these countries have relied heavily on official development aid (ODA) or unsustainable borrowing from external sources to fund even basic necessities. Consequently results in terms of poverty eradication have been modest.

Experience has shown that poverty can best be alleviated by stimulating viable economic growth. This has been achieved most successfully by those developing countries that have embraced external trade and that have succeeded in integrating into the global economy.

Finland and other wealthy countries can support developing countries, particularly the least developed countries, to achieve self-sustained economic growth by negotiating trade agreements that provide fair access both to developed country markets and to the emerging developing country markets. It is important to recognize that South-South trade and regional integration among developing countries play an increasingly important role in poverty eradication.

Aid for Trade has the potential to strengthen the capacity of developing countries to negotiate beneficial trade agreements and to benefit from them. It is important that Aid for Trade is also recognized in South-South relations, where emerging donors such as Brazil, China and India play a key role.

Finland contributes actively to the European Union's policy work on Aid for Trade. The EU's Aid for Trade strategy, launched in October 2007, was initiated by Finland. "Finland's Aid for Trade Action Plan (2008–2011)" outlines our contribution towards the implementation of the common EU Aid for Trade strategy. The Action Plan is also complemented by Finland's Import Policy Strategy, which emphasises the importance of reducing barriers to trade and the need to increase efforts to facilitate imports from developing countries.

The agriculture and forestry sectors, together with sustainable energy development, are particular focus areas in our Aid for Trade Action Plan. Agriculture and forestry are key sectors for sustainable poverty reduction, while sustainable energy production is a vital element to creating an enabling business environment. All the priorities outlined in the Action Plan are in areas where Finnish expertise can make a significant contribution towards ecologically sustainable development globally. We also pay particular attention in the Action Plan to promoting gender equality and other cross-cutting themes outlined in Finland's Development Policy Programme of 2007. Aid for Trade is ultimately about strengthening the productive capacity of developing countries by creating an enabling environment and by enhancing private sector development to achieve ecologically, economically and socially sustainable development.

This Action Plan has been prepared in close collaboration with various stakeholders, including civil society organizations and the private sector. Organizations and enterprises have a key role in promoting sustainable development in developing countries and contribute to implementing Finland's trade and development policy. I wish to extend my thanks for their valuable contribution and invite everyone to participate jointly in the implementation of this Action Plan.



Paavo Väyrynen

Minister for Trade and Development



# 1. Introduction

Finland's Development Policy Programme emphasises the importance of creating economic growth as a means to meeting development goals such as poverty eradication. Strengthening the capacity of developing countries to participate and benefit from international trade is a key to achieving viable economic growth. It is important to recognize that economic growth is sustainable only when it is both environmentally and socially sustainable.

Finland's trade and development agenda comprises three areas:

- Trade policy and development: Finland promotes the inclusion of development concerns in global
- and EU trade agreements to enable developing countries to participate more effectively in international trade and to help facilitate imports from developing countries into the EU area as well as to other developed and developing countries.
- Trade and investments: Finland seeks to strengthen and diversify private sector development by promoting trade and investments between Finnish and developing country enterprises.
- Aid for Trade: Finland seeks to strengthen the supply and trade capacity of developing countries to better integrate into the global economy through official development assistance (ODA).

## 1.1 Key objectives of Finnish Aid for Trade (AfT)

Finland's AfT Action Plan is based on the EU AfT Strategy that was approved in October 2007. In line with the EU strategy, Finland seeks to reduce poverty, particularly in the least developed countries, by increasing AfT and enhancing its effectiveness in the context of environmentally and socially sustainable development

The EU announced at the WTO ministerial meeting in Hong Kong in 2005 that its goal was to increase trade-related assistance (TRA) to developing countries to two billion Euros per year by

2010, of which one billion Euros to be provided by the European Commission and the Member States respectively. As part of the EU announcement Finland decided in 2006 that it aims to increase TRA to two percent of its ODA or at least 15 million Euros per year by 2010.

Furthermore, one of the aims of the EU's AfT strategy is to increase the amount of support for the wider AfT agenda. The broad definition of AfT includes, in addition to TRA, other aid categories that aim to strengthen the supply side of developing countries, such as building productive capacity and strengthening economic infrastructure. The broad definition covers about a quarter of all ODA. Finland's goal is to increase the share of broad AfT in stages with the overall growth of ODA.

### What is Aid for Trade?

Aid for Trade is an initiative that was developed in conjunction with international trade negotiations. Its aim is to strengthen the trade capacity of developing countries to allow them to better participate and benefit from international trade. AfT is fundamentally about strengthening developing countries' productive capacity and tackling their supply side constraints. A large part of AfT is aimed towards strengthening domestic production and internal trade, such as creating an enabling business environment for enterprises or building economic infrastructure. AfT can be classified in five categories: 1) Trade Policy and Regulations, 2) Trade Development, 3) Economic Infrastructure, 4) Productive Capacity, 5) Adjustment Costs. (See Annex 1 for a more detailed description of AfT.)

#### Finland's Aid for Trade financing commitments; (million euros, average 2006 and 2007)

	2006-2007
Trade policy and regulations	2.3
Economic infrastructure	15.2
Productive capacity	51.2
of which trade development	28.3*

\* 2006 value



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## 2. Key principles of Finnish Aid for Trade cooperation

The key principles of AfT cooperation do not differ from any other form of ODA. As such the Paris Declaration on Aid Effectiveness, European Consensus on Development and Finland's Development Policy Programme of 2007 set out the framework for Finnish AfT cooperation. In addition, AfT cooperation should be in line with Finland's Trade Policy Strategy. (See Annex 2 for more details on criteria for AfT).

It is also important to realize that trade-related development aid is not a new phenomenon. It

has been a part of international trade discussions from the early stages of GATT, and on the agenda of the UN system and international financial institutions for decades. However, the theme gained added impetus as part of the WTO Doha round when it became clear that removing trade barriers would not be a sufficient measure on its own to enable the least developed countries in particular to participate effectively in international trade agreements.

## 2.1 Ownership

AfT cooperation should always be based on the needs and ownership of the partner country. Genuine commitment and ownership is a prerequisite for achieving sustainable results.

It is important that AfT is integrated into the partner country's poverty reduction strategy or other key development strategy that includes a needs assessment of how trade can contribute to development goals. The Diagnostic Trade Integration Strategy (DTIS) is normally the starting point for AfT cooperation with least developed countries that participate in the Integrated Framework process.

AfT should also be integrated into the partner country's trade policy, with a view to achieving fair trade agreements with both developed and developing countries. AfT should support in particular regional integration and cooperation. It is also important that support for regional-level AfT has country level ownership and is anchored in national development plans.

It is essential that AfT contributes to poverty reduction and sustainable development, and as such towards meeting the UN Millennium Development Goals (MDGs). Although responsibility for the overall coordination of AfT rests with the government of the partner country, assistance can also be directed to other stakeholders such as the private sector and the civil society.

## 2.2 Coherence

Finnish AfT cooperation seeks to form a coherent programme, with the different sub-programmes complementing each other. It should reflect the priorities of Finnish trade and development policy as well as those of partner countries, and Finland's AfT should complement the work of other aid donors and partners.

To ensure coherence, it is important that Finland and the EU as a whole include AfT as an integral

part of its trade policy relations, particularly with the least developed countries, and of its efforts to promote increased South-South trade.

Coordination at the country level is vital. Partnerships with other donors are essential as the possibilities of a single donor to achieve sustained results are limited. In particular, partnerships with other EU member states are critical in implementing the EU's joint AfT strategy. Further, the role of emerging developing countries such as Brazil, China and India as drivers of South-South trade and development cooperation is increasingly crucial. It is important that coordination with these countries is increased in the implementation of the EU's AfT strategy.

It is also important to increase synergies between Finland's bilateral and multilateral aid while recognizing the overarching principle that multilateral aid is untied. An example of such synergies in Finland's AfT cooperation is its support to the Enhanced Integrated Framework (EIF) programme. At the bilateral level, Finland supports the implementation of the programme in Zambia as the donor coordinator. At the multilateral level Finland supports the work of the EIF secretariat in Geneva and contributes to its multilateral fund. Strengthening synergies also requires the creation of thematic cross-cutting expertise within the Ministry to enable effective and coherent contributions to the AfT agenda at various levels, from bilateral cooperation to cooperation at EU-wide and multilateral levels.

It is also important to ensure coherence between trade-and-development-related policy work at the Ministry and AfT cooperation at the country level. This requires a smooth flow of information between the Ministry and the embassies.

- The flow of information between the Ministry and the embassies is to be enhanced by creating a network of AfT focal points. An AfT website will be developed to support the work of the network.



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AfT-related issues. Such solutions can include joint ventures with partner countries, tapping into the resources offered by international agencies in implementing bilateral work or enhanced use of consultants to undertake AfT-related work. AfT-related training also needs to be further strengthened in partnership with the EU and other partner countries.

Support provided by the Ministry to the embassies is critical. This requires close collaboration between the embassies at the country level and the regional and policy departments in the capital at the planning, implementing and monitoring phases of AfT.

It is also critical that the administrative services support and facilitate AfT work at the country level, particularly with regard to cooperation with private sector stakeholders.

### 2.3

## Embassies have a key role in implementing the AfT Action Plan

The embassies have a pivotal role in ensuring that the implementation of the AfT Action Plan at the country and regional level is successful. The embassies also have a key role in contributing to multilateral cooperation by initiating and maintaining close working relations with country offices of international agencies and with regional development institutions and banks. This requires that country level resources are utilized effectively and strengthened where possible. In some countries locally recruited staff can play an important role in strengthening human resources for AfT.

However, as possibilities to increase staff are limited it is important to consider innovative solutions to strengthen the capacity of the Ministry in

- The embassies and the regional departments are reviewing the possibilities to increase resources for AfT-related work at the country level. The goal is to recruit an additional two AfT experts during 2009 and 2010. Enhanced use of locally recruited experts should also be considered.
- The use of consultancy services in planning and implementation phases is to be increased.
- The policy and regional departments are to devote additional resources to support the work of embassies at the country and regional level.
- A training programme for embassies and stakeholders is to be created in collaboration with the Ministry, the embassies and other stakeholders (the European Commission, the EU, Nordic plus countries, international organizations).



## 2.4 Finnish value added

Finland has internationally competitive knowhow in various fields. These include forestry, agriculture, energy, environment and the information society. The challenge is to harness the potential of Finland's expertise in these fields to effectively contribute to the implementation of the global AfT agenda. This requires close collaboration between the Ministry, the embassies, the private sector, civil society and other key stakeholders.

The Ministry's thematic development clusters<sup>1</sup> are the key vehicles for integrating Finnish value added into AfT cooperation. The AfT theme needs to be closely integrated into the thematic clusters to ensure that Finnish expertise and the needs of partner countries are matched to enhance Finnish value added.

The Finnish private sector can play an important role in strengthening private sector development in partner countries. Awareness raising is needed for increasing the role of the Finnish private sector in development cooperation. The UN's Global Compact initiative offers one mechanism for engaging Finnish companies in development cooperation. Further, the databases maintained by Finpro are also useful tools for engaging the private sector more closely in development work. Finnpartnership is an important instrument to promote business partnerships between enterprises in Finland and those in developing countries.

<sup>1</sup> The Ministry has established thematic clusters that aim to strengthen collaboration with external stakeholders in implementing Finland's official development aid. Thematic clusters have been established for the following topics: agriculture, energy, environment and climate change, forestry, information society and water.

- The links between the thematic clusters and the AfT agenda are to be analysed, in particular with regards to the sectors and themes highlighted in section 3.1 and 3.2.
- Possibilities of strengthening the developing country expertise of Finnish AfT practitioners through enhanced training, work experience or other modalities are to be explored in close collaboration with work done with regard to the thematic clusters.
- A network of Finnish international AfT experts is to be built up.
- A database of Finnish experts is to be created (or the use of existing networks improved) and a "project components database" of potential AfT projects established to serve the needs of embassies and cooperation partners.
- The AfT Action Plan is to be implemented in close collaboration between the Ministry, the embassies, the private sector, civil society, and other stakeholders.
- In partnership with the civil society and/or the private sector, a special event on the theme of trade and development should be arranged in one of the long-term development partner countries to strengthen country level collaboration and information sharing.



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## 3. Finland's Aid for Trade priorities

Finland's Aid for Trade priorities can be split into four groups: themes, sectors, geographical focus areas, and aid categories. These are based on priorities identified in Finland's Development Policy Programme.

The aim is to support AfT projects and programmes that meet priorities under the four groups. An example of such an activity could be a private sector development programme (theme) to strengthen productive capacity (aid category) in the agricultural sector (sector) in one of Finland's long-term development partner countries (geographical focal area).

The split between themes and sectors is in some cases arbitrary. For example, in Zambia private sector development is one of Finland's main cooperation sectors, whereas in Nicaragua a programme in the agricultural sector that is planned to start during the second half of 2008 has a thematic focus on private sector development

### 3.1 Themes

The main themes for Finland's AfT cooperation are 1) private sector development; 2) information

society; 3) the environment and climate change. In addition, the cross-cutting themes identified in Finland's Development Policy Programme also guide AfT cooperation.

**Private Sector Development** has the potential to boost economic growth and strengthen the trade capacity of developing countries. Private sector development covers a range of activities from the micro level to the meso and macro levels. It is important to recognize that private sector development is a theme that requires mutually enhancing activities at the various levels of cooperation.

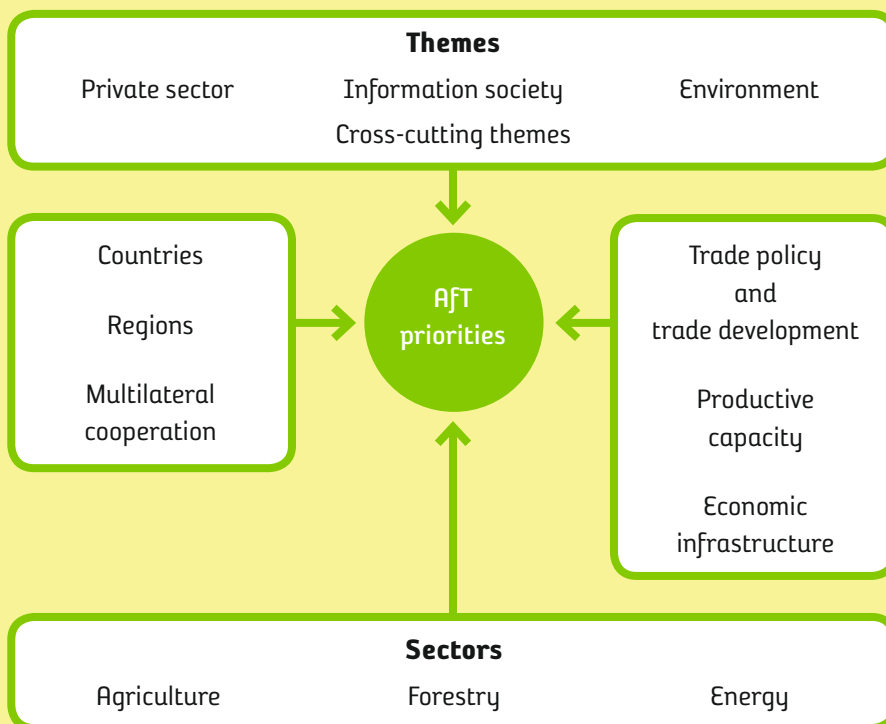
- Finland will seek to enhance its contribution to private sector development in international organizations by deepening its analysis of key private sector issues. The work will be carried out within the cross-departmental trade and development team and can include assistance from outside experts.

**Information society:** Finland's ability to utilize information and communications technologies (ICT) effectively in different economic sectors is often cited in international comparisons as one of Finland's key strengths. The 2007 Least Developed Countries Report of UNCTAD notes that the enhanced use of technology and innovation skills is vital for achieving development also in the least developed countries.

- Links between the Ministry's work in the area of information society and AfT needs to be strengthened. Further, the possibilities of utilizing Finnish ICT knowhow to contribute to AfT cooperation at the country and regional level will be analysed.

**Environment and climate change** is a basic theme for all Finnish development cooperation, including AfT. The theme also offers opportunities for developing countries to tap into new export markets, for example bioenergy.

**Figure 1. Priority areas for Finland's Aid for Trade Action Plan**



- Cooperation between AfT work and the environmental cluster is to be strengthened, and work on the theme of trade and the environment intensified in small working groups of the trade and development team.

**Cross-cutting themes:** the rights and the status of women and girls, and promotion of gender and social equality; promotion of the rights of groups that are easily excluded, particularly children, persons with disabilities, indigenous peoples and ethnic minorities, and the promotion of equal opportunities for participation are relevant to AfT cooperation. Gender mainstreaming is a particular area where Finland has considerable expertise. Furthermore, the promotion of decent work is important in the context of AfT. Civil society is often well placed to advance cross-cutting themes.

- Finland's AfT Action Plan places great emphasis on promoting gender equality. This work is launched through two pilot projects: 1) a gender impact analysis of a Finnish AfT programme, and 2) a project to promote the development of export opportunities for women entrepreneurs.
- Special emphasis is to be placed on cross-cutting themes when developing impact indicators.

## 3.2 Sectors

The main sectors for Finland's AfT cooperation are **agriculture, forestry and energy**.

**Agriculture** is the foundation of most developing country economies. Strengthening the agricultural sector is vital for achieving sustained economic growth and poverty reduction. It is also the main source of export income in countries where agriculture is the predominant sector.

**Forestry** is one of Finland's strongest sectors where it also has experience in undertaking commercially viable projects in developing countries. Forestry is also one of the main development cooperation sectors of Finland in many of its partner



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countries. Finland also has experience in developing operational concepts in developing countries in the forestry sector, such as the "Forest Academy concept" that provides a model for closer collaboration among stakeholder. The forestry sector is also closely linked to the environment and climate change theme.

Access to **Energy** is one of the key bottlenecks in strengthening productive capacity in developing countries. The energy sector, particularly bioenergy, opens up new export opportunities for many developing countries. Energy is also a key theme from the climate change perspective.

- Links between agriculture, forestry and energy and the AfT Action Plan are to be strengthened.

## 3.3 AfT categories

AfT can be classified in five categories: 1) trade policy and regulations, 2) trade development, 3) economic infrastructure, 4) productive capacity, and 5) adjustment costs. (See Annex 1 for more details.)

In Finland's AfT cooperation, particularly in bilateral cooperation, strengthening **productive capacity** is a priority area. The aim is to create an enabling environment and to promote good governance, for example by strengthening key economic institutions in cooperation with the partner country's government and the private sector.

Strengthening the capacity of developing countries in **trade policy and regulations** as well as **trade development** are also AfT priorities for Finland. These categories are a priority particularly in the multilateral context, but also in bilateral and regional cooperation. Improving market access for developing country exports to the EU is a key element of this work.

**Economic infrastructure** has not in recent years been a priority in Finland's development assistance. However, developing countries have frequently emphasised the negative impact that the lack, or low quality, of essential infrastructure has on strengthening the productive capacity of developing countries.

Furthermore, the absorptive capacity of a country often places restrictions on how much aid can be effectively channelled to strengthening productive capacity or trade policy and regulations or trade development. Often more important than the actual amount of aid is the partner country's adoption of new business and administrative practices and attitudes that contribute towards creating an enabling environment.

Finland seeks to gradually expand its AfT cooperation more towards economic infrastructure. This would include participation in jointly funded initiatives or basket funding of infrastructure related projects with the EU, other partner countries or organizations. Funding economic infrastructure can also be considered when it is an integral part of a broader AfT programme. Finland should seek to participate particularly in projects and programmes where it has a comparative advantage, for example in ICT-related projects.

Finland's AfT projects and programmes are implemented in practice with the help of the established funding practices of Finnish development assistance (see Annex 3 for more details).

- The possibilities to increase Finland's participation in economic infrastructure related projects are to be analysed and models to promote participation in infrastructure related projects and programmes to be developed.

## 3.4

### Geographical focus areas

The main country focus of Finland's bilateral AfT cooperation is on its long-term development partner countries, which are Ethiopia, Kenya, Mozambique, Nicaragua, Nepal, Tanzania, Vietnam and Zambia. In addition, through thematic and regional programmes AfT cooperation is emphasised in Egypt, Namibia, Peru and South Africa. The goal is to enhance synergies between bilateral, regional and multilateral cooperation.

Enhancing regional cooperation and integration is a priority. For example Finland supports regional EPA agreements. It is also important to recognize that many trade-related challenges and their solutions are regional in nature. For example certification, customs procedures and logistics are often best handled at the regional level.

Multilateral cooperation has an impact on the global mechanisms and structures for AfT. Finland seeks to enhance coherence between its multilateral support and its regional and country-specific approaches.

### Africa

Southern Africa is one of the main focus areas for Finland's AfT cooperation as three of its long term development partner countries are in that region (Mozambique, Tanzania and Zambia). In addition Namibia and South Africa, which have close development links to Finland, are also in the region.

Finland aims to expand AfT cooperation in the region particularly in agriculture, forestry and energy. Further, the goal is to identify new AfT projects and programmes that build on Finland's expertise in the region and that lead to closer col-



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laboration between the country programmes. For example Finland's AfT cooperation is well developed in Zambia and South Africa and Finland's experience from these countries can be of use in other countries in the region. Finland is also involved in establishing an institute in Tanzania focusing on sustainable development, which can provide opportunities for AfT. Gender is an important consideration as countries in the region have lagged behind in meeting gender equality.

Finland is the donor coordinator for the Integrated Framework (IF) programme in Zambia. External trade development is one of the focus areas of the IF programme. Neighbouring countries of Zambia are its key trading partners. Also, as a landlocked country Zambia relies on the infrastructure and trade facilitation services provided by these countries to gain access to wider export markets. Therefore there are clear synergies that can be achieved by having similar AfT priorities in neighbouring countries such as Mozambique and Tanzania. For example the Tanzania Trade Integration Strategy opens up possibilities for donors such as Finland to contribute to trade development in the region.

Finland seeks to contribute to regional integration through close collaboration with the regional organizations and/or other regional modalities (EPAs,

multi-country thematic programmes). For example the North-South Corridor pilot project developed by COMESA (Common Market for Eastern and Southern Africa), EAC (East African Community), the European Union and SADC (Southern African Development Community) offers an opportunity to participate in regional AfT. Another potential approach could be the promotion of the "Forest Academy concept" developed by Finland in Mozambique and other countries in the region.

- Finland seeks to further enhance AfT cooperation in its long-term development partner countries (Ethiopia, Kenya, Mozambique, Tanzania, Zambia) in key sectors, particularly agriculture, forestry and energy.
- Within the context of regional and thematic funding, Finland seeks to expand AfT in Namibia and South Africa.
- A provision for a consultancy to develop concrete proposals for expanding regional AfT and identifying new country-specific AfT opportunities will be made in collaboration between the regional department and embassies.
- A regional project in SADC countries to strengthen the investment and business environment will be initiated using the OECD Policy Framework for Investment.
- Support is to be given to the arrangement of the regional AfT meeting of the WTO and the OECD in Africa (foreseen to be held in Lusaka in October 2008). A high-level Finnish AfT Action Plan start-up seminar is to be arranged in connection with this event.
- Discussions are to be held with TEKES (Finnish Funding Agency for Technology and Innovation) about participation in projects to develop the competitiveness of Africa's innovative economic clusters.

## Latin America

Nicaragua is Finland's long-term development partner country in Latin America. Finland has also close development cooperation ties with Peru.

In Nicaragua, Finland is aiming to start a four-year AfT programme together with the UK's Department for International Development (DFID) during the second half of 2008.

In Central America, Finland is engaged in a regional energy cooperation programme, which is implemented in close cooperation with the private sector. In addition, Finland aims to support other regional AfT programmes that integrate partner countries such as Peru into the process. For example, Peru participates together with Colombia and Bolivia in a programme called BIOCAN that includes supporting sustainable use of natural resources by businesses in the Amazon region.

- Finland aims to launch a new AfT programme in Nicaragua during the second half of 2008 in partnership with DFID.
- A study is to be commissioned on the possibilities to participate in regional AfT programmes in Central America and the Andean region, particularly in the forestry and energy sectors.

## Asia

Nepal and Vietnam are Finland's long-term development partner countries in Asia. The AfT theme is already to a large degree integrated into Finland's development cooperation in Vietnam. A key area for collaboration with Vietnam is an innovation partnership programme that is scheduled to start in 2009. Another key area for collaboration is the forestry sector. In both these areas private sector development is an important consideration. A structural change in the development partnership between Finland and Vietnam is envisaged for 2008–2012. This will switch the focus of collaboration more to other areas than development assistance. However, AfT will continue to be an important element of cooperation between Finland and Vietnam.

Nepal is at a different development stage from Vietnam and AfT is still at an early stage there. The Government has invited the donor community to provide support in preparing the Diagnostic Trade

Integration Study (DTIS) as part of the IF programme. This opens up opportunities for Finland to contribute to the AfT process in Nepal. In providing assistance to Nepal, Finland can draw from its experience from participating in the DTIS process in Zambia as the IF donor coordinator.

Finland has gained experience from successful regional AfT programmes in Asia. A good example is the IFC Mekong Private Sector Development Facility (MPDF), to which Finland has contributed funds.

In Laos, Finland's forestry programme includes an AfT component.

- The opportunities for replicating AfT programmes from Vietnam (innovation partnership, forestry programme) are to be explored in other countries.
- Preparations for Finland's participation in implementing the DTIS process in Nepal are to be set in motion.
- In the energy sector, the feasibility of replicating the Central America regional energy programme in the Mekong and other regions will be analysed.
- In the Pacific, Finland's possibilities to support regional AfT packages will be analysed.



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### 3.5

## Multilateral cooperation

Finland has set a target of increasing multilateral assistance to trade-and-development-related agencies to ten million Euros per year by 2010. Finland emphasises the importance of supporting the least developed countries in its multilateral aid.

The Integrated Framework (IF)/Enhanced Integrated Framework (EIF) programme is an important tool for multilateral cooperation. It is a joint programme of six multilateral agencies in Geneva in connection with the WTO, which is aimed at LDCs. In addition to core IF/EIF funding, Finland has supported the implementation of the IF programme through bilateral cooperation in Zambia. Finland has also supported the operations of the WTO's Doha Development Agenda Global Trust Fund (DDAGTF) training programme.

The United Nations Conference on Trade and Development (UNCTAD) is a key player in trade and development issues and provides high-quality analysis on issues related to AfT. The International Trade Centre (ITC), a joint initiative of UNCTAD and the WTO, runs practically oriented country-

level programmes that support private sector development and export expansion. In addition, Finland is a member of the Agency for International Trade Information and Cooperation (AITIC) and has provided support to other agencies and international NGOs under its multilateral trade and development programme.

Other important partners in trade and development include the United Nations Economic and Social Commission and specialized UN agencies such as the Food and Agriculture Organization (FAO) and the United Nations Industrial Development Organization (UNIDO). The United Nations Development Programme (UNDP) has a key role in country-level implementation through its wide country presence. Other UN agencies also carry out trade and development work, such as the Decent Work initiative of the International Labour Organization (ILO). Finland has also held initial discussions with the UN Global Compact to enhance the participation of Finnish companies in the initiative. It is particularly important to identify areas of collaboration with multilateral agencies that enhance synergies between Finland's multilateral and bilateral cooperation.

Finland has also supported the AfT work programme of the OECD. The OECD has played a key role in developing the analytical foundations for the AfT global agenda and in setting up the global AfT monitoring framework.

With Finland's multilateral aid projected to rise in the coming years, it is important to consider increasing the size of individual contributions to agencies while at the same time limiting the number of smaller multilateral contributions. However, increased funding also creates pressure to identify new partner agencies in the area of trade and development. In such cases careful consideration will have to be given as to how closely the work of these agencies corresponds to Finland's AfT priorities. Agencies that could be considered as contributing to Finland's AfT priorities include STDF (Standards and Trade Development Facility), the International Fund for Agricultural Development (IFAD) (on the theme of AfT and agriculture), UNIDO (strengthening productive capacity) and the World Customs Organization (WCO).



- The possibility of concentrating funding into larger packages is to be explored.
- The work of IFAD and UNIDO in relation to Finland's AfT priorities is to be analysed.
- Smaller contributions on a yearly basis in light of the overall AfT context are to be considered.

The World Bank Group, in particular the International Development Association (IDA), and the other development finance institutions are key players in trade and development issues particularly in least developed countries. Finland has supported the work of these institutions, including their partnership/thematic trust funds. A good example is the World Bank's Knowledge for Change programme, which finances trade and development related research, including the Doing Business report.

Regional development banks (African Development Bank, Asian Development Bank, Inter-American Development Bank) also have an important role in implementing the global AfT agenda. They have traditionally focused more than other donors on supporting infrastructure development. Their specialized knowledge of the regions is also one of their strengths.



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- Finland will seek to enhance its AfT focus within the World Bank by concentrating on a few key funds relevant to the AfT agenda and limiting the number of smaller contributions. A potential new programme is the Multi-Donor Trust Fund on Trade and Development.
- Finland will analyse opportunities to increase participation in regional infrastructure projects through the regional development banks, particularly in southern Africa.
- Finland will analyse opportunities to broaden its participation in IFC's private sector initiatives (for example Private Enterprise Partnership).

### 3.6 The European Union and Economic Partnership Agreement funding packages

The EU Member States and the Commission are Finland's primary cooperation partners in implementing its AfT Action Plan. It is important that Finland participates actively in AfT-related discussions and preparations at all levels of EU cooperation.

The Economic Partnership Agreements (EPAs) and the potential regional AfT packages for ACP (African, Caribbean and Pacific) countries present an issue that will materialize in the near future. Finland is prepared to support regional packages in southern Africa where it could also consider taking a coordinating role. Finland will also consider funding AfT packages in one other ACP region.

- Finland is prepared to participate in the funding of EPA packages in southern Africa and in one other ACP region.



## 4. Monitoring

The implementation of the AfT Action Plan will be monitored in the cross-departmental trade and development team. Responsibilities for implementation will be decided in accordance with the new organizational structure of the Ministry as of 1 September 2008.

In monitoring of the implementation of AfT, particular emphasis will be placed on gathering information for the global AfT monitoring framework coordinated by the WTO. Finland will seek to develop both qualitative and quantitative indicators to monitor the impact of its AfT cooperation.

# Annex 1:

## What is Aid for Trade?

Aid for Trade (AfT) is an initiative that was launched at the WTO ministerial meeting in Hong Kong in 2005. AfT seeks to strengthen the capacity of developing countries to participate in and benefit from international trade. AfT is basically about strengthening the productive and trade capacity of developing countries. A large share of the assistance is targeted towards enhancing domestic productivity and trade, such as promoting entrepreneurship and creating an enabling business environment or to strengthening economic infrastructure. Aid for Trade can be split into five categories: 1) Trade Policy and Regulations; 2) Trade Development; 3) Economic Infrastructure; 4) Productive Capacity; 5) Adjustment Costs. The following are examples of AfT activities in the different categories.

### 1) Trade Policy and Regulations

- Promotion of regional trade negotiations, EPA agreements (training, seminars, advisory services, strengthening regional trade institutions)
- Implementation of rules and standards specified in the WTO or other trade agreements (legislative reform and support in implementation, training, advisory services, strengthening relevant institutions, sanitary/phytosanitary standards).
- Development of trade statistics, strengthening of trade negotiating capabilities
- Enabling imports from developing countries to the EU by seeking to improve national and EU-wide practices and by influencing international negotiations.

### 2) Trade Development

- Creating an enabling environment for export-oriented companies (streamlining customs procedures, export credits, enhancing trade information services, providing business development services, strengthening key trade-related institutions or companies, such as wholesalers, to enable small businesses to participate in exports.)
- Improving market access (producing and disseminating information on the Finnish market and import requirements, strengthening local businesses and improving the

quality and competitiveness of the products to meet international standards, identifying new markets, streamlining trade and logistical procedures, identification of export partners)

### 3) Economic infrastructure

- Strengthening economic infrastructure that enables trade and enhances the productive capacity of a country. Examples include road projects that enable small scale farmers to access markets or developing harbour capacity to enable external trade. Investments in energy production are also a key to creating productive capacity, but environmental sustainability needs to be a particular consideration in such projects. For Finland it is important to note that ICT is also a key element of economic infrastructure.

### 4) Productive capacity

- This category covers a wide range of assistance related to the creation of an enabling business environment in developing countries. This includes, for example, strengthening of the financial sector, provision of business development services, development of trade legislation, enhancing of the investment climate (e.g. through the OECD Policy Framework for Investment initiative) and development of the commercial potential of such sectors as agriculture, forestry, tourism, ICT and the environment. In Zambia, Finland has specified private sector development as one of its main development cooperation sectors. In Nicaragua, Finland seeks to strengthen the commercial potential in the agricultural sector.

### 5) Adjustment costs

- Aid to offset costs resulting from adjustments to new trade agreements (e.g. the EPA agreements) can be channelled through the government budget. Typically, adjustment costs relate to loss of customs revenue or to strengthening the balance of payments.

## Annex 2: Aid for Trade check-list

Aid for Trade related assistance should take into account the following:

### Partner country ownership

- Have key stakeholders in the partner country participated in the planning of the project/programme?
- Has the partner country prioritised trade in its development strategy? Is the project/programme in line with the DTIS and national development strategy?

### Impact

- In what way does the project/programme enhance the country's trade capacity?
- In what way does the project/programme contribute to poverty reduction (MDG1)?
- Is the project/programme environmentally sustainable?
- Does the project/programme promote gender equality?
- Does the project/programme promote the creation of better jobs (decent work)?
- Does the project/programme contribute to other development goals (MDG 2-7)?
- Does the project/programme contribute to regional integration and South–South cooperation?
- Does the project/programme take into account HIV/AIDS?
- What indicators are used to measure the impact of the project/programme?

### Coherence

- Is the project/programme in line with Finland's development policy, trade policy, Aid for Trade Action Plan and other key policy papers?
- Does the project/programme promote the cross-cutting themes specified in Finland's development policy?

- Is the project/programme in line with other trade and development initiatives and priorities (WTO, EPA, GSP, import policy)?
- Is the project/programme in line with the EU's AfT Strategy?
- Is the project/programme in line with international norms and policy guidelines (Paris Declaration, the UN resolutions on climate change, sustainable development, human rights, gender; the ILO conventions on decent work, WTO trade agreements)?

### Complementarity

- Does the project/programme complement other AfT work of Finland, the EU and multilateral agencies?
- Can the project/programme be implemented in cooperation with other partners?
- Is another organization doing overlapping work?
- Do partners adhere to the principles of good governance and ethical norms in their operations?

### Finnish value added and resources

- Does Finland (e.g. a Finnish institution) have specific expertise/value added related to the project/programme?
- Is the project/programme in line with the country, region and sectoral priorities of Finland's development policy?
- Does the embassy or Ministry have sufficient staff resources to implement the project/programme?

### Long-term focus

- Is the project/programme one-off or part of a broader multi-year programme?
- What are the next steps?
- How is the monitoring and evaluation of the project/programme arranged?

## Annex 3:

# Modalities for development cooperation and funding sources

Finnish Aid for Trade assistance is provided through Finland's established development cooperation instruments which are described below. They are all relevant from the Aid for Trade perspective.

### Multilateral agencies and EU cooperation

Multilateral agencies are important channels for Finland to participate in financing the global AFT agenda. Particularly agencies that focus directly on international trade have a key role. These include the WTO, UNCTAD, ITC and programmes that focus directly on Aid for Trade, such as the Integrated Framework (IF). Further, the World Bank and other international and regional development finance institutions have an important role in financing Aid for Trade.

International financial institutions also provide opportunities for bilateral aid and for enhancing Finnish value added. A good example is the International Finance Corporation's (IFC) Mekong Private Sector Development Facility (MPDF), to which Finland provided bilateral assistance.

A major share of Finland's development assistance is channelled through joint EU programmes and the Commission's budget. AFT cooperation is also envisaged as part of EU's Economic Partnership Agreement (EPA) negotiations with African, Caribbean and Pacific (ACP) countries.

### Programme-based cooperation

Programme-based cooperation plays an important role in Finland's development cooperation in sectors that are relevant to the Aid for Trade initiative, such as forestry, water, environment and the rural development sectors. Improved public sector management, transparency and public monitoring are both preconditions for and consequences of programme cooperation. Whenever the level of governance permits, Finland uses the partner countries' own administrative systems and helps

to strengthen the management of public-sector finances. Strengthening of trade capacity should be a key element in programme-based cooperation. Programme-based cooperation provides an opportunity for Finland to highlight issues of concern and themes where Finland has specialized expertise. Budget support can also be considered in countries, where it is deemed feasible. Budget support can, for example, be considered in the context of adjustments to multilateral trade agreements.

### Project cooperation

Project cooperation remains an important form of cooperation. It is particularly significant in countries where management systems are not conducive to programme-based cooperation. Finland can also supplement its programme cooperation work with project cooperation underlining important themes, such as Aid for Trade. Project cooperation provides an opportunity to utilise Finnish knowhow and expertise. When appropriate, Finland prefers co-financing with other donors and making use of new cooperation opportunities between donors. Finland strives to avoid overlapping functions with well-established operations of the local administration.

### Funds for local cooperation

Funds for local cooperation are an efficient way for Finnish embassies and other missions to assist different actors in various countries. They can be used to strengthen productive capacity or for promoting local entrepreneurship. The funds also enable support for institutional strengthening of local chambers of commerce. For example, in Palestine Finland has provided support to strengthen the capacity of the Chamber of Commerce and its sub-regional offices. To enhance impacts, it is useful to consider combining local cooperation funds with other instruments. For example there are good experiences from cooperation with Finnpartnership.

## Cooperation between institutions

In 2008, Finland launched a new instrument to fund cooperation between institutions. One particular aim is to strengthen cooperation between universities and research institutions.

### **Finnfund (Finnish Fund for Industrial Cooperation Ltd.)**

Finnfund is a Finnish development finance institute that offers long-term risk capital to profitable projects in developing countries and countries in transition outside the EU. It funds private sector projects that include Finnish value added. Finnfund's projects have an important development objective, specifically to increase the production capacity of developing countries.

### **Finnpartnership (business partnership programme)**

The business partnership programme, Finnpartnership, has established itself as a channel for cooperation between the Finnish business sector and companies in developing countries. It allows Finnish businesses to contribute to development cooperation in their own special fields. Further strengthening of the programme can be considered. For example, Finnpartnership has identified the need to strengthen the capacities of partner country enterprises to enable them to participate effectively in matchmaking services offered by Finnpartnership.

## Concessional credits

Concessional credits aim to strengthen economic and social development in developing countries by tapping into the knowhow and technology of enterprises. In this arrangement export credits are subsidized through concessional interest rates funded from Finland's official development aid. Decisions to grant concessional credits are made by the Ministry for Foreign Affairs and risks related to credit are borne by Finnvera Ltd. The 2007 Development Policy Programme emphasises that concessional credits should focus particularly on environmental and infrastructure-related investments that are prioritized in national development plans. The participation of enterprises from developing countries is encouraged, but each project should also include Finnish participation to some degree.

## Other instruments

Finland's Development Policy Programme of 2007 notes that the Government is investigating the need to devise new instruments in response to changing approaches in development cooperation. Matters to be studied include financing for high-risk developing country investments, public-private partnerships (PPPs), and flexible financing models in situations where some aspect of the operations does not meet the OECD criteria for official development assistance.



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