

Administrative order of the MFA concerning ICI projects

MINISTRY FOR FOREIGN AFFAIRS
DEPARTMENT FOR DEVELOPMENT POLICY
INTERNAL INSTRUCTION

Translation of HELM178-3

Institutional Cooperation Instrument: Administrative order for development cooperation between Finnish government agencies and institutions and their counterparts in developing countries

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Target group	Departments and embassies in charge of managing development cooperation matters

1. Purpose

The Institutional Cooperation Instrument (ICI) serves as a means of cooperation between Finnish government agencies and institutions (subsequently referred to as *Finnish agencies*) and their counterparts in the developing/partner countries. The Finnish agencies are part of the same legal person with the Ministry for Foreign Affairs of Finland (MFA). The MFA can assign a Finnish agency to implement an ICI project. The Finnish Public Procurement Act and the competitive tendering process defined therein is not applied in the ICI assignments.

The ICI seeks to match the needs identified in a developing country government agency with the expertise available in Finnish agency. The ICI projects must be based on the demand and initiative of the developing country agency. The Finnish embassy in the developing country plays a key role in assessing the need for the initiative as well as the commitment of the partner country agency.

The purpose of ICI projects must be capacity development, such as improvement of the partner agency's services, research and development, organisational development, reform of the operational procedures and processes, enhancement of staff's knowhow, internationalisation and networking. Priority is given to cooperation and projects that are based on specialised knowledge in sectors where the Finnish partners possess a high level of expertise. The scope of the cooperation must be well defined and the results-orientation of the projects must be possible to present with a logical framework or other similar project planning and management tool.

The Ministry for Foreign Affairs (MFA) has at its disposal several development cooperation instruments, such as bilateral development cooperation and sector budget support, which can be used to improve the operation of government agencies in a developing country. The ICI is a supplementary instrument that can be used in a limited number of situations where colleague-to-colleague level cooperation can lead to distinct, well-defined results.

An ICI project can also support ongoing development cooperation, but its aims, means and resources must nevertheless be presented clearly and independently.

The Finnish agencies are experts in their own sector. The ICI endeavours to create an easy and uncomplicated instrument for them to engage in cooperation in the developing countries. Once the partnership has been established, the agencies may engage in cooperation from their own premises.

2. Exception to the ICI – in-house undertakings

The MFA can procure services without competitive bidding process from certain other public sector organisations as in-house undertakings. These organisations are defined in the Public Procurement Act and by legal praxis.

In an in-house undertaking the initiative for the assignment originates in the MFA (not in the partner country or Finnish agency) and the MFA is the client for the assignment. The assignment focuses on only a limited activity, such as monitoring of an ongoing bilateral project. The assignment does not involve the implementation of an entire bilateral project. This administrative order is not applicable to these in-house procurements.

The MFA guidelines and contract templates distinguish between in-house procurements and ICI assignment contracts.

3 Actors

Eligible developing country agencies include the public sector organisations, excluding trust funds, foundations, non-governmental organisations and networks. The ICI cooperation focuses on developing countries in which Finland has an embassy. Priority is given to the countries, which are or have been Finland's long-term partner countries.

Eligible Finnish agencies include the government agencies or public institutions that belong to the same legal person with the MFA. Trust funds, foundations, non-governmental organisations or networks are not eligible. In case of several Finnish implementing agencies, one agency has to act as the contracted party.

The ICI aims at capacity development that is based on interaction and cooperation between two organisations. However, the Finnish agency may also involve other Finnish public sector agencies as partners. Procurement of services from other actors must be based on the Public Procurement Act (see 6.3. below). The cooperation should be grounded on a clear division of roles and responsibilities between the cooperating partners.

4 Scope and modalities of cooperation

Since the cooperation is based on the needs in the partner country, most projects focus on one partner country at a time. Support can be directed to a regional agency if the countries involved have approved its mandate and if it entitles the parties to conclude financing agreements.

The budget for an ICI project should be between € 50 000 and € 500 000. The budget may, however, be significantly higher in cases where the project promotes the Finnish development policy and supports cooperation in one of the key priority sectors defined in the Finnish country level cooperation strategies, or if the project promotes Finnish regional cooperation strategy through thematic cooperation between neighbouring countries.

Due attention must be paid to the cooperation modalities. In the beginning, sufficient resources should be allocated to enable establishment of good mutual relations and for confidence building. At a later stage, the use of modern communication technologies, such as web conferences, is encouraged to ensure regular and continued interaction. Limiting cooperation to technical and non-

political issues is advisable. The inclusion of junior experts in the project team promotes capacity building both in Finland and in the partner country.

The minimum duration of a project is one year. A well-implemented project may be further funded from the ICI.

5 Project management in phases

The project management cycle is based on the following division of roles:

1. The cooperating agencies prepare a short *project proposal* (3 to 10 pages plus appendices), which the respective MFA department, together with the respective Finnish embassy, assesses and either approves or rejects.
2. The cooperating partners (with the help of Facilitation Consultant) prepare the actual Project Document with appendices, which the MFA department (supported by the embassy) assesses;
3. Financing decision is made in accordance with the MFA's regular procedure;
4. After signing of Assignment Contract and Memorandum of Understanding, the Finnish agency is responsible for the implementation of the project. The Facilitation Consultant monitors and provides advice.

The Ministry is thus responsible for the key decisions, but the main part of the management tasks is outsourced to a Facilitation Consultant. After approval of the project proposal, the Finnish agency works primarily with the Facilitation Consultant, not the Ministry.

5.1. Assessment of project proposal

The ICI projects must be based on demand and need in the partner country agency. The project proposal should be prepared and signed by the partner country agency, though the Finnish agencies may also participate in the proposal preparation. Priority is given to the project proposals that can demonstrate strong commitment by both partners.

The MFA has set two deadlines for the submission of project proposals: 1 March and 1 September. In case the days fall on holidays, the deadline will be the next working day.

The Finnish embassies, with their knowledge of their host country have a central role in the assessment of the project proposals. However, the relevant regional department in the MFA is responsible for the assessment of the project proposals. In the assessment, and taking into consideration the comments made by the embassy, specific attention should be paid on the following assessment criteria:

1. The project proposal is based on a well-grounded need.
2. The project proposal focuses mainly on capacity building.
3. The project proposal can make use of the special expertise of a Finnish government agency.
4. The project proposal is of an appropriate size (in terms of financing) for the ICI.

5.2. The MFA department's decision on the proposal

The relevant department in the MFA either approves or rejects the project proposal. If the proposal meets the above four criteria, and it fits the into the available planning and financing frame, the department can recommend that the Finnish and developing country partner agencies elaborate the project proposal into a project document.

The department can also make a conditional approval and require, for example, that the Finnish agency participate in the proposal preparation or set certain conditions to the content of the project.

5.3. Preparation of the project document

The Finnish and partner country agencies prepare the *project document* jointly. A more detailed description of the contents of the project document is included in chapter 6 below and in the manual that supplements this administrative order.

The MFA department can, if it so desires, use its planning appropriations to finance the project planning by making an in-house assignment contract with the Finnish agency.

The assignment contract states the objective of the preparatory assignment with possible conditions regarding the contents, and a cost ceiling of € 25 000. The Finnish agency carries out the assignment and invoices the MFA on the basis of accrued expenses.

The MFA has contracted a Facilitation Consultant to advise the Finnish agency in the project document preparation, free of cost. The support from the Facilitation Consultant is available to all Finnish agencies whose project proposal has been approved by the MFA departments.

The Finnish and developing country agencies submit the project document to the relevant MFA regional department. The project document must include a draft *Memorandum of Understanding* between the cooperating partners.

5.4. Approval of the project document and contractual processes

The relevant MFA regional department assesses the project document. If the department approves the project document, it prepares a proposal to the Quality Assurance Group in the MFA, and submits a proposal for funding decision to the Minister for Foreign Trade and Development Cooperation (or the Director General of the Department for Development Policy in case the project budget is less than € 200 000). Thus, the approval procedure follows the regular project management procedure in the MFA.

Funding decision is based on the proposal made by the MFA regional department to the Minister on the use of appropriations. The department can make the proposal if it has sufficient appropriations for country- or region specific development cooperation, and if the project document meets the quality criteria set for development cooperation projects. The assessment of quality of the project document includes relevance, effectiveness, feasibility, cost-efficiency and sustainability. Both the MFA department and the Minister can also reject the proposed project document.

For approved projects, the department gives *an assignment [toimeksiäntö]* to the Finnish agency, using a standard project assignment form. The assignment has two appendices; signed Memorandum of Understanding and the Project Document.

In case the project includes import of equipment and fixed assets, or transfer of ownership of equipment and fixed assets from the Finnish to the partner country agency, or if the partner country agency is vested with responsibility for managing funds, the ICI partners need to clarify whether an intergovernmental agreement is required. The need for an intergovernmental agreement should be confirmed either from the partner country government or from the Department for Development Policy in the MFA. If an intergovernmental agreement is not needed, this should be mentioned in the assignment contract.

If the assignment is related to support for an ongoing development cooperation project (such as budget support of a sectoral programme), the related intergovernmental agreement has to be appended, as a rule, to the assignment contract.

All assignment contracts, including annexes are prepared in English and available for public unless they are deemed to include confidential information.

5.5 Support services available from the Facilitation Consultant

The Development Policy Unit of the MFA has contracted a Facilitation Consultant to assist the Finnish agencies in preparing project documents, and to monitor the implementation of all ICI projects.

For the Facilitation Consultant to be able to perform its duties, the MFA regional units must inform the Facilitation Consultant of all approved project proposals and project documents.

The Finnish agency submits the project document with required annexes to the Facilitation Consultant who forwards the PD to the MFA. Only project documents that have been endorsed by the Facilitation Consultant are considered in the MFA for financing.

For the Finnish agencies the Facilitation Consultant provides the following services, free of cost:

- Advice in preparing project documents;
- Advice on the goals of the instrument, project management, good practices and possible risks.

For MFA, the services provided by the Facilitation Consultant include:

- Provide comments on the quality of the Project Document prior its submission to the Quality Assurance Group and funding decision.
- Monitor that the Finnish and developing country agencies prepare the required progress reports, financial reports and final report, and that the plans and reports meet the formal requirements. The Facilitation Consultant should point out to the Finnish agency if the implementation is not in accordance with the assignment contract.
- Inform the MFA regional department of possible breaches in contract implementation that have not been rectified by the Finnish agency despite notification.
- Comment on Finnish agency's proposal to amend the assignment.

6. Minimum requirements of the Project Document and Budget

6.1. Project Document

A Project Document includes the following information:

- Background and justification to the project;
- The objective(s) of cooperation and approach to implementation;
- Planned results and activities;
- The approach to capacity development;
- Coherence of the proposed project to the other activities of the partner country agency;
- Timetable;
- Sustainability and possible risks;
- Project management provisions;
- Budget; and
- Other relevant issues.

The key issues in preparing a project document include clarity, feasibility of the objectives and results-orientation. The project document should take into account the crosscutting themes of the Finnish development policy. Characteristics of a good project document are discussed in more detail in the manual attached to this administrative order.

6.2 Budget

The budget consists of breakdown expenses in the project (see the attached manual). The budget should be presented in a level of detail that enables identification of costs per person. The budget is prepared for the duration of the whole project. The total budget is further divided into annual

budgets to enable the Finnish government agency and the MFA to reserve sufficient annual appropriations in their own budgets that required for the implementation of the project.

The budget should detail the per diems and travel costs to be paid to the partner country experts, and any procurement to be made in the partner country. Per diems for the partner country experts working in the partner country are paid according to the partner country regulations, for work and travel in Finland according to the Finnish travel regulations. The budget may include annual management costs to be paid to the partner country agency as an organisation. Services and goods may be procured from companies operating in the partner country following the Finnish Public Procurement Law and Act. Developing country agencies may be given responsibility for implementation of certain activities if invoicing is done through the official accounts of the partner agency, and if the delegation of responsibility does not necessitate an intergovernmental agreement.

Capacity development costs (excluding management costs in the partner agency, procurement of goods and equipment, and contingency) must amount to the minimum of 70 % of the total project costs.

The costs accrued directly by the developing country agency (per diems, travel costs, management fee, procurement of goods and equipment that will become property of the developing country agency and the reserved share of the contingency) must amount to the minimum of 25 % of the total project costs. Payments of these costs are under the responsibility of the Finnish agency unless otherwise agreed.

A maximum of 10 % of the budget may be reserved for contingency/unforeseen costs.

6.3 Acceptable personnel costs

The project staff is described in an annex to the project document. The Finnish agencies must use their own staff to carry out the assignment. The participation of junior experts in the project implementation by the side of senior experts is desirable.

The breakdown of costs must include salaries per person and the overhead expense rate (OKA-kerroin). The Finnish agency must provide adequate information on the basis of the overhead calculation rate, including what items of expenditure it includes.

As a rule, private subcontractors are not to be used in the implementation of ICI projects. However, if the use of private subcontractors is necessary for e.g. translation services, the Finnish agency must seek approval of the MFA before subcontracting. The share of the work performed by the subcontractors should be minimal. Thus the Finnish agency cannot transfer the main implementation task to a commercial consultancy company.

The Public Procurement Act (348/2007) is applied to the conclusion of subcontracts. Subcontracts are not considered to be services, provided for in section 8 (6) of the Act, which fall outside the competitive bidding. Thus subcontracts must be subjected to competitive tendering. The same applies to subcontracts in a partner country.

7. Project management during implementation

The Finnish agency is responsible for its own part and in accordance with the assignment contract on the effectiveness and legality of the project activities.

The Finnish and partner country agency prepare a *Memorandum of Understanding*, which details the forms of cooperation, timetables, use of funds, and other technical details. The Finnish agency may delegate to the partner agency the responsibility for paying certain expenses, in which case the Finnish agency is responsible for ensuring that the partner country agency has the required

funds, and that the partner country agency presents the required invoices/receipts and other required documentation for invoicing purposes.

The Finnish agency can, in accordance with the MoU and the project document, entitle the partner country agency to be in charge of a part of the results of the project and funds can be allocated for this purpose. In that case, the partner country agency is obligated to submit the required reports and receipts to the Finnish agency. The partner country agency's costs must be earmarked in the project budget.

The Finnish and partner country agencies can make small changes of less than 5% in an expense item of the project budget by notifying the MFA about the matter. However, such changes between different budget lines must be made within the overall budget. Bigger changes should be avoided, because they call for an official decision by the MFA department in question.

The Finnish agency prepares a progress report and a financial report at least every six months. The structure of the reports is described in the appended manual.

The Finnish agency invoices the Ministry for Foreign Affairs on the basis of actual, accrued costs. The Finnish agency cannot be given an advance payment.

Payment and invoicing schedule and dates are included in the assignment contract. All costs must be invoiced from the MFA in the year of actual expense.

In case shortcomings are detected in project implementation, the MFA can ask the Finnish agency to take remedial action at the risk that the assignment is cancelled. If the project implementation has become complicated due to changed circumstances, the Finnish agency can propose to the MFA the assignment to be reviewed and updated.

The total expenses of a project fall under the framework of the regular audits conducted in government agencies, which is why a separate audit is not necessary. However, activities carried out in a partner country may be subjected to a separate audit, if it is deemed appropriate considering the nature of the project. The audit costs must be then included in the project budget.

After the end of the project, the Finnish agency prepares a final report.

8. Financing

The ICI projects are financed out of the budget allocation table for country- and region-specific development cooperation (24.30.66.2) of the budget item for regular development cooperation (24.30.66), which is managed by the units administering the Ministry's development cooperation funds, and out of the budget allocation table for unallocated development cooperation funds (24.30.66.4). The MFA units apply for the appropriations to various projects from the government budget annually. The units prepare their proposals concerning their need of appropriations in the next year in connection with the preparation of the annual budget

8. Manual to support the administrative order

To support the use of the ICI, a manual entitled *Institutional Cooperation Instrument - Manual and Recommended Best Practices* has been prepared. It contains document models and templates and recommendations that may help in the management and monitoring of the ICI projects.

The manual is available on the Ministry's web site. The Finnish embassies should advise the partner country agencies to familiarise with the MFA web site.